The 80/20 CEO

Take Command of Your Business
in 100 Days

BILL CANADY

The 80/20 CEO:
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VIRGINIA BEACH
CAPE CHARLES

To my wife Debbie,
your love and support has made it all possible.

Author's Disclaimer

MUCH THAT I have written here is based on my executive and leadership experience working with various companies and individuals. In the interest of privacy and, even more, the protection of proprietary information, I have either avoided naming those companies by simply referring to them generically or, for convenience, supplied fictitious names.

—Bill Canady

PART I

What to Do First and What to Do Next

CHAPTER 1

Who Yuh Gonna Call?

"Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

—SAMUEL JOHNSON

EVEN GOOD COMPANIES lose their way. When that happens, what do you need?

Profitable growth on demand. *Now*, in fact.

And who yuh gonna call?

The guy who's got the operating system. And since I'm that guy—*me*—you now have access to the profitable growth operating system (PGOS) playbook that will show you how to turn your business around in 100 days, use the 80/20 principle to earn the right to grow, and position it for long-term profitable growth. This book will walk you through all the strategic actions needed to prioritize everything possible on the 20 percent of investments, processes, products, and customers that generate 80 percent of your revenue. (80/20—that's a thing. And not just a thing; it's a natural law. Just 20 percent of what you do or spend generates 80 percent of your revenue. Don't get too happy, though, because the other 80 percent of what you spend generates just 20 percent of your revenue.)

Who Am I?

I grew up in southeastern North Carolina on a small farm in a double-wide trailer at the end of a dirt road. The nearest town, Richlands, had maybe a thousand residents, a couple or three traffic lights, two churches, and three saloons. My father created something resembling a living, working as a handyman, truck driver, and farm laborer. But feel free to assume that we were dirt poor—because we were.

There was an elementary school and a high school, thank goodness. I was aware of the existence of something called college, but when I graduated from high school, I had no idea how to get into such a place. My high school didn't have a college adviser. Well, that's not quite true. Set into a recess in the wall outside the office was a rack that held pamphlets on everything from vocational opportunities (big emphasis on "welders") to colleges (mostly local). That rack was our college adviser.

As I saw it, I had four choices after high school—and none of them were college.

1. I had a big mouth, so I could be a salesman.
2. I could learn some trade (hey, how about welding?).
3. I could be a farm laborer.
4. I could join the military.

This last one looked like the surest thing, so I enlisted in the US Navy for a three-year hitch. If modern fighting aircraft are computers that fly, modern fighting ships are computers that float, so I chose to do something with electronics in the Navy. Boot camp was at Great Lakes Naval Training Center a few miles north of Chicago, and after my specialty training, I served on the USS *Fort Fisher* (LSD-40), an *Anchorage*-class dock landing ship designed to support amphibious operations of all kinds. I chose wisely. Like every other sailor, I grumbled a lot, but the Navy was a great experience. It taught me much about basic leadership, introduced me to technology, and inculcated a respect for the power of process, procedure, and checklists. These were tools I never forgot. By way of a bonus, my three-year hitch showed me a slice of the wide world beyond Richlands.

When I got out of the Navy, I scored some low-level salesman jobs and then, one day, ran across a magazine dedicated to the HVAC (heating, ventilation, air-conditioning) industry. The back of the magazine was full of want ads, so, armed with my USN-trained background in hands-on technology maintenance, I applied to several companies and was called back by a filtration company that wanted a sales guy in the Midwest. I jumped at it, took the job, and moved to Naperville, a suburb just west of Chicago. I became a sales rep there, met my wife, and started a family.

My bride was a schoolteacher, which triggered my ambition to become something more than a salesman and a high school graduate. In hindsight, I took a very intentional, even strategic approach to growing and realizing my ambition. Having gotten a taste of business, I now wanted a leadership position in business. I figured that getting one of these required an MBA. Now, because I had a job and a family, I needed to earn that MBA locally while working full time. The best place to go—really, the only place I wanted to go—was the University of Chicago.

It was an objective easier declared than attained. Chicago was not and is not a pushover school, and its prestigious MBA program was and remains highly selective. For one thing, I needed to earn an undergraduate degree before even applying. (*Yuh think?*) For another, even if an applicant was amply qualified, the Chicago MBA program took only 5 percent of those who knocked at the gate.

Crash and Burn

The risk faced by everyone who tries to do something hard—from getting into an elite school to leading a business—is surprisingly similar to the risk of piloting an airplane. You could crash and burn. Ever wonder why most novice private pilots don't crash and burn the first time they solo?

Years ago, I made my first solo flight—from Waterloo, Iowa, bound for Dodge City, Kansas. All went well until I approached the airport, down around 1,200 feet on a hot summer afternoon. When I came in low over a pond adjacent to the field, the thermal reflecting off it shot me up maybe 200 feet.

"Holy shit," I said out loud to no one because I was the only one there. "I *am* going to die."

But then the steps of the final approach and landing process I had been taught, taught again, and taught some more unrolled in my mind, step by step, like the screen credits in a movie. My heart was racing. I was in a cold sweat in a very warm cockpit. But I went through all the motions, and the next thing I knew, I was bouncing on the welcoming tarmac as only a Cessna 150 in the hands of a rank rookie can bounce.

I landed. I stopped. I taxied.

No fiery death for me. Not this time.

Now, it's not that I had been taught to land. It's that I had been taught a *process for landing*. A "process" is to flying a plane what an OS is to working a computer. It gets between you and the machine so that you can make that digital hardware do exactly what you need it to do.

On the face of it, the odds were daunting, but I had a plan, procedure, and process. Possessing a plan, procedure, and process—an operating system—always helps to even the odds. You may already know that before Facebook became Facebook, it was The Facebook, which was started by Mark Zuckerberg when he was a Harvard undergrad (and future Harvard dropout). The Facebook was initially confined to Harvard students and alumni. Soon, other colleges and universities started their own Facebook branches, including Chicago. A buddy of mine, who was going to the University of Chicago, gave me his login credentials to log onto the university's Facebook. I searched it to identify where the current crop of MBA candidates had gone to undergraduate school. The highest number who had attended a school in the Chicago area—five individuals—came from Elmhurst College (today University). It turned out to be a good, serious school. A recent *U.S. News & World Reports Best Colleges Ranking* put it at number four in its "Best Value Schools in the Midwest." Anyway, it suited my three very particular needs to a tee:

1. It was local.
2. It was "value" priced.
3. By the numbers, it gave me a decent shot at getting into the MBA program at Chicago.
4. There were also a third and fourth dimension to my strategy: Selective as Chicago was, it was also extremely flexible. Entry into the graduate school would gain me admission into any course of study. So, there was more than one way to get onto the MBA track.
5. Chicago admissions placed great emphasis—more than most schools—on a personal interview. I was a very good salesman—confident, personable, and sincere. I was also precise and able to articulate what I intended to do with my MBA.

I graduated summa cum laude from Elmhurst in three years, and I aced the interview at Chicago. It was clear to the admissions committee that I was intensely focused. I was also older than the average applicant and had been in the working end of the business world. I was thrilled when Chicago said yes. (Incidentally, I was and remain very grateful to Elmhurst and today serve on its board as chairman of the Investment Committee. *Pay it forward!*)

The Chicago MBA proved to be a powerful credential. The university and its MBA program had a reputation for rigor, accountability, and a pragmatic, real-world focus. The unofficial motto of the institution is "University of Chicago: Where Fun Goes to Die." (In my day, many students wore sweatshirts or hoodies emblazoned with that creed.) There is truth and value to this sentiment, and straight out of grad school, I was hired as a product manager by a global tech company focusing on industrial automation and energy controls. This was a step down in salary from my sales job with the filtration company, but you cannot measure your journey toward a strategic goal strictly by the money you pull down at any step along the way. Sometimes, you need to take a step back to advance. In sales, I knew I could get only so far in the business universe. I also knew that sales is rarely the road to becoming a CEO. As a product manager, I was able to work my way up rapidly.

But in what kind of company was I making my climb?

At the time, the firm I worked for was a $26 billion company, but it was in deep trouble. Too many acquisitions too quickly were squeezing its margins. To make matters worse, it was embroiled in a very costly tax snafu. None of this made me nervous, however. My objective was to advance within the company and establish myself as a leader. The fact that the company had urgent problems gave me a greater opportunity to climb faster and establish myself sooner. (I always say you can't fall out of a basement.)

The company needed leaders to run their ailing units, so I got promoted rapidly and was soon running a components factory near Chicago. Running the factory taught me... well, how to run a factory. But the company, needing a quick cash infusion, decided to sell my factory.

Bad news for me?

Only if my ambition had ended with running one factory on the outskirts of Chicago. In fact, the company's plan to sell allowed me to do something I had never done before: execute a major-league deal to sell a business.

Fortunately, I was part of a very good selling team and learned the real art of the deal while I did the deal. It was like building the plane while flying it, but even this stunt is doable if you focus on process and procedure. The sale was successful, and, as it turned out, I could have remained with the factory under its new owner. But I didn't want that. I liked selling the business, and I wanted to sell more of them. So, I chose not to sell myself along with the factory, left tech company, and was quickly hired by a maker of generating equipment, valued at $310 million at the time.

The company was looking to grow—the faster and farther, the better—through new products and acquisitions, and it wanted me because I had experience selling a business. I became part of a team that got the company into new and different channels, and, in this augmented incarnation, it was sold to a New York-based private equity firm for some $2 billion. The driver of its leap upward in value from $310 million was a natural disaster, Hurricane Katrina, which devastated the Gulf Coast in August 2005 and created a high demand for its products.

As the saying goes—or should go—one person's hurricane is another's windfall.

I now had the opportunity to go into private equity. But I wanted to be president of the sold company, and that would not happen in private equity. At this point, I decided I wanted to be a buyer and seller of businesses, but I realized I did not yet have nearly enough knowledge about running companies, and I wanted employment that would give me that knowledge. I knew sales and how to prepare a company to be sold. Now I needed to know how to actually run a company. This is when I moved to a major and quite diversified industrial, technical, and medical manufacturing conglomerate. It was not well known to the consumer public but was a big name in the business-to-business space.

Paramount among this conglomerate's management processes was the application of the 80/20 rule. If mathematics, as the old saying goes, is the queen of all sciences, 80/20 is the queen of all management processes. Also known as the Pareto principle, 80/20 has figured in every enterprise I have led. It may well be the single most important assumption in managing the processes of a business to achieve strategic growth. We will return to it repeatedly in this book, but let me offer a spoiler-in-a-box here.

Pareto's Enchanted Garden

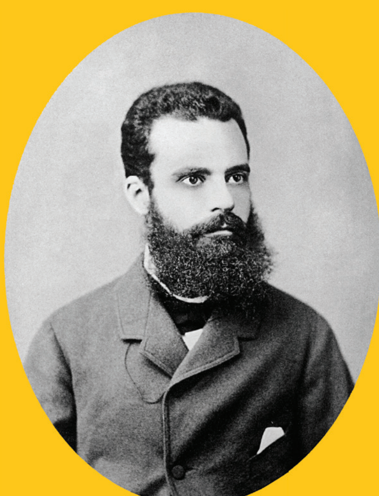

Fig. 01-01: Vilfredo Pareto. *Credit: PD*

Among jacks-of-all-trades, Vilfredo Pareto (1848-1923) might be the jackiest of them all. He was a world-class civil engineer, sociologist, philosopher, political scientist, and economist. But what he loved most of all was gardening.

And because he loved it, he brought to it his other passions, especially the science of economics. When he observed that most of his healthy pea pods came from just a small number of his pea plants, he couldn't resist running the numbers. He found that roughly 80 percent of his healthy pods were produced by roughly just 20 percent of his pea plants. This 80/20 ratio stuck in his craw. He looked around him, *all* around him, and soon concluded that pretty much throughout the world, 80 percent of consequential results come from just 20 percent of causes.

Pareto discovered that 80/20 applied to nature. It was a fact of nature, like natural selection or the laws of thermodynamics. But the wild thing was that it also applied to sociological phenomena, political outcomes, economics—and, by extension, business and commerce. Give or take, it turned out to be a truly universal axiom.

He wrote about it, and so the Pareto principle was born. It's the idea that you can pretty much express any productive activity in terms of 80/20—the "trivial many" versus the "critical few." In business, this translates to 80 percent of revenue coming from just 20 percent of a company's customers. Likewise, 80 percent of revenue comes from just 20 percent of the company's products. Most importantly, 80 percent of revenue comes from the most productive 20 percent of your customers (call them your "A" customers), who buy 80 percent of your highest-performing products (the top 20 percent, your "A" products). What if you could devote 80 percent of your resources to serving just that 20 percent nexus of A customers buying A products?

Well, what's stopping you? Do it!

The Phoenix Instance

I learned to put 80/20 at the heart of all prioritization decisions. I have used it to guide strategy, strategic frameworks, and business plans in several companies throughout my career, and I will have a lot more to say about it in this book. Most recently, it has served me as the Jaws of Life to accelerate a good company that was wasting its potential.

Phoenix Industrial Technologies (real firm, fictitious name) is one of those companies with a low public profile but a great impact on its customers. A classic B2B enterprise, Phoenix is a distributor of mechanical components and engineering services, which means it is one of those meat-and-potatoes firms behind virtually anything that goes into making everything consumers buy and use. Phoenix has been around since the early 1960s, founded and operating mainly in the Midwest.

When it started, Phoenix distributed two categories of products: “power takeoffs” and air technologies. Power takeoffs are devices and components necessary to transmit mechanical power from one machine to another. Air technologies include air compressors and everything associated with them. The Air Technologies division also sold compressed air as a service to customers who did not want to invest in the capital expense of acquiring massive compressors. Phoenix would install equipment inside or outside a plant and supply air for a fixed contractual price.

After forty years, corporate leadership decided to sell Phoenix to a Chicago-based investment firm, which, after a few more years, sold it to a similar firm operating out of New York City. When it was sold the first time, Phoenix was under $100 million in size. It grew under the two prior sponsors, and by the time my firm acquired it, Phoenix was a true conglomerate, which included divisions that made devices for finishing materials, dispensing materials, motorizing things, managing fluid power, providing bearings on which devices spin, designing and building pumps of all kinds, and furnishing framing systems. To put it politely, Phoenix was diverse. To put it more accurately, more of a collection than an organization. Certainly, none of the previous acquirers had attempted to rationalize the organization. The systems, processes, and technologies were based on the original small company. But as many others joined the original small company in various locations, they did not talk to each other or operate in anything resembling a coordinated, let alone synergistic, fashion.

My firm recognized that the laissez-faire management style had worked well enough under former owners. It was, essentially, “We’ve bought you, and we’ll leave you alone. Send us a check every quarter. If the check’s big enough, we’re going to be happy. If it’s not, we’re not going to be happy.” My firm had no intention of following this strategy and planned to unlock the potential hidden deep inside the business.

At first, this hands-off management policy seemed to be working just fine. But management quickly noticed that what some would dismiss as a slump was shaping into a downward trend. Phoenix began experiencing falling sales, falling profit, and falling morale. The company I worked for recognized the need for an intervention. Phoenix was not run by “bad” or “inadequate” people, but its management did need directions and tools to enable it to start building more value quickly. Private equity is all about building value, and my company did not waste time before responding. They recognized that cutting, especially without a strategy, is hardly sufficient to build the value that turns a company around. We needed to act quickly. At the time, I thought of two classic lines from the master of lean dialog, Ernest Hemingway. They’re from *The Sun Also Rises*:

"How did you go bankrupt?" Bill asked.
"Two ways," Mike said. "Gradually, then suddenly."

Well, at this point—somewhere between "gradually" and "suddenly"—the company took aggressive action to bend the curve upward. They put me on as Phoenix's new CEO with a single charge that boiled down to three words: *Fix Phoenix. Pronto*. It was an admirably concise order, which I translated into another three words: *create profitable growth*. And because it was urgent, I added a fourth: *Now!* The PE firm was excited and one-hundred-percent all-in with PGOS.

The PGOS at the core of this book is derived from my experience leading several companies. But Phoenix was special. It had dedicated people and the potential for greatness. The relentless cuts without a renewed strategy, however, had nudged it closer and closer to a breaking point. Scary though this was, it provided a unique opportunity to apply 80/20 and the other processes we will discuss. Growth was latent within this company, and it was my job to realize it, to turn potential energy into kinetic energy. The opportunity lay within the problem and the crisis. The threat was existential, and as Samuel Johnson, the eighteenth-century British literary critic, essayist, and lexicographer, put it, "Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

I always preferred something a bit more cheerful: "You can't fall out of a basement." Follow the PGOS and let it guide you as you take strategic action to prioritize everything possible on the 20 percent of products and customers responsible for 80 percent of your revenue.