

# ARE YOU A BLACK BELT?



## A black belt is a white belt who never quit

In martial arts, the level of skill of the practitioner was recognised by the use of different coloured belts to be worn with the uniform. The belt colours did not recognise the time spent in the study and practice of the art, rather, it represented the skill of the practitioner. In Judo, the darker colours of green, blue, brown then black were meant show how 'dirty' / much work you put into the art to build and lock-in perfect habits.

No matter who you were, or what skills you felt you already had, you began at the white belt level. Progression was not dictated by time served, but rather, by the skills achieved. The training and practice regimen was different for the students depending upon what belt they had achieved. The more advanced students tended to train longer, with more intensity, and learnt more advanced skills. Each belt laid the foundation for the skills to be learnt at the next level.

Students developed and, as their bodies became more conditioned and their basic skills developed, they could understand what was required to move to the next level.

This white belt to black belt progression is a ladder. For the student it sets up a clear framework to allow the student to focus on the appropriate skills and actions for their level, knowing that if they develop then more skilful

and advanced techniques will await them as they move up the 'ladder'.

In fact, the first lesson a White Belt learns in Judo is how to fall without being hurt. Falling is not failure, it is inevitable and invaluable part of the learning experience at all levels of progression. In Tae Kwon Do a White Belt spends a huge amount of time learning how to stand. The basic stances teach balance and provide a foundation for everything to follow.

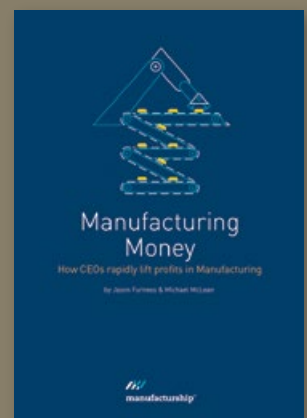
In most endeavours in life there is always someone who wants to jump from beginner to the elite level without following all of the steps. In martial arts it is rare for someone to actually attempt this and succeed. Usually they injure themselves as neither their body, nor their technique can stand up to the strain of the advanced moves. Nor do they have the experience that comes from thousands of repetitions of exercises (the secret of 10,000 hours of practice is well reported for creating world class performance) or many, many hours of sparring. These people usually burn out, have chronic injuries, become frustrated, and quit.

Progression up the ladder can be rapid, however, all the steps must be followed. This isn't a game of 'time served' it is a game of 'capability demonstrated'. Rapid progress is possible if you are willing to do the work.

It's also not about working hard for the sake of working hard.

IN HIS RECENT BOOK *MANUFACTURING MONEY*, BUSINESS ADVISER **JASON FURNESS** DESCRIBES HOW BUSINESS OWNERS AND MANAGERS CAN WORK THEIR WAY UP TO A 'BLACK BELT' IN A MANUFACTURING AND DISTRIBUTION BUSINESS TO CREATE "A BUSINESS THAT IS TRULY IN CHARGE OF ITS OWN FINANCIAL DESTINY".

IN THE NEXT FEW ISSUES OF MHD MAGAZINE, WE WILL BRING YOU SOME OF JASON'S DISCUSSIONS, THOSE THAT ARE PARTICULARLY RELEVANT TO SUPPLY CHAIN MANAGEMENT. IN THIS FIRST ARTICLE, JASON DISCUSSES HOW THE MARTIAL ARTS BELT CONCEPT RELATES TO BUSINESS SUCCESS IN TERMS OF RETURN ON INVESTMENT.



Hard work is part of the solution, make no mistake.

The right hard work being done, at the right time, and lots of it is what drives a rapid progression up the ladder.

**White Belt – Negative Cash Flow**

If your return on investment is negative, you're losing money, which means what you are really in is a fight for life. Your day is an all-consuming battle, hoping something changes that will give you a chance to breathe. You almost dread every phone call in case it's from the bank (or anyone else who is owed money).

The owner is totally focused on trying to make sure that if they did have to shut down that they could keep their house. If employees know what's going on, they are terrified of losing their jobs as that may well mean that they are at risk of losing the roof over their heads also.

None of this is fun for anyone involved. It is high stress, energy sapping and terrible for relationships both within the workplace and at home.

This is the realm of the plant closure, the corporate reorganisation, the 'right sizing' and the 'strategic review'. Heads will be rolling and morale is usually non-existent.

**Yellow Belt – Zero to 2%**

At zero to two percent it gets slightly better - but here we are still hand-to-mouth and are really focused on how to survive the week. Can I pay the wages this week? Will I be able to pay the creditors at the end of the month? Your cash flow is incredibly tight, you rely on customers paying on time, or else you are down to the bank for an overdraft extension. Your bank will become tired of this behaviour and your credit rating can suffer.

Performance at this level is far too common, amongst both small business and large. Business ownership gets a bad name because so many people who are running or owning their own business are only achieving these sorts of returns for the massive workload and pressure involved.

**Green Belt – 2% to 5%**

At two to five per cent, you've got some money coming in. The business has some value and quite possibly a future. The business model seems to be working. You still need customers (especially large ones) to pay on time. Money has been invested into assets. These assets are probably not running at full capacity. You really need to grow. Here it's about sell, deliver, repeat, sell, deliver, repeat ... and keep growing. Managers and business owners are probably still working long hours and everyone is thinking: "How do I squeeze the last little bit out of my bank account and my overdraft." It is cookie-cutter stuff.

Now, I know we all love being in manufacturing because it's so much fun. We love turning up every day to deal with people issues, fix breakdowns, chase suppliers and customers (and get chased by customers). It's so much fun, we all do it for love (yes, I am typing this with my tongue firmly planted in my cheek).

**return of investment**

belt	ROI	action	focus
black belt	30% +	legacy	regeneration
red belt	15-30%	choice	lifestyle
blue belt	5-15%	harvest	buffer
green belt	2-5%	growth	repeat
yellow belt	0-2%	survival	wages
white belt	negative	fight	house

**“Progression was not dictated by time served, but rather, by the skills achieved.”**

Your returns, while real, are probably below the cost of capital, so it is not going to buy you a yacht or private jet, however, you can keep going around again..... for a while.

**Blue Belt - 5% to 15%**

Between five and 15 per cent is where you start reaping a harvest from all your labours. If you're smart, you make sure you pay down all your debt and start to build a nest egg for whatever it is you want to do.

This is the absolute bare minimum you must tolerate as a return on investment. Here's why. If you go into any of the major banks and say: "Look, I'm just going to sell everything up and I'm going to put it all in a term deposit with you, fly off to my favourite holiday resort in the Bahamas, Cairns, or Greece, and sip Pina Coladas on the beach," what will you get? For all that extra stress of sipping Pina Coladas your bank will give you somewhere between four-and-a-half and five-and-a-half per cent interest (in Australia, at time of writing) on your investment.

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If you agree with my ROI premise, then hopefully you agree you're in business not just for love, but you also want a much bigger ROI than you're going to get out of just putting that money in the bank. For those of you who are looking to borrow money to expand, or to win investment funding from other divisions in your company, this is essential. If your ROI is not at the very least matching up with what your money can earn sitting in the bank and doing nothing, you will need to change the situation very, very quickly.

At 5 to 15 per cent, you're harvesting cash and starting to build a nest egg. I wouldn't say you're a very plump, well-fed cash cow just yet, but at the very least you're generating cash. At this level the business is still vulnerable to shocks. Your customers can easily find someone else to supply them. A change in pricing can hurt you. In the early stages of cash harvesting, you really haven't got anything in reserve.

You are, however, generating enough cash to make it worth your while and can keep going, probably indefinitely.

**Red Belt 15% to 30%**

At 15% to 30% return on investment, you are finally beginning to experience the luxury of having choices. You have hopefully accumulated enough of a nest egg so that you can ride out several downturns in the market. This level of



ROI allows you to cope with the inevitable low periods of the economic cycle.

You will ask or tell yourself: Do I want to expand? Do I want to sell? Do I actually just want to cut back to three days a week and make sure it all keeps ticking over because I've built a team that can run it all? I'll go play golf (or whatever it is I want to do), because I am the owner.

If you are the executive employee in this story, then you are almost certainly in line for promotions and expanded roles. Even if the company did get sold, the new owners are going to think very carefully before making you change things away from what you believe is appropriate. You can expect more freedom in your decision making.

### **Black Belt 30%+**

A business that is making returns of over 30% (and yes they do exist, I work with a number of them) is a business that is truly in charge of its own financial destiny.

This business is ripe to fully implement the transformational projects to completely regenerate its activities to remain the market leader it has almost certainly become.

After a few years of performance at this level the owner usually begins to think of starting other enterprises using the accumulated returns, spending more time on other projects, or transitioning the management team from one group to the next or intergenerational handover in family owned businesses.

Businesses achieving this level of return are often happy with the current situation (why wouldn't you be). The danger here is the risk of complacency and personnel turnover gradually winding back performance. The opportunity is to really go and make something that is truly unique and game-changing in the industry.

So, how do we achieve a superior ROI?

### **Designing your unique competitive advantage**

Earlier I wrote: "Commerce has always been, and will always be about the creation and exchange of value between two parties."

There are three core elements that make up this concept.

#### **Client problems**

Our highest purpose in this commercial exchange is to give the individual client what THEY value in a commercially sensible way for US. Each client is unique. They all have their own peculiarities and individual desires. This applies not only to supplying value to individual consumers (called Business to Consumer or B2C), but also in the Business to Business (B2B) environment. Most of us know that individual companies have their own unique needs and idiosyncrasies.

What creates needs for these individual clients is that they have problems. Solving these problems is how we create value. Often they'll tell us those problems in great detail, particularly when we're part of it, but in plenty

of situations they won't know the problems they've got. They'll know how they feel about it but they won't really know what the cause is. That happens as well. For example, no one knew they needed a mobile phone in Australia until 1987 when the first commercial service began. Up until that time everyone found a way to communicate and accepted the limitations of ordinary phone systems. They did, however, desire a way of communicating without being tied to a landline.

#### **Industry problem**

When businesses within an industry cause a large number of their clients the same style of problem, what we have is an industry problem. An industry problem is something that is experienced by clients when dealing with the whole sector. It is what you and all of your competitors are doing that hurts your clients. You are not deliberately (hopefully), setting out to do this, however, you have chosen to run a business model in the industry that puts your client's needs at a lower priority than some need of your own.

For example, if you ring up and try to have an electrician, plumber, or carpenter come to your house to do some work and try to arrange a specific time for this, you may run into an industry problem. The stereotype of the industry is that you can't get them to turn up to quote and you can't confirm an appointment time. In fact, they often won't turn up at all, and if they do they'll tromp muddy

boots through the front of the house. Not all electricians, plumbers, carpenters are like this but enough are so that this is recognised as an example of how the industry as a whole hurts its clients.

The client has to take time off from work, for much longer than the actual job takes, live with the uncertainty that you won't turn up on time, if at all, and then try and catch up with all of the work and disruption that being out of the office for half a day or longer has caused. If the job requires parts that are not immediately available, the whole process has to be repeated at least once more.

### Business process

The third circle represents you. Your business processes. This is what you actually have control over. The circle includes all of the activities inside your business. This is us! Here is where we focus our change efforts.

### Interaction of business process with industry and client problems

What's of most interest to you (and what you should obsess about understanding) is how your business processes interact with the industry problems and problems of individual clients.

### Growth

Now, where the business processes overlap with an industry problem, you are going to get growth because you are solving a problem that everyone experiences. If you can turn up on time and be a reliable tradesperson who cleans up after the job, you will get more business – and consequently, growth – because so many of your competitors don't. This is still a powerful business model today where growth is driven by your reputation.

### Opportunity

Where there's overlap between a client problem and an industry problem, there's clearly an opportunity in being deliberately different in the way you work with those people. You can take advantage of that opportunity.

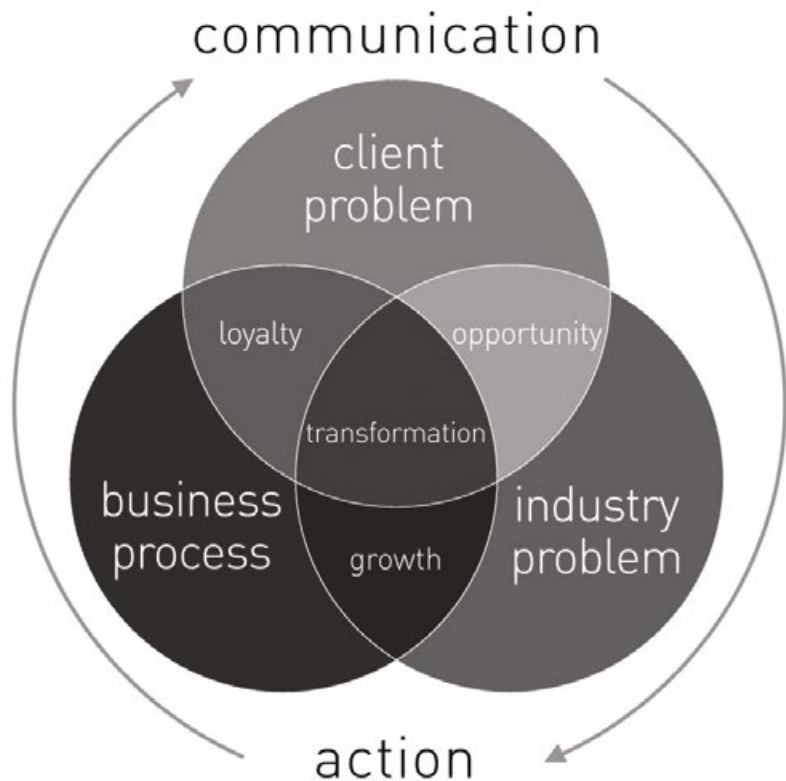
### Loyalty

Where your business process solves the unique needs of a particular company, then you are highly likely to receive increased loyalty and repeat business. This is very valuable not just for their business, but for the referrals and recommendations it can generate for your business in the future.

### Transformation

The overlap point of three circles is where you can achieve real and sustainable transformation. If you are solving someone's individual problems, if you have covered all the industry

## business transformation model for improvement



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issues, and your business process has nailed it, then that's where you transform your business very, very rapidly.

For example, your clients value short lead time to market, the industry problem is long lead time to market, and you can fix this by adjusting your business process; boom, you're off and running.

If the problem in your industry is high price and low quality, and you're able to solve that problem when no one else in the industry can – boom!

The whole concept of patents and the whole commercial value of patents is that you're solving some issue in a way that excludes and separates you from the rest of your industry. There's a reason we pay more money for things that someone's invented and patented. We do not have an alternative. There is no competitive dynamic in there until we invent an alternative. In the meantime, prices can be higher.

We exist as a viable commercial entity to create value for customers and our stakeholders. We do that by having as many of our business processes as possible overlapping (solving) both the client problems and the industry problems. The business processes that

add value in this diagram are those processes that intersect one or both of the other circles.

If your business process doesn't intersect with either circle, then it doesn't add value. The remainder of our business process which does not overlap the other areas contains activities that do not relate to supporting a customer.

So why are you doing it?

Some of these activities will be because you have to respond to legal, financial and compliance issues. Customers don't want to pay for your compliance work, but it has to get done. Compliance work is actually a gold mine of opportunities to improve and move more of your business process into the intersection of the circles as it can often be rapidly systemised and automated

The rest of it is plain old-fashioned waste and should be ruthlessly eliminated. We must minimise the size of the Process circle that does not intersect with the *Client Problem* and *Industry Problem*.

**We will continue Jason's discussion in the November-December issue of MHD magazine. In the meantime, for more information you can visit [www.manufacturing.com](http://www.manufacturing.com). *mhd***