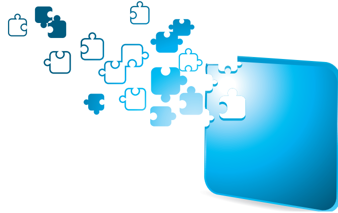

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BusinessBook Summaries

Mastering the Rockefeller Habits

What You Must Do to Increase the Value of Your Growing Firm

by Verne Harnish

A summary of the original text.

In this summary:

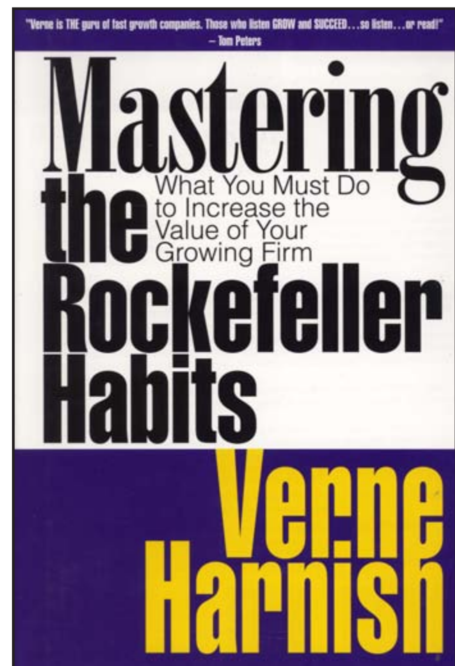
- ***Master...***
  the fundamental habits that determine which entrepreneurs prosper and which ones fail, and which companies grow and which ones go bankrupt.

- ***Build...***
  your company into a powerhouse of growth and profits with easy-to-use tools that you can implement immediately to make real and lasting changes to your business.

- ***Learn...***
  what the CEOs of growing companies know that you don't: how to overcome the three barriers to growth that are common among all growing firms.

- ***Reach...***
  your company's potential by using the Right People Doing the Right Things Right model, which illustrates the decisions that leaders must make to successfully drive any business.

- ***Align...***
  everyone in your business around your company's values, purpose, targets, goals, actions, schedules, and accountabilities by creating a One-Page Strategic Plan.



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Which fundamental ideas are so critical that they drive everything else that's important in business? What is still fundamental today in building a business that hasn't changed for more than 100 years?

According to *Titan,* a best-selling biography of John D. Rockefeller, the oil tycoon ran his business on three critical habits. These habits form the foundation for building and managing a successful business in any industry and in any era.

These three habits are:

1. **Priorities.** The organization must follow a set of critical priorities that drive every decision.

2. **Data.** In order to know if you're acting in a way that is consistent with your priorities, you need feedback in the form of real-time data. There are key metrics within the business that you want to measure over an extended period of time, called Smart Numbers; and there are metrics that provide a short-term laser focus on an aspect of the business called Critical Numbers.

3. **Rhythm.** A well-organized set of regularly scheduled meetings keeps everyone aligned and accountable.

Titan also confirmed that there is only one underlying strategy — what can be called the "X" factor — that must be discovered, defined, and acted upon to create significant value in a business.

For Rockefeller, the key to winning in the oil business was gaining an advantage in transportation costs, which is why he was heavily involved with the railroads. Even what appeared to be minor decisions were actually aligned with his focus on transportation costs.

For example, when Rockefeller decided to vertically integrate further by producing his own oak barrels, rather than bring in green timber like his competitors, he had the oak sawed in the woods and then kiln-dried, which reduced their weight and cut his transportation costs in half.

In the remainder of this summary, we will provide the tools you need to master the Rockefeller Habits. More specifically, we'll explore six priceless lessons:

1. We'll take a dynamic look at the three barriers to growing a firm and the outcomes you can expect if you implement the Rockefeller Habits of priorities, data, and rhythm.

2. We'll explain the "Right People Doing the Right Things Right" model, which provides a framework for what decisions need to be made to increase the value of your business.

3. In the Priorities section, we'll discuss how you can master the One-Page Strategic Plan and the Top 5 and Top 1-of-5 approach to prioritization.

4. In the Data section, we'll examine how you can implement a process for getting the real-time data you need to be "right" about what your priorities should be, and to let you know you're acting consistent with those priorities.

5. In the Rhythm section, we'll take a quick look at specific agendas for making daily and weekly meetings effective.

6. In the "X" Factor section, we'll walk you through a simple formula for narrowing in on the key strategy necessary for dominating your market.

Mastering Growth

What do CEOs of the fastest growing companies know that you don't — and how can you use it to build a powerhouse business? Quite simply, they know how to overcome the three barriers to growth that are common among all growing firms.

These three barriers to growth are:

1. The need for the executive team to grow as leaders in their ability to delegate and predict.
2. The need for systems and structures to handle the complexity that comes with growth.
3. The need to navigate the increasingly tricky market dynamics that mark arrival in a larger marketplace.

Of all firms in the United States, only 4 percent clear these hurdles and make the transition from a small business to a growing firm. These 4 percent are the "gazelles" — the firms that grow at least 20 percent a year for 4 years in a row. North America's gazelles now fuel more than two-thirds of the continent's economic growth and essentially all of its job creation.

As the statistics indicate, becoming a gazelle isn't easy; it requires the entrepreneur to navigate the three barriers we've just described, any one of which is potentially life-threatening to the business. The good news is that these barriers to growth are known, and the tools for handling them are within the grasp of any entrepreneur. All it takes to make growing your business both fun and profitable, at each and every stage of its life, is the discipline to find the right tools and implement them.

The first barrier that must be overcome is ***the need to delegate to others.*** Let's face it: Most entrepreneurs don't like working with anyone, including their own employees. This is the major reason why 96 percent of all firms have fewer than 10 employees, and a vast majority has fewer than 3. Therefore, the decision to grow isn't an easy one.

For example, Doug Harrison, the CEO of a nearly $200 million provider of mobility aids for the disabled called The Scooter Store, finally made the move from a small storefront business to a growing company when he realized that a competitor was going to seize the opportunity to expand before he could do it on his own. As Harrison recalls, "One of the first real management concepts that stuck in my head was that if you can't afford the people to run the business for you, then all you have is a job, not a business."

Although friends and family were telling Harrison it was too soon to shell out big salaries for experienced sales, operations, and financial people, he did it early in his operation and never looked back. He went from two locations to five that year, and he felt in better control of the business than when he tried to do everything by himself.

By letting go of the details, Harrison took the first steps toward reserving for himself the role that only the founder can play, that of leader and visionary. He knew he needed a management structure in place to let him focus on his real job of growing the company.

That brings us to the second barrier to business growth: ***the need for systems and structures.*** As an organization grows, it becomes more complex, which can lead to errors, poor customer service, and greater overall costs. When you go from 2 employees to 10, you need better phone systems and more space. If your company goes to 50 employees, you still need space and phones, but suddenly you need an accounting system that shows more precisely which projects, customers, or products are actually making money. Above 50 employees, you need upgraded IT systems.

To manage complexity, it helps to use three types of organizational charts.

An *accountability chart* shows who is responsible for completing something that is important. All projects, line items on an income statement, priorities, and processes must ultimately be owned by a single person, even though there might be hundreds of people who have responsibilities for parts of the whole.

Because the accountability chart can't capture all the interactions necessary to run a business without a mass of dotted lines running all over the chart, it's better to keep the accountability chart clean and then establish four to nine *work process charts.* These charts represent the critical processes that flow through the organization. These processes might include how you acquire a customer, how employees are selected and trained, and how customers are billed and payments collected.

The last type of chart is the *almost matrix.* This chart shows the relationship between organizational functions and the business units that form as the organization grows. These units begin to act like separate businesses within the business. Conflicts often arise between the functional leaders, like the Vice President of Sales and Marketing, and the business unit heads who have salespeople driving their revenue. The key question is, to whom do the salespeople report in the organization? The "almost matrix" should make this clear.

The third barrier to growth is ***market dynamics.*** Between start-up and the first $1 million in revenue, the key driver is revenue. The focus is on getting the marketplace interested in you. Between $1 million and $10 million, cash will be rapidly consumed as you experiment to figure out what the company's specific position in the market should be. As the organization passes $10 million, the organizational complexity issues increase, which cause costs to rise faster than revenue. These issues also draw the attention of the management team inward at a time when it's probably more important for the team to be focused on the marketplace.

Growing a business requires a shifting set of priorities as you navigate each stage of its growth. You must delegate, install systems and structures, and respond to market dynamics that impact the business in order to grow a business successfully.

As your company grows, you must keep everyone focused. That's especially hard once you reach the point, usually at about 30 employees, where you can't personally interact with everyone every day.

How do you keep everyone aligned? Many fast-growing companies find it useful to set priorities for each quarter — no more than five — and then to identify one goal that is more critical than the others. This is known as a Top 5 and Top 1-of-5 priority list.

For example, at Carney Interactive, a learning solutions company, founder and CEO John Carney keeps the Top 5 corporate priorities for the quarter on 8.5x11 laminated sheets posted inches from his employees' noses. Also on the sheet is a place for each employee to write his or her own Top 5 priorities for the quarter, aligning them with the company's Top 5.

These posting remind the workforce what's important — like hitting a sales target or the priority to bring projects in on budget. When everyone is working on the same priorities, there is no limit to what your business can accomplish.

<u>MASTERING THE "RIGHT PEOPLE DOING THE RIGHT THINGS RIGHT" MODEL</u>

There are three basic decisions an executive team must make:

1. Do we have the Right People?
2. Are we doing the Right Things?
3. Are we doing those Things Right?

A quick way to discern the answer to the first question is to ask yourself if you would enthusiastically rehire each person on your team if given the opportunity. Another way to think about the answer is to ask, especially regarding your executive team and other key employees, whether you think they have the potential to be the best in their position three to five years from now. When you have "A" players, it makes all the difference in the world.

To answer the second and third questions, use the *Right People Doing the Right Things Right* model.

This model illustrates the fundamental decisions, relationships, and functions of a business.

Right Things Right

Lead People
Customers
Reputation
Employees
Shareholders
Get, Keep, Grow

Manage Activities
Sell
Productivity
Make or Buy
Keep Good Records
Better, Faster, Cheaper

Accountability
Schedule
Action Steps
Goals
Targets
Purpose
Core Values

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The three ovals of the left side of the model show the Right Things; the three ovals on the right show how to do Things Right.

The key question on the Right Things side of the model is, "Do you have a viable business model?" Or, more bluntly, can you ever make real money at what you're doing? Do you have a product or service that enough customers value to make a viable business? And have you determined the "X factor" that you can control that differentiates you from the competition, matters to customers, and provides you an advantage in the marketplace?

The key question on the Things Right side of the model is, "Do you have the management practices and processes to take advantage of the market opportunity you're pursuing?" Do you have the habits and disciplines in place to maintain your competitive advantage? Is your organization structured properly to maximize the productivity of your employees? Can you deliver a consistent product or service offering?

Moving down through the model, you know you're doing the Right Things when your revenue or market share — or both — are growing at twice the market.

The Right Things side represents the people and relationships involved in any business; the Things Right side represents the activities or transactions that occur within a business to deliver consistent products and services to the market.

As illustrated in the model, the three fundamental groups of people that interact in a business are:

1. Customers, including suppliers
2. Employees, including subcontractors
3. Shareholders

The three fundamental activities at the heart of all businesses are:

1. Making or buying something
2. Selling something
3. Keeping good records

Taking the model further, on the Right Things side, you strive to achieve three outcomes: Get, keep, and grow all three relationships — that is, with your customers, employees, and shareholders. To do this, you need to figure out what basic needs you can fill for a certain group of customers in a way that differentiates you from the competition, and then what competencies your people need to meet those needs so that value is created for the shareholders.

Ultimately, this boils down to one concept: the need to build a great reputation with all three stakeholders. You know you have great reputation when it gets easier, instead of harder, to get, keep, and grow each of the three relationships.

On the Things Right side, you strive to achieve three additional outcomes: doing each of the activities better, faster, and cheaper. The primary objective is to continue to lower the costs of delivering your products or services relative to the sales price, and improve the value proposition so you can maintain your prices relative to the competition to increase profitability.

The three relationships and three activities of the model balance on the vision of the company, as represented by the Planning Pyramid at the bottom of the Right Things Right model.

It's the vision of the company that gives a focus to each of the relationships and activities — exactly who are the customers, employees, and shareholders, and exactly what are the activities in which the business will engage. What's important to note at this point is that there is a constant balancing act between the two sides of the model: between driving revenue and making sure the business is profitable; between having enough people and having enough activities for those people; and between protecting the reputation of the firm and increasing the productivity of the firm.

In addition to a general framework for business, there are three specific uses of the model relative to the Rockefeller Habits:

As you'll recall, the first habit focuses on **Priorities.** A starting point to figuring out the number one priority for any particular quarter is to consider the three relationships and three activities as potential priorities, and then choose the one on each side that needs the most attention at that moment.

Be sure to specify whether the Right Things driver is to get, keep, or grow, and whether the Things Right driver is better, faster, or cheaper. For example, this quarter the top priority might use "customers," "grow," "faster," and "keep good records." Thus, the priority would be to "increase by 25 percent the business we're doing with our top four customers" and "reduce the time by 50 percent it takes to properly bill our clients."

The second Rockefeller Habit focuses on **Data.** To monitor the progress of the business daily and weekly, and to accurately predict how the next few months are likely to turn out, you need metrics about all six areas of the business.

For mid-market firms, the weakness on the Right Things side of the model is having the same kind of timely and accurate feedback from customers that you demand from accounting. On the Things Right side, mid-market firms tend to be weak in having accurate sales funnel data, primarily because the sales side of the organization tends to resist measurement.

The third Rockefeller Habit involves **Rhythm.** In figuring out with whom you need to have various weekly meetings, the six areas provide guidance. It's crucial that operations, sales, and accounting each has its own daily and weekly rhythms. In turn, it's important that the executive team have some rhythm in meeting with customers and employees. If you are a public company, you have an entirely new set of rhythms that revolve around reporting to shareholders.

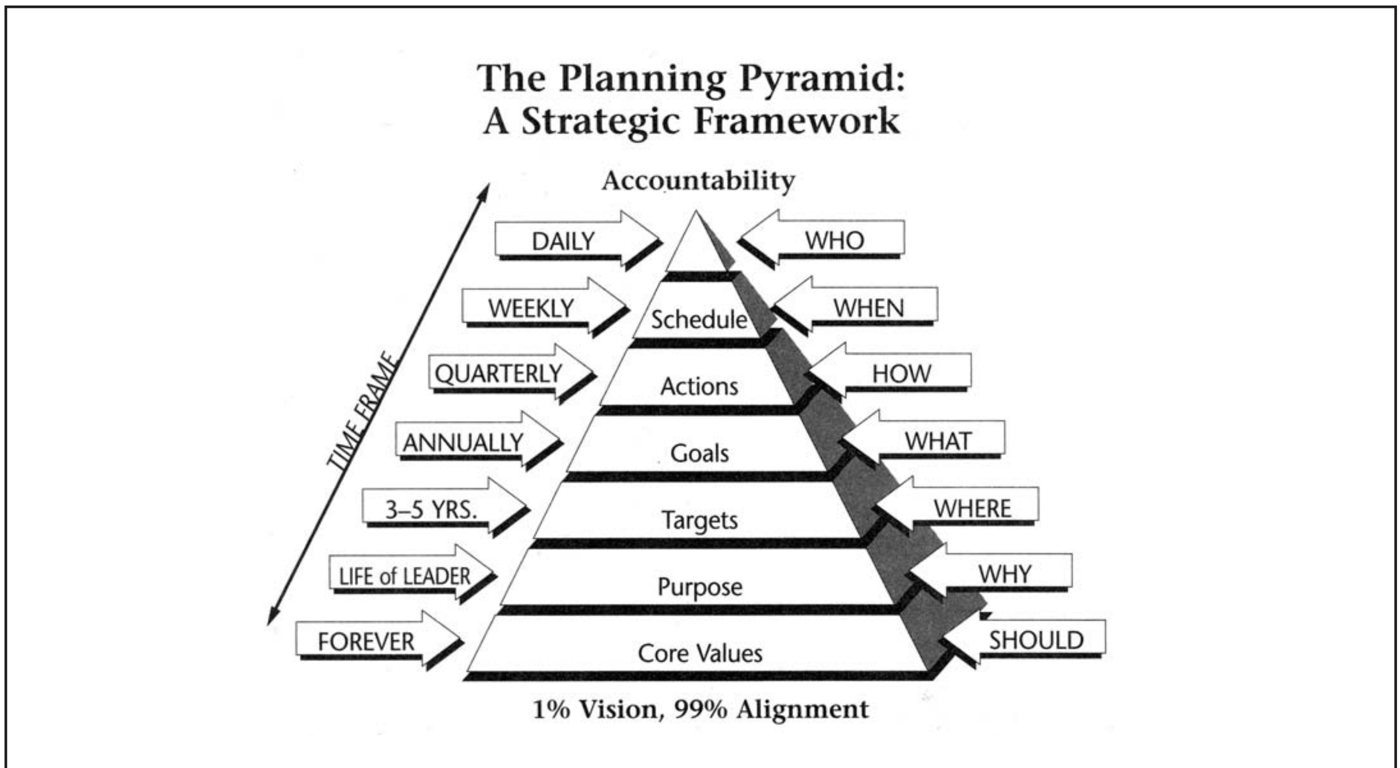
The Right People Doing the Right Things Right model illustrates the fundamental decisions that leaders must make to successfully drive any business.

Mastering Priorities

The bigger your company gets, the harder it is to get everybody on the same page. The problem, of course, is that there isn't a single page around which to align. There are likely more than a dozen pages, each purporting to describe your company's mission, vision, and strategy.

This section will introduce you to the Planning Pyramid and the One-Page Strategic Plan, which will help you to edit your vision down to a single, action-oriented page. You can download editable versions of these and other documents for free at www.gazelles.com.

The **Planning Pyramid** graphically conveys to everyone in your organization how the various



pieces of your vision align. These pieces include your company's values, purpose, targets, goals, actions, schedules, and accountabilities. The **One-Page Strategic Plan** provides the tool for getting it all down on paper.

To fill out the One-Page Strategic Plan, fill in the space marked ***Opportunities and Threats.*** List the five biggest opportunities and threats facing the organization over whatever time period the planning session is considering — next quarter and the coming year if it's one of the quarterly review sessions, or the next three to five years if it's an annual planning session.

Next, fill in the section marked ***Core Values.*** These eight statements must broadly define the *shoulds* and *shouldn'ts* that govern your company's decisions. Think of them as the Ten Commandments or your Constitution; the foundation upon which the rest of the vision is built.

The next part of the document focuses on your ***Purpose.*** It answers the very basic *why* questions. Why is this company doing what it's doing? What's the higher purpose for why we're in the business we're in?

At the bottom of the Purpose column of the One-Page Strategic Plan, you'll see the sections marked ***Actions*** and ***BHAG.*** Every quarter, you should take a look at your core values and your purpose statement. If your core values seem to be sagging, or your purpose isn't being fully realized, the action list affords you the opportunity to detail the specific actions the firm needs to take to bring things into better alignment.

The BHAG is your Big Hairy Audacious Goal. It's a 10- to 25-year lofty goal, similar to John F. Kennedy's legendary goal to put a man on the moon. It's the sort of goal that challenges the firm to greatness.

Next comes the ***Targets*** section. This describes where you want the firm to be in three to five years. Besides listing quantifiable targets at the top of the column, you should define the

Strategy: One-Page Strategic Plan

Organization Name:

People (Relationship Drivers)

Employees	Customers	Shareholders
1	1	1
2	2	2
3	3	3

CORE VALUES/BELIEFS (Should/Shouldn't)	PURPOSE (Why)	TARGETS (3-5 YRS.) (Where)	GOALS (1 YR.) (What)

TARGETS (3-5 YRS.)

Future Date	
Revenues	
Profit	
Mkt Cap	

Sandbox

GOALS (1 YR.)

Yr Ending	
Revenues	
Profit	
Mkt Cap	
Gross Margin	
Cash	
A/R Days	
Inv. Days	
Rev./Emp.	

Actions
To Live Values, Purpose, BHAG

1		
2		
3		
4		
5		

Key Thrusts/Capabilities
3 – 5 Year Priorities

1		
2		
3		
4		
5		

Key Initiatives
Annual Priorities

1		
2		
3		
4		
5		

Core Competencies

Profit/X

BHAG®

Brand Promise KPIs

Brand Promises

Critical #: People (B/S)

Between green and red

Critical #: Process (P/L)

Between green and red

Strengths: 1 2 3

Weakness: 1 2 3

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Your Name: Date:

Process (Productivity Drivers)

Make/Buy	*Sell*	*Record Keeping*
1 ______	1 ______	1 ______
2 ______	2 ______	2 ______
3 ______	3 ______	3 ______

ACTIONS (QTR) (How)

Qtr. #	
Revenues	
Profit	
Mkt Cap	
Gross Margin	
Cash	
A/R Days	
Inv. Days	
Rev./Emp.	

Rocks

	Quarterly Priorities	*Who*
1		
2		
3		
4		
5		

THEME (QTR/ANNUAL)

Deadline	
Measurable Target/Critical #	

Theme Name

______

______

Scoreboard Design

Describe and/or sketch your design in this space.

YOUR ACCOUNTABILITY (Who/When)

	Your KPIs	*Goal*
1		
2		
3		

	Your Quarterly Priorities	*Due*
1		
2		
3		
4		
5		

Critical #: People (B/S)

______

______

Between green and red

______

Critical #: Process (P/L)

______

______

Between green and red

______

Celebration

______

______

______

______

Reward

______

______

______

______

Critical #: People (B/S)

______

______

Between green and red

______

Critical #: Process (P/L)

______

______

Between green and red

______

Opportunities: 1 ______ 2 ______ 3 ______

Threats: 1 ______ 2 ______ 3 ______

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Sandbox in which the company chooses to play: a place where it can be number one or number two. The Sandbox defines your company's expected geographical reach, product or service offering, and expected market share within the chosen three- to five-year time frame.

Now, in the ***Brand Promise*** section, clearly articulate the key need you're going to satisfy for your customers. It's important that it be measurable, like FedEx's 10 a.m. delivery promise. It's from this measurable promise that all other measures and processes derive.

Next, in the ***Key Thrusts/Capabilities*** section, define the five or six big things you need to do to fulfill your brand promise and reach your three- to five-year targets. This part of the process challenges your team to define the handful of strategic moves that will put you on top.

To achieve your longer-term targets, you need to identify the ***Goals*** your company needs to achieve in the coming year. In this part of the One-Page Strategic Plan, list your five or six key initiatives for the year. These should be similar to, and aligned with, the Key Thrusts/Capabilities.

You also need to designate one or two ***Critical Numbers,*** ideally one from the balance sheet and one from the income statement. They should represent key weaknesses at the heart of your economic model or operations that, if addressed successfully, will have a significant and positive impact on the business. A critical number could be the utilization rates of service delivery personnel, or fundraising goals, or an increase in the number of large accounts.

Next come the quarterly action steps. This is the *how* stuff. Here's where you break down your annual goals into quarterly ***Action Steps*** that lead to achieving your yearly goals. These goals are called ***Rocks;*** they're the priorities that need to stay out front of the pebbles you deal with on a daily basis. As was the case at the Goals level, you also need to figure out your Critical Numbers, but this time they are ***Critical Numbers*** for the quarter.

Looking at your Rocks, Critical Numbers, and Goals for the year, establish a quarterly or annual ***Theme*** to bring additional focus to everyone's activities. Decide where to post a ***Scoreboard*** that will keep everyone apprised of your progress toward achieving the measurable target of the theme. Don't forget the ***Celebration,*** either. You should state ahead of time what exciting reward or event will occur when the measurable target is hit.

Next, determine when things will happen and enter the due dates in the last column of the plan. What happens first? What happens next? Which activities are linked cross-functionally, and what impact will these shared activities have on your ability to get things done? Take all of that into account when planning your ***Schedules.*** Start by having each executive who has accountability for a specific initiative come back with a one-page outline of the steps, with dates, necessary to complete the tasks.

Last and most important, assign ***Accountability*** for the tasks. This is the *who* level, where your company identifies specifically which person is accountable for which particular activity on your plan.

Once you follow this process, you will have completed the One-Page Strategic Plan. Resist the temptation to go back and revise your document. The point isn't finding the exact words. It's having something on a single sheet of paper so everyone is literally on the same page, all of the time.

This process helps you to align your long-term goals with the quarterly challenges your company faces. With those planning efforts in front of you, it's not hard to start figuring out

what your Top 5 and Top 1-of-5 goals should be for the shorter term.

Begin by asking yourself what you need to be doing today to keep this company moving towards its plans at the speed the market demands. Once you've determined your company's Top 5 and Top 1-of-5, each of your executives must determine his or her Top 5 and Top 1-of-5. Continue to cascade this approach down the organization until you reach everyone.

In this way, all of your people will be aligned to do what needs to be done every day, every week, every month, every quarter, and every year, to help your company reach its potential.

Mastering Data

Since we have already focused on the first Rockefeller Habit — priorities — we are now ready to examine the second habit: data. The right data lets you know if you have the right priorities, and whether you are doing the right things in response to those priorities.

The best way to identify your company's problems and opportunities is to find out what problems your employees are experiencing. Recurring problems and hassles cost your employees 40 percent of their time, not to mention what it's costing your company in lost customers and revenues. These are the situations, problems, and mistakes that happen over and over again, never getting fixed, constantly frustrating employees and customers.

To reduce your costs, shorten your cycle time, and improve your working environment, you need to systematically gather data on what's hassling your employees — and then *do* something about it. Because your employees are often closest to the customer, their hassles are usually related to what's hassling your customers, giving you tremendous insight into ways to serve your customers better.

For example, three decades ago, when Dell Computer was just a start-up called PCs Limited, Michael Dell told his employees to keep weekly lists. He urged them to write down every problem, complaint, concern, issue, idea, or suggestion that had crossed their minds or been reported by a customer that week.

On Thursday afternoons these lists were turned in, and Dell took them home to read and search for patterns and trends that would emerge over several weeks and months of collecting employee and customer concerns and suggestions. On Friday morning, he'd call everyone together for what became known as the "hour of horror."

Employees would gather around and brainstorm solutions to some, but not all, of the problems. Being selective was smart, because Michael Dell understood the that if you solve just one percent of your problems, or make a one percent improvement in your products and services each week, you'll gain greater and greater yields from the solutions with each passing year. On the other hand, if you try to solve too many problems, you'll waste a lot of time and never accomplish anything.

To get started, ask your employees a three-part question:

1. What should we *start* doing?
2. What should we *stop* doing?
3. What should we *continue* doing?

Ask them to think about these questions both from their own perspective and from the perspective of customers. Compile the data, call a meeting, and brainstorm some solutions. Then report progress on some of the stickier, long-term issues that have cropped up.

That will pave the way for introducing a more systematic ongoing process for collecting this feedback using a manual or electronic logging process. This ongoing process requires your employees to log recurring problems they and your customers are experiencing.

Suggest that you want to hear about anything and everything that caused them to spend more than a minute doing something that shouldn't have needed doing. What are customers requesting that can't be provided? Where are they being hassled in the process of doing business with your firm? You could offer a raffle ticket for each problem submitted and hold a weekly prize drawing. Make your own list to share: What are the top 10 things that make *your* job a hassle?

The key is to get the raw, unedited data. Even if a problem occurred and was resolved, it needs to be logged so patterns and trends can be observed. At the Ritz Carlton hotels, personnel are required to log all incidences of customer or employee problems and turn them in daily to the general manager. This data points out opportunities for improvement that save time, improve working conditions, and increase customer satisfaction.

Once the feedback is coming in, you have to respond to it. If employees feel their feedback is dropping into a black hole, it'll dry up. Initially, find some quick-hit solutions. If there needs to be a bigger wastebasket in the woman's restroom, get a new one in there immediately. If there are bigger, thornier issues, put a team on one or two of them and schedule regular updates.

If your team is reluctant to provide feedback, just work extra hard to respond to the few items you receive. You'll get more participants the next time — guaranteed. On the other hand, if you find yourself swamped with input, don't give in to the temptation to omit items or combine them. Get the raw data out there on your intranet or in an e-mail, even if the initial list numbers in the thousands. People are watching to see if their contributions are being considered.

To solve the problems your employees have identified, follow a six-step process:

1. Make sure it's relevant. Does the issue really matter? Is a customer affected by it? Don't tackle one particular hassle if there are others that have greater impact on your company. Here you are looking for a pattern of recurring problems. You can't solve every issue right away, so you want to look at those that are costing customers and employees the most time and money.

2. Be specific. Complaints about "communications problems" or "interruptions" are too general. You can't begin to address these issues without knowing the who, what, when, where, how, and why of those hassles.

3. Address the root. Look at the cause of the issue and not just the symptoms. Use the "5 Whys" technique. Ask "why" several times until you get to the root cause.

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To use the "5 Whys" technique, you simply start with a problem you want to solve and keep asking *why* to discover what is really causing it. Keep in mind that some problems may require you to ask *why* more than five times, while others can be solved in fewer

than five *whys.*

For example, if your problem is that your company's sales have dropped 20 percent in the last quarter, the knee-jerk reaction might be to increase your salespeople's commissions, or to cut your prices. Instead, begin by asking "*Why* are sales down by 20 percent?"

By surveying your customers, asking your salesforce, or studying data, you might determine that many of your customers are defecting to your competitor, Company B. The next step is to ask, "*Why* are we losing customers to Company B?"

You might discover that Company B's prices are actually slightly higher than yours, but your former customers are willing to pay more for higher quality and more reliable performance.

Again, ask "Why?" *Why* is Company B's quality and reliability better than yours? By exploring the company's press releases, Web site, and product brochures, as well as articles about the company in the business press, you might find that your competitor has gone against the industry trend of sourcing the key components of its product from China. Instead, it has moved the production of the components in-house, which has led to fewer breakdowns of the product, and to customers who are more satisfied.

By using this technique, you've identified the real cause of your problem. Sales have dropped 20 percent, but the problem isn't that your salesforce is unmotivated, or that your prices are too high. The real issue is product quality, and the solution may be to borrow your competitor's strategy and vertically integrate your supply chain.

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4. Focus on the *what,* not the *who.* Don't turn your search into a finger-pointing or blame game. Besides, 95 percent of the time it's a process problem, not a people problem.

5. Involve everyone who's affected. Rather than run around getting 10 explanations from 10 people, get them all in the same room to give a better picture of the entire problem.

6. Never backstab. Never talk negatively about anyone if that person is not present.

With these guidelines in place, you'll ensure that your employee-feedback system raises morale instead of lowering it, and improves productivity rather than hurting it.

Employee feedback isn't the only kind of data you need. It's essential to develop daily and weekly measurements for the company, and for every individual and team. These numbers focus everyone's attention on driving performance, reinforcing priorities, and helping anticipate problems and opportunities.

It's best if the company has one or two Critical Numbers around which to align the company over the next quarter or year. A *Critical Number* represents a key short-term focus in the company that will have the most impact on the future of the firm. The key question to ask is, "What is the single, most important, measurable thing we need to accomplish in the next 3 to 12 months?"

Next, identify three Smart Numbers that give you insight into how the company is likely to do in the future. A *Smart Number* is typically a complex ratio made up of key indicators, like the ratio of sales this week against the same week last year, compared to the growth rate of the market. This would tell you if you're gaining market share or not.

Or you look at the ratio of sales calls made to sales calls closed to get an indication of sales effectiveness. One CEO simply counts the number of trucks at the loading dock compared to the number of orders that week to know if it is going to be a good month next month.

As the name "Smart Numbers" implies, these key weekly measures make you smarter about how the business is doing. Once you've discovered three effective measures, stick with them for a period of time so you can compare "apples to apples."

Once you've decided on the Smart Numbers and Critical Numbers, make sure that every person or team has one or two daily or weekly measures that align with these numbers. The key is alignment. Can every employee see how what they're doing impacts the entire firm?

For example, one organization chose improving its customer service rating as a Critical Number to focus on for one quarter. Based on this, every employee or team figured out something they could do better to improve this rating, from increasing the accuracy of order taking, to reducing the time it took to return phone calls or respond to e-mails.

Your measurements will motivate better performance if you make them visible. Your company-wide measurements should be on large charts placed where everyone can see the results. Additionally, every employee should graph their own daily or weekly measures on their computers or on whiteboards in their cubicles.

Once the habit of daily and weekly measuring is established, you can start projecting ahead instead of simply documenting the past. This involves making an educated guess about how the next few weeks or months are likely to turn out based on what you know now.

Then, by comparing actual results against predicted results, you'll begin to learn how to predict outcomes more accurately, and strengthen your knowledge about what drives results for yourself, your team, and your company.

Mastering Rhythm

Rhythm is the third and final Rockefeller Habit. Companies that grow successfully follow a routine and a rhythm of tightly-run daily, weekly, monthly, quarterly, and annual meetings, all of which happen as scheduled, without fail.

With these meetings, you'll have opportunities to focus your executives on what's important. You'll also solve problems more quickly and easily; you'll achieve better alignment around strategic decisions; and you'll communicate more effectively.

These aren't the kind of wide-open, poorly defined meetings most of us have endured in large corporations, where meetings are dreaded interruptions that eat up hours or even days. These meetings are short and punchy, with a structure, time limits, and a specific agenda.

Most companies schedule quarterly and annual meetings, which focus on setting strategy. But you also need daily, weekly, and monthly meetings, because the agendas of these more-frequent meetings drive the deliverables outlined in the less-frequent meetings. Each one builds upon the next.

For example, how are you going to make your quarterly goals if you aren't driving performance monthly, weekly, or even daily? Your execs need regular, face-to-face gatherings to discuss new

opportunities, strategic concerns, and bottlenecks as they arise.

Similarly, how many hours is it going to take to hammer out a set of goals for a new year, if the annual meeting is the first time anybody's talked about where the market is going or has dealt with the tactical issues that come up weekly?

Let's take a look at the details of these meetings, starting with ***daily meetings.*** Everybody in a growing company should be in some kind of 5- to 15-minute huddle every day. They don't have to be physically present; a conference call or a speakerphone session will do when people are on the road.

By maintaining a rigorous daily meeting schedule, you can actually save time because you'll always be able to find one another at a set time each day. If you need an answer to a customer question, you don't need to say, "I'll try to find her and get back to you sometime today." You can name the time, because you know you'll have the answer by the end of your daily meeting.

Schedule the meeting for no more than 15 minutes. It helps to set an unusual time, such as 8:08 a.m. or 4:46 p.m. For whatever reason, people are more likely to be prompt when the time's not on the half- or quarter-hour.

You can meet wherever you want, but avoid sitting comfortably. Stand up, or perch on stools. It'll help keep the meeting short.

The agenda should follow the same structure every day. It should consist of just three items:

1. What's up?
2. Daily measures.
3. Where are you stuck?

In the first five minutes, each attendee spends from a few seconds to half a minute just telling what's up. That alone is valuable, because it lets people immediately sense conflicts, crossed agendas, and missed opportunities.

Next, the entire group takes a quick look at whatever daily measurement your company uses to track its progress, such as the number of sales proposals that went out that day, or the company's stock price. Also, choose a short-term employee-based activity you want to focus on and track daily. Maybe it's accounts receivable, or getting contracts back on time. It should be some sort of measurable behavior.

The third, and most important, agenda item is devoted to discussing where people are stuck. You're looking for bottlenecks, which ought to be your nemesis. Applying energy anywhere but the sticking point is a waste of time.

The ***weekly meeting*** has a different purpose and, therefore, a different agenda. It's intended to be a more issues-oriented and strategic gathering. It won't be, however, unless you've established your daily meeting rhythm. By holding daily meetings, you put out a lot of fires and clear up a lot of the outstanding issues that would otherwise bog down the weekly meeting.

The weekly meeting should be scheduled for the same time and place every week. It should last 30 minutes for front-line employees and a full hour for executives. Again, it can be a conference call if your executives work in different locations.

Each weekly meeting starts with five minutes of good-news stories from everyone. These can be personal or professional in nature. This starts the meeting out on a positive note.

Next, spend 10 minutes on individual and company-wide measures of productivity. Again, every firm should track three key performance indicators, called Smart Numbers. These are usually ratios that provide insight into the future performance of the business.

Devote the next 10 minutes reviewing specific feedback from customers and employees. What issues are cropping up day after day?

For the next 30 minutes, focus on a single issue. The big mistake made at weekly meetings is covering everything every week. As a result, the team deals only with issues on a shallow level and never focuses its collective intelligence for a period of time on one issue. The key is focusing on a larger priority for the month or quarter, what were referred to earlier as Rocks.

Front-line employees should spend about 10 minutes on this, while the executive team may devote as much as a half-hour to it. Which single issue should be discussed? Choose one of the priorities you've established in your monthly or quarterly meetings, and plan that it should come up for discussion more than once a month or quarter.

For example, if one of your priorities is to get a new information system up and running, the executive with accountability for that project should be in the hot seat at least 2 or 3 times over a 13-week quarter, just giving updates and getting feedback. By rotating the topics in this fashion, you'll complete 15 or 20 projects each year and you'll do it faster than you thought possible.

If the focus of the quarterly and annual meetings is setting strategy, and the focus of the daily and weekly meetings is execution, the focus of the ***monthly meeting*** is on learning.

This is a two- to four-hour meeting for the extended management team to gather, to review the progress everyone is making on their priorities, to review the monthly P&L in detail, to discuss what's working and not working from a process standpoint, and to make appropriate adjustments.

Mastering the "X" Factor

Now we will examine how to identify the "X" factor — the underlying strategy or brand promise that sets you apart from competitors and will allow you to dominate your market.

Determining a brand promise is a fateful moment in the life of any company. Choose the right one — the one your customers respond to, the one you can track and execute day after day — and you win. It's that simple. But choose the wrong one, and you'll probably founder for years, never hitting your goals. So how do you choose the right brand promise for your organization?

Start by getting out your One-Page Strategic Plan. Much of what you defined in this document will serve as a foundation for the following work. Next, review your Top 5 and Top 1-of-5 goals. It's quite likely that your brand promise is lurking somewhere in or around those goals.

Your first point of reference when you begin to search for your measurable brand promise is your BHAG. Remember that Big, Hairy, Audacious Goal? It's where you want to top out in

10 years or more.

Next, figure out your desired sphere of influence over the next three to five years. Are you destined to remain a local company, with customers in one or two cities? Or will you grow to be regional, national, or maybe even international?

When you're done defining your sandbox geographically, take time to think about your customers and their demographics. Who will you be selling to over the next three to five years? Are there some customers you'll choose to leave to somebody else? Will it take any special techniques to reach your desired customers?

Consider how many product lines you can logically and reasonably carry. Don't forget to figure out which distribution channels make the most sense for your enterprise. Logistical considerations can make or break your long-term goals.

Based on the sandbox you've defined, ask yourself: What is the customer's greatest need? What you're looking for is what really matters to the customer. At the same time, you want it to be something that differentiates you from the competition.

It's at this point that you start to align with your BHAG. For example, FedEx would consider itself against the post office: How does a customer benefit from choosing FedEx over the local letter carrier? Once you're clear on what that customer need really is, you'll be that much closer to finding your measurable brand promise.

But keep in mind that your brand promise shouldn't be easily accomplished. It should cause some stress in your organization. For example, Intuit, the makers of Quicken bookkeeping software, entered the market with a brand promise of ease of use. To back it up and make it measurable, Intuit promised unlimited support for a $59 piece of software.

Clearly, that caused some heart palpitations among Intuit's designers and managers alike, but it brought out the best in the organization. That unlimited-support promise drove every decision in the company — from how to build the product to how to communicate with customers — so that the customer wouldn't have to call. More importantly, it gave Quicken the solid foothold it needed to get established and grow.

Now that you've determined your measurable brand promise, what are you going to do to lock it up, to hold that position? You've got to look for the bottlenecks or chokepoints and figure out a strategy to either blow them up or neutralize their threat.

For instance, early in the oil business Rockefeller determined that the real shortage in the industry was not oil, which was gushing up out of the ground, or refineries, because more than 1,000 popped up overnight. The real shortage was in the supply of oak barrels for capturing the oil, and very specifically, the iron rings that held the oak slats together.

So one of Rockefeller's first acquisitions was a firm that made the all-important iron rings. Later, when it became clear that transportation costs were the biggest threat to profitability, Rockefeller shifted his energies to that chokepoint, as we mentioned earlier.

Your measurable brand promise is crucial. It defines your company in the mind of the public. It gives all of your people something huge and galvanizing to work toward. All of your strategic and tactical decisions are made around it.

By considering your BHAG, defining your sandbox, determining customer needs, and controlling

your bottleneck or chokepoint, you'll have a measurable brand promise that will set you apart from the competition. That is, until your competition catches up and forces you to up the ante with a new and equally inspiring brand promise.

In this summary, we've explored the three habits that fueled John D. Rockefeller's success in the oil industry more than 100 years ago — habits that are just as critical to the successful building of a business today. These three Rockefeller Habits, and the questions that will help you to diagnose your own organization, are:

1. **Priorities.** Does your organization have objective Top 5 priorities for the year and the quarter, as well as a clear Top 1-of-5 priority? Does everyone in the organization have his or her own handful of priorities that align with the company's priorities?

2. **Data.** Does your organization have sufficient data, on a daily and weekly basis, to provide insight into how the company is running and what the market is demanding? Does everyone in the organization have at least one daily or weekly metric driving his or her performance?

3. **Rhythm.** Does your organization have an effective rhythm of daily, weekly, monthly, quarterly, and annual meetings to maintain alignment and drive accountability? Are the meetings well-run and useful?

When you develop these three habits, you will increase your chances of overcoming the barriers that keep 96 percent of all small businesses in the United States from becoming more than small businesses. You'll take your place among the fortunate few, the 4 percent of firms that make the transition and turn into thriving, fast-growing companies.

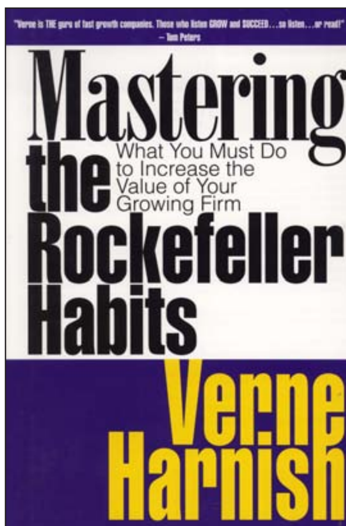
ABOUT THE AUTHOR

Verne Harnish, the "Growth Guru" columnist for Fortune.com, brings to business owners the fundamentals that produce real wealth — the same habits that typified the second stage of the oil industry when John D. Rockefeller's disciplined approach to business replaced the helter-skelter approach of the original pioneering speculators.

Named one of the Top 10 Minds in Small Business by Fortune Small Business in 2002, he has a long, influential track record with entrepreneurial and emerging businesses.

After co-founding the Association of Collegiate Entrepreneurs (ACE) and establishing chapters in universities worldwide, he founded the internationally recognized Young Entrepreneurs Organization (YEO).

As the founder of the prestigious MIT/Inc./YEO Executive Program, founder of Gazelles, Inc. and creator of the Master of Business Dynamics program, Verne's mission is to help entrepreneurs of emerging, fast-growth companies increase the value of their firms.



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