DO MORE OF WHAT IS WORKING (THE OPERATING PLAN)

Give me six hours to chop down a tree and I will spend the first four sharpening the axe.
— Abraham Lincoln

Before running for President, Mitt Romney lead the private equity firm, Bain Capital through some of their best years, when returns for investors exceeded one hundred percent annually.[1] I was fortunate to have him as an investor and board member of a company I ran, and I recall a conversation where he described a fundamental tenant of Bain's strategy: spend time on investments that show the most promise and limit your time with those with low prospects. Mitt told me about one investment in particular, "Our range of outcomes was losing all of our money, or maybe get our investment back. But we have investments where the outcomes might range from a 3x return to a 10x return, which is where we need to focus."

This may seem obvious, but it's the opposite of how most investors behave—they disproportionately put energy into saving their troubled investments, while leaving their high-potential investments underserved. The same is true about how most of us lead our organizations. We let be that which is doing fine and focus on fixing what's broke. The call to work on the "shiny objects" and "dumpster fires" is loud and persuasive, even if the payback is minimal. Which is why the best organizations use an operating plan to maintain focus and discipline – so they can do more of what is working.

1 Farragher T, Nelson S. *Business Record Helps, Hinders Romney.* The Boston Globe, October 24, 2002.

This note is adapted from the book, *The Dog Caught the Car: A How-To Manual for New Leaders.* Lecturer David Dodson prepared this note as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

OPERATING PLAN VERSUS A BUDGET

An operating plan is distinct from a budget. By itself, a budget serves as little more than management's prediction of the following year's financial results. The end-product is a set of numbers, which do little to guide the leadership team in making on-going tactical decisions. It's a score card that often says more about the team's ability to forecast numbers than their performance.

In contrast, an operating plan forces your organization to create a common set of goals and priorities for the coming year, metrics to measure success along the way, and a roadmap on how to get there. An operating plan focuses the organization on a set of key priorities, shapes decision-making, and aligns the stakeholders and the management around a well-communicated tactical plan.

The operating plan is not the place to practice "office theater," filling the document with charts and a vast appendices of background data. Think about it like a 5x7 card you keep in your back pocket to help you make forward-facing decisions.

GENERATING OPPORTUNITIES

The first step in creating your operating plan is to generate a "baseline budget" three months before the end of your fiscal year. A baseline budget is what you believe would occur *without implementing any new initiatives.* Put another way, it is how the company will perform, absent any further changes and improvements. The baseline budget includes the Income Statement, Balance Sheet, and Cash Flow of your company, as well as your KPIs. If the organization has sufficient size, the baseline budget is prepared by the senior finance manager. It doesn't need to include a high degree of detail and shouldn't require a major time commitment. The baseline budget is just a continuation of the status quo.

Many managers skip this step and dive into what they think will happen next year. But doing so obscures what is the result of new initiatives, versus what will happen naturally. A baseline budget also reveals what was, and wasn't, accomplished the prior year; distinguishing between what the team is going to do, versus reaping the benefits of prior years.

With the baseline budget in hand, meet with your senior leadership team to brainstorm possible initiatives for the following year. Its best to make this separate from your regular meetings to signal its importance. Begin by brainstorming potential initiatives for the following year. This is the time to encourage and stretch your team's collective creative energy, not constrain it, or concentrate the creativity with a few outspoken members. One of your employees might suggest pursuing acquisitions without a clear understanding of capital allocation or the efforts required. But they may nonetheless have insights into the competitive landscape that may be important in fleshing out a promising idea. Your job is to draw out the best ideas, even from your most passive or restrained team members.

Develop each promising initiative by adding enough tactical detail to get a general sense of what is involved and the approximate cost—a rough estimate is better than just a question mark. For example, if the team suggested initiating an inside direct sales effort, the white board might look like:

INSIDE SALES EFFORT
Hire a sales manager to report to Fred Fred would hire 2 to 4 inside reps to expand business with existing clients This would free up for existing reps to get new business Cost = $75k for manager, $45k for each rep Each rep could bring in $200k, gross margin of 45%

Put this in the graphic form of a white board with handwriting

Once the brainstorming is complete, create a summary grid of the various initiatives. At this point, precision is not necessary. In fact, too much detail can bog down the pace of the creativity and ideation.

	Initiative A	Initiative B	Initiative C	Initiative D
EBITDA impact	Low	Neutral	High	High
Capital cost	Low	High	Medium	Low
Two-year pay-back	18 months	36 months	6 months	Immediate
Complexity	Low	High	Medium	Medium
Likelihood of success	High	Medium	High	Medium
On Strategy	No	Yes	Yes	No

Put this in the graphic form of a white board with handwriting

CROSS ALMOST EVERYTHING OFF THE LIST

Larry Page, best known for co-founding Google, visited Steve Jobs at his home only a short time before Jobs passed away. No doubt both knew this would be their last time together. According to

Walter Isaacson, author of *Steve Jobs, The Exclusive Biography*, Jobs said, “The main thing I stressed was focus. What are the five products you want to focus on and get rid of all the rest.”

To this day I’m struck that of all the things he could have said during the last time the two famous technology entrepreneurs would meet, he chose to reinforce the importance of setting and adhering to priorities. But then again, that manic intensity to win big at a few things may have been Apple’s most powerful weapon. As far back as the 1997 Apple Worldwide Developer’s Conference, Jobs told the crowd, “You’ve got to say ‘no, no, no’ and when you say ‘no,’ you piss off people.” Upon retaking the helm at Apple, after being previously fired, he told his management team that “Deciding what not to do is as important as deciding what to do.” Years later, Steve Jobs said, “I’m actually as proud of the things we haven’t done as the things I have done. Innovation is saying ‘no’ to 1,000 things. You have to pick carefully.”[2] It’s hard to accept that there are wonderful things we’ll never get done before we run out of time. But that acceptance is essential to getting *something* done.

Which brings us back to your whiteboard of ideas. Your team has generated more ideas than your organization can implement. At this point there is a tremendous positive energy in the room. Members of your team will have differing points of view and there will be advocates for more ideas than what the organization can implement. You have high ambitions for your company and its capability. These factors will pressure you into being optimistic about what you can get done. There will be a misbelief that you can increase organizational output by aspiration alone. But the best leaders know the art of setting a proper speed limit. Which is why the next step is to be like Steve Jobs and cross almost everything off the list.

As part of Apple Computer’s annual planning process, Steve Jobs would take 100 of his top managers on an annual retreat like the process just described and generate a list of initiatives for the coming year. Then, Jobs would circle three, and announce, “We can only do three.”[3] The mindset of being excellent at saying no to great ideas is very hard, but you’ll vastly increase your chances of winning if you adopt this mentality. Let your competition diffuse their attention over multiple initiatives while you focus like a laser beam on being phenomenal at what matters. Warren Buffett is reported to have said, “The difference between successful people and *really* successful people is that *really* successful people say ‘no’ to almost everything.”[4]

ADDING IS EASY. SUBTRACTING IS HARD.

A CEO of an insurance business was in a rapidly growing market and felt a strong pressure to move as fast as possible in what he viewed as a “land grab” for customers. His question for me was how to weigh his desire for the company to press on so many initiatives, with the need to set and adhere to a few priorities. I told him that the answer is quite easy, and not to stress over the

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[2] Steve Jobs, CEO of Apple Computer and Mark Parker, CEO of Nike. CNBC, October 2, 2018.

[3] Harvard Business Review, The Real Leadership Lessons of Steve Jobs; Walter Isaacson, April 2012.

[4] *Make It.* CNBC, October 2, 2018.

decision. Just to remember that it's hard to subtract and easy to add. Pick the more conservative path. If you exceed your internal expectations, add more to your plate.

Too many leaders believe that they can increase their organization's throughput by decree. In a planning session, the team excitedly accepts too many projects with the mistaken hope that everyone will rise to challenge. But organizations don't work that way. You must either match the challenges to the team's capability, or create more capability by hiring more people, removing unnecessary projects, or finding more efficient ways of doing what you're currently doing. But absent increasing capacity, no matter how energized you've gotten your team, they can only implement at a certain rate.

This mistake comes at significant cost. Let's take a simplified example of a company that is itching to do seven projects, but the CEO is uncertain whether they can only complete five. In one instance, the CEO shoots the moon and chooses all seven. Unfortunately, she won't discover that they could only complete five projects until deep into the year, after having fallen behind on all seven. For months the team pressed the more button, hoping that will solve the problem. People are getting worn down, and morale suffers. Having invested time and money into all seven plans, they'll not want to abandon that investment – a reluctance that will delay the inevitable even further. In the end, they'll finish your year having accomplished three of the seven. That's how hard subtraction is.

Addition is much easier. In the same scenario, the CEO started with only five priorities. She was wrong as well. Three months into the year the team is high fiving each other, ahead of schedule. Morale is high. Everyone is winning. Based on this, the CEO add two new priorities and because the original five are ahead of schedule, all seven still get done. Which is why you should reduce your list to a number that is 25% less than you believe your company can feasibly implement. This may seem unnecessarily conservative, but in the planning stages you'll be caught up in the ambitions of the organization and will be inclined to bite off more than they can chew. Cutting back by 25% will leave you with at least a fighting chance – and remember that it's easy to add.

As you flesh out the budget, don't pad and don't stretch. For twenty years I was on a board where the CEO beat the budget year after year. While it was nice to be ahead of plan, the budget was useless as a planning tool. We gave our advice with one hand tied behind our back, never knowing what the company could do. The budget was not a planning tool, but a scorecard which was made easier for the company to beat.

In the other direction, if you think your team will work harder and smarter by presenting a more challenging budget, then you have the wrong team. The best people give their best work no matter what, and the more they have a carefully prepared operating plan the better able they are to do just that. Your operating plan is a roadmap for your business, and not a personal scorecard or a motivational tool. Just like you would never build a house using deliberately incorrect blueprints, create the most likely operating plan, one with an equal chance of missing low as of missing high and using that as your guide.

SEEKING AND TAKE ADVICE

While you don't necessarily need to set a separate meeting, discussing the operating plan with your brain trust will help you manage your own biases and help match capacity to ambition. A good presentation includes these five elements:

- Strategy statement of how you intend to win (one paragraph)
- Explanation of key initiatives and how they will be measured (several pages)
- Tactical plan for achieving key initiatives (several pages)
- Organization charts: current, one year forecast, three-year forecast (three pages)
- The prior year's operating plan

The purpose of this meeting is *not* to sell them on your plan, but instead facilitating an open conversation where you gather information and views to help you develop a final product. Make sure to discuss a list that is more than your capacity, so the board can help with the tough decisions on how to prioritize those initiatives. If you give them only five, and tell them that's your capacity, then there's not much for them to do. But if you present nine, and tell them you can do five, the board can play a strong role in helping you get the list to five. As Irv Grousbeck is fond of reminding me, "Good decisions come from choosing among attractive alternatives."

As you decide on your goals for the coming year, don't be a prisoner to prior projections or earlier promises made to your stakeholders. While some may want to see how the operating plan compares to what you told them at some earlier time, it's a mistake to hold fast to prior views and ignore the realities of new information. With each new year you are more knowledgeable about the company and the opportunities than when you began.

If your brain trust has done their job, they'll send you back with a list of questions to get answers to, along with a game plan on how much additional detail is required to make great decisions. Plan to complete your final operating plan a month before the end of your year so that you can shift to full implementation for the entire year. In addition to what was already prepared, the final work product should also include an income statement, balance sheet, and statement of cash flows. This becomes your tactical blueprint on how you're going to use your time to *make your day* so you can *make your year*.

FLOODING THE ZONE: THE POWER OF 10

It's important to know when to *flood the zone*—where you identify an opportunity that is so transformative that it is worth putting outsized resources against the opportunity.

Many years ago, I was asked to join the board of Asurion, a small company that provided roadside assistance as an add-on service for cell phone customers. At the time, Asurion had 50 employees and generated less than $5 million in revenue. Along their path to success, Asurion received a request from a large non-US cell phone carrier to bid on their business which had the potential to transform the company. In preparing the bid, Asurion's CEO, Kevin Taweel, asked of his management team, "What would it look like if we focused ten times the normal energy than what might be normal?" The team misunderstood. They thought he meant they should make this their priority. But Taweel mean something altogether different. He meant his question literally: he wanted to harness the Power of Ten.

Along the way they added the sports expression "Flooding the zone," which meant dropping virtually every other project not required to keep the lights on, and to focus all the energy on one opportunity. I wouldn't be telling this story if Asurion didn't win the contract. But I also wouldn't refer to it if it had been a one-off occurrence. Asurion built *Flood the Zone: The Power of Ten* into their culture. They use it rarely but effectively. Today, Asurion has over 20,000 employees and generates revenue measured in the billions.

A FINAL THOUGHT…

Bruce Lee is the most influential martial artist in history. Lee once said, "I fear not the man who has practiced 10,000 kicks once, but I fear the man who has practiced one kick 10,000 times." Winning is hard. If you try to beat everyone at everything, success is almost impossible. My colleague at Stanford, Graham Weaver, loves Lee's words and once explained to his students: "Competition is tough; incumbent companies have vast resources, customers have entrenched buying patterns, fighting for business is costly and tough. If you want to be great, you need to focus on a few simple kicks."

The bestselling book *Switch*, offers the guidance to "scale your bright spots." They suggest you "find out what's working and do more of that."[5] If this seems incredibly obvious, and super simple, that's because it is. And yet, so often we waste our time firefighting and trying to fix what is broken instead of pressing our energy on what is working. We fight over the same hunk of meat as everyone else, instead of going after underserved customers or easy markets, where we can succeed without having to defeat anyone. When Steve Jobs retook the helm at Apple, the company had just lost $700 million. Jobs cut down the number of computer products from 23 to just one laptop for work and one for personal use, explaining to his team, "If we can't make one good computer, we certainly can't make twenty-three."

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5 Chip Heath and Dan Heath, *Switch: How to Change Things When Change is Hard.* Thorndike Press, Waterville ME 2011.