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COVER STORY >>

# Thinkers

THE TOP TEN MINDS IN SMALL BUSINESS

MEET OUR TEAM OF EXPERTS FROM THE WORLDS OF BUSINESS, ACADEMIA,  
AND CONSULTING FOR THE VERY BEST ADVICE MONEY CAN BUY.

by Stephen D. Solomon and Julie Sloane

RECESSION, TERRORIST ATTACKS, FEAR. In times like these, the business decisions you have to make become all the more difficult and bewildering. That's why FSB searched the business, academic, and consulting worlds to find the best advice money can buy. While examining the work of scores of creative people, we kept one goal in mind: to present to you the brightest small business thinkers in the country, people whose counsel is among the most respected and sought after. The ten gurus on our list come battle-tested with years of successful work with companies like yours. Take Jack Stack, for example. The CEO of SRC Holdings, Stack originated the practice of open-book management and has helped thousands of companies implement this employee-empowerment strategy. Sam Hill, co-founder of Helios Consulting Group, articulated the concept of "radical marketing," which has enabled many small companies to conquer new markets on a rather spartan diet of marketing dollars. Jakob Nielsen, who runs Nielsen Norman Group, specializes in helping companies fashion Websites that customers find easy to use. For an in-depth look at these gurus and their ideas for making all kinds of businesses grow, read on.

## RETAIL

### Paco Underhill, 50

Envirosell

PACO UNDERHILL HAS SPENT THE PAST TWO decades trying to figure out why consumers buy some things but not others. What he's learned so far has made him one of the most sought-after retail consultants in the world for companies large and small. The founder and managing director of Envirosell, based in New York City, Underhill doesn't talk with consumers about their likes and dislikes. Instead, he records their actual behavior on the selling floor, utilizing hidden cameras and human "trackers" who follow customers and document every move they make. Underhill's trackers snoop on thousands of shoppers annually, and his analysis of those findings, contained in his book, *Why We Buy: The Science of Shopping*, has made him into an anthropologist of American consumer culture.

After watching countless shoppers walk into stores, Underhill warns owners of the "transition zone"—the space just inside the door where shoppers slow down to browsing speed and adjust their eyes to indoor lighting. Don't try to sell anything of value in that area, he advises; customers will walk right past whatever goods are offered. Once inside the store, almost all shoppers in the U.S. walk to the right, an oddity of human behavior for which Underhill has no certain explanation. This area stretching to the right of the entrance is typically a store's prime real estate, the high-profit zone, where must-see items should be displayed. No matter where merchandise is displayed, however, consumers buy more if they are invited to touch it.

Shoppers may like to touch the goods, but touching the shopper is a definite turnoff. All shoppers, especially women, will scurry from displays where they suffer repeated brushes from behind. And anything that reduces the time that a customer spends in the store damages sales. That's why Underhill is passionate about the need for chairs. Notoriously impatient, men spend much less time on shopping excursions than do women, so providing a comfortable place for a man to sit will free up time for a woman companion to continue shopping. In fact, Underhill would gladly sacrifice a display or a mannequin to squeeze in an extra chair. "Chairs aren't a convenience," he says. "They're a marketing tool." So, too, are baskets, which he says are often overlooked when placed just inside the door. Underhill advises retailers to scatter piles of baskets on the selling floor; he's taken extensive videos of shoppers who quit once their hands are full, even if they seem interested in buying more.

## RADICAL MARKETING

### Sam Hill, 48

Helios Consulting

ANY SMALL BUSINESS THAT wants to grow quickly ought to take a lesson from the Boston Beer Co. In 1984 founder Jim Koch, knowing that he couldn't take on the big brewing companies directly, developed a specialty beer brewed in small batches and offering a unique taste. With few resources to draw on, Koch marketed his Samuel Adams brew by visiting bars himself and asking for a place on the menu. Now Boston Beer earns \$11.2 million on sales of \$190 million and has won 170 international awards.

That's what consultant Sam Hill calls "radical marketing," an approach that rejects many of the conventions of traditional marketing as practiced by consumer products giants like Procter & Gamble and Philip Morris. Traditional marketing involves a big staff and plentiful advertising dollars. Hill argues that the old-school methods don't work well (or at all) for small companies, which can often best nurture a brand by adopting a more innovative and less costly strategy. "I would not assume," says Hill, "that bigness is a tremendous advantage. There's a lot of evidence that big companies are not that good. So if I were a small company, I'd be bold."

Hill, co-founder of the Helios Consulting Group in Chicago, was chief marketing officer of Booz-Allen & Hamilton in the mid-1990s when he noted that some of the most successful companies of recent times had grown by using unconventional marketing strategies. When he investigated further, he discovered many things that the companies had in common, and from that analysis came his book *Radical Marketing*, which probed companies as diverse as Harley-Davidson and lams, which makes pet food.

First, Hill advises his clients not to compete against a large company's core products. "Learn from what everyone else does," says Hill. "But you really want to do something different to be successful." Jim Koch created a new category of beer. Michael Dell made personal computers, but he built them to order and sold them directly to consumers. Tom Chap-pell didn't compete with Procter & Gamble; his Tom's of Maine personal-care products use natural ingredients and were initially sold through health-food stores.

Once a new company has come up with an original product or service, Hill argues that CEOs must take over the marketing function themselves, never delegating responsibility to another manager. Hill says that customers are the single most important constituency, and thus that there is great danger in allowing bureaucratic layers to grow between the CEO and the customer.

Radical marketers, he says, listen to customers through letters, e-mail, and direct conversation, never relying on faceless studies. And they should be suspicious of traditional market research.

"Research is as dangerous as it is helpful," he says, "because it typically explores what the mass market wants." Chances are that large companies already serve the mass market. Instead, Hill argues that successful CEOs of small companies keep only a small marketing department and talk with customers themselves, always looking for ideas. "Radical marketers have an intense, visceral relationship with their customers," says Hill. "They get away without a lot of market research because they spend so much time themselves with customers." Hill calls his own clients regularly to ask for suggestions. "They are," he says, "my best source of strategic advice."

## FAMILY BUSINESS

### Léon Danco, 78

Center for Family Business

WHILE WORKING TO ESTABLISH Case Western Reserve University's executive education program in the late '50s, Léon Danco anticipated schooling tomorrow's corporate leaders. But there was another group who showed up—the entrepreneurs who wanted to steadily grow their family business and pass it on to their children.

"I loved these people for the hard work they did and the dreams they held," says Danco. "But they were lonely, tired, and scared." Since then Danco has become known as the father of family business. Today, at age 78, Danco estimates he has given in-depth counseling to between 300 and 400 small business owners, and

taught 4,000 more at his seminars.

One of Danco's big contributions to the field: the idea that family businesses need an outside board. Trust an outsider with the guts of your business? It was a radical concept, but over time Danco proved that assembling a team of skilled advisors—and not just a lawyer and accountant or, worse, Great-Aunt Millie, whose idea of a business agenda is what kind of ham to give to clients at Christmas—was invaluable. Family members alone often have a financial incentive to act in self-interest and have trouble separating business decisions from personal ones.

Just as critical is a well-planned succession. "Business owners view

retirement as somewhere between euthanasia and rejection," says Danco. "But when they're nailing the lid on the box, you're in no position to explain the business to your spouse or children." Succession ought to begin in one's 30s, with a plan that includes teaching children to love the business (or going to plan B if they don't), imparting your values to them, and setting a retirement date. Danco asked one 82-year-old founder when he would be ready to pass the baton to his son. "The kid isn't quite ready yet," was the answer. How old was the kid? Fifty-five. Successors, Danco insists, can't learn from their mistakes if they're never allowed to make any decisions.

## MANAGEMENT

### Jack Stack, 53

SRC Holdings

JACK STACK IS A REBEL. IF HE SEES SOMETHING HE doesn't like, he doesn't just walk away, he changes it—radically. Back in the mid-1980s, as a young manager, Stack hated the way U.S. companies were run. "I tried for years to find a management practice that would engage people and enable them to have fun," he says. Then came his "eureka!" moment. Executives, he noticed, had all the information they needed to make big decisions. Why didn't employees? Thus was born the idea of open-book management, which since that day has helped thousands of companies boost their performance.

Stack first applied his open-book ideas in the 1980s to a company called Springfield Remanufacturing Co. (SRC), an ailing rebuilder of engines and components. The company was so bad off, says Stack, "it

looked to me like the end of the Industrial Revolution." He taught his employees how to read a balance sheet and how to understand key performance measurements, such as defect rates, order backlogs, and margins. The idea was to get people to see how their own work affected the bottom line. And it worked. The Springfield, Mo., company has grown to about \$160 million in sales, with \$12 million in profits and nearly 1,000 employees.

Today Stack's practice of open-book management is used by many companies. But is it effective? A study by the National Center for Employee Ownership found that companies with employee-ownership plans and open-book management—two practices that go together well—enjoyed sales growth of 2.21% per year over their competitors.

Open-book management works because it encourages employees to care about their jobs. "It was all about having a stake in the outcome," Stack says. At SRC, groups of employees set measurable goals, helped make the decisions needed to achieve those goals, and used scoreboards to keep track of their progress. If the goals were met, the workers received a prize or bonus, and as stockholders of the company they could benefit through an increase in the value of their shares. Stack had effectively transformed employees into business people.

Now, as head of SRC and author of *The Great Game of Business*, Stack is spreading the word. Says Corey Rosen, director of the National Center for Employee Ownership: "Stack has sustained an almost evangelical commitment to getting people to do it." A true rebel with a cause.

## LEGAL

### Andrew Sherman, 40

McDermott Will & Emery

**W**HEN CEOs OF SMALL companies plan to grow, they tend to do the obvious—hiring new salespeople and adding to their marketing budget. But few of them think about mining the valuable assets that sit just below the surface of their financial statement: intellectual capital.

Andrew Sherman specializes in finding those assets—the intellectual capital represented by such things as patents, copyrights, and trademarks. Over the past 20 years Sherman has counseled thousands of small companies in the legal and strategic aspects of intellectual capital, pushing them forward on growth paths they didn't know existed. And he has reached a far larger audience than his law practice itself could provide. Author of 11 books on various issues concerning small business, including a helpful how-to, *Franchising & Licensing*, he has also taught part-time in the MBA program at the University of Maryland for the past 12 years.

"There is no more important asset than a company's intangible assets," says Sherman. "So I sit down with small companies and take inventory. A lot of the time they don't know what great assets they're sitting on. CEOs say that it's like finding change under the sofa pillow."

It turns out to be much more than loose change for many small businesses. After identifying a company's most valuable intellectual capital, Sherman works with the owners on a plan to exploit it. That often means initiatives involving licensing, franchising, co-branding, joint ventures, strategic alliances, and technology transfer.

These strategies produce growth at relatively low cost, especially if a company teams up with a partner. "Capital-efficient growth is important," says Sherman. "It means spreading costs of additional market penetration to other partners. You take full advantage of the research and development costs that you've already spent. The beauty of it is that it's already been paid for."

## TECHNOLOGY

### Jakob Nielsen, 44

Nielsen Norman Group

**T**HINK YOUR WEBSITE IS DOING ALL IT CAN FOR your business? Listen to Jakob Nielsen, and you might think differently. The mistake many companies make, Nielsen argues, is assuming that if their Website appears to look good and work well, that the customer will think so too. Most sites, in fact, are far too difficult to use. "Customers get lost, employees on intranets get confused, help lines light up—companies have huge expenses for tech and customer support," says Nielsen. "That's the cost of bad usability."

With a Ph.D. in user interface design

from the Technical University of Denmark, Nielsen moved from his native country to the U.S. in 1990 to take prestigious research positions at Bell Communications Research and Sun Microsystems. Now he runs the Nielsen Norman Group in Fremont, Calif., a consulting firm focused entirely on making business Websites easier to use.

And what has he learned about good design? Simplicity is always a virtue. Jazzy animated intros and elaborate graphics may be aesthetically pleasing, but they can distract or prevent people from quickly accessing the information

they seek. What do your users want that they're not finding? Nielsen's bottom-line advice: Watch them.

Sit down with several of your customers, advises Nielsen, and watch them browse your site. "Look at what they do, what they do not do, and where they fail," says Nielsen. "They often have a completely different understanding than you do. Watch their body language, tone of voice. Do they hesitate, feel confident? Listen to what the users are saying and how they behave." After you've tested five users, he says, you've gathered 80% of the information you need to succeed.

## MONEY

### Steven Rogers, 44

Kellogg Graduate School of Management

**T**HE FIRST LESSON THAT Steven Rogers learned about business was also the most valuable. "It is imperative," he says, "that every entrepreneur value his company every year." Small companies need capital to grow, and valuation is the linchpin in negotiating with investors. "Valuation determines how you raise money," Rogers explains, and ultimately whether you're going to succeed or fail.

Rogers, an entrepreneurial-finance professor at the Kellogg Graduate School of Management at Northwestern University, learned that lesson himself when he battled McDonald's over the valuation of a franchise he considered buying in 1986. While earning his MBA at the Harvard Business School, Rogers worked in a McDonald's training program for potential franchisees. When the time came to negotiate for a franchise in downtown Boston, however, Rogers argued that the price was too high. He walked away from two years of preparation.

Later Rogers owned three companies—two lampshade manufacturers and one lampshade retailer—before joining the Kellogg faculty in 1995. He has been voted most outstanding professor for six of the seven years he's been on the full-time faculty.

An imposing figure at 6 feet 3 inches and 240 pounds—he was an offensive tackle at Williams College—Rogers believes that "finance is something that many entrepreneurs don't know much about. Either they abdicate responsibility to someone else or they do it themselves haphazardly." The most dangerous oversight, he says, is the failure to manage cash flow. "Good cash flow is the lifeblood of the business. It results from outstanding management. You have to be a vigilant bulldog about it. Know your cash position every day—how much money is in the bank and how much is coming in."

## Nancy Koehn, 42

Harvard Business School

IT IS THE DREAM OF ANY ENTREPRENEUR TO TURN A NEW product into a household name. After all, who wouldn't want to follow in the footsteps of Henry Heinz, Estée Lauder, and Michael Dell, all of whom converted their home-based businesses into powerful brands?

But doing so isn't easy. Just ask Nancy Koehn. A historian and popular professor at Harvard Business School, Koehn knows what it takes to build a great brand. Her latest book, *Brand New: How Entrepreneurs Earned Consumers' Trust From Wedgwood to Dell*, studies six entrepreneurial companies that created resonant, legendary brands in times of dynamic change.

A brand, Koehn says, is not advertising or eyeballs but a two-way relationship between the consumer and the company or product. For a century, companies have reached out to consumers through advertising, but Koehn is skeptical. "Advertising is one way," she says. "The average American is exposed to 50,000 commercials a year. Consumers are now forced to devote a chunk of the day skimming off the chaff from the wheat."

Instead, she says, companies that rocket to stardom make an effort to understand the consumer's needs and desires—even before he does. During the Depression, for example, Estée Lauder grew a business in the worst of climates. "Estée Lauder realized a lipstick could provide an affordable luxury and a sense of control and confidence as economic fortunes declined," says Koehn. Likewise, in the '80s and '90s Starbucks saw coffee as more than a can in the super-

market. Starbucks, says Koehn, provided a place of community outside the turbocharged workplace. "It's not just caffeine, it's community, urbanity, control."

Understanding the customer takes something almost never mentioned in business: empathy. When Michael Dell looked at the PC industry in the '80s, neither PC makers nor PC vendors supplied any helpful support to customers. Dell's direct-sales model and patient, accessible sales force put a human touch on the rapidly expanding home-computer market. It was more than PR and customer service; that dialogue enabled Dell to understand how consumers think about themselves and use that information to strengthen the company's relationship with them.

What about brand building in the current tough environment? Koehn believes Americans will have a strong desire for community, family, and human connection. The trend toward experiential products and services, she feels, will only increase. (Think the friendliness of Southwest Airlines or the design-your-own idea behind mass-customization.)

Koehn's advice to small business owners is to spend an afternoon with colleagues, mulling over key questions: Whom do you most want to appeal to, and how are you communicating with them? How do you define your relationship with your target customer? How are you at maintaining that relationship?

The bottom line? An entrepreneur who understands the human side of business can succeed no matter what the economy.

### STARTUPS

## Irv Grousbeck, 67

Stanford Graduate School of Business

IN 1964, IRV GROUSBECK AND partner Amos Hostetter each pooled \$3,500 to start a small cable TV company. When Grousbeck stepped down as president in 1980, Continental Cablevision had become one of the biggest cable companies in the nation. Ever since, Grousbeck has been sharing his expertise with budding entrepreneurs. This professor at the Stanford Graduate School of Business isn't out to sell how-to books or pound the lecture circuit; to him, it's the students that matter. And to them, he is godlike. Nearly all Stanford MBA students try to get into Grousbeck's two entrepreneurship classes.

Grousbeck's goal is to de-mystify entrepreneurship for his students. When an MBA leaves school \$80,000 in debt, corporate-consulting or banking jobs might seem safe, but Grousbeck asks his students to compare the risks of entrepreneurship with the slim chance that they'll ever become partners at a large firm.

The professor also stresses that "startup" doesn't necessarily mean "start from scratch." In the 1980s he was at the center of a new model for launching a business known as the "search fund." Here's how it works: A prospective entrepreneur will raise, say, \$300,000 to \$400,000 in \$20,000 units from investors. For their money, they get equity in the company at a stepped-up value, plus a right of first refusal to invest more. The entrepreneur uses the funds for salary, research, and acquisition expenses. To mitigate the risk associated with the entrepreneur's lack of experience, ideas, and money, the investors insist that a chosen company be "unbreakable," that is, profitable, stable, and largely free from technological, industrial, or regulatory risk. They also have a say in establishing an experienced board of directors. A 2001 Stanford study of 28 search funds shows an investor return rate averaging 36% per year.

## GROWTH

## Verne Harnish, 42

Gazelles Inc.

**G**ROWTH DOESN'T JUST HAPPEN; YOU'VE GOT TO make it happen. That's the mantra of Verne Harnish, a globetrotting consultant who helps little companies make it big. Founder and CEO of Gazelles Inc., a consulting firm, he has advised companies on the challenges of growth for nearly 20 years. Harnish has done a bit of growing himself. In 1983 he started the Association of Collegiate Entrepreneurs and then, four years later, the Young Entrepreneurs' Organization.

In Harnish's view, companies hit a wall when they reach a certain size, and unless they take the right steps, they're doomed to remain small. For example, the biggest challenge for companies with revenues of \$1 million to \$10 million is often the role of the founder. Harnish surprises many entrepreneurs when he tells them that whatever task they are best at—often it is sales and marketing—is likely to become a weak link in the organization. Why? As the business becomes more complex, the entrepreneur simply doesn't have the time he once had to devote to that task. "The founder tends to hold on to the things he's good at," Harnish says. "It's hard to be the CEO and the vice president of sales and marketing at the same time. At some point you have to

decide to be one or the other—otherwise, you become the bottleneck. And then you have to bring in an executive team. You need to bring in a person who can sell better than you can. It's the most critical decision you'll ever make."

Young entrepreneurs can also go wrong if they fail to upgrade their accounting system. As a business adds products and customers, the original system likely won't be robust enough to track all the costs. "Growth geometrically increases the complexity," Harnish says. "This crushes the accounting system. You don't realize that your accounting system isn't giving you enough detail. You don't know where you're making money. You need to know store by store, product by product, or office by office."

At the next level, \$10 million to \$50 million in sales, "gross margins go to hell," says Harnish. Why? Ten million dollars in sales puts you on the radar screen. Competitors have noticed and are fishing in the same waters. Meanwhile, the size of your orders gets bigger and customers start demanding a discount. What to do? In addition to getting control of costs, Harnish says, "you have to get laser-focused on your value proposition. Know why you're different from competitors so that you can hold on to your price." □

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