Uncover Value, Boost Revenue, and Grow Your Business with The 80/20 Principle

FROM PANIC TO PROFIT

BILL CANADY

BEST SELLING AUTHOR OF *THE 80/20 CEO*

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WILEY

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data:

Names: Canady, Bill author
Title: Earn the right to grow : increase revenue, reduce cost, and create profit faster / Bill Canady.
Description: Hoboken, New Jersey : Wiley, [2025] | Includes index.
Identifiers: LCCN 2024051382 (print) | LCCN 2024051383 (ebook) | ISBN 9781394331581 hardback | ISBN 9781394331604 adobe pdf | ISBN 9781394331598 epub
Subjects: LCSH: Corporations—Growth | Business planning
Classification: LCC HD2746 .C35 2025 (print) | LCC HD2746 (ebook) | DDC 658.4/06—dc23/eng/20250106
LC record available at https://lccn.loc.gov/2024051382
LC ebook record available at https://lccn.loc.gov/2024051383

Cover Design: Laura Duffy
Author Photo: Courtesy of the Author

For

My wife Debbie, my best friend, my confidant, my love.

My girls Sarah (plus my son-in-law, Nico!) and Hannah,

who inspire me every day.

And my grandson, Collin, the light of my life.

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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

Introduction: The Keys to the Growth Kingdom

Please don't skip this section. This book lays out a set of processes and practices that will grow your business. More precisely, it lays out a set of processes and practices that will earn you the right to grow and accelerate that growth.

So don't turn the page. Not yet.

Because if your business is failing, faltering, or successfully treading water, you need to *earn* the right to grow before you *can* grow. And even if your business is already growing, but you want to make it grow more and faster, you still need to earn the right to grow.

I promise that I am going to tell you how to earn this right. But converting that *how* to *action* requires that you and your entire organization commit to and align on the processes and practices of a Profitable Growth Operating System® (PGOS) driven by the 80/20 Pareto principle. If you are not familiar with 80/20, don't skip ahead. All you need to know at the moment is that 80/20 is a natural law of input and output that tells us roughly 80 percent of consequences come from just 20 percent of causes. Put another way, just 20 percent of your effort is *critical* in its effect while 80 percent is *trivial*.

For now, you need to know that commitment to the 80/20 PGOS is everything and that this is not an opinion. It is a fact founded on experience, and I have the receipts to prove it, which I'll soon show you. Just don't skip this section. Okay?

***

There is a rule so important that somebody a long time ago wrote it out in Latin: *Omne trium perfectum*—"Everything that comes in threes is perfect." If you are Christian, the *rule of three* brings to mind the Holy Trinity. If you are a Wiccan, you know that whatever energy a person puts into the world comes back to them times three. Aviators use a rule of three to calculate the rate of descent in terms of altitude versus travel distance. C++ programmers have their own rule of three concerning class method definitions. Hematologists exercise a rule of three to check the accuracy of blood counts. Medical chemists observe a rule of three in dealing with lead-like compounds. Statisticians employ a rule for three to calculate a confidence limit in the absence of observable events. Survivalists prioritize survival steps using their own rule of three. Storytellers have always loved the rule of three. It's the *Three Little Pigs*, *Goldilocks and the Three Bears*, and *The Three Musketeers*. Sloganeers of every stripe revel in the rule of three: life, liberty, and the pursuit of happiness; stop, look, and listen; stop, drop, and roll; turn on, tune in, drop out; Snap, Crackle, and Pop; government of the people, by the people, for the people.

I could go on. But I won't—except to point out that the United States national government is conspicuously founded on the rule of three, with power divided among the legislative, executive, and judicial branches, which work together yet are opposed.

Without doubt, there is a special mojo in the rule of three. So, here is the rule of three any business that needs or wants to earn the right to grow must not only apply but commit to across the entire organization. Fail to do this, and the processes and practices that you find in this book will produce results at best suboptimal and, at worst, useless.

***

Most of this book is about processes, practices, and the tools required to apply and deploy them. I must state the obvious: all the processes, practices, and tools described in the pages that follow need people to *use* them. All you really must know about *people* in general is that there is no business without them. But about one category of people—leaders—you need to know something more: to lead a business to profitable growth requires not a single standout leader but a triumvirate. They are a visionary, one prophet (sometimes more), and multiple operators.

The Visionary

The visionary is the first as well as the final decision-maker within the organization, which almost always means the CEO. Within the triumvirate and the entire organization, the visionary is the highest authority in the business. They make decisions and issues directives to other executives and managers, who are held accountable for acting on them. The visionary sets the strategic goal for the team as part of a three- or five-year business plan. The goal is almost always a target number. The visionary holds the team members accountable for making progress toward the goal and ultimately achieving it. The visionary ensures alignment of all team members by making commitment to and alignment on the goal and all aspects of the PGOS a condition of employment. To ensure alignment, commitment, and continuous improvement, the visionary conducts regular reviews, always holding team members accountable for the results.

The Four Commandments

The visionary holds team members accountable for obeying **The Four Commandments:**

1. Be on pace.
2. Produce no surprises.
3. Be data-driven.
4. Believe that results matter.

Although the decisions of the visionary must be firm and unambiguous, they are, like everything else in any organization, dedicated to continuous improvement and subject to further decisions that might modify some or all the CEO's preceding decisions.

One entity limits the power of the CEO. In corporations that have a board of directors, the board might operate as a check on CEO authority. More significant for this book, however, the visionary—the CEO—like every other leader and manager in the organization, must be committed to the entire program of the PGOS, including all its practices and processes. This commitment is so critical to the success of the PGOS deployment that it must be clearly laid down as a condition of employment.

Why don't we just call the visionary by the corporate title, CEO? Because *visionary* embodies the essential idea of *vision*. In a company earning its right to grow, the visionary understands the present state of the enterprise and, with imagination and wisdom, leads the planning for a desired future state.

For starters, think Henry Ford or Steve Jobs, but get more specific. I see the visionary role not as that of some soothsaying fortune teller but as a person quite literally with *vision*. Set aside Henry Ford and Steve Jobs and think instead of air traffic controllers. They have an incredibly demanding job, coordinating takeoffs, approaches, and landings at busy airports, continuously monitoring highly dynamic situations with many moving parts, calmly and concisely communicating with pilots, telling them what actions to take and when to take them.

How do they manage this? How do they keep the planes from crashing into each other?

Ask an air traffic controller, and you will get a straightforward answer. They learn to "get the picture." That's what they call it. In fact, they cultivate what the French call *coup d'oeil*, which can be translated as the "glance that takes in a comprehensive view." The phrase is usually applied to military leaders. For instance, Napoleon had *coup d'oeil*, General Ulysses S. Grant had it, and General George S. Patton had it: an ability to take in, at a glance, a vast dynamic battlefield. It is a moving picture, and every successful air traffic controller has this get-the-picture *coup d'oeil* ability to comprehend the situation and act on it in real time. Aided by sophisticated radar, they create in their mind's eyes real-time visions revealing each aircraft in relation to every other aircraft within a certain space. Every decision made and every instruction given to each pilot is formulated and communicated within the frame of the picture. The required visionary faculty of a PGOS-driven CEO is vividly analogous to that of an air traffic controller.

Now, because all the parts of the business picture are, like the planes approaching and departing the airport, always in motion, the visionary must be super agile and ultra-focused. Deploying a strategic business plan within the guardrails of the processes and practices we call PGOS transforms static strategy into dynamic deployment. The relentlessly running clock certainly creates pressure on the visionary, but it also means that the visionary's outlook cannot be of some imagined static *state of perfection* but must be a real-life *process of progress* toward a goal, which, like everything else, is subject to revision in the face of reality.

The Prophet

The first company I was hired to run (by the private equity firm that had purchased it) was a conglomerate of decentralized businesses sprawled out over diverse markets—medical, technical, and industrial.

In theory, 80/20 guided the entire conglomerate. In practice, unit presidents generally went their own way. At first, I brought in outside consultant trainers to drill 80/20 and related processes and practices into our bundle of businesses. They were good consultants and competent trainers. But they were making painfully slow progress, during which the conglomerate limped along, the ongoing victim of suboptimization. That is when I realized that we needed to internalize 80/20 and our other aligned processes. The only way to do this efficiently and on pace was to bring it all, the whole program, totally in-house.

What did we need? A prophet!

Like the CEO visionary, the prophet is a leader—often, but not necessarily, the chief operating officer (COO)—with the knowledge and know-how needed to deploy the vision of the visionary. The prophet (or *prophets*, because there might be more than one) translates the vision into actions, typically through training, coaching, and mentoring others throughout the organization in the deployment of the company strategy.

More specifically, the prophet is expert in the deployment of PGOS processes, especially 80/20 analysis and execution. The prophet owns the PGOS training of the team, ensuring that everyone understands how 80/20 and other key processes work. Indeed, the prophet is responsible for *training the trainers*. The objective is to develop an internal cadre of PGOS experts capable of training all team members in the key processes. Often, outside consultants initially serve in the prophet role, inculcating PGOS and 80/20 into the team leaders; however, it is impractical to rent a prophet from a consulting or training company for the long term. Without a prophet who is organic to the organization, your executives, managers, and other key personnel will inevitably regress from aligning on the strategy to drifting from it. Without a prophet, they will implement what makes them comfortable or what they individually believe is right. The result? In place of the possibility of growth will be the disorder of suboptimization. If a prophet (or prophets) are organic to the organization, substantial progress toward the goal set for the business plan is seen within three to five months. If no organic prophet is available, significant performance improvement is likely to take eighteen months.

The ideal prophet is not only thoroughly versed in 80/20 and other aspects of PGOS but has led deployment of 80/20 multiple times. If the prophet role begins as an outside consultant—because no prophets are available in the company—the visionary needs to plan a transition from reliance on outside consultants to a fully functioning prophet leadership role (usually assigned to the COO) within two years. Starting from zero, you will need at minimum eighteen months to "grow" at least one prophet in the company.

In religion, a prophet is a propagator of the faith. The unifying structuring principle of a company committed to the practices and processes of the PGOS does resemble a religion in at least one aspect, namely, commitment to a gospel. Call it "the gospel according to Pareto." Religions are generally based on the notion that there is only *one right way*. Similarly, PGOS holds that the only *right way* to embrace a strategy that focuses on the most profitable products and customers is by over-resourcing the roughly 20 percent of customers and products that create roughly 80 percent of the company's revenue.

Most religions rely for validation on faith rather than on proof. The Pareto principle—which we explain and demonstrate throughout this book—offers ample proof and asks for no faith whatsoever. It has the receipts, and it shows them. Consider, for instance, the example of a company that has mastered the use of 80/20 thinking, Illinois Tool Works (NYSE: ITW). In the early 1980s, ITW faced rising costs and decreasing profitability. In response, company leadership decided to use the 80/20 principle to drive a complete overhaul of its policies, processes, and rules of operation. Over twenty-five years, ITW not only perfected how it applied the 80/20 rule but also enjoyed annual shareholder returns of 19 percent without fail—many times by acquiring companies and applying the principles of 80/20 to them. That's one profitable gospel!

Don't have twenty-five years to perfect your practices and processes?

One thing ITW discovered is that profitable growth accelerated pretty much in proportion to the degree that the visionary, the prophet, and (as we are about to see) the operators were all embedded in the company. The leaders of rapid growth were internal, organic to the organization. As mentioned, an external prophet or team of prophets is often initially hired as an outside consultant, but the sooner the lessons are learned and the role of prophet is brought in-house, the better. For, the prophet in a PGOS-driven enterprise must preach from a total understanding of the core strategy and coordinated engagement with the other true believers in the company. The prophet is not the author of the holy writ, however. That is the role of the visionary. No, the province of the prophet is the keeper, the interpreter, and the evangelist of the vision.

The Operator

The operator is the leader who runs the business on a day-to-day level. Typically, there are several of these operators who are operational leaders within the business, employees who hold the company or business unit title of president. In some cases, operators might be designated members of the CEO's staff. In the kind of conglomerated businesses I have run during my career, the operators have been the presidents of segments or of operating companies. The operators are charged with owning, developing, and setting the strategy within their companies, business units, or segments to deliver the strategic goal set by the visionary. Although operators might not be experts in PGOS and 80/20, they understand the principles and processes involved. They must adhere to what I call The Four Commandments, which are the keys to the successful execution of the strategy. Accordingly, they must continuously upgrade and improve their teams to ensure conformity with The Four Commandments.

The operators know their companies, but they are not the source of the overall strategy. That is the role of the visionary. Nor are they the keepers and masters of the practices and processes by which that strategy is implemented. This is the domain of the prophet. What they do have is intimate working knowledge of their companies or business units, and they are themselves thoroughly evangelized on the strategic vision and on the processes and practices necessary to ensure that their business is perfectly aligned with the strategy and meets or exceeds all its strategic goals.

Show Us Your Receipts

What can you expect from applying 80/20 in the PGOS? I believe that ITW was in fact the first business to use 80/20 analysis in a systematic and systemic whole-of-company program to earn the right to grow, to exercise that right, and to grow. The company called it the 80/20 Front-to-Back Process. ITW began operating under the first iteration of this process in 1985. At the time, the company's compound annual growth rate (CAGR) was essentially on par with the S&P 500.

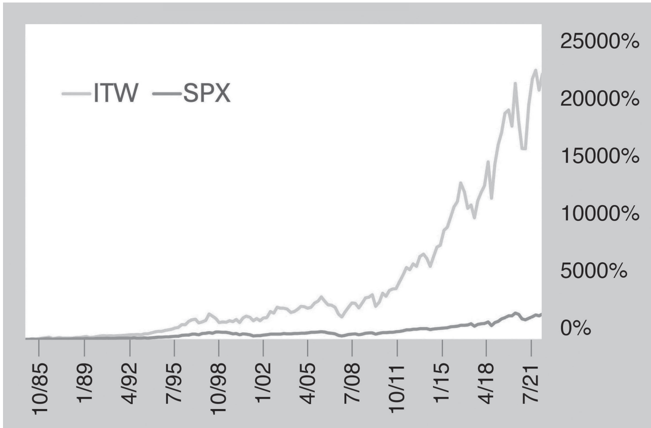

Figure I-1 International Tool Works Versus S&P 500

This performance improved slowly through the early 1990s. Beginning in 1994, a dramatic climb commenced. By 2022, ITW's operating margin was 23.8 percent, compared to 15.9 percent in 2012. Overall, since embracing an 80/20 growth system, the company's compound annual shareholder return stood at 15.2 percent and delivered ten-times cumulative return versus 8.4 percent for the S&P 500 over that same period (see Figure I-1).

The examples of two more companies, IDEX Corporation and Modine, show similar performance, but for these firms we have an added data point, which provides a critical insight. Take a look at the performance of IDEX versus S&P 500 between the start of 2009 and the end of 2023 (Figure I-2).

The 80/20-based process was introduced at the start of 2009 by a team of *outside consultants*. Their engagement lasted into July 2012, during which shareholder return increased essentially on par with that of the S&P 500. During July 2012, the external consultants were replaced by a 100 percent internal team. IDEX had committed to the rule of three, aligning internal leaders—the visionary, the prophet, and the operators—on the 80/20-driven

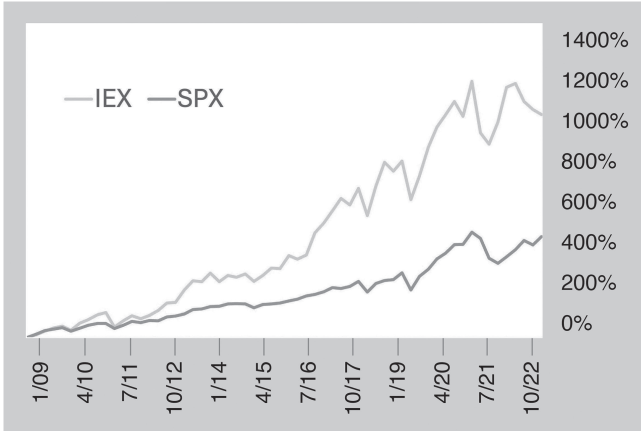

Figure I-2 IDEX Versus S&P 500

processes and practices of the company's growth strategy. The result was dramatic, as can be seen by how sharply the performance of IDEX suddenly veers upward from that of the S&P 500. *This growth occurred only after the company was fully aligned on the strategic execution of 80/20 through an internal team led by internal rule of three leaders*. For nearly three years, under external consultants, IDEX shareholder value was up about 100 percent, only slightly more than the S&P 500. The outside consultants were doubtless *necessary*, but they were not *sufficient*, and they likely remained too long. After four years under internally led deployment, however, with the company fully aligned on the 80/20 growth strategy, it was up a cumulative 400 percent, while the S&P was about 200 percent.

In the case of Modine, 80/20-driven deployment of PGOS began with the CEO and board of directors, and the full rule of three leadership team fully committed and aligned. True, 80/20 experts were hired from the outside as initial consultants, but the strategy and implementation were organic, internal, and the product of total commitment. Figure I-3 shows the result.

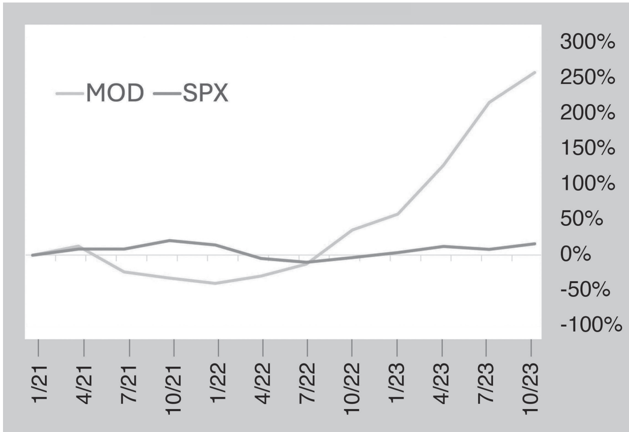

Figure I-3 Modine Versus S&P 500

In just eighteen to twenty-four months, between January 2021 and October 2022, the company began a sharp upward inflection, putting a lot of mileage between itself and a comparatively flat S&P 500. By October 2023, growth rate was up a cumulative 250 percent, while the S&P lolled along with gains hovering just above zero percent.

Examine the receipts, and you discover that your choices are stark:

EITHER commit to earning the right to grow by creating a totally embedded, organic, internal leadership triumvirate in conformity with the rule of three: visionary, prophet(s), and operators. Align the three leaders on processes and practices to build and execute an 80/20-driven strategy. Enable total alignment with these processes and practices, *make the alignment a condition of employment*, and put the company on a trajectory of rapid growth—just eighteen to twenty-four months to your goal—as measured against its own past and present performance as well as the index of the S&P 500.

OR change nothing about your internal leadership. Ignore the rule of three. Embed nobody. Just hire a team of consultants to tell you what to do. If those consultants are really good, you might improve performance, but anything resembling significant improvement will take at least a decade.

Where There Is No Vision, the People Perish

A proverb is an adage or traditional saying that expresses a truth based on experience and/or common sense. The Old Testament features a whole "Book of Proverbs," including this one (Proverbs 29:18–19), which begins, "Where there is no vision, the people perish . . ."

In a business run on the 80/20-driven PGOS, the visionary provides the vision, the prophet leads the execution or deployment of the vision, and the operators act on that vision and its deployment at the level of their individual business units. Although outside experts are typically consulted when introducing 80/20 to the organization, none of the commitment to 80/20-driven PGOS is imported. Sooner or later, all must be made internal, integral, and organic to the business—and, based on the typical growth curves, sooner is far preferable to later.

PGOS will deliver extraordinary results only if the complete triumvirate—visionary, prophet(s), and operators—is present, active, aligned in the organization, and thoroughly committed. The prophet guides the execution of the vision throughout the organization, aligning the company on the strategy and applying 80/20. Without a visionary, however, there can be no vision. Without a vision, there can be no prophet or prophets. The operators take their direction from the visionary and apply it with the prophet's instruction, guidance, and mentoring. Without the committed and aligned operators, the work of the visionary and the prophet comes to nothing.

The homeliest and most practical illustration of the rule of three in leading an enterprise is the humble joint stool. *It requires all three of its legs to stand*. Without the visionary (often but not always the CEO), the team would not have a clear goal. Everyone would be firing unaimed arrows, which never miss yet hit who knows what. Without the prophet, the team lacks a clear map to the visionary's goal. Without the operators, neither the visionary nor the prophet will have anything to do.

The PGOS system outlined in the pages that follow is a set of processes and practices, along with the tools necessary to their execution, all of which foster a common culture, creating value for all stakeholders: customers, employees, suppliers, and shareholders. Under the leadership of visionary, prophet(s), and operators, PGOS enables business owners and management teams to identify challenges to their operations and to create clear, simple, actionable plans to increase the productivity of assets, increase profits, and make better decisions at every level of an organization.

If the organization is fully aligned on the system, it works. If not, it fails. In my companies, *full alignment is a requirement of employment*. That is how important it is. Now, dear reader, you may turn the page.

Chapter 1

Panic

When in danger or in doubt, run in circles, scream and shout.
—Herman Wouk, *The Caine Mutiny*, 1951

Rolling Thunder Engineered Parts—that's what we'll call it—is a large distributor of aftermarket parts for a diverse range of vehicles, from motorcycles and ATVs to outdoor power equipment to heavy-duty trucks. It covers the United States, Canada, United Kingdom, Italy, Germany, France, Belgium, Netherlands, Sweden, Argentina, India, China, and Pakistan. It has expanded in terms of markets, products, and geographical presence. The one thing lacking in all this has been an overall strategy. Growth in and of itself is neither good nor bad. It just *is*. *Strategic* growth, which should be thought of as a synonym for *profitable* growth, is always good. In fact, it is the goal of any business aiming for financial success.

So, for some time now, Rolling Thunder has been rolling flat and down. A recent moment in its history was marked by declining financial results. For the year's first quarter, normalized revenue was down and normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) down even more. Judging from April sales, the trend was not turning around.

Bad luck?

I refuse to answer that question on the grounds that it might tend to piss me off. Branch Rickey, one of early Major League Baseball's greatest managers and executives, the man who developed the farm system and, even more important, broke the MLB color barrier when he risked it all to hire Jackie Robinson for the Brooklyn Dodgers in 1945, said, "Luck is the residue of design." This oracular sentence was his refusal to surrender to the lottery of chaos. It reminds me of something Louis Pasteur, conqueror of rabies and father of bacteriology, said about discovery. "In the fields of observation," he told students at the University of Lille in 1854, "chance favors only the prepared mind." So, don't talk to me about luck. If you feel that you are fresh out of luck, start making some of your own. (This book will show you how.)

You need to look behind the bad numbers. That's what I did at Rolling Thunder. A lot of projects and initiatives were under way. Well, isn't that a good thing? Without strategic consideration of return on investment, it is not. And not without situational awareness of cash flow. In fact, financial data, analytics, key performance indicators (KPIs), and tracking capabilities at Rolling Thunder ranged from inadequate to nonexistent. Tax issues, including add-back limitations, severance obligations, and contractual cash requirements, were all contributing to an increasingly tight cash situation. As things were going, there were not very many levers available for the pulling.

The people in this company were neither stupid nor lazy. Quite the contrary. They were intelligent and hardworking. Their problem was that they hadn't been paying attention, not to the business and not to each other. Some were pulling, some were pushing, and some were struggling just to stand in place. They had not *prepared* their minds, and consequently, the company lacked alignment.

I work for a private equity firm, and Rolling Thunder was one of their new acquisitions. Now, different people go into business for different reasons. Some have a passion for a particular product or industry. Some have a family tradition to honor. Some have certain moral or philanthropic motives. But private equity just wants to make money. That is not as one-dimensional or as crass as it sounds. They want to buy a company low, grow it in value, then sell it high. Done right, private equity makes money by adding significant, even immense, value to the companies they acquire. This is the practice of capitalism at its most productive and beneficial. So, when my firm put me in Rolling Thunder as CEO, my assignment was simple—by which I do not mean easy. It was simple because the task could be expressed in a single, short, imperative sentence: *Turn it around*.

What to Do First

Wait. Pardon me. I just lied. The three-word imperative sentence was not enough, never was enough, and could never be enough. A subordinate clause was and always is also necessary: *Turn it around until it is positioned to earn the right to grow*.

The thing is, when you walk into a situation in which a lot is going on uncontrolled and in all directions, it's natural to get overwhelmed by panic and despair, a combination that creates confusion, breeds pessimism, dissolves morale, and brings on paralysis.

I read a lot and not just business books. I like history. I find it fascinating and full of lessons, examples, and precedents. Political and military history bristles with leadership lessons, and because my profession, as a CEO, is leadership, I'm always hungry for great leadership stories. Take General George S. Patton, the most successful land commander of World War II. His first assignment in that war was to lead the Western Task Force in Operation TORCH, the US landings in Nazi- and fascist-occupied North Africa, which took place on November 8, 1942. These would be the American forces' first foothold in enemy-controlled country, the first step in the eventual liberation of Europe. Early the next year, Patton was promoted from command of the Western Task Force to take over the US II

Corps, replacing General Lloyd R. Fredendall, who had led II Corps to a humiliating defeat at Kasserine Pass, a two-mile wide gap in the Atlas Mountains of Tunisia. This was the very first combat between the US Army and the justly feared German Afrika Korps under the command of another World War II icon, General Erwin Rommel, the infamous Desert Fox. The blow to the American military's confidence threatened to be crippling. A lot had gone wrong, revealing that a lot was wrong with II Corps. How do you make it right? That was Patton's immediate task. To a casual observer, however, it looked like so much had gone wrong that how could anyone even know where to start?

Patton began as soon as he walked into II Corps headquarters for the first time. What he beheld was a dispirited group of men—sloppy and unsoldierly, more rabble than army. He didn't blame the men. He didn't curse his bad luck at being saddled with a disgruntled mob. Instead, he immediately sized up the problem as one of leadership and management. Based on that single conclusion, he knew what to do first. And knowing *that* is pretty much everything, because knowing what to do first—and then doing it—leads to knowing what to do next and so on and on. Knowing what to do first is the beginning of a *process*, useful, productive action toward a strategic goal.

What to do first?

Patton did what he *could immediately* do, which was to address the situation he saw before his own eyes. He knew he needed to institute a demanding regime aimed at achieving "perfect discipline," which he considered the *only* form of discipline. His first orders concerned enforcing Army regulations governing uniforms, including the wearing of neckties, leggings, and helmets. At first, the troops were bewildered. What did knotting a necktie have to do with defeating the Desert Fox? Well, General Omar N. Bradley, who was Patton's second-in-command over II Corps, understood. "Each time a soldier knotted his necktie," Bradley wrote, "threaded his leggings, and buckled on his heavy steel helmet, he was forcibly reminded that Patton had come to command the II Corps, that the pre-Kasserine days had ended, and that a tough new era had begun." Like Patton, Bradley saw the "necktie order" as the first step toward making the men of II Corps feel like soldiers so that they would act like soldiers. In a remarkably short time, Patton transformed II Corps into a winning organization.

I'm not General Patton. I couldn't get away with behaving like General Patton. Fortunately, I don't want to be General Patton, and I don't need to be. But, like Patton, faced with a suboptimal and disheartened organization, I had to begin to *turn it around,* so that it would be positioned *to earn the right to grow*.

Like Patton, I never blamed the people I was tasked with leading. What I saw was a problem of leadership and management. I therefore addressed that. I did what I always do when I take up the reins of a company. I walked around, I looked at what was going on, and, most of all, I asked questions. Then I shut up and listened to the answers. When you are called on to turn a company around, you are inevitably torn in two opposite directions. On the one hand, you are supposed to come in with all the answers. On the other hand, if you are convinced that you have all the answers, you won't learn anything about the company you are expected not only to save but also to profitably grow. If you think you already know it all, you won't be inclined to look and listen, to make yourself understand the culture of the company, to learn about its history, its processes, and its expectations. You won't be ready to learn about its people.

Core Meeting and Open Letter

Very soon after I took my place as CEO, I held the first core meeting—a meeting with the executive leadership team (ELT).

I asked more questions of upper management, and then, together, we set a five-year goal.

Now, you would think that setting a five-year goal would require weeks if not months of labor. Me? I gave it ten days out of the first hundred days of my tenure as CEO. I could do that because I was armed with the advantage of working for a private equity firm. Private equity typically operates by a rule of thumb, which sets as a goal getting at least a three-times multiple on invested cash, so this meant that setting our goal required just five steps:

1. Gather and analyze the necessary data to determine our current EBITDA.
2. Multiply the EBITDA by the anticipated exit multiple to get the total sell price.
3. Take this total and subtract all debt to arrive at the total equity.
4. Divide the total equity by the original equity that was invested.
5. If this number is three times or greater, then 100 percent of your equity vests (assuming your contract vested at three times).

These five steps were accomplished in the core meeting with the ELT. Almost immediately after that meeting, I convened the first company-wide town hall. In this case, it was a combined in-person meeting and a virtual meeting, because it involved some fourteen hundred participants distributed over more than forty locations nationwide and even worldwide. The town hall did not materialize out of thin air. Its foundation was the product of our core meeting, a product I presented in an open letter to all the personnel of Rolling Thunder:

Dear Thunderers:

I am enjoying learning about our business, its people, and its processes. I plan to periodically hold virtual town halls with all of you to share progress updates and take questions. In a few days, you will receive your invitation to our first town hall. Before then, however, I'd like to share a bit about:

1. Where we are now;
2. Where we are going; and
3. How we will get there.

Today—now—our company is missing sales targets, and our costs are increasing. We must take immediate action to remedy this to steady the company. This means quickly cutting spending and stopping all initiatives that are not tied to revenue generation. We will do this, however, not for the sake of making cuts, but to enable us to laser focus exclusively on the most important priorities for our success. Over the next few days, weeks, and months, we will implement many changes to secure our company's health.

I can tell you now that these changes will be tied to my four-step system, which takes about a hundred days to complete:

- **Step 1: Get a goal.**

  This step has already been completed by our executive leadership team. Our new organizational goal is to reach $2.5 billion in revenue, have high teens margins and $300 million in EBITDA by this time five years from now. To achieve this goal, we must first *earn the right to* *grow*. This begins by *simplifying our business*. The executive team has already reviewed what to immediately stop, what to start, and what to continue doing to get a solid foundation under our feet. We will communicate this to you shortly. Additionally, we will kick off our *80/20 process* by using accurate, timely data to determine precisely where to simplify and grow the business by determining where to raise prices to increase our bottom line.

- **Step 2: Frame the strategy.**

  The executive leadership team (ELT) will reconvene in May to build a strategy that will allow us to achieve our new goal. We'll separate what's working from what isn't and create a straightforward approach.

- **Step 3: Build the structure.**

  We'll organize our businesses in segments to provide focus on customers, new product development, and hitting our goal. The segments will then be organized with a clear structure and accountability to deliver on our goals.

- **Step 4: Launch the action plan.**

  We'll define the tactics and efforts needed to execute the plan. We won't wait for perfection here. We'll make sound, informed decisions and go.

  I'm confident we'll be well positioned to achieve our goal by following this four-step system, and I will be transparent in our updates. While we work through this process, I'm counting on each of you to keep doing your jobs, provide excellent customer service, and remain focused on achieving our goal.

After spending the last few days with the leadership team, we all left energized and ready to roll up our sleeves and get back to basics.

We will create something extraordinary here, and I ask that you join me for the ride.

Bill Canady

CEO

Executive Leadership Team Meeting

Preceding the first town hall was my off-site meeting with the ELT, which spanned three and a half days, beginning with process overview and kickoff, a financial overview, and a situational assessment, all on day one. Day two consisted of reviews of each segment within the company, with a specific manager responsible for delivering each review. Day three focused on the application of 80/20 (half day). Day four began with a review of *stop*, *start*, and *continue* decisions before going on to goal formation. After this, it looked ahead to further developing the five-year strategy and ended with a presentation of financial expectations.

The entire event included well-organized financials relating to EBITDA, sales, revenue, working capital, and cash flow/net debt. These financial headlines were meant to serve as a transition from the first hundred days to the first full year under the new strategy. They were intended to document progress, by the numbers, with an eye toward the evolving improvement. The first hundred days were all about turning the company around so that it could face a future in which earning the right to grow was feasible and really would result in growth.

But our focus in this chapter has been the first hundred days. The relevant question, therefore, is *Just what will we have after those days?*

Plenty.

There will be a complete strategy and process for *earning the right to grow*. That is, we will be positioned for the turnaround, with our first best vision of what is critical to growth versus what is trivial and undeserving of our attention. This knowledge is the key that unlocks true strategic—that is, profitable—growth.

"I'm confident we'll achieve our goal by following this four-step system," I wrote in my letter to the company. "We will create something extraordinary here, and I ask that you join me for the ride."

And I really meant it.

Over and over again, I have seen entire companies pivot from panic and despair to productive confidence the moment they understand that the right to grow not only must be earned but that *they* are quite capable of earning it. With this realization comes a willing acceptance of responsibility and accountability for transforming their company. It is quite a drama to behold, and it is even better when *you* are making it happen.

Town Hall

The town hall was meant to encourage people to speak candidly, but it was not a free-for-all. It had a very basic structure. It was a two-hour meeting, with the first sixty minutes devoted to my delivering a status report—an assessment of where Rolling Thunder stood at the moment. This assessment was based on my walking around the company and talking with people and, of course, also on the core meeting I had held with the ELT. In addition to the report, the team and I came to the town hall with that other key deliverable: a statement of the company's new goal to be attained within the span of the five-year plan.

So, within the first half of the town hall, I stated the goal. In doing so, I leveled with my audience, using an approach built on the Stockdale paradox. I'll explain this in just a little bit, but all you need to know at this point is that it is a way of delivering the unvarnished truth, the bad, the ugly, and the good—because there is always good—and to do so without fostering unwarranted and unthinking rose-colored optimism yet also without deepening panic and killing morale. I avoid the first pitfall—unfounded optimism—by keeping the varnish off the truth. I avoid the second—despair—by telling those in the town hall exactly what *I* am going to do, what *they* are going to do, and, most important of all, what *we* are going to do together. At this point, I keep it simple but meaningful. *Our immediate objective*, I say, *is to turn the company around so that we can earn the right to grow*.

Having ended the first hour with a frank assessment of the current situation and a basic statement of what we are going to do to win, we go into the second hour. The next sixty minutes of the town hall are devoted to answering questions from the participants. I know that there will be more questions than answers. As CEO, I need more answers. I need the answers to the team's questions, answers based on the data emanating from the organization. That means I need to ask the right questions and then listen to as many answers as I can get.

Sounds good. But time is my enemy, and I need to do everything I can to accelerate my learning. So, I go about the questioning more formally. In advance of the town hall, I draw up a questionnaire and ask employees to answer as many questions as they can. I make sure that they turn in their answers before the town hall, so that I can read them. I choose certain questions to bring up and discuss in the town hall. Time permitting, I open the proceedings to some spontaneous questions.

Accelerate Your Learning with a Questionnaire

Questions to Ask About the Past

Performance

How did the company perform in the past?

How do people in the organization think it performed?

How were goals set?

Were goals realistic?

Were goals insufficiently or overly ambitious?

Were internal or external benchmarks used?

What evaluative measures were employed?

What behaviors did they encourage and discourage?

What were the consequences if goals were not met?

Root Causes

If past performance was good, why? If poor, why?

How did the company's strategy, structure, technical capabilities, culture, and politics affect performance?

History of Change

What efforts have been made to change the company and what were the results?

Who was most instrumental in shaping this organization?

Questions to Ask About the Present

Strategy

What is the stated vision/strategy of the company?

Is the company genuinely pursuing the stated vision/strategy? If no, why? If yes, is the strategy likely to take the organization where it needs to go?

People

Who is capable and who is not?

(*continued*)

(*continued*)

Who is trustworthy and who is not?

Who are the influencers and why?

Processes

What are the key processes of the organization?

Are they effective? If not, why not?

Dangers

What dangers lurk? What are the risks?

Early Wins

Where can you achieve some early wins?

Questions About the Future

Challenges and Opportunities

What areas pose the greatest challenges next year? (Can anything be done now to prepare for them?)

What are the most promising unexploited opportunities? (How can they be realized?)

Barriers and Resources

What are the highest barriers to needed change?

What high-quality resources can be leveraged?

What new capabilities need to be developed or acquired?

Culture

What cultural changes need to be preserved or nurtured changed?

What cultural changes need to be changed?

What are the most promising unexploited growth opportunities?

Ask stakeholders: "If you were me, where would you focus your attention?"

When I feel that I have seen, heard, and, most of all, learned enough about the company, only then do I *really* start talking. I'll bet you that somewhere sometime somebody told you the so-called secret of giving a good speech: *Tell them what you are going to tell them, tell them, tell them what you've just told them*. Well, I'm here to tell you, as advice goes, this is pure, unadulterated gold.

In fact, I had already delivered the first part of the secret formula in the letter I circulated before the town hall and the second part during the first few minutes of the town hall. Now, I focused on the third part. I began by giving an orderly shape to the task we faced together: "I'd like to share a bit about where we are now, where we're going, and how we'll get there." It's simple. The people in front of me knew the company was in trouble. They felt lost, as in directionless. So, my job was to give them direction:

1. We are *here*. (In trouble.)
2. We are going *there*. (To a brighter, better future.)
3. Let me show you the way. (I am the truth and the life—okay, okay, the gospel might be a bridge too far.)

If you feel you are lost, you want directions. You don't want to be scolded, and you don't want to be called a bad name. I never wagged my finger at anyone, and I certainly did not get personal. But I did tell the truth as I saw it, by the numbers. We are *here*—and we don't want to be here. If what I said in this part of the town hall sounds like repetition, that's because it most certainly was:

> *"Today, Rolling Thunder is missing sales targets, and our costs are increasing."*

I didn't say much more than this before moving on to what immediate actions we were going to take to get out of *here* and start moving toward *there*:

> *"We must take immediate action to remedy this to steady the company."*

Please note the pronoun. It is *we*, not *I, me, they, them, or you*. It is *we, we, we, we* all the way home.

I'm betting you've seen—and maybe more than once—the 1992 Tom Cruise, Demi Moore, Jack Nicholson movie *A Few Good Men*. If not, I'll leave you the unspoiled pleasure of watching the film for yourself. But everyone who's seen it can quote the exchange between Nicholson (playing USMC Colonel Nathan Jessup in command of the Marine platoon stationed at Guantanamo Bay, Cuba) and Cruise (playing Navy Lieutenant Daniel Kaffee, a JAG lawyer defending two marines accused of murder). Cruise is questioning Jessup, goading him into revealing that his order of an illegal Code Red caused the death of the marine Kaffee's clients are accused of killing.

Kaffee asks Jessup if he ordered the Code Red. The judge, seeking to protect Jessup's Fifth Amendment right not to incriminate himself, interjects that he does not have to answer. The arrogant colonel snaps back that he *will* answer. Kaffee taunts the colonel by demanding "the truth." Colonel Jessup roars in response that Kaffee "can't handle" the truth. Turns out Kaffee can handle it—and so can the people working in a company in need of a turnaround to a direction leading toward earning the right to grow. When you face them, it will be hard *not* to feel that they can't handle the truth. But if you guide them to the truth and deal with that truth together, you will discover that not only can they handle it, they desperately want and need to handle it. The secret here is that even in a hard situation, a scary situation, the truth, painful as it might be, has power, maybe just enough power to propel the group forward and upward.

This is the magic of the Stockdale paradox I mentioned previously. It is a lesson learned and shared by the late Admiral Jim Stockdale, highest-ranking US military officer to be held as a POW during the Vietnam War. He was imprisoned under horrific conditions from 1965 to 1973. Years later, Jim Collins, the author of *Good to Great*, talked to him, asking him how he got through it unbroken.

"I never doubted not only that I would get out," Stockdale explained, "but also that I would prevail in the end and turn the experience into the defining event of my life, which, in retrospect, I would not trade."

Collins was too awestruck to express any disbelief. Instead, he followed up by asking, "Who *didn't* make it out?"

"Oh, that's easy," Stockdale answered. "The optimists."

When Collins looked puzzled, the admiral elaborated. He explained that the optimists "were the ones who said, 'We're going to be out by Christmas.' And Christmas would come, and Christmas would go. Then they'd say, 'We're going to be out by Easter.' And Easter would come, and Easter would go. And then Thanksgiving, and then it would be Christmas again. And they died of a broken heart."

Stockdale told Collins that this taught him that while you must never lose your confidence that you will ultimately prevail, you cannot let that belief make you complacent and reliant on things over which you have no control. You cannot let wishful optimistic thinking cause you to abandon the "discipline to confront the most brutal facts of your current reality, whatever they might be."

Today, this approach has a name. It's called the Stockdale paradox, and it is about how knowing the truth, even the most dismal truth, helps you maintain the discipline to find your way through the worst problems. What you need is a *process* and the discipline to follow that process. Process can mean the difference between rational hope and panic-stricken despair.

Panic and despair are the products of inaction, a sense of not knowing what to do, a feeling of being unable to do anything, certainly anything capable of *turning it around*. So, when I walk into a troubled company, I aim to give the people something to do. I provide a direction. As is often the case when I am called in, the first thing or first few things that need doing are starkly obvious. The boat is leaking, so you plug the holes. The house is burning, so you put out the fire. I wrote in my letter to the people of Rolling Thunder: "We will quickly cut spending and initiatives not tied to revenue generation to provide a laser focus on the most important priorities for our success."

After this, I looked to the future and invited my audience to look with me. That's especially important because, right now, these poor folks were far from certain that they had any future—at least not with Rolling Thunder. The wisdom behind this approach is so old it's biblical: "Where there is no vision, the people perish." I did not promise anyone that they would surely succeed—no sweat. But I did promise them a vision: "Over the next few days, weeks and months, we'll implement many changes to secure this company's health."

Even by itself, promising that "we'll implement many changes" is important because the one thing most people in a distressed organization clearly understand is that they need change. If they give it even a little thought, they also understand—without anyone having to tell them—that to make tomorrow different from today, they have to do something different today. However, promising change, while *necessary* to turning a company around, is not *sufficient* to do so. Therefore, I laid out a process: "These changes," I wrote, "will be tied to my four-step system, which takes three to four months to complete."

Give Them a System

Ponder my sentence for just a moment. I linked the promised changes to *my four-step system*. In truth, the system is hardly unique to me, but I claimed ownership of it because I have used it successfully, I continue to use it, and I propose to use it some more. The *my* is not a patent claim, and, believe it or not, it is not an exercise in ego gratification. It is a promise that I understand the system, have expertise in implementing the system, and accept personal accountability for the system. This means that the people of this company, who will be using my system, are not only getting directions from the horse's mouth but are being pulled by the horse himself.

As for the word *system*, it is far better than *plan*. *System* is a set of principles and procedures that tell everyone how to do something. A *system* is a well-organized framework, a tested method. A plan, by contrast, expresses an aspiration, a hope, an intention. Modify the word *system* with *four-step* and you endow that system with a lot of exactitude. It is *four* steps, not *two*, not *five*, and certainly not *several* or a *bunch of*. The specificity gives my solution instant credibility. Even more impactful is framing the system in terms of time: a hundred days. It is an accurate, truthful estimate of how long the initial phase of the turnaround will take. This is fortunate because if you and your organization are standing on what many business writers like to call a "burning platform," you don't have the luxury of time. The downside of a burning platform is obvious: the business goes up in smoke and you with it. The upside, however, is also quite significant: standing on a burning platform is highly motivating. People in this situation *want* to make needed change happen, especially if they will see the results in just 90 to 120 days.

As a phrase, "the first hundred days" has a magical ring to it. Ever since the days of President Franklin D. Roosevelt, Americans have judged the performance of new occupants of the White House by what they accomplish or fail to accomplish in their first hundred days. To be sure, FDR set the bar remarkably high. He began his first term in 1933 by summoning Congress into a three-month special session during which he presented and gained passage of fifteen major bills enacting programs specifically aimed at combating the devastating effects of the Great Depression. Urged on by the president, Congress passed a grand total of seventy-seven laws in a hundred days. That's 0.77 laws per day, for those who want to keep score. America—indeed, the world—was a "burning platform" in 1933, and change was demanded.

FDR's first hundred days were jam-packed with substance. No wonder the president and his supporters were quick to brand those first three months as *the hundred days*. It was a phrase with a powerful Napoleonic ring, because it had long been used to describe the remarkable period bounded by the French emperor's bold return to France from his first exile (to Elba) on February 26, 1815, and his final defeat at Waterloo on June 18 of that same year. Between these events, Napoleon singlehandedly rebuilt an army of 250,000 and very nearly succeeded in retaking his lost empire. To this very day, no span of time carries greater symbolic weight than a hundred days. Like Napoleon and Roosevelt, I made shameless use of it. Well, leaders who have existential problems staring them in the eye need all the help they can get.

All four steps that I presented in the letter discussed previously in this chapter were to be completed within a hundred days. This did not mean that we would have a final and finished road to triumph. As I wrote in summarizing Step 4, "We won't wait for perfection here. We'll make sound, informed decisions and go." That is, once we had completed Step 4, we would have a rough-draft action plan put together. At that point, the managers throughout the company and the executive leadership team would bifurcate their efforts. Most of the managers would focus on drawing up action plans for executing the "critical few" objectives, which directly addressed the 20 percent of customers and 20 percent of products that produce 80 percent of the company's revenue. In parallel with this, the C-suite executives would continue to develop a more complete strategy. This strategic management process would take about a year and would be the primary vehicle on which the company would ride to its five-year goal.

The Hundred-Day Job Interview

Whatever else the first hundred days are, consider them an extended job interview. As CEO, you own the goal that was set for the three- or five-year plan. You own the goal, but the organization's executive and operational leaders need to own the vehicles by which that goal will be reached: the strategy and its execution. This means that these leaders must be 100 percent on board with the goal and committed to the strategy as laid out in the first hundred days. As CEO, your job is to monitor and assess that commitment. By the third meeting of the four that span the first hundred days, it should become obvious who is on board and who is not. If at any point any team member's commitment seems doubtful to you, intervene. If, by the end of the third town hall meeting, the dubious party is not on board, you must conclude that they are not suited to the mission, which is to attain the goal that has been set. The remedy? Replace that person. Fail to take this step, and you greatly reduce the likelihood that *you* will fulfill *your* mission, which is to attain the goal you have set and for which you are accountable.

Now, the first hundred days does not run on automatic pilot. The town hall that launches it is only the first of three town halls.

We meet at the end of each month of the hundred-day period to discuss and measure our progress, to monitor our course, and to make any necessary corrections. As with the first town hall, half the next two meetings is devoted to questions and answers. The third meeting corresponds to the end of the quarter. Even after the first hundred days, we continue to convene town halls at the conclusion of each quarter.

Q1 Results

The third town hall meeting of the first hundred days is accompanied by a financial review that essentially summarizes the effect of those days. The review covers three general topics:

1. Summary and situational assessment
2. Approaches and actions
3. Financial headlines

The objective is to be honest and unflinching. Typically, the first review will show little or no improvement over what the situation was like at the beginning of the hundred days. In the case of Rolling Thunder:

- Declining financial results
- Significant level of projects and initiatives under way absent return on investment considerations and situational awareness of cash flow
- Concerns about the team
- Financial data, analytics, and KPI/tracking capabilities severely lacking
- Add-back limitations, cash situation, severance, and contractual cash requirements restrain nearest term levers

People need to know that there are no miracles to be had. But one thing is obvious. The people of Rolling Thunder now know where they stand. And if they stand in the basement, well, at least you can't fall out of a basement. So, much of this end-of-quarter town hall was devoted to approaches and actions to earning the right to grow. In the case of Rolling Thunder, earning the right to grow—turning the company around—required four immediate actions:

1. Align the organization on the current state to establish urgency of action.
2. Reaffirm the goal.
3. Establish an initial organization for strategy development.
4. Launch *now* whatever improvement actions can be launched *now*.