

A CEO'S FAVORITE NUMBERS

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Do numbers equal intelligence? For a CEO they often do. When a CEO says he needs hard evidence before making a decision, that usually means the CEO wants a number, an important, sometimes difficult to develop number. Oddly enough, different numbers excite different CEOs. Knowing certain numbers, business operating numbers, typically gives a CEO or any senior executive the ability to move to the next strategic plateau. To a CEO, a number equals insight.

Through the late 1990s, the investing world based a company's success on its profitability or on the worth of its assets. All this changed with the scandals surrounding the now-infamous Enron, Worldcom, and Tyco Industries greed-fests. All of a sudden everyone started asking questions around a company's cash flow and matters surrounding the movement of that cash.

Cash is king, goes the mantra. A CEO or an investor knows that cash has multiple and highly potent uses, such as giving the company an ability to pay down debt, invest in new initiatives, and pay expenses. Take away the cash and a company's ability to maneuver in the market and position itself for long-term horizons becomes extremely limited.

TO EACH HIS OWN NUMBER

Cost and how it is managed becomes the driver for cash flow. CEOs want to know which cost drivers can make or break a business, and how a rival may manage its cash flow. These drivers often differ from industry to industry, sometimes even within the

same industry: a bank's cost driver is typically the cost of a person, for a utility it is the cost of fuel, and for a products company it may be cost of inventory.

Inventory, or rather the rapid turnover of inventory, is a direct cost driver in the retail business. Just ask Warren Buffett. Known as an eagle-eyed observer of operating costs, he seizes on opportunities to buy businesses that can generate cash, cash that results from a well-managed business.

Nebraska Furniture Mart was one such business, a furniture mega store by 1983, before such stores routinely existed. When Buffett bought into the operation, he saw that its hard-driving owner, Rose Blumkin, managed to undersell every furniture retailer for miles around. Her tough low-ball pricing tactics brought the Furniture Mart to the point where her operation was practically the only store of its kind in Omaha.

"Mrs. B's formula was irresistibly simple: she bought in volume, kept expenses bone-trim, and passed on the savings. Typically, she sold at 10 percent above her cost, but was known for making exceptions. When a young couple came in, misty-eyed at the prospect of their very own convertible [sofa], Mrs. B, who has memorized the wholesale price of every item, would slash her price on the spot. And then the couple would come back." [Lowenstein, Roger 2001. *Buffett: the making of an American capitalist*. Broadway Books, NY, 249.]

Buffett loved coming into this store to watch its activity, its efficiency, and its high inventory turnover. That was why he offered Rose Blumkin \$60 million in 1983 to acquire the business, no further questions asked.

CUSTOMER NUMBERS

Robert Crandall, former chairman and CEO of AMR Corporation and American Airlines, also had his favorite numbers. As cited in an earlier column [*CI Magazine*, January/February 2003, 6(1) 36], those numbers mostly centered around the customer. If you want to understand his decision-making process, just listen to why he believes customer intelligence is first in his mind.

"In the long run, the most important metric in any business is customer satisfaction," states Crandall in an interview I conducted with him some time ago. "So in the airline business, if you worry about customer satisfaction, you worry about on-time arrivals, you worry about customer complaints, you worry about baggage delivery times, etc. If you're in the automobile business, I'm not sure what those metrics are, but you'd certainly be interested in the J.D. Powers reports on emission defects, as well as in customer comments on service, etc. That's [specific customer satisfaction numbers] going to be different in every business. Thus, in every business one of the key jobs of management is to identify those key metrics and, having done so, to use all the available information resources to get those metrics on yourself and on all your competitors."

While most managements will offer lip service to the notion of customer satisfaction, Crandall ran his business by various measures of that satisfaction. He had an intelligence process in place, whereby his IT, finance and marketing groups worked together to supply the very latest insights on American's customer satisfaction levels versus that of its rivals.

“So, for example,” details Crandall, “we could take the OAG [Official Airline Guide], the published schedule, and we wrote software [to analyze that schedule data]. We therefore were able to look with great precision at precisely what food the other guy was serving, at precisely what time of day, and how that compared to our service offering and our flights. And, at the same time we were able to look with great precision at the other fellow’s schedule, what time was he leaving, what was his published flight time.”

WHISTLE WHILE YOU VERC

Herb Baum has reshaped a number of consumer businesses, including Campbell Soup USA, Quaker State Motor Oil, Hasbro, and now Dial. He also relies on certain specific numbers that convey insights on his operation and that of the competition. While at

Hasbro he strongly believed in four sets of measures of Hasbro’s and of his rivals’ business health.

“We don’t get regular pieces of intelligence on the competition,” recalled Baum during our discussion. “I have a file that’s called *Competitive* and I throw everything in there and that’s whenever I need something on any of our competitors I look at that file. But the way we manage our business internally, the four competitive measurements we examine on a regular basis are volume, earnings, return on investment and cash, we call it VERC. We say *whistle while you VERC*.... And that’s the basis upon which we incentivize our people, as well.”

A CEO’s life is full of meetings, contrasting opinions, and political strong-arming tactics within his organization. All these activities create enormous business distractions, distractions from critical decisions he

must make in a timely manner. That is why it is more important than ever before to know what numbers drive your CEO and to develop the intelligence that can update, verify, and improve on those numbers. Often, for the CEO those numbers are the intelligence.

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