

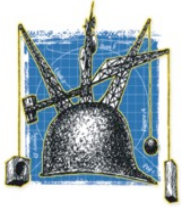
KNOWING YOUR SUCCESS FORMULA

**A Globally Tested Approach
to align and adjust
business strategy and priorities**

**Do your senior managers talk strategy,
or do they prioritise and make strategy work?**

A Company's Success Formula is like a recipe. It contains the critical ingredients of how the business will get revenues, make profits and keep solvent, and it sets out the distinctive capabilities and skills needed for success.

Leaders can drive value by increasing revenue, decreasing costs, and managing risks. By making an organisation's success formula explicit they can identify priorities for change and outline a programme for adjustment in a simple, cost-effective way.



Why a Success Formula

The Need for a Success Formula

Every business has a Success Formula. It is a common sense statement of how the company will achieve success. Yet, it is more than a statement of what business the company is in: it's a recipe for how the company can be profitable in that business on a sustainable basis.

It provides a coherent framework for establishing management practices, and for experimenting and adapting to sustain success. An example, described facing the next page, shows how a good Success Formula is simple, common sense – the genius that drives successful companies. All organisations experience change on a continuous basis. Whether it is a breakthrough in technology, globalization, a merger or acquisition, every organisation is faced with increasingly complex pressures to change.

From Time to Time, A company Needs to Review Its Success Formula

The Success Formula evolves and becomes embellished. As the company meets new challenges, the original idea gets adjusted. As the company grows, ideas about how to manage and control the business are invented – how are new products introduced and launched, how are new managers found and trained?

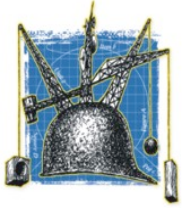
COMMON SENSE CONCEPT #1

The best management and control practices – the ones that work – become part of the Success Formula recipe.

In an ideal world, business ideas and management ingredients taken together make sense. Importantly, they logically fit together and reinforce one another.

Yet, the world is not ideal. Even in the best run companies, problems can emerge which detract from business performance. While some are outside of the company's control, the majority are not. On page 6 we have outlined some examples of different success formula problems which can arise as business situations and circumstances changes. They provide a good reason for organisations to review their Success Formulae.

These problems can be avoided. By taking a fresh look at the recipe which senior management has been using to guide success and by clarifying where changes and adjustments are needed.



A Success Formula Illustration

Success Ingredients & Formula

The Business

Work clothes,
delivered clean,
repaired, on schedule
to industrial and
commercial
customers, on a
rental basis

1. **Close local control of service to keep customers and weekly revenues.** Overtime, the company learned a standard way of organizing the local business which provided close local control at acceptable overhead cost. The rules of thumb worked: 50 customers made a route headed by a supervisor: 7 routes provided enough business to keep an economical laundry site busy and warranted a District manager: About 3 districts required an Area manager who sold new customers.

Local managers had to be operators. Entry was at the route level, promotion strictly from within. Owing to the low entry point, they needed training as they went up. Hence, head office provided a strong training and development programme.

2. **Applying cost effective, centralized functional programmes and expertise to keep costs in line.**

Local managers were not functional experts. To take advantage of functional economies from specialised knowledge in route delivery, laundry engineering and labour relations, central services were established. Cost-effective application of these efficiencies was part of the overall Success Formula, not the concern of successful district or area management.

3. **Operating information was critical for service efficiency and control.**

On-line information systems and operating tools were needed to control the total business. These services were controlled and provided from head office.

4. **Expansion by converting acquisitions.**

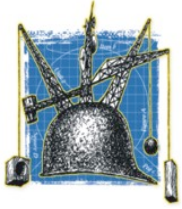
Head office found, bought and converted acquisitions into the company system and handed them to local area management to run.

5. **Knowing your job creates positive teamwork.**

The local managers concentrated on generating a reliable cash flow and profit margin. Local management was concerned about using head office skills and how well they worked. There was no allocated charge for central services.

Head office worried about improving margins by applying cost effective central services. The President balanced functional growth by questioning its value to operating margins.

It all made sense – an intricate blend of marketing, economics, financial, people and managerial ingredients to make a successful business!



The Concept

A Programme Which Keeps Management In the Driver's Seat

With the aim of strengthening company performance, we have developed a simple, economical programme which enables managers to take a hard look at their company's Success Formula and identify concrete improvements

The Core Success Formula programme is not strategic planning with which we are experienced. **The programme takes management's understanding of the Success Formula as a starting point then searches for questions that the managers, (with our advice), decide are worth analysing.** Strategic planning typically requires putting a great deal of effort into analysis and jargon in order to get to the issues. This approach shortens this process. Moreover, it makes consultants address the pragmatic issues of the business, instead of hiding behind consulting jargon.

COMMON SENSE CONCEPT #2

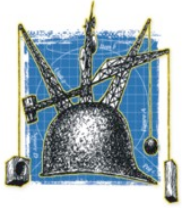
Value is added by undertaking a programme that gets to the point of identifying action implications quickly, at reasonable cost, using management time efficiently.

Start by Explicitly Stating The Organisation's Success Formula

Although financial budgets, marketing plans and capital requisitions are typically committed to paper, and based on some explicit logic, the underlying basis of the success of the business is usually only talked about and, to some extent, taken for granted.

"Relying on a wide product line has got us to where we are today, why should we get sidetracked on individual product profit contribution?" And so on. To really discuss the success of the business, that recipe or Success Formula needs to be stated explicitly. We can do that. Although management has the Success Formula in their own minds, objective outsiders are in the best position to put it down in a clear statement.

Management needs to discuss the success formula and decide whether its ingredients continue to make sense. As well as stating the Success Formula, our role is to point out, in our judgement, what areas need discussion. We objectively put an agenda of questions on the table, sparking managers to address the fundamental issues of the business.



The Concept

Forcing issues onto the management table is one way of getting management to sing from one song sheet.

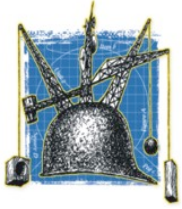
For the programme to be of significant tangible benefit, management discussions must lead to concrete action. While the management team will typically be stronger after the programme. That is a by-product. The Management team will benefit from developing a better shared understanding of the issues facing the business and the ingredients which make it more successful. Yet, the programme's value stems from prioritising and taking needed action. Some ingredients of the Success Formula, for example, may need to be more specifically defined with operating guidelines expanded upon to make them work better.

Some may be changed, reducing wasted cost that no longer seems to be critical for success. New operating ideas on how to achieve elements of the Success Formula may be discovered and applied to additional locations or geographical units. Methods of measuring and achieving some of the critical ingredients of the formula may be designed to ensure that management is controlling the key levers of the business.

The programme's value stems from taking needed action to strengthen company performance.

COMMON SENSE CONCEPT #3

Develop the action agenda where improvement and changes are deemed necessary and where investments will have maximise impact – not on everything!



Why Review Your Success Formula?

In our experience there are broadly speaking eight sets of circumstances in which a review of your Success Formula is to be recommended:

1. The One-Person Trap – The overloaded CEO

The CEO, who led the firm to success still makes the critical calls – the Success Formula is in his mind. The trap is overloaded.

More delegation is needed, but how? No one else can put it all together; no one else has really dealt with the whole ball of wax. It's no surprise that this problem particularly surfaces in medium-sized firms with a functional management structure.

It also becomes difficult to plan on succession in this setting. Often these leaders represent owner-operators and founders that build a company on a sound Success Formula, but get trapped by their inability to pass it on.

“Do not repeat the tactics which have gained you one victory, but let your methods be regulated by the infinite variety of circumstances.”

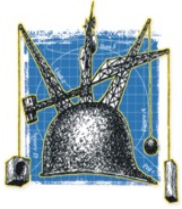
**Sun Tzu c. 490
BC, Chinese
military
strategist**

2. Success Formula Drift & Fade

People come and go and the ingredients of the Success Formula fade.

New people, looking at the business differently, start doing things that go against the Success Formula. Products get added when the key to success was standardised production. Or product lines get pared because of poor product profitability, when the original Success Formula featured a full line service to customers and repeat orders.

Disagreements surface when changes are proposed. Managers don't question whether the ingredients for success have changed, they deal one by one with decisions that cause the formula to drift.



Why Review Your Success Formula?

3. Success Formula Buckles with Growth

Frequently, firms with a sound Success Formula experience rapid growth. If the Success Formula is not adjusted the organisation often can buckle under such growth.

- The ingredients are obviously working. However, nothing much changes with respect to how the business is managed. The ingredients for successful management of the company to control the business and to adjust it to changing conditions are left informal, unstructured, and unshared by the management team.
- This Failure to enhance and formalise the Success Formula as the company grows can often lead to performance problems. Sooner or later, the organisation buckles with growth. The seeds of its undoing were sown in its inability to respond to success and manage through the growth.

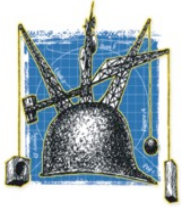
"Bury me on my face because in a little while everything will be turned upside down."

Diogenes 412BC-323BC, Greek philosopher

4. Changing business conditions demand a new look

Management typically takes too long to discover new responses to changes in the premises underlying the Success Formula.

- Of course, changes in the competitive market and the economics of the business can undermine the original Success Formula. Two dangers face a company in such a situation:
- First, when results dip, management tries harder to implement what worked in the past. This doesn't always work and causes profits to decline further.
- Secondly, while results are poor in some segments of the business, successes and doing things differently elsewhere go unnoticed. Opportunities to capitalise on these new successes are missed.



Why Review Your Success Formula?

5. New leadership – demands a new Success Formula

With the introduction of a new leader come new plans and priorities reflecting the leader's economic and political aims and their distinctive cultural style – often reflected in their desire to restructure to establish their own mark.

- Nothing surprising in that, except that these agendas for change often challenge the status quo, threaten old establishment players and put in question the Success Formula.
- Given a new leader, the issue of organisational architecture often becomes one of the highest priorities as it is within this context, that questions of governance, decision-making processes, and key metrics are clarified. In most cases there is a need to adjust the Success Formula to reflect new and innovative approaches in both strategy formulation and implementation.

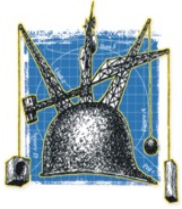
“It must be considered that there is nothing more difficult to carry out nor more doubtful of success nor more dangerous to handle than to initiate a new order of things.

***Machiavelli
1446-1507,
Italian
statesman and
philosopher***

6. Emerging technology puts the pressure on

As technology advances all organisations are relentlessly being impacted at all levels. This pressure demands that our Success Formulas keep pace.

- Technology is both a driver and a precipitant to adjusting our Success Formula. Unprecedented technological advancements continue to drive globalization, demand integrated approaches to solutions, and blur many traditional business sectors and supply chains.
- We need to be constantly seeking ways to restructure that will increase our flexibility and effectiveness (software quality, increase productivity, and decrease the cycle time for product development, etc.) In this climate of change a review of any Success Formula should assess the appropriateness of the role technology plans.



Why Review Your Success Formula?

“Nothing in progression can rest on its original plan.

We may as well think of rocking a grown man in the cradle of an infant.”

Edmund Burke
1729-1797,
Irish politician
and writer

7. M&A's challenge Success Formulas

If the Success Formula is not made explicit in management's rush to “the deal” costly mistakes can surface long after the final M&A or JV papers have been signed.

- Traditionally, the legal, financial, and operational aspects of M&A deals and joint ventures have received the greatest attention, but executives who have been through the merger process recognise that managing the post-deal Success Formula is critical to maximising the deal value.
- New people, new technologies, new clients, new ways of doing work, and most importantly new cultures challenge old Success Formulas.

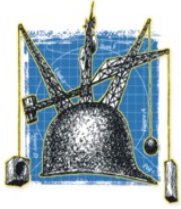
“Management must guide the forces of change.”

John W. Teets
former
chairman,
Greyhound

8. Changing regulatory environment

As organisations try to meet emerging regulatory guidelines some existing Success Formulas will be mandated to change.

- New rules are being developed through the processes identified by policy makers such as Higgs, Sarbanes-Oxley, and Kingmill. Organisations will need to gear themselves to face increasing scrutiny.
- Management teams will, more than ever, be charged with maximising shareholder value, managing risks, improving corporate governance and decision making whilst also attracting and retaining the company's top leaders.
- Strong leadership teams will challenge old Success Formulas and ensure that the right directors are in place to advance the strategy.



The Success Formula Programme In Action

Step 1 **Developing an** **explicit statement** **of Success Formula**

Consultant Activities

Start up meeting, Individual in-depth interviews with senior management
Review plans & related documents.

Outputs

Draft statement of Success Formula (SF)

Step 2 **Reviewing Success** **Formula Statement**

Consultant Activities

Present SF to management group. Individual follow-up interviews

Outputs

Revised Success Formula Statement

Meeting

A 2 hour meeting of senior management to hear & discuss draft Success Formula developed by Square Peg.

Step 3 **Assessing the** **Success Formula**

Consultant Activities

Assess SF & develop issues e.g. controversy about specific principles, consistency between SF ingredients & actions or plans
Questions concerning continued relevance of SF in light of changing trends, potential for more clarity & completeness of elements.

Outputs

Management conclusions about SF issues needing attention

Meeting

A 1 to 1- 1/2 day meeting, typically offsite. At the session, management will review revised SF discuss issues & action implications.

Step 4 **Identifying action** **implications**

Consultant Activities

Develop list of potential action initiatives flowing from Meeting

Outputs

A summary report outlining the agreed set of initiatives.

Typically, these may fall into one of the following areas: elaborating/enhancing SF ingredients to make more operational and relevant additional testing & analysis of specific ingredients questioned, and communicating SF to internal staff.

Meeting

½ day meeting to discuss implications for action & initiatives.

Step 5 **Implementing** **action initiatives**

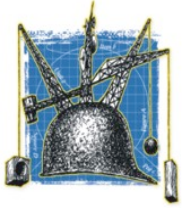
Consultant support available as required by senior management to assist specific action projects

Management will direct & control ongoing implementation.

Step 6 **Follow-up review**

A progress assessment by consultants. Follow-up meeting to review progress & determine on-going efforts.

We generally recommend a period of 8 weeks for the completion of steps 1 to 6. However the programme can be completed at a smarter or more leisurely pace as specifics dictate.



Case Study

First, we identified three critical ingredients to the organisation's success

This example case study concerns a growing service company offering standardised residential services throughout a network of territories.

1. Making each territory a success meant attracting capable local managers who attended to the details of delivering the quality services and were able to make service and marketing adjustments to suit each territory's circumstances and customers.

2. Successfully entering new territories required adequate support and resources from head office during the early months.

3. Head office needs to balance its efforts and resources, allocating time and resources to expansion, without neglecting the health of the established territories.

– A concrete *operating statement of territorial success ingredients* was developed and used in training new managers. Some improvements were instituted, for example, pricing formula.

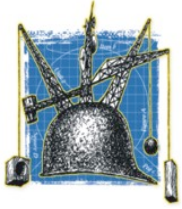
– A number of initiatives *improved communication, relations with head office*, and motivation among the territory managers.

- ***Territory manager meetings*** were held to share ideas about the Success Formula
- ***Innovative ideas*** were sought by reviewing practices in successful territories.
- ***A newsletter*** was started to share ideas, and recognise achievers.
- ***Awards*** were established to recognise top performing and 'fast track' territorial managers
- ***A corporate office territory was started as a prototype*** to experiment with new ideas, and to expose head office staff to the real life of operations.
- Head office's job was recast as the '***territory support office***' with its ingredients for success. ***Territories provided quarterly input*** on how the head office was doing.

– Organisational and management changes were introduced: Regional Directors, to support ***the success of territories***, taking some burden off head office: and ***formal monthly meetings*** to review the health of the ongoing territorial business, and the success of new territories to ***decide priorities*** for the following period.

All in all, a significant, positive result from a simple and reasonable programme in terms of time and cost.

Results of the Success Formula Programme identified action initiatives



The Process

***Focus on
Executive
Decision
Making and
Implementation
Follow-Through***

A Core Success Formula Progress, (outlined on page 10) can usually be completed within 6 to 8 weeks. It need not tax management time, nor require extensive analysis and reporting. Where strategic planning efforts can cost a lot in senior management time and consulting dollars, this programme gets to the point of identifying action implications quickly, at reasonable cost and using management time efficiently.

In our experience, a Core Success Formula programme is best addressed prior to the annual preparation of the operating plan and budget. Frequently, this is when the executive group can best influence the direction and operation of the company.

Executive decisions about making adjustments to the basic formula for the success can be built into the activities and priorities for the following year. Furthermore, changes can be made to department and individual performance goals, thereby easing implementation and commitment.

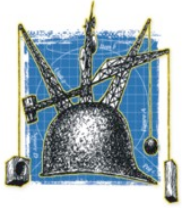
COMMON SENSE CONCEPT #4

Organisations should move as fast as they can in identifying the priorities for change and implementing them – but no faster. Our core Success Formula programme can usually be completed in a matter of weeks – not months.

***Use of
Consulting
Assistance to
Support the
Executive Team***

As consultants to management, Square Peg is in the business of helping organisations improve their business performance. We have applied the Success Formula approach in a variety of client situations such as the one outlined in the case study.

We are more than facilitators, although we chair meetings and facilitate discussion. We present our views of the Success Formula and our thoughts about whether some elements do or don't make business sense. We are business consultants with experience in a broad range of industries and companies. We expect that you will want our opinion, not simply our presence.



Why Square Peg International Ltd.

"As an innovative organisation on strategy clarification, leadership development, and the implementation of aligned people practices, Square Peg was comprehensive in its assessment of the strategic needs of our executives and constantly challenged us to deliver ever greater value."

**Wendy Izod, GE
Commercial Finance**

Organisational effectiveness is our business. At Square Peg, organisational effectiveness is our business performance is our goal. Our consultants are seasoned experts who understand, from first-hand experience, the challenges of running and growing an organisation. Our research and constant search for global best practices ensures that we deliver innovative workable solutions to help meet those challenges head on.

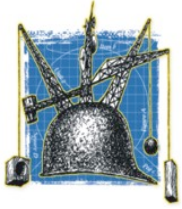
Clients are why we exist. Our Success Formula of growing one client at a time works and we now provide support to clients all over the world. As a small focused firm we can dedicate the attention and time required to develop long standing, valued, relationships with many of our clients – more than 20 years in some cases. This approach allows us to have a complete understanding of their needs and means that we can move quickly to focus our efforts on activities that add value. Our creative solutions are inspired by our overriding commitment to total client satisfaction. We strive for a special synergy in our client relationships. We challenge each other. Brainstorm. Test ideas. Lock in solutions.

We have a “no bull” attitude. Like all highly successful market focused businesses, Square Peg International’s future isn’t just about money. What we really believe sets us apart is the integrity we bring to our work; it is about leadership, making things happen, and a “no-bull” attitude. We believe that business success is not achieved through brilliant strategy. It is achieved through the brilliant execution of strategy and solutions need to pass the common sense test – always!

We take a complete approach. Unlike other firms that bring only functional or technical expertise, we take an holistic approach to our engagements, focusing on the strategy, leadership and people practices that contribute to organisational effectiveness. This approach, combined with our strong commercial acumen, results in recommendations that are fact-based, results-oriented and actionable.

At Square Peg, we use a flexible, bespoke approach to consulting. Although we have processes such as the Success Formula to guide our thinking, we typically don’t use off-the shelf solutions, we don’t have to. We are innovators – thought leaders with global breadth and depth of services. Our network of consultants and independent associates can provide whatever level of service that our clients need, from over-the-shoulder advice to hands –on involvement.

We know that the best consulting services are an investment – not a cost. Square Peg strives to deliver the best return on your investment. We can help your organisation achieve organisational excellence.



About Square Peg International Ltd.

"Passion, real world experience, integrity and a partnership approach differentiate Square Peg consultants from the pack. Square Peg gave me ideas ahead of my competitors. When everybody else was talking about a new idea, I was talking about how we could refine implementing it - Square Peg supported me to keep one-step-ahead."

**Ed Hoskins,
Global VPHR
Chiron Vaccines**

Square Peg is an international boutique consulting practice that provides an integrating force in the alignment and effectiveness of organisations. Our services are based on the interrelationship between business strategy, leadership and HR - our focus is to help clients improve performance and drive value.

As business consultants focused on the people side of change we support clients managing a variety of enterprise-wide changes such as M&A's, establishing new mandates, and meeting new expectations.

We maximise productivity, performance and morale and drive value by accelerating results, ensuring their quality, and measuring their impact. From our offices in the UK and North America we assist companies to capture the full value of their investment in people.

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