

Speech: Examples Change - Principles Remain

Principles don't change over time-only the examples, observed a friend recently after reading this speech from over thirty years ago. But decide for yourself: Are these business principles still relevant today? [And, while reading, feel free to mentally update the speech with your own recent examples.]

A speech by Brian Woolf (January 5, 1989)

Who Cried?

Brian Woolf at Rowan Rotary Club, Salisbury, NC, Jan 5, 1989

I've often been fascinated by the parallel of civilizations with companies. I look back through history and see Babylon, Persia, Egypt, Greece, Spain, Venice, and Byzantium. They all rose, bloomed, declined, and decayed. Ever wondered who cried over their decline? No one! Few are concerned when nations fade into decay. And few cry when companies fade away either. It's part of the evolution of life.

Look back over the last 60 years. Great Britain, 60 years ago, had the second highest per capita gross national product in the world. Today it is 20th. Argentina 60 years ago was seventh in the world; it's now 70th. Who cried for those two countries? No one! Who will cry for our country if we decline as a nation? No one!

Is the decline of our nation inevitable? No. Toynbee, the great historian who spent his whole life studying the rise and fall of civilizations, said it is not inevitable or irretrievable. But it is allowed to happen.

What fascinates me these days is that, as a society, we say Japan is beating us. But that's extremely misleading. It's not Japan as a nation that is beating us; it is company by company where we are being beaten. It's Toyota versus Ford. It's Mitsubishi versus GE. It's Fuji versus Kodak. It's company versus company where the battle occurs. And if we are to remain preeminent as a society our companies have to remain preeminent economically. The businesses that we in this room run must remain preeminent. The vitality of businesses in each community also influence the future of our nation.

Now, you might say that economics is only one part of a great civilization-and that's true. But if you look through the pages of history, you'll find that unless a nation is preeminent economically then the arts and the architecture and everything else that comes with economic strength doesn't follow. Someone has to pay the bill! You need economic preeminence to be a great society.

Have you ever wondered how long great companies remain great? Every year, *Fortune* magazine puts out a listing called the *Fortune 500*. Recently, I went back to find out who was on the list 30 years ago. Big surprise! Only one third of the companies on the list then are still on the list today! Two-thirds have either gone bankrupt, been taken over, or taken out! Why?

Listen to their results for last year. Their average sales were up only 9.1%. From these, our 500 best and brightest? Only 60% of them recorded an increase in profits! In fact, one in every ten lost money! Their aggregate return on equity was only 13%. All this, while their total number of employees declined! These, my fellow business friends, are our Top 500!!! So for us smaller-sized business-people, there's hope! Our Fortune 500 as a group is not doing very well at all-yes, there are still great opportunities for us!!!

PREEMINENCE IS RELATIVE

Why do these "greats" fall? My studies suggest there are **TWO BASIC PRINCIPLES** we must understand if we wish to avoid decay as an organization.

The **first principle** to remember is that **PREEMINENCE IS RELATIVE**.

For example, in 1972, in Munich, **Mark Spitz** won seven gold medals in swimming. Fantastic! Yet, his winning times would not have let him qualify for our Olympic swim

team last year - only 16 years later- to compete in the Olympics in Korea! You see, it's all relative. The standards we have today are no longer good enough for tomorrow. And this applies not just in sports, but in every sphere of life, including business. In other words- **Excellence is a relative, not absolute, measure.**

NO COMPARATIVE STRENGTH CAN BE HOARDED FOREVER

The second principle is that **NO COMPARATIVE STRENGTH CAN BE HOARDED FOREVER.** Most, if not all, of the advantages we have as an organization- or in any sphere of activity or as a nation - are ultimately **neutralized** by our competitors.

WHAT CAUSES THIS NEUTRALIZATION?

FIRST, WE BRING IT UPON OURSELVES. As you study companies over time, you'll find one of the first things they usually do is to **stray from what made them strong** in the first place. For example, we have seen here, in North Carolina, Winn-Dixie trying to move their prices down towards Food Lion's. They are moving away from their original area of strength. We saw Big Star do the same thing with the result that they had to sell out and move out of our state. Twenty years ago, A&P used to be the dominant food retailer in North Carolina. But they have moved from their area of strength and are now in decline.

Too many companies, as they get bigger, allow themselves to become **lax and complacent.** Cost consciousness often declines as organizations grow. People get a little fatter and happier - the early aggressiveness and concern about costs eases - and the termites of decay slowly nibble away.

Also, as companies grow bigger, **closeness to the customer** often diminishes - top management is not in touch with the customers as they used to be - which means they now manage by memory - by how they used to see things 20 years ago when they were in the stores or on the frontline. They forget that things keep changing, including their customer's perceptions. But you can't manage by memory. You always have to be aware of what's happening on the front line. That's one of the things I admire most about Sam Walton. Four days a week he's out in the stores. He's keeping in touch with the customer. No wonder he has built the greatest retail company of this century-it's

because he keeps in touch with the customer. But many top leaders don't do that. They're stuck in their offices becoming further and further removed from the customer.

In addition, as companies grow bigger, they become more and more generous with **benefits**. Which is good-except that when things get tight, they don't cut back. These benefits have become built-in costs rather than flexible costs, making it more difficult to compete. And when young, lean, aggressive companies start heel-nipping and fighting us, it weakens us a little more.

And, of course, there is institutional arthritis. A **hardening of the attitudes** occur in larger organizations-an increased resistance to new ideas and change.

I hope you don't see any of these signs of decline and decay in your company!!!

SECOND, OUR COMPETITORS CONTRIBUTE TO OUR ORGANIZATION'S DECLINE AND DECAY. Our competitors start learning what we do and then start shrinking the differences between them and us. As they minimize these differences, we lose some of the uniqueness we used to have. They pick up on what we are doing well, then adapt from (and often improve on) them, and use them in their organizations.

We see it here in Salisbury. I went to **Burger King** the other day. I noticed that Burger King has adopted the Wendy's customer line-up system-much better than McDonalds where everyone stands in one line. Painful! Wendy's has a much more efficient system and Burger King has now installed the Wendy's model in their stores. And they've taken an extra step by introducing self-service soft drinks. Rather than getting drinks at the register counter, you pay and then help yourself at a side bar. Obviously, there is some shrinkage, but the cost of shrinkage is a lot less than the cost of the labor involved by serving it at the counter. Burger King is learning and narrowing the gap between itself and its main competitor, McDonalds. Such changes are always occurring between competitors-causing competitive gaps to slowly shrink.

A classic example is seen in two of the best two auto companies in the world - **Toyota and Ford**. It's fascinating delving into their numbers. Toyota requires only 454 square feet of factory space per auto they produce. Ford, by contrast, requires 700 square feet. That's 54% more factory space required than Toyota for every car they make! Toyota produces nine cars every "employee day" - Ford, about two-making Toyota 350% more labor productive than Ford! And these are the best auto companies of these two nations.

So, when we talk about Japan versus America, we're talking about Ford versus Toyota, and many other competitive companies. We know that if Ford wishes to survive, it must learn from Toyota-and Ford is learning-which means that the edge Toyota currently has will be narrowed, unless Toyota finds new competitive advantages. This constant competitive encroachment is always in play.

THIRD, ENVIRONMENTAL CHANGES CAUSE CORPORATE

DECLINE. Government regulations have a big environmental impact. My favorite example occurred in the 1970's. You'll recall that after the Oil Crisis, our Congress mandated that **auto manufacturers** would have to increase average auto efficiency to 27 miles per gallon over the following ten years. It meant that the Big Three in Detroit had to chop an average of 1,000 pounds of steel from their cars, taking the average car from 3,700 pounds down to 2,700 pounds per car - but the knock-on effect caused chaos in the steel industry- as production and sales fell four million tons a year!

Not only did the steel industry get badly hurt from that change in government regulation, but so did the glass industry-because cars also got smaller. On the other hand, the plastics industry did really well as Detroit put a lot more plastic in cars to make them lighter.

And that's only one of the factors we experience in business. Changing Government legislation and regulation is constantly affecting us. We have to recognize and accept it.

My point is, I don't believe it's in our best interests to protect any industry from constant change because the forces of change are always in motion. The best way for the nation's economy to remain supple and healthy, and for us to remain preeminent, is to have a free market where these forces can quickly translate into on-going reality.

A second environmental change over which we have no control is **economic change**. For example, changes in the **exchange rate**. The dollar has radically changed over the last five years. I think of Power Curbers - here in Salisbury-How can they export their equipment with such a fluctuating exchange rate? They don't come to the government asking for protection. They realize this is one of the prices to pay for being in international business.

Tax changes are another environmental change. They seem to change every year. And we can't do much about them either.

Also, think about all the **technological changes** going on around us. The explosion of computers in the past 20 years has had an enormous impact on business. What is our business doing versus our competitors when it comes to technology? We see the impact of computers in "tellerless tellers", 24-hour machines, and so on. In retailing we've seen computerized scanners, all constantly communicating with headquarters. The question is: who gains the best competitive advantage of these changes?

The environment is constantly changing outside our company.

Further, even if we were preeminent yesterday doesn't mean that by doing the same thing tomorrow, we'll be preeminent then - because our environment is constantly changing. We have to keep assessing what's going on and how to take advantage of the changes to hold or, hopefully, widen our competitive gap.

Consider **Kodak**, who recently went into the drug business. I think it was a classic mistake because the environment is changing on them. Do you know who their major film competitor is? Most of you will say Fuji. Not so! Their major competitor is becoming Sony and 3M. You say, how come? Because film is now becoming digitized in the same way as CD's are replacing records. Color is being digitized by little numbers. And here is Kodak getting into pharmaceuticals when, in fact, their basic business is dissolving. And who's going to cry for Kodak when they fade? No one. And no one should. It's the price of being in business.

Baumol's Law is another factor causing change in our business environment. William Baumol is a Yale economist who asked the question, "How many mail deliveries each day (including Saturday), were there in London in the middle of the 19th century?" I hope your answer is 12. Yes, London had 12 mail deliveries each day, six days a week! And why is it that today has only one delivery? The answer Baumol provides is that, from his studies, **the price of labor always goes up faster than the general consumer price index**. Therefore, long-term, labor is always pricing itself out of the market.

We have seen Baumol's Law in effect in banking with the automated teller. We have seen 100,000 gas stations eliminated in this country in the last 15 years for the same reason. Today, it's hard to find a service gas station. Self service is the way now because of Baumol's Law. Sam's Wholesale Club is addressing the same issue. They are lowering costs down by eliminating labor. The introduction of self-service supermarkets 40 years ago was to lower labor costs. I still recall, from my very, very early days, going into a grocery store and the grocer getting cans of beans from behind the counter. Even in the

legal profession we see more and more computerization. Medicine is going the same way. **Labor prices itself out of the market in the long term.** Baumol's Law will always be with us, in every business.

New competition is another factor that affects us in the environment. There are always new competitors coming in to the marketplace. Often, not from our direct competitors, but from other industries. It fascinates me, for example, that the microwave was not invented by GE or Westinghouse. It was invented by a submarine manufacturer, Raytheon. It fascinates me that it wasn't Hilton Hotels that created the motel industry but a builder, Kemmons Wilson, who, on a trip to Washington, couldn't find good, clean inexpensive accommodation for his wife and family. So upon returning home, he created Holiday Inn and the hotel industry.

Remember Kuffel & Esser, the maker of slide rules? Who cried for them when Texas Instruments produced its first hand-held calculator in 1972?

Should we care for those who don't keep up? Who's going to cry for the today's winners when they decline tomorrow as they fall behind?

Over time, our competitive advantages will be neutralized- even though it may even take 150 years as was the case with carbon paper. Carbon paper was first invented in 1806 and had a tremendous 150 year monopoly until Xerox introduced its first photocopy machine in the 1950's.

CLOSING THOUGHTS

Ultimately, **almost all competitive advantage will be neutralized.** The 8-track cassettes we used to buy 10 to 15 years ago have disappeared. We now have cassettes. In our lifetime we've seen Vinyl LP's going from 78's to 45's to 33's - and, just last week, I was in the Record Bar store in the mall and discovered they're clearing out all their vinyl LP's. The store is moving completely to cassettes and CD's. Who cries for the vinyl record manufacturers and the 8-track cassette manufacturers? No one! Should we protect them-or should we accept that **change is the price of progress?** And if we accept it as the price of progress within our own community, shouldn't we also accept it on a national basis?

Should we protect our textile industry, our steel industry, our oil industry? My answer is No!-because the only way to be a preeminent nation, an economically strong nation, is to compete at all levels, at all times, and not hide behind uncompetitive barriers. Who would ever accept that Food Lion should be forced to increase its prices 5% simply because its competitors have higher costs? No one! Who would ever agree that if a bank manager could run his bank more efficiently and, therefore, could offer lower interest rates that he should be penalized for that? No one! Likewise, on the international scene, we shouldn't reward weak performers. We should be prepared to compete at all levels and at all times.

Fellow Rotarians-

We must always keep our minds open to the changes constantly occurring in our environment. We can't win tomorrow's battles with yesterday's ideas.

We must always remember two facts of life:

- **Preeminence is relative, it's not absolute.**
- **Competitive advantage is eventually neutralized.**

And we must always remember: **Decline is not inevitable-but change is.** If we wish to remain preeminent as a nation-our companies must remain economically preeminent.

Other speeches and articles by Brian Woolf can be read at www.brianwoolf.com which also provides information about his books (available on Amazon). He can be reached at brian@brianwoolf.com

Copyright © 1989-2021 Brian Woolf

And there's more where this came from...

Visit Brian Woolf on the web for his complete collection of
articles, speeches, insights and practical advice, at

www.brianwoolf.com

Email: brian@brianwoolf.com

Tel: +1 864 458-8277

BRIANWOOLF.COM