The org board. How to develop a company structure

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Introduction

This book was written for the executives and owners of small to medium sized companies that are expanding, as well as anyone who makes decisions regarding the company’s structure and improvements to facilitate business growth and development. It is for those who love what they do and dream of creating a well-organized business.

When I was creating my first business, I was going through one textbook after another on the subject of management in an attempt to find the answer to this question: what is the optimum structure for my company? Without any exaggeration, I spent lots of hours researching but, in the end, was disappointed. In management textbooks I found only very general recommendations, most of which did not go beyond classifying types: the company structure can be of this type, or it can be of that type… I did not find any specific concepts regarding which structure I should choose and what criteria I should use to make that choice. Also, while reading these books, I got the impression that they are written as if one wanted to manage some global corporation from aboard a spacecraft. It was impossible to understand how to apply all these clever ideas to actual operations in a relatively small manufacturing, trading or service company.

I also knew that I would not be able to build a well-managed company if I, the founder and the CEO, didn’t have an initial "blueprint", basically – no idea of the necessary divisions and levels of employee responsibility. At that time, my manufacturing company was not very big. It had about 150 full-time employees and several independent contractors. My technical education, logic, and experience told me that without a sound organizational structure I would not be able to properly organize and expand the work, just as it would be impossible to build a beautiful building by attaching additional floors, attics, balconies, and garages to a small house. Only with a comprehensive initial plan of the entire building could it be built floor by floor.

As it turned out, this problem had a beautiful and logical solution. It is possible to develop a structure that will provide a solid foundation for organizational expansion and development, while will not changing significantly in the process of growth. As I write this, seven years of consulting and working experience with more than two hundred companies of various specializations confirm that this is not just an elegant theory. It is a real opportunity to create an optimum structure of the company, regardless of its size and stage of business development.

This book is dedicated to one of the fundamental principles of organizing work, which you will use to overcome management difficulties. Regardless the size of your company, while reading this book you will see the great potential of your business as well as the issues which limit its growth and development. You may think you already know this, but I'll take it upon myself to say that you are mistaken. If you already knew precisely the true potential of your company, and understood its weakest link – you would have already taken care of it.

I often hear from business owners that their weak spot is sales, but experience shows otherwise. Cursory research shows that sales departments function quite well, while instead management is completely oblivious to lack of advertising, or that their products are not competitive. Regardless of whether you agree or not, I promise that you will see your business in a completely new light and gain many new ideas for its expansion.

If you look around, you will find many companies in many different lines of business that have great products, but the scale of their activities has not grown for years. Why do some companies expand rapidly and within ten years go international, while others, despite their outstanding product, settle for a very small share of the market and remain at almost the same level? You will find the answer to this question in my book.

Perhaps, you will thumb through this book and see some data that seems redundant or too complex. However, if you read it consistently and carefully, you will see that these concepts are simple and useful, even for small companies. Their implementation will bring any sized business significant expansion.

After all, your personal point of view on your business fully determines its future. My recommendation is that you read this book in its entirety, and then refer to individual chapters and inserts to gain a greater understanding of specific divisions.

Management is one of the most ancient human endeavors. It can remain simple if you don’t introduce arbitrary complexities. Its basics have remained virtually unchanged since the times when the head of the tribe led his tribesmen out of the caves to hunt mammoths. Of course, modern technology (computers, the Internet, advanced means of communication, etc) gave us an opportunity to eliminate errors from daily tasks, but the basics of managing a group remain the same.

These basics will give you the knowledge to better understand how you can organize a group of people and their work. An adventure is awaiting you. After reading this book you will see your own business and any other company in a different light.

Chapter 1

Stages of development and crises of the small business

A company goes through several stages in its development; it all starts with the bright idea that answers how you can provide something of value to a certain category of customers.

We can say that this is the research and development phase of a product and its reproduction. In some business fields areas, such a technology already exists or can be acquired; while with others you have to invent or create something new.

At this stage, the company’s founder is often deeply involved with the daily activities of the company and product development. He personally organizes production or arranges delivery of goods. He thoroughly explores and implements the vision of a restaurant, or develops the services for the company. If this stage is successful, it’ll result with the first batch of satisfied customers, and your team gains the confidence that your idea translates to a business. This stage one understands the product’s actual cost, prices are developed and connections are created to get the necessary resources. The product undergoes some improvements or even a complete makeover, and you gain an insight, confirmed by experience, into your customers and distribution channels. At this stage, the company executives are not quite interested in making management as effective as it could be – all the attention is focused on product creation and bolstering a viable company.

We call this the Manual Stage, where the business founder, holding the vision and being competent, manages a small team quite well. He knows the technology for producing the product, as well as what his employees need to achieve in order to get results. As the company engages in small-scale activity, there aren’t executives and management issues do not come up. Regardless, the business is still gradually approaching the First Management Crisis. When the company hits the crisis depends on how fast the company is growing.

Once the idea proves successful and you have to turn it into a real business, then we move to the next stage. The owner begins to understand that to further expand, he needs to shift from directly managing individual employees to managing parts of the company – he needs to create a second level of managers. Whether the business owner promotes his best employees to managers or tries to hire experienced ones, the First Management Crisis deals the inevitable blow. After managers or executives are hired and established, overall efficiency usually drops.

CEOs of smaller companies come to a seemingly logical conclusion that the drop is due to the incompetence of his new hires or their unwillingness to work. Have you ever heard executives complain about employees who don't want to work? Yet, these same employees had previously produced good results under direct management – and suddenly everything changed.

The real reason is not that people transform overnight, but that the leader- usually, the owner of the company – is only good at directly managing rank and file employees and not his new level of executives. The owner knows the production technology and competently directly guides employees to the desired results. The owner is just not able to effectively manage the executives who must now manage the other employees. It's one thing to fly a plane, which in itself is not an easy task and requires special skills, but it’s a completely different job to lead a team of pilots. A pilot has to competently handle the machine, an executive needs to competently handle people. Additionally, they use completely different bodies of knowledge and tools.

This is the main reason why small and profitable companies, even those with great products, rarely expand beyond a certain point. They weren’t able to overcome the First Management Crisis and grow out of their small business "pants". Thousands of examples illustrate the First Management Crisis. One of the most famous is the incredibly successful small family restaurant owned by brothers Dick and Mac McDonald. It was well known locally and produced a steady income for its owners. The brothers made numerous attempts to create a network of fast food restaurants, but it wasn’t until Ray Kroc[1 - Ray Kroc: Raymond Albert "Ray" Kroc (October 5, 1902 – January 14, 1984), an American entrepreneur, restaurateur and owner of McDonald's corporation. He was included by Time magazine in the "100 most important people of the century" list. He amassed a fortune valued at $500 million at the time of his death.] took on the business development that McDonald’s was born.

A lesser known, but no less illustrative example is that of the famous Brooklyn pizzeria Di Fara Pizza who has had the same owner and chef, Domenico DeMarco[2 - Domenico DeMarco: the founder and chef at Di Fara Pizza, a pizzeria in Brooklyn, a borough of New York City. The facility opened in 1964. The New York Times called the restaurant: "one of the most acclaimed and sought-after pizza shops in New York City". This pizzeria is known for its great tasting pizza, noted by New York magazine, online publication Serious Eats, Zagat rating company, and Frommer's travel guides.], since 1964.

Experts have repeatedly honored DeMarco’s pizza with the highest awards. Yet, despite the outstanding taste and a long line of people outside the restaurant, the facility has not expanded since its opening. Of course, this situation greatly depends on the goals of the business founder. In this example the owner simply doesn’t desire to expand his business. His passion lies in the craft and it seems that he simply likes making pizza without any further ambitions. To get to the next stage of business development, one needs to have the ambition to grow and have big goals. Then there is a chance to overcome this crisis. In my book, The Business Owner Defined, I described, in detail, the objectives of a business. However, to become successful, it is not enough to just have goals for the company executives. There has to be tools, such as a company structure, a system to measure results, financial policies, etc.

A business falls into the First Management Crisis after appointing executives without any management tools. These executives expect the owner to utilize the same hands-on control, but in a more difficult condition as the company has grown. Additionally, the owner now tries to manage "manually" at a new level, which is usually unsuccessful, and so the chaos grows. In order to overcome the crisis, the founder of the company must master the tools for managing people, train strong leaders, and learn to manage effectively.

Once the first crisis is handled, the company will continue to grow and that may continue for many years. But interestingly enough, sooner or later the founder of the company will feel the need to switch out managing the daily operations for carrying out strategic management while remaining the goal setter.

To win a large-scale battle, one needs to be on an elevated plane where they can view the whole battlefield and the surrounding area. Therefore, can properly plan one’s own actions and anticipate the actions of the enemy. It is impossible to intelligently manage a large-scale activity being in the thick of things at the forefront. The second management crisis has to do with the inevitable need to take on the functions of a strategist to direct the activities of a well-organized company. The owner must go from operational management to strategic.

Often it is the desire to move away from daily operations (the front of the battle) that encourages owners to implement management tools. However, one needs to realize that simply adding an organizing board and other tools will not facilitate the switch on their own; they will only create the necessary foundation. After you implement the management tools, you need to cultivate competent executives, and only then can you delegate the management of operations. If you go about this with an intelligent plan, you could implement management tools in a small business in six months to a year, and cultivate your executives within a year. This is a big job. You will have to invest as much time and effort as you would in establishing your technological processes. But the game is worth your while – the company will not only become well-managed, it will also gain a significant advantage over its competition.

Chapter 2

Valuable final product

The Valuable Final Product (abbreviated to VFP) is one of the key management concepts defined by L. Ron Hubbard in his articles. You see this all the time – your employees perform lots of actions, but not all of them are actually directed towards results. Or you see how someone is always preparing to do a job: he arranges his papers, organizes the computer files, he invents clever ways to organize his desk tools, etc. Another employee is running around crazed and completing one thing after the other. He may look busy, but he’s still not producing the results you expected. Why is this happening? Why do we have those who produce results and those who are busy with "doingness"?

In the dictionary, we can find the following definition for product, "an artifact that has been created by someone or some process" where artifact is “a man-made object taken as a whole”. An accountant prepares a report and sends it to the IRS, that is definitely a product. When a barista puts the final touches on a cup of coffee and hands it to the customer – that is also a product. When the owner of a company develops a strategy, by spending his time and energy on it, and describes it in a document that can then be studied by his executives – the strategy here is a product.

Note that the word object means “a tangible and visible entity”, where tangible means that it can be perceived by the senses as something that exists. Therefore, somebody’s brilliant plan that is not shared with anyone is not a product because other people cannot perceive it, unless they are able to read the person’s mind. For that plan to become a product, it has to be at least shared with someone, and then it will become a product. The product is always tangible, even when it comes to such "intangible" things as designs, plans, and ideas. They need to be described on paper or introduced during presentations – otherwise they are not products. A motivational meeting that inspires employees to succeed is a great product for an executive, as the change in employee attitude is quite tangible – you can see and feel it. But the product that is not noticeable to others, by definition, cannot be a product. If the, "I was trying", "I attempted to", "I was getting ready to", etc don't result into something that can be perceived by the senses, it's not a product.

Everybody has many products in their various areas of their life. Even an employee who sharpened their pencil would have a product, as you can definitely perceive it with the senses and it is a result of work.

Work, by definition, is a conscious activity with a certain purpose. For example, a sales manager wanted to close his client on a deal for equipment supply, but instead spent his time educating the client in some technical issues. If his goal was to sell, then he was directing his efforts towards one result, but achieved a different one. Therefore, educating the customer was not a product, unless, of course, he had planned to engage in such educational activities.

If an executive created a pay system designed to improve productivity, but resulted in employee dissatisfaction and loss of personnel, then this system is not a product as it doesn't align with the set goals. The HR manager hires an employee who stays in the company for a week and then runs away – this new employee is not a product as it deviated from the goal of hiring a new person. On the other hand, hiring an employee that improves the company's production, would be a product.

Any product must be completed to be considered a product. A salesman, whose goal is to close the deal, attracts a customer who demands discounts and special treatment, so that the executive winds up personally closing the sale, didn't get a product. If the company's goal setter conceives a brilliant plan, but does not describe it in sufficient enough detail so that it can be given to his executives to work on – this is not a final product. If the person assigned to the product doesn't complete it in such a way that it can be used, someone will have to "finalize" it, which creates additional work for others.

Usually, having to "finalize" a product results in a lot of unnecessary and additional actions, and devours the production time of employees. If you examine some employee's actions, you will see that most of their time is spent either completing other people's products or correcting the consequences of such incompleteness. For example, you ask an employee to pay a contractor for his work. Your Accounting Department starts working on it, but a week later the contractor is calling you, upset by the fact that he did not get paid. Now, you're taking the time to handle the contractor, re-issuing the order, and convincing the contractor to continue doing business with you despite the agreement violation. The contractor may cease doing business with your company, and you’ll have to find a new one. All the while, spend time restoring your reputation in the community. You’ve wasted a lot of production time because of one very simple, but incomplete product of the Accounting Department. Why did the Account Department slack in this task? The accountant simply does not understand what his "final product" is.

I don’t know if you are aware of the scope of this issue, but it is huge. In an article on management[3 - L. Ron Hubbard’s article Product-Org Officer System, Name Your Product, written on August 7, 1976.], I came across the idea that a person who doesn’t understand his product, would not be able to produce it. As a practical man, I decided to check how well my executives understand their final products. I simply asked each of them, "What do you think is the primary result or product of your position?" The answers I got from interviewing a dozen of my executives were rather shocking. They were naming lots of things as their product, but not at all the product that I expected from them. When one of the executives told me, "My product is to have my manager help me,” I quit surveying. After that I made a decision – I am not going to ask any more questions, instead I will name the exact product for each of my subordinates and make sure that they fully understand it. And don’t get the idea, by the way, that I got that answer from a totally useless executive or that the company was no good. The company was an industry leader and that executive was quite a good worker. The answer was so absurd, that it wouldn’t have even occurred to me! If you have a strong stomach, try surveying your employees or co-workers. This will be an adventure! Ask them what they consider their main product to be and you will start understanding them better.

Another very important factor is how valuable is the product that a person produces. Value is the degree of importance, which can be often, but not always, expressed in monetary value. A glass of water, for example, will take on a completely different value to you depending on whether you are in the hot desert or sitting in a cool office. The value is not determined by the amount of labor or materials that went into it, but rather by the desire – meaning, how badly others want to get this product and what they are willing to give in exchange. On a hot summer day the value of an ice cream cone is high while during a cold winter, it is low. And here's something important about this concept: you don’t always view something useful as having a real value. For example, every man’s future depends to a great extent on the kindergarten and school teachers they had when they were growing up. But the paradox is that in this society, it is not customary to pay a lot of money for the products of teachers…

This is a very old and odd tradition, but it is nonetheless true. At the same time, people are willing to pay a considerable amount of money for the advice of a lawyer or stockbroker. Hard to believe? Take a look at how much people spend on designer clothes and beautiful cars, and how much they spend on education and upbringing of their children. How much effort and money they spend to kill themselves in various ways, and how much to promote their health. I'm not talking now about a special medical treatment when they are willing to give all they have, but about keeping a healthy lifestyle. I’m not trying to give you a hard time, but just so you understand that the value of a product is not always logical, it depends on opinions of others. For a product to be called "valuable" other people have to want it and it needs to be valuable to them. Our civilization is neither perfectly fair nor balanced – there are some odd values and you should be aware of that. Apparently, the ability to understand, and especially to predict, what would be valuable to people is one of the greatest components of an entrepreneur.

When we talk about the value of an employee’s product, we mean the degree in which what he produces is needed by the company. If the company wants HR to hire effective employees, then the value isn’t how many people and how quickly HR fills the vacancies. Ultimately, it is how successful and productive the new hires are. If a leader creates inspiring goals and directs the team members towards these goals, this is valuable to each member of the group. This is why people will follow leaders, join their goals, and are willing to provide their own creativity and efforts in exchange for that value.

Each life role or job position has a certain Valuable Final Products (VFP). For example, the VFP of a salesperson is signed and paid contracts; the VFP of an HR manager is productive employees who are established on their jobs; the VFP of a CEO is an expanding and thriving company that produces a valuable product for its clients. The VFPs of a husband is a family that is safe, secure, and provided for financially. The conscious production of a product starts when a person understands exactly what their valuable final product is. If the person lacks that understanding, they will produce something that he personally considers valuable, or he will follow personal inclinations. When we carry out our consulting projects, we ask our business owners to conduct a survey with their key employees and managers to ask them what they consider their product to be. When the survey results are in, the executives clutch their heads in despair. The odd employee ideas that the survey reveals can be rather astounding. If you do the surveys, you will find out that no more than 10 % of the company's employees can accurately name their VFP. This is bad. If they can't properly identify it, they cannot focus their efforts on producing it. To compensate for it, you’ll give out individual orders and constantly direct the employee to produce his VFP. That is inefficient. The upside is that the productivity of employees can be significantly improved once you give them an accurate understanding of their VFP. This principle is also applicable outside of business; many couples could improve their marriage if they simply worked out with their partner the exact VFP they expect from each other.

An accountant who doesn't understand that one of their most important VFPs is securing the value of company's assets (money, property, materials and goods), will keep asset records as a formality and you will not be able to keep track of the actual condition of your assets. If a lawyer does not understand that his VFP is legal security of the company, he will not take the initiative to check over every agreement, to ensure that the company has sound employment contracts, and financial liability agreements for its employees. Instead, he will simply draft and check over the contracts that come his way, while legal security will be rest upon the shoulders of those who "stick their nose" into everyone's business, i.e. the top executives.

"A Valuable Final Product something that can be exchanged with other activities in return for support. The support usually adds up to food, clothing, shelter, money, tolerance and cooperation (goodwill)".[4 - L. Ron Hubbard's article Valuable Final Products, written on March 25, 1971.]

Give your employees a clear understanding of the VFP you expect from them and they will either greatly enhance their performance or refuse to do the work. Don't be surprised if you get a letter of resignation from an employee after you've defined his VPF. Perhaps, he never intended to produce this particular product, and the executive's expectations were in vain. This rarely happens, as most people like working with awareness, purpose, and want to produce something truly valuable. Perhaps not everybody will like this, but what does that matter? There are lots of successful people who could work in your company.

When formulating a VFP, note that it should be: actual results of completed work, an item (perceived by the senses), should always be fully complete, and, above all, valuable to the company. The last thing to remember, before giving a person their VFP, is you must have a clear understanding of what exactly you want to get from him.

Try to formulate the VFPs for various employees that work near you and then watch what they are actually working on. For many of the posts, you will easily name their product but for some could be unclear. If you're finding it difficult to formulate these VFPs, I can assure you that your employees are even less clear on what should their work results. It's not at all surprising that most HR managers believe that their product is "hired employees", while executives expect them to provide "productive employees". While advertising specialists believe their product is creating a "memorable advertisement" rather than, "people who walk into the store as a result of the advertisement".

A VFP is applied to a particular position, but can also be applied to projects, a task or an order. It’s quite appropriate to accurately define the VFP of a task you assign. Defining a VFP will result in less “almost dones” from your employees. Good production in any field starts with a clear understanding of the result that needs to be obtained.

Chapter 3

The product of a company

A professional in a specialized field, such as a chef or painter, can easily tell you their VFP. They would even be surprised you asked them about it. While with executives, you will often find that instead of their product, they list the actions they perform. Department heads will confidently tell you that their products are, "well-organized work", "high performance" or even "ensuring employees are provided with everything they need to do their jobs”. But that is not it! The VFP of an executive is what his entire department produces.

Take a crew of house painters as an example. A foreman will plan, assign tasks, ensure that the work gets done, coordinate the actions of the team with other departments, and perform many other functions. This activity is the "doingness". The VFP of a worker in his crew is obvious: painted walls. He has several workers who produce this VFP and he, as manager, is running the activity. His own VFP is the VFP of all the workers as a whole, i.e. the VFP of the whole crew. Once this is understood, it is not difficult to formulate his VFP as, "professional quality painting jobs completed on time". The foreman’s customers are expecting this product and willingly pay specifically for that. If a foreman can't get that VFP through executive actions, such as orders or assigning tasks, he simply picks up a brush and begins to paint the walls himself. He could at least achieve the crew’s VFP in that fashion.

In a similar vein, if the head of a company cannot get the company’s VFP produced through executive means, he rolls up the sleeves and finds customers, makes sales, creates advertisements, handles unhappy customers, etc. He does all this because he is responsible for the VFP of the company as a whole. Executives, as a rule, are responsible people, and, quite often, experts in the area they manage. Unfortunately, their expertise thwarts their ability to be good executives, and instead of learning and using management tools, they do the work of their juniors. It may seem very responsible to take the initiative and show an employee how to do the work. But in that moment when the executive demonstrates his wall-painting mastery, nobody is doing the job of the executive… Usually, an executive can replace his juniors, but not vice versa.

Imagine the foreman of a crew of a couple dozen painters, and, instead of ensuring productive and well-coordinated work, he personally takes a brush to the wall. Good control of workers can significantly increase the crew’s performance, compared to simply being an extra pair of hands. A competent sales manager with five salespeople in his department can significantly increase the sales volume if he plans the work out, sets targets, supervises the work, corrects errors, and demands results rather than personally closing the sales.

If you understand this principle, you can even determine whether the person you want to hire would make a good executive. Just ask him what he thinks his VFP as an executive is, and find out how well he understands the tools he should use as an executive to produce that product.

If you are the owner or the CEO of a company, your product is the VFP of your entire company. And that helps assess your own performance. For example, my main VFP as the founder of Visotsky Consulting is management tools implemented in our clients’ enterprises. If my company implements them correctly, it leads to the expansion of their businesses, which means that I produce my product. If my company takes on a project and does not accomplish that result, I have not produced the VFP.

Determining the VFP of your business is quite simple. It's the specific product or service for which your customers pay you money. If the business deals with window manufacturing and installation, the CEO’s VFP can be stated as, "windows of high-quality manufactured and installed". Of course, you need to clearly understand what the client is paying you money for. As an example, what do customers pay money for at a restaurant? Delicious food, atmosphere, speedy service, and a convenient location. Look at several restaurants, and you will find that they have completely different VFPs. There are restaurants that boast famous dishes where clients will travel great distances and reserve a table months prior just to eat there. There are restaurants known for their special ambiance, and restaurants where you expect to eat quickly.

Even in a relatively successful business, sometimes the executive does not understand the VFP of the company, and, therefore, his own VFP. Two years ago, I visited a restaurant that served Russian cuisine about 6 miles outside a small Russian town. The restaurant was unique because they grew their own delicious vegetables and herbs, and the interior of the restaurant consisted of separate rooms that emulated the rooms of an ordinary residential house from the Soviet period. No two rooms looked the same and each guest was greeted by the waiter who acted as the owner of the house. Having dinner there was more like visiting the house of your hospitable friends rather than a restaurant. Even though I’d eaten in many Russian restaurants, I'd never tasted such delicious Russian cuisine. That restaurant became extremely popular and well known in the city, and generated a decent income for its owner. After several years of business success, the owner decided to expand the business and opened a restaurant in a resort town by the sea. She invested all her savings in this new restaurant that was completely different from the original. It had neither its own vegetable garden nor the unique rooms. She transferred the chef and the best waiters to the new restaurant, and within a year she experienced nothing but losses. Moreover, the lack of attention to running the first restaurant, loss of qualified staff, and cutting operating expenses resulted in a significant decline of the business.

I don't know what her motivation was – maybe her dream was to retire by the sea. But from a business perspective, it wasn’t a smart decision. The reason for her failure is simple – she had never considered what the VFP of her old successful restaurant was, and what the new VFP should have been. People came to the old restaurant for a special meal and the ambiance. Visiting this restaurant was an event in itself, and customers willingly traveled several miles for the experience. The new restaurant was nothing like that. It only had the good recipes from the original restaurant, but without the supply of special fresh produce and the unique setting. This new restaurant, which was actually one of many located in the neighborhood, had a completely different VFP. Lack of understanding of the exact product the client is paying for resulted in her almost losing the business.

Retail companies have their own VFP, and it is not the merchandise they sell. By definition, the VFP is what a person produces, and retail companies do not produce the merchandise itself. Retailers "produce" the availability of a product to the customer.

Trading and retail activities always entail providing a certain selection of goods at a particular location, plus some additional services. That is why in retail it is so important to assess the selection of goods provided in relation to the location. Duane Reade[5 - Duane Reade: a chain of pharmacies and convenience stores primarily located in densely populated New York City areas, known for its wide range of merchandise.] stores offer their customers a limited range of everyday products conveniently located so that they could drop in during their commute. Macy’s[6 - Macy's: one of the largest and oldest chains of department stores in the United States. It has more than 800 department stores in the mid-range price category that specialize in selling clothing and footwear, as well as furniture, household goods, bedding, jewelry and cosmetics.] department stores offer their customers a wide selection of inexpensive clothing and household goods. You do not stop there on your way home. You go there to buy a summer dress and end up leaving tired, with stuffed shopping bags that barely fit in the back seat of your car. Both of these are in the retail business but they have very different VFPs. And what’s interesting, is that in both examples the function of selling the merchandise is practically nonexistent, as they are self-service stores. It would be erroneous to state that the VFP of these stores were “sold goods” when they don’t take effort to sell, i.e. to exchange goods for money. By selling, I mean conscious actions of a salesperson that lead to a customer making a single purchase or purchasing more items. Yet, these stores consistently and successfully create a selection of goods wanted by their customers and correctly present them so their customer can easily find the right product by himself. They ensure that the store’s location is convenient, and that the product’s price and quality meet clients’ expectations.

If you haven’t been to the Apple Store on 5th Avenue in New York, you should stop by and you’ll see that nobody sells anything there either. The store’s staff offer advice, demonstrate products, answer customers’ questions, do the checkout, and hand over purchases to the buyer. However, they do not persuade the customer to buy the product or handle their objections. Apple has created such a compelling product, that during the Christmas season, customers have to squeeze through the crowded store to stand in a humongous line for the treasured box with a new iPhone or iPad. This store is a hybrid of a showroom and a warehouse. The difference from a showroom lies the large number of consultants and being able to pay for merchandise right on the sales floor.

Another example of a special VFP in a retail company, similar to the Apple store, is B amp;H Superstore of digital equipment in Manhattan. They have solved the problem of selling a large variety of sophisticated digital equipment in a relatively small space. The way the shop is set up, a client can get familiar with the equipment, get expert advice from the employees, as well as quickly pay and get the products they want. To display an array of equipment without overloading the area with stored goods, B amp;H installed a conveyor belt right below the ceiling of the sales area. It quickly delivers the desired items from the warehouse into the customer’s hands. It’s surprising that B amp;H has not yet become a well-known franchise. The volume of the VFP of these stores is something to truly admire. What is the VFP of such a store? Not of the company as a whole, but of a store, specifically? The VFP will definitely include wording such as, “assistance with making a choice", "speed", and "a certain selection of goods".

It does not matter whether one is managing just a single division or an entire company, if they don’t understand the group’s VFP, sooner or later, they will fail. In about 50 % of my consulting projects, I found that even the founder of the company did not have a clear understanding of the product the client was paying him for. If you’re an expert skier, are knowledgeable in the subject, and have been selling ski gear for more than 10 years, then your understanding of what is valuable may differ significantly from the viewpoint of the majority of customers in your store. This is because most of your buyers are beginners who are just taking their first steps. Beginners are the ones who tend to buy most of the equipment and gear, not those who have been skiing for years. Experienced skiers already have their “tried and true” gear that they keep throughout the seasons.

Finding out what holds value for your customers is simple through the use of surveys. A customer survey asks them what is valuable, important and what is missing for them in your product. This survey is not for promotion purposes, but its results are necessary to understand the client’s point of view. When conducting the survey, ask about the product’s shortcomings, because shortcomings and values are two sides of the same coin. If the responses say that they do not like slow service, that means that fast service is valuable. If they say that pricing isn’t clear and that annoys them, then a simple pricing system would be valuable. Think of The Dollar Store or The Dollar Tree – they can be found in any city because their VFP is in demand and have their own clientele.

It is not always easy to objectively look at the results of these surveys. It took me a couple of years to agree with the survey results from our own clients. When I took my first steps in consulting as a business lecturer and owner of a training company, we were conducting great seminars where we taught management tools to business owners and managers. The seminars were attended by thousands of people every year. We had great reviews where they talked about how they wanted to change something in the way their business was organized or how much they liked the ideas we taught them.

But when I analyzed statistical data, it turned out that the average client attended two to four seminars and then stopped attending. Some customers had even booked one or more corporate seminars, but after some time they stopped working with us. Those great reviews they initially gave us after the seminars did not allow us to see the actual situation. Naturally, we waited until we were not doing so well, the number of seminar attendees declined, and it became increasingly more difficult to fill events. Only then did we conduct surveys about the VFP of our company.

It turned out that the clients who wanted to organize the workflow in their businesses and could pay for our services, were not getting what they had expected. We didn’t meet their expectations of implementing management tools. When they came to our seminars, they had hoped to implement the management tools in their organization and, consequently, improve its performance. However, in most cases that wasn't the way it turned out.

We conducted customer surveys regarding the value of our product and it was particularly valuable and important to interview two categories of clients:

• Those who continued to pay us. They were asked about the value they acquired from receiving our services;

• Those who had been paying us for some time and then stopped. They were asked about what they expected to receive, but did not receive, or about what we needed to improve in our products.

Once I analyzed the survey results, I came to the conclusion that the only real value for our clients was in implementing management tools in their enterprises. That study was the impetus that led to the founding of "Visotsky Consulting”.

Such a survey can be done in any business. Of course, you will need to customize the questions for the particular business. For example, in a store, I would ask the buyers why they chose this store for their purchases, and in what circumstances and why would they choose to buy at other stores. It makes sense to ask these questions for businesses where competitors have similar products. If the service is unique, such as a singing coach, one would ask what the clients liked and disliked the most about your services. You will find that people, especially those with positive attitudes, do not like to talk about the negative aspects of things. In order to ferret out this information, you have to resort to various tricks. In such cases, I say that my job is to improve the company's performance, and that they would be helping me out if they were to tell me what we should improve in our product.

It requires a certain amount of courage to conduct these kinds of surveys. An executive who loves his job is unlikely to be pleased when he discovers some of the shortcomings in his product. Does anyone enjoy it when somebody bursts their bubble? But if we don't understand what is valuable about our product, how can we effectively reproduce it? Just look at it this way, every shortcoming detected by the survey is a new opportunity to improve the company. If your company is already successfully providing the valuable product to its customers, any increase in the value of this product can bring you a considerable increase in income.

If your company or division has several completely different types of customers or products, you will have to conduct multiple surveys. For example, you sell electric tools both wholesale and through your own retail stores. Essentially, you have two different products. In this case, these two different VFPs will provide two different types of clients, one type for each product. The easiest way to survey the retail customers is in a store. As far as the wholesalers, you will most likely have to survey them by phone.

Here's one of the secrets to successfully conducting surveys on the product's value – do not give clients a survey to fill out. In this case, a written survey will not yield usable responses and is a waste of time and money. For a survey with usable answers, you need personal contact. And since this survey regards the company's product that you are personally responsible for, I recommend that you do it yourself. This may sound strange, but my experience shows that when such a survey is done by employees, they miss very important details and the survey loses some of its value. The good news is that you do not need to survey hundreds of clients. From experience, it is sufficient to survey just a dozen or two. If you ask the correct questions and elicit honest answers, you will find that the responses are very similar. Another advantage of doing the survey yourself, is that the clients respond much more readily and openly to the head of the company, which greatly speeds up the process.

So, write the questions for your survey. Then head to the sales department and get a list of customers who: have recently bought something and those who stopped buying. Or you can simply go down to the retail sales space or office to take action. You are in for an adventure! Most likely, you will learn something new about your own VFP, and you will get a much clearer and precise picture of it. Then you will be able to tell the staff about the results of your study. When you convey to them exactly what the company or division's VFP is, you will find that that one action improves performance.

Chapter 4

Product and types of exchange

I often see phrases such as, “a satisfied customer", "high-quality service", or "a customer who comes again and brings friends” in the wording of a company product. However, this phrasing doesn't convey the product's value, they only declare the intention to do a job well. When customers order services or buy products, they expect a specific thing. Ask yourself, when you go to the dentist, what do you want to get for your money? In any business, we strive to satisfy our customer. The value of that is obvious – customer satisfaction strengthens the company's image and helps ease our work. But the customer doesn't pay for happiness, he pays for a specific value. The dentist gives us beautiful and healthy teeth, plus a comfortable treatment with long-lasting results. We don't pay him simply because we are “satisfied and will come back to him."

Another dangerous term in product wordings is "high-quality". It should only be used when an industry has particular standards that are generally known and understood. Otherwise the customer's understanding of "high-quality" can be completely different from the employee's understanding.

When I was consulting printing companies, I found that the company and its customers had different ideas on what was considered "high-quality printing". These differences created a lot of problems when orders were delivered to customers. When the VFP of the company was worked out and phrased as, “printing jobs performed on time and in accordance with ISO standards” [7 - ISO (the International Organization for Standardization) is an international standard-setting body. The goals of ISO are: to promote the development of standardization and its related activities in the world with the purpose of ensuring international exchange of merchandise and services, as well as to develop cooperation in the intellectual, scientific, technological and economic fields. One of the most famous standards is “ISO 9001:2011 – Quality Management

System”. There is a whole family of standards for printing, in particular: ISO 12647 that describes specifics of managing printing processes.], and helpful references were added to all customer handouts, a clear understanding between the company and customer was achieved. To determine whether the printed product conformed to the international standards, one just had to perform a few simple measurements – such as determining the variance of halftone in printing. Only you can determine what is acceptable and what is not acceptable for your business. In our consulting projects, I ask executives questions that guide them to defining what is an acceptable product and what is not. If it’s a retail company, then what selection of goods should it have? What is the acceptable delivery or processing time? Would you consider a partially completed order to be a final product? What technical standards will allow you to determine whether you have succeeded in producing the product? What orders will be rejected on the basis that our technology can’t provide a high-quality product?

To understand the company’s product, it is also important to understand what it is not. If McDonald's tried to please a different kind of customer and add menu items for them, they would end up losing the speed and efficiency they’re known for – and quickly start losing customers. You don't like the food from McDonald's? You are just not their customer. Their VFP is meant for another type of customer, and millions currently go to McDonald’s because they’re happy with it.

There are no absolute good or bad products. When one buys $20 sneakers from Walmart, they don’t expect them to withstand the same wear and tear, nor be a comfortable, as a new $100 Nike pair. Yet, both sell well and are in demand by different types of customers – each model makes their respective customers happy. It may be that Walmart sells more of their sneakers than Nike. Simple sneakers from Walmart is one VFP, Nike shoes is another one. It is important to understand what exact product we provide for our customers, and what we don’t.

notes

Примечания

1

Ray Kroc: Raymond Albert "Ray" Kroc (October 5, 1902 – January 14, 1984), an American entrepreneur, restaurateur and owner of McDonald's corporation. He was included by Time magazine in the "100 most important people of the century" list. He amassed a fortune valued at $500 million at the time of his death.

2

Domenico DeMarco: the founder and chef at Di Fara Pizza, a pizzeria in Brooklyn, a borough of New York City. The facility opened in 1964. The New York Times called the restaurant: "one of the most acclaimed and sought-after pizza shops in New York City". This pizzeria is known for its great tasting pizza, noted by New York magazine, online publication Serious Eats, Zagat rating company, and Frommer's travel guides.

3

L. Ron Hubbard’s article Product-Org Officer System, Name Your Product, written on August 7, 1976.

4

L. Ron Hubbard's article Valuable Final Products, written on March 25, 1971.

5

Duane Reade: a chain of pharmacies and convenience stores primarily located in densely populated New York City areas, known for its wide range of merchandise.

6

Macy's: one of the largest and oldest chains of department stores in the United States. It has more than 800 department stores in the mid-range price category that specialize in selling clothing and footwear, as well as furniture, household goods, bedding, jewelry and cosmetics.

7

ISO (the International Organization for Standardization) is an international standard-setting body. The goals of ISO are: to promote the development of standardization and its related activities in the world with the purpose of ensuring international exchange of merchandise and services, as well as to develop cooperation in the intellectual, scientific, technological and economic fields. One of the most famous standards is “ISO 9001:2011 – Quality Management System”. There is a whole family of standards for printing, in particular: ISO 12647 that describes specifics of managing printing processes.
