



Maximum PIE - Winning in Business



***Happily Maximizing Profit in a Small or
Medium-Sized Company***



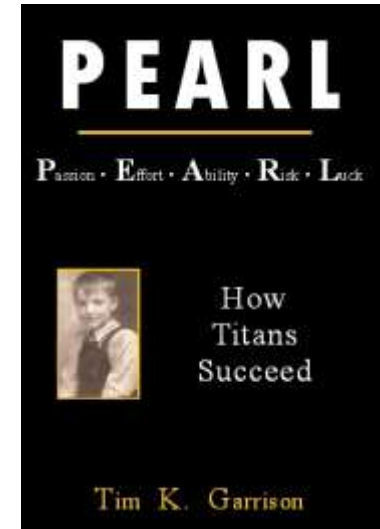
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Sources

The source material for this presentation comes from:

- * My 5th book, P.E.A.R.L., which includes a bibliography of 60+ books on success.
- * Success consulting with 30+ companies, including national and international work with True North Development, a Detroit-based global lean consultant.
- * Battle grime from starting up and running successful construction, consulting, and software companies.
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Part 1



Winning and Profit: Defining the Problem

Copy

What Is The Difference Between A Baseball Game and a Business Work Day?



With The Baseball Game...

There is a winner.



And there is a loser.



*What about winners
and losers in a
business work day?*

In Business...

When there is a loser, there is NO winner.

The only way to win in business is to ensure that *everyone* involved wins.

This includes:

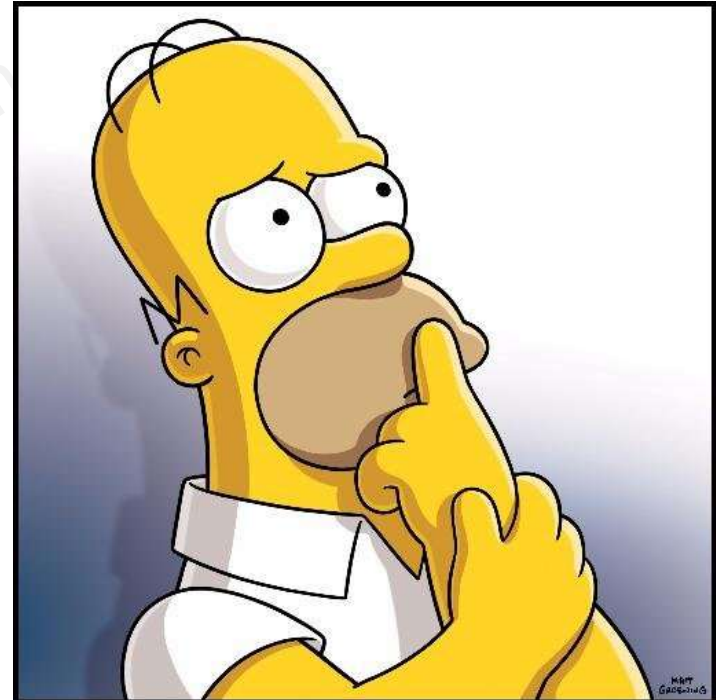
- * The client and all of their people.
- * The public.
- * Our company.
- * *Every* employee in our company



Go through the above list of 4 and explain what happens when each loses.

What Does It Mean To “Win” In Business?

- *What is your definition?*
- *Is your mindset locked in on what's **not** been working?*
- *... or what's necessary to achieve it?*



What Is “Win” In Business?

Here is my definition of Winning in Business:

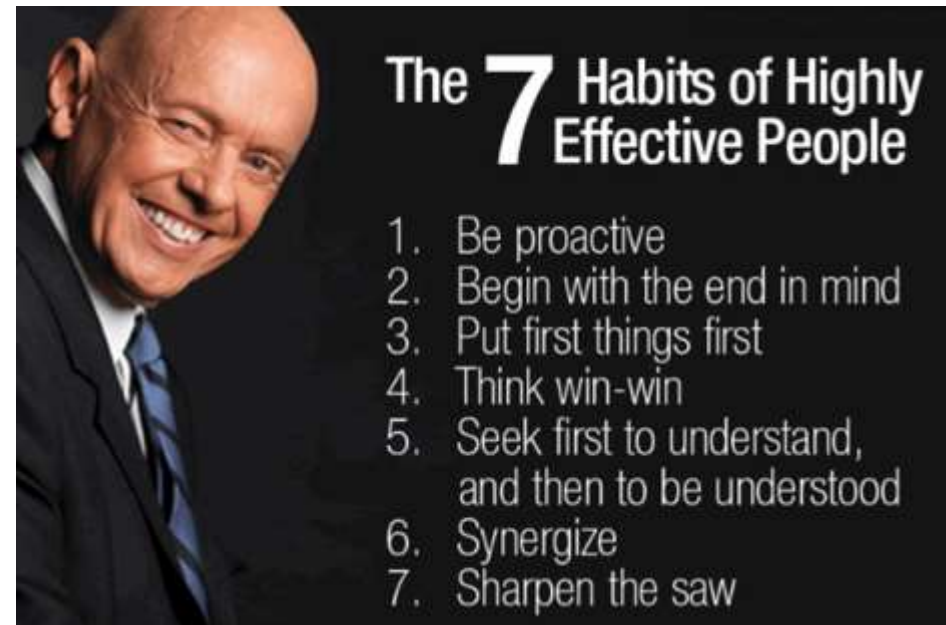
- * Maximize profit. (The monetary element.)
- * Enjoy each day. (The human element.)

To accomplish something, Steven Covey says, *“Begin with the end in mind.”*

In business at the end of the day, we’re after profit. And we’d like to have fun doing that. Getting there requires a reprogramming of thought.

If the old way wasn’t working we must seriously embrace new thinking. A new *paradigm*.

- *What is a paradigm?*
- *What is profit? (hint: don’t overthink this)*



What is a Paradigm? ...Profit?

par·a·digm ['perə,dīm] noun

A typical example or pattern of something; **a model**.

"there is a new paradigm for public art in this country"

prof·it ['prof-it] noun

1. The monetary surplus left to a producer or employer after deducting wages, rent, cost of raw materials, etc.

2. Advantage; benefit; gain.

In simple terms:

Profit = Income – Expenses.

$P = I - E$

Why do we need profit?

**OLD PARADIGMS DIE
HARD, EVEN IF THEY
DON'T WORK**

KARL ALBRECHT

Why is Profit Needed?

Business is risky. It's stressful. We didn't go into biz to be a non-profit company.

According to Statistic Brain Research Institute [1] the odds of a startup business succeeding are as follows:

- * Year 1 – 25% will fail.
- * Year 3 – 44% will fail.
- * Year 5 – 55% will fail.
- * Year 10 – 71% will fail. IE, after ten years the odds of still being in biz is just 29%.

Profit is:

- * A hedge against failure due to cash flow.
- * A means to expand.
- * A means of paying bonuses.
- * NOT the boss' salary.

What is a reasonable profit goal (percentage of gross income) for most companies?



How Much Profit?

Most companies would be thrilled with 10% *consistent* profit.

IE, gross \$100,000, keep \$10,000 as profit. Yay!

- *Is ten percent a gimmie? IE, how thin is 10%?*
- *How easy is it to mess up and vaporize that 10%?*



Is 10% a Gimmie?

Year-in, year-out ten percent profit is darned hard to maintain:

- Humans (employees) make mistakes. Mistakes kill productivity and profit.
- Humans (management) operates poorly, inefficiently.
- Markets constantly shift.
- Recessions happen.
- Competitors are omnipresent and hungry.

** Which of the above
can we actually control?*

** Should an employee
care whether or not their
boss makes profit?
Why?*



Why Should an Employee Care?

We can only control what happens in our shop: our people and our processes.

I've asked many real employees whether or not they care if the company makes profit. They care a *lot*.

- * Job security
- * Better salary
- * Better benefits
- * Better tools and equipment
- * Better opportunity for promotion
- * More and better parties!

If everyone is working toward the same goal, why is sustained profit so difficult?



A Little Probability Theory

An interesting aspect of business is that we give a price **before** the work is done. This applies to nearly every business:

- * Restaurant.
- * Retail.
- * Construction.
- * Consulting.
- * Even with T&M work, we usually provide an upper limit.

In other words, we **bet** on an outcome.



What do you think is the probability that a typical job of ours comes out like we assume? IE what is the probability that we bet correctly?

Probability Theory

* What are the chances of correctly guessing the toss of a coin? Ans: $1/2$, or **50%**.

* ...guessing the toss of two coins before they're thrown? Ans: $1/2 * 1/2 = 0.5^2 = 1/4$, or **25%**

* ... guessing the toss of three coins before they're thrown? Ans: $(1/2)^3 = 0.5^3 = 1/8$, or **12%**

* ... guessing the toss of 5 dice before they're thrown? Ans: $(1/6)^5 = 0.17^5 = 1/7776$, or **.01%**

The point is that with each added variable, probability of success goes down **exponentially**.

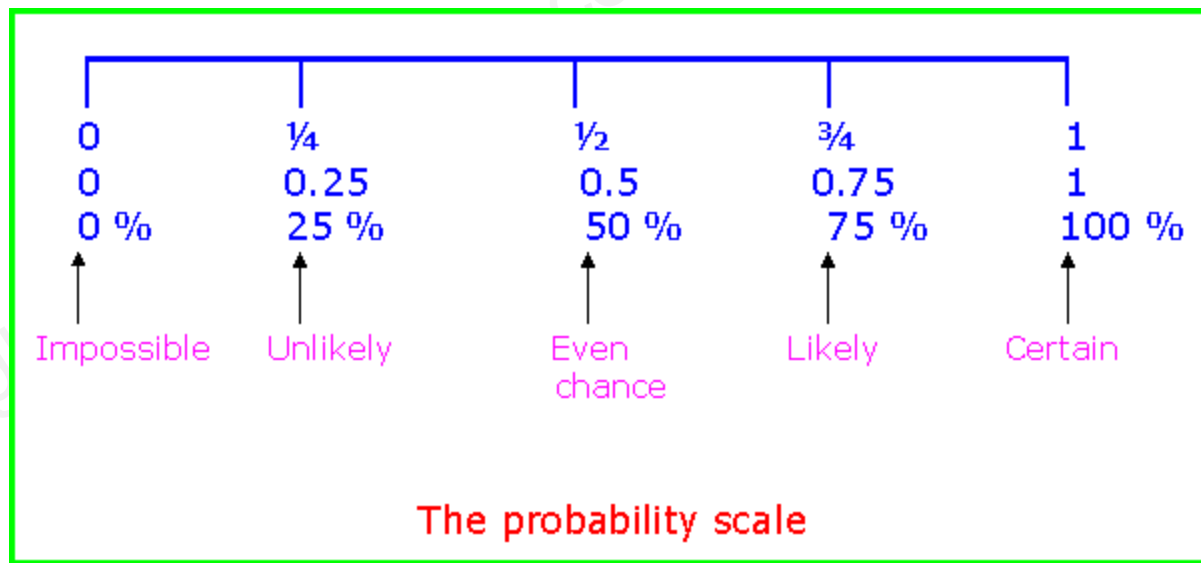


What is the probability that a random employee will perform correctly over the course of a typical project?

Probability Theory

A company is made up of people and machines – none of which are perfect.

So there is an average “Success Quotient” or **SQ** for our employees and machines. SQ = probability of success. We always strive for an SQ = 1.0



* *What is the aggregate SQ for all of our employees?*

* *... for our machines?*

Probability Theory

Do you think our employee's average SQ is about 0.7? Is that too low?
Too high?

Machines should do better, right?
Does 0.9 sound okay?



Assuming SQ of 0.7 for people and 0.9 for machines, what is the probability of success of a project involving 5 employees and 10 machines?

Probability Theory

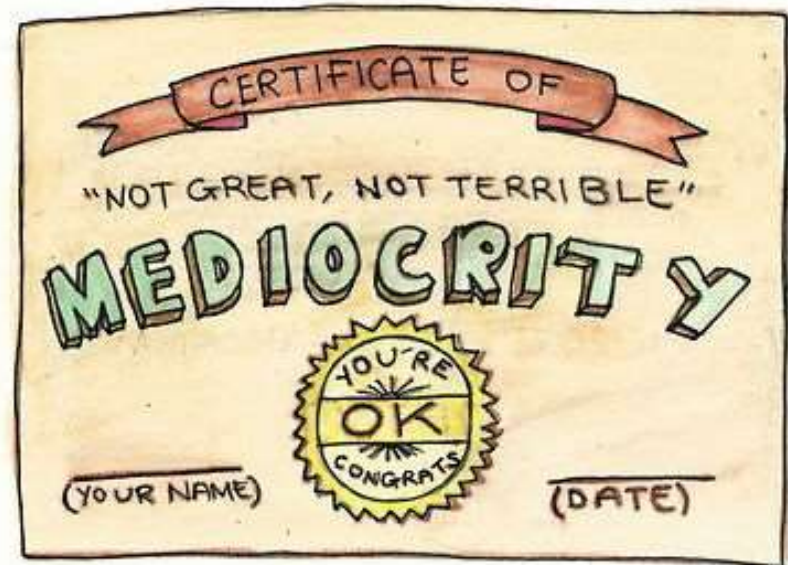
If our people SQ is 0.7, the probability of all 5 people performing correctly is $0.7^5 = 0.17$, or **17%**.

If our machine SQ is 0.9, the probability of all 10 working correctly is $0.9^{10} = 0.35$, or **35%**.

The probability of the entire project going as bid is $.17 \cdot .35 = 0.06$, or **6%**

You can see that in order to have a decent chance at profit, our SQ must be as close to 1.0 as humanly possible. For example, 5 people with a 0.95 SQ on a job gives us $0.95^5 = 0.77$, or **77%** chance of success. Still not great.

If we can't bid any higher, how in the world do we compensate for this problem?



Raise that SQ. Be More Excellent!

The only way to fix the problem is to become better at what we do so that our average company SQ approaches 1.0.

For sure we need to be more excellent. But that's much, much easier said than done. Ideas?...



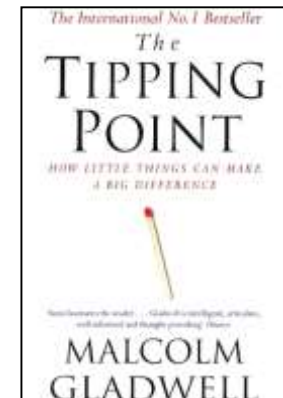
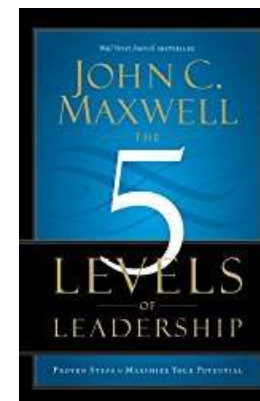
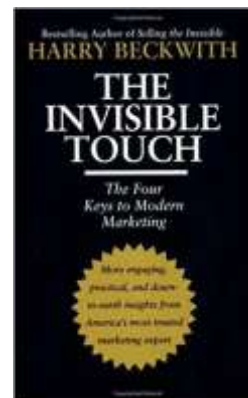
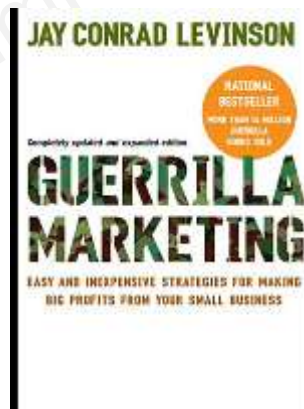
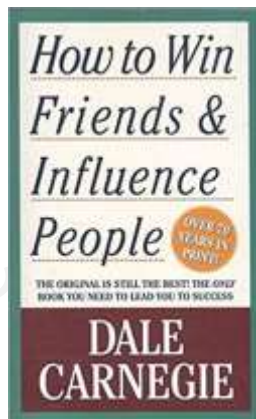
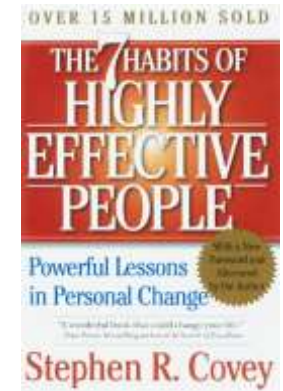
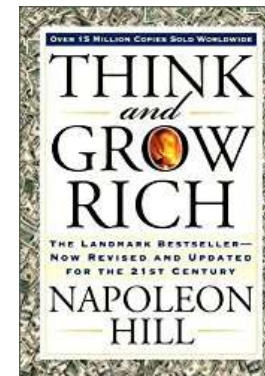
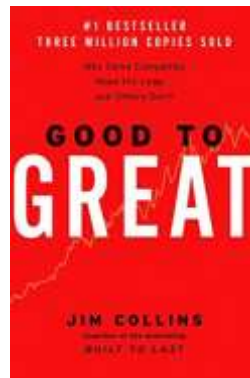
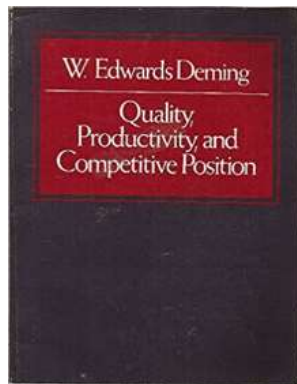
Low SQer



Dude, be more excellent!

Be More Excellent – Step 1, Get Help

Let's get serious about learning from experts. A few I've studied:



- *Has anyone read any of these? Helpful?*
- *Other great business books?*

Be More Excellent – Step 1, Get Help

One of my favs is W. Edwards Deming. He is crystal clear that we need help:

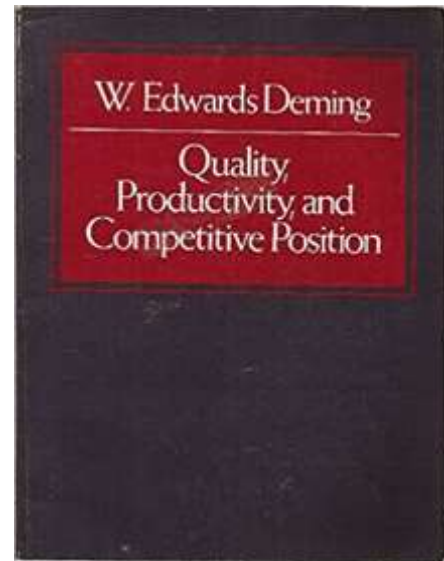
“The fact is that management can not learn by experience on the job what they must do to improve quality and productivity and the competitive position of the company. Nor can they learn it in school. In fact, anyone could pass with high marks all the regular courses offered in colleges and universities in business, statistics, and engineering, yet come off with not the faintest idea about how to improve quality, productivity, and competitive position.”

“Top management will require guidance from an experienced consultant.”

- *How does a company know if they're messing up?*
- *From where does a company's report card come?*



W. Edwards Deming
1900 - 1993

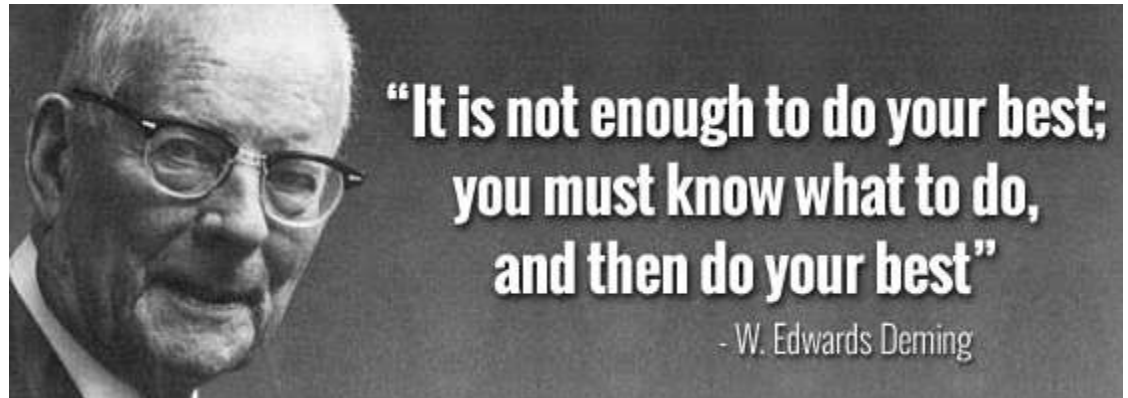


Be More Excellent – Ask, Listen, Hear

Deming tells us that a company's report card does **not** come from consultants, owners, or boards of directors. It comes from two places:

- Workers (internal, and external such as trades, suppliers)
- Customers

Wait a minute. First he says we must get outside help, now he says our report card doesn't come from outside consultants. Well then why should we spend money on a consultant?



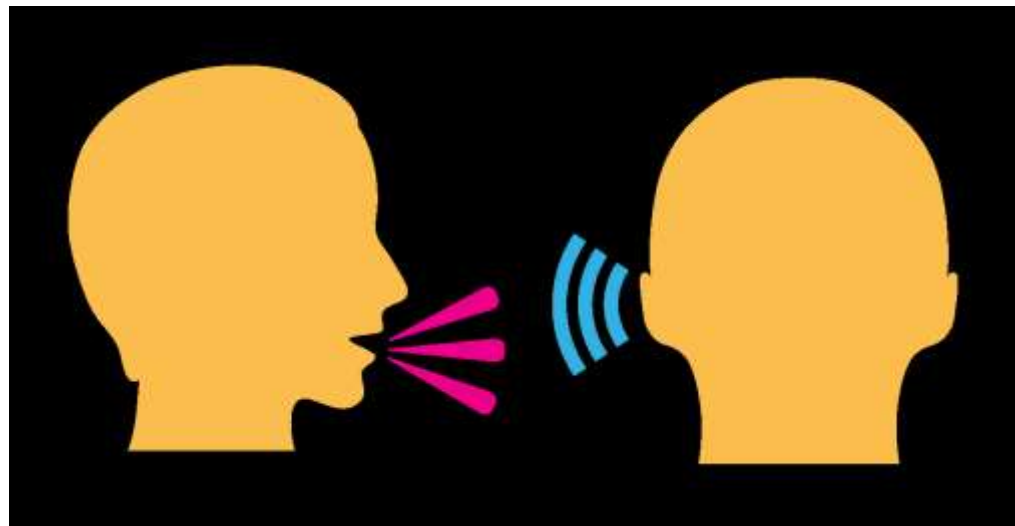
Be More Excellent – Ask, Listen, Hear

Employees and customers tell you THAT you're messing up.

Consultants tell you WHY; and then HOW to fix it.

But keep listening to employees – they also can provide valuable WHY and HOW input.

- *How good are we at **asking** and **listening** to workers?*
- *.... To customers?*
- *Who's responsibility is this?*



Management's Ugly Baby

All cures to a company's woes must come from the top.

Deming says: "Eighty-five percent of the problems in [a company] are the fault of management."

I say it's closer to 95%.

- *Do you agree?*
- *If we're not blaming management, who are we blaming?*
- *What should management's next step be in righting the ship?*

