



April 2008 - Issue #26

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Commodity Businesses, Throw Out Continuous Improvement!

I was asked to give a speech in January of 2008 on trends and opportunities of 2008. While researching for the speech, I reviewed the last several months of Wall Street Journal alerts and other trends, and the overall story was downright scary - oil continues to push to new highs, billions and billions of dollars were infused into large capital institutions from overseas investors, and companies are dealing with significant compliance and benefit costs (including a significant increase in defined benefit plan payouts with the retirement of baby boomers). What does all this have to do with commodities? Everything. One of the trends identified is that it is becoming more and more challenging to compete in a commodity business, since costs continue to rise yet the market is won on the lowest price - a no win situation. Therefore, continuous improvement must be thrown out and replaced with radical change.

As much as I believe in the concept of continuous improvement in a general sense, there are times when it becomes an exercise of beating your head against the wall. In these situations, radical change is required. For example, let's consider a manufacturing company that produces large, bulky, commodity products. Profit margins are thin (as typical in commodity businesses). Oil and freight costs rise, which affect the cost of several key raw materials, your packaging and your transportation costs, which are aggravated by the fact that your product is big and bulky. Additionally, since you are in a commodity business, you are constantly challenged by higher labor costs in comparison to labor rates in Mexico and China; however, outsourcing isn't all cracked up to be with the significant increases in transportation costs and lead times combined with the hidden costs associated with quality and management. So, let's consider continuous improvement - you find a way to increase your machine speed 5%, which results in a minor labor savings (yet, even the minimal savings might not flow to the bottom line if your requirements move from 3 shifts to 2.8 shifts, and you cannot reduce by .2 of a shift). Even with 100 ideas such as the one above, you are struggling to keep within a 5% cost increase, and the ideas require resources, cash, etc.

Instead, consider radical change! There are several potential alternatives. First, you could decide to exit the commodity business. Perhaps you could focus on alternate product lines, or even with the worst case scenario, you'd stop the bleeding. Second, you could develop the strategy to be the low cost producer. Although this option could require significant capital expenditure, significant product and packaging design changes, and/or significant outsourcing, it is viable to be in a commodity business if you have substantially lower, sustainable costs than your competitors and are able to build your volume. Third, you could choose innovation! Listen to your customers and find a way to leverage your strengths in a way that provides a value add for your customers - in essence, transition your commodity business into a value add business. Don't limit your thinking - you could provide value add in terms of product features, service or in any area the customer values and/or has an unmet need. What do you do better than your competition? The key is to move your customer's focus from low cost/ low price to significant value/ value pricing (low price in relation to the value received). Fourth, a variation of the third option is to exit the commodity product line, and instead focus considerable R&D / innovation on finding a new product/ service line that leverages your company's core strengths and focuses on value. Although these options relate to the example, the same type of options can be used for any type of business - high tech manufacturing, distribution, service, etc.

Did you notice anything in common with the options? I see two key points: Innovation and boldness/ bravery (after all, how many people are willing to choose the road of radical change?). On a positive note, the only positive Wall Street Journal alerts were that Americans won the 2007 Nobel Economics & Peace Prizes. Innovation has long been a strength in the U.S. Consider throwing out the old rule book; turn your thinking upside down in favor of innovation and value-add.

Lisa's Tips: Motivating Your Team

In today's economic and business situation, it is becoming more and more challenging to gain a competitive edge over your competition. I've found that people are your #1 asset and can achieve amazing results, especially when motivated. So, the question is what motivates us?

1. Let's start with a "not" - money. Although the lack of fair compensation is a de-motivator, money itself is rarely a motivator.
2. Instead, explain each person's value - how does each person contribute to the company vision, goals and priorities? Yes, it takes time to translate each person's value but it has immeasurable results.
3. Diversity - remember, not everyone is the same. Each person has different interests and motivations. Listen and find out what they are, and then modify your behavior to what works for each person.
4. Leverage strengths - I haven't found anyone who wants to fail (even the miserable, negative ones). Forget about weaknesses that aren't causing significant issues. Instead, build on each person's strengths, and you'll be amazed at the results.
5. Trust - do what you say you'll do, and don't commit to things you know cannot be realistically delivered (even if it is what people want to hear at the moment). As simple as it sounds, it's not simple to do. Yet, trust can have a profound effect on motivation.
6. Reward performance and take action with non-performers - one of the most overlooked, yet critical leadership action items. Many times, this is #1 for your top performers. It is critical to note that BOTH are required to truly motivate your top performers. Do not put it aside for a day when you have "time".

Recommended Reading

"[**The Biography of the Dollar**](#)" by Craig Karmin - this is a fascinating book on the dollar. It describes how the dollar conquered the world and why it's currently under siege. I found it to be a valuable read for anyone interested in the far reaching impacts of the dollar on each citizen, U.S. businesses, global economies, politics etc.

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