

Face reality as it is, not as it was or as you wish it to be, change before you have to, and allocate resources based upon return, not upon need; these are the three overriding principles of strategic leadership that guided Jack Welch, the legendary former CEO of General Electric.

These principles serve as an essential blueprint for any company in the furniture industry to continue to grow in these changing times.

A strategic leader's focus must be on building a team of competent managers to execute the leader's vision. The strategic leader's number one role is to clarify the company's overall goals and clearly define and articulate its direction.

So how do you go about determining reality as Jack Welch defines it? It must start with an honest assessment of your company's strengths and weaknesses tied to an awareness of changes in the marketplace. This should begin with a critical evaluation of where you are spending your time.

As a strategic planner and CEO Coach specializing in high-growth entrepreneurial companies, I have had the opportunity to work with a number of furniture manufacturers and importers. Most are so buried in day to day operations that they can't see the big picture, causing their company to miss opportunities and, in some cases, to go from high-growth to going out of business. As the leader of a company, if you are spending the majority of your time involved in daily operations, making every key decision and buried in the details, you will never have the time or energy to see the forest for the trees.

By far the most successful company I have worked with in this industry is Four Hands, a furniture importer based in Austin, Texas. Four Hands has received many industry awards as well as national and local recognition as one of America's fastest growing privately held companies. Their international client base includes many of the top 100 furniture retailers in the world.

In order to ensure alignment throughout the organization, Brett Hatton, the company's CEO and founder, holds strategic retreats on a quarterly and annual basis with his management team. At these sessions the agenda always includes:

- A review of their budget
- Financial results
- Projections by each department

In addition, each department head also reports on whether they have met the objectives established since the last strategic session. This exercise helps them clearly identify the achievements and disappointments of the preceding quarter or year.

This leads to what I consider the most important part of the agenda which is to identify the company's brutal facts. What drives this is a SWOT analysis. By systematically assessing the company's strengths, weaknesses, opportunities

and threats, they determine their brutal facts, and create the focus for the upcoming quarter.

The term *brutal facts* was introduced to the business community in Jim Collin's classic book, *Good to Great*. It is considered by many business owners and experts, to be the most important and indispensable business book written in the past two decades. It is a MUST read for any business owner.

One of the major themes of Collin's book is that "you absolutely cannot make a series of good decisions without first confronting the brutal facts." His research for the book clearly demonstrated that great companies continually refined their path to greatness by acting on the brutal facts of reality.

In 1999, while experiencing spectacular growth, Four Hands identified three brutal facts that demanded action. Continued growth along with the ability to meet the capacity of demand would require:

- More Inventory
- More People
- More Capital

The Company decided to take a hard look at its business model, which was the traditional model for furniture importers and wholesalers at their stage of growth. Hatton concluded that without a drastic change in the model, they were on a course that required a significant cash infusion without an appreciable return on investment. In addition, he did not see increased profit margins to justify the risk, work and effort.

Four Hands did not have the necessary infrastructure or cash to continue to bring inventory from the country of origin into its warehouse in Austin, unpack it, hold inventory while it was waiting for other merchandise to complete an order, put orders together, repack and ship small (\$250 to \$1000) purchase orders

As a result of their soul searching, Hatton and his management team decided to turn their business model upside down. A major decision was made to raise the price for minimum orders. In addition, the company began targeting its sales and marketing efforts to the top 100 furniture retailers who were appropriate candidates for the company's designs.

After considerable number-crunching, Four Hands determined that it could make higher margins and offer outstanding savings to their targeted customer profile through a container-direct program. Under this program clients could buy a broad selection of merchandise that could be shipped directly from the country of origin to a client's warehouse or distribution center.

This minimized the amount of merchandise Four Hands had to stock and stabilized the number of the people necessary for receiving, shipping and handling in Austin. In order to accomplish this, additional systems and training

was required on virtually every front. Customers needed to understand the benefits of the program and how it enabled them to achieve enhanced margins, greater profitability and the ability to offer special events and sales when containers landed.

Before that could happen, the sales team needed to buy into the program and be comfortable explaining these benefits to their customers. It was equally important for them to become comfortable saying no to current and prospective customers who could not meet the new minimums. The program's success also demanded new tracking systems.

Facing the brutal facts for Four Hands at their stage of growth in 1999 enabled them to simplify their business model at a critical time. By focusing on implementing their new model, Four Hands continued to grow and prosper and did not fall victim to the inevitable cash demands of their old model.

Four Hand's brutal facts at the beginning of 2001 were as brutal as the company ever faced. A major threat emerged when it appeared likely that India, Four Hands primary manufacturing source, and Pakistan, two nuclear powers, were on the brink of war.

To further emphasize the potential for disaster, a member of the Four Hands management team was in Rajasthan during a nuclear test by India designed to get Pakistan's attention, though miles away, he felt the ground shake beneath him as the nuclear test began. Whether it got Pakistan's attention or not, it codified a major brutal fact for Four Hands; India at war would certainly impact on whether carpenters would be drafted, factories would remain open and the country would be able to ship from its ports. Even a short halt to production could cripple cash flow, and a longer one could force clients to fill their floor with merchandise from other manufacturers.

Four Hands assessed their brutal facts and broke them down into three numbers. 1, 2, 3:

One country producing about 70% of the company's product line

Two customers generating over 50% of revenues

Three manufacturers producing the majority of their product line

Hatton took immediate action. He attended trade shows throughout the world in order to identify new sources, manufacturers and product lines from other countries. He also greatly enhanced sales and marketing efforts. The goal was to go deeper with greater penetration into current and targeted accounts.

The results of Hatton identifying, and more importantly acting, on these brutal facts led to a stronger, more exciting and more diverse product line and company.

Over the years, Four Hands has confronted many other brutal facts that required difficult decisions and action. They included:

- Finding a way to make the Austin warehouse more profitable or eliminate it
- The need for real-time financial data and analysis
- Discarding a software system the company had invested heavily in for a new, user-friendly system
- Teaching and utilizing a methodology that has enabled the company to meet the daily, weekly, and monthly challenges of communications in an international organization

Companies rarely falter because they lack information. Most of the companies I have worked with in the furniture industry had virtually identical access to good information. The key to identifying brutal facts lies not in better information, but in turning information into information that cannot be ignored.

At each critical stage of growth, Four Hands has reinvented itself. The company realized early on that what took them to one level of growth would not take them to the next. A company's mantra should be to "*face the danger*" every day and deal with those dangers first. Great leaders, strategic leaders, FACE THE DANGER. They realize that only through a thorough examination and assessment of the brutal facts are they capable of making the right decisions. Regardless of how successful a company has been in their past, ignoring today's' or the futures' brutal facts will lead to disastrous results.

In the words of Jim Collins, "breakthrough results come about by a series of good decisions, diligently executed and accumulated one on top of another. On the really big choices, companies must often throw all of its resources into the task of converting its entire system."

Strategic leaders are comfortable accepting ambiguity and uncertainty and understand that they will never have all the information they would like to make decisions. A rapidly changing world deals ruthlessly with those that don't change. Strategic leaders don't fix the past they create the future. Reiterating Jack Welch, "they face reality as it is, not as they would like it to be".

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