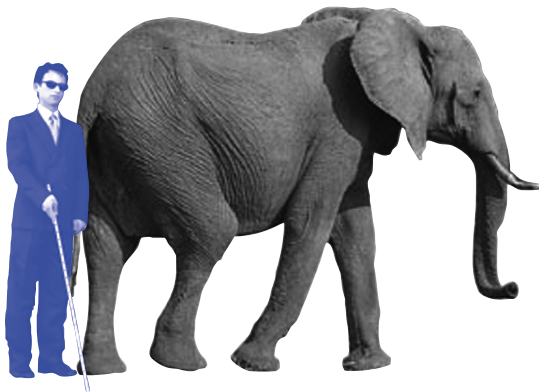


# *Demystifying Business*



**with  
Cookies and Elephants**

**How to make MONEY in Business**

**How you can improve upon, invest in and  
succeed in business**

**GORDON ETTIE**

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## Introduction



To many people the secrets of successful business remain mystifying and elusive. The essence of business prosperity is not so difficult as it may seem; this book seeks to pinpoint the five key dimensions to clarity in understanding, approach and action that can lead any enterprise to its highest fulfillment.

“Business” is often misunderstood and misconstrued, its meaning all too often improperly drawn and distorted. Interpretations vary due to differences in political and psychological views, socio-economic status and different levels of education and personal history. In this book, business is defined in the “commercial” sense, meaning a person, partnership or corporation engaged in commerce, manufacturing or services that require a transaction (the purchase/sale of goods or services) in order to achieve a profit. Profit is defined as a positive measure of some perceived or real value in the transaction, realized by both the seller and the buyer.

Successful business occurs when a transaction between people brings value to both parties. Since the time of primitive man, business has been part of society, with trading between individuals and tribes improving well-being and adding value to the tribal group. Slowly, health and the ability to cope improved as better hunting devices and tools, traded from outside the clan, made life a little easier. The trading system has continued over thousands of years, with peaks and valleys to be sure, but overall, with advancement.



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In the 19th century, a better way to measure business was invented in the form of double entry bookkeeping, which evolved into the balance sheet still in common use. This provided a comparative system to indicate a business's progress over time and how healthy it was at a given point. This measurement system arose at the same time as the industrial revolution; together, they significantly improved business practices and helped raise the standard of living for most people, in the industrialized world in particular.

While the size and nature of business has changed dramatically, small and simple companies still operate much the same as they have for centuries. Today there also exist behemoths, the giant corporations that control and have impact on our economy and lifestyles. Government, charities and commercial interests are covered by the business umbrella; therefore, business is an important factor impacting all of our lives, whether in one's work, religious pursuits, social life, investments or politics.

### *The Five Dimensions of a Good Business.*

Every organization – for profit, government, not-for profit (they all have customers, employees, suppliers and stakeholders to some degree) – contains five distinct dimensions inherent in its operating system that require comprehensive understanding, including how each relates to the other. Further, continuous improvement toward adding value to the business can occur only with correct measurements of these criteria:

**1. People:** The individuals that make up the organization.

**2. Leadership/Strategy:** The leader pursues a strategy that is supported by the people.

**3. External Management Criteria** consist of:

- a) Product – the object, item or service that is the basis of the transaction or exchange.



- b) Market – the entities, groups, businesses or individuals who receive the product in the transaction exchange.
- c) Region – the geographic or some other defined area or place where the exchange occurs.

#### **4. Internal Management Criteria** include:

- a) Sales/Marketing – the function that makes the transaction or exchange take place.
- b) Operations/Manufacturing – the function that fulfills the transaction or exchange with the product.
- c) Research & Development/Technology – the function that invents and develops new products and new ways of doing things.
- d) Finance/Administration – the function that performs the measurement, control and all business procedures.

#### **5. Capital.**

- a) Money or currency required for the business
- b) Debt as required or needed

A huge amount of information in the business literature covers each of these areas separately. To my knowledge, however, there are no books, significant articles or theses that integrate all five dimensions and show how they relate to each other in a successful business. The following pages will both outline these dimensions and emphasize the requirements for their integration into any organization that hopes for success.

Comment in the press has pointed out that current graduate business school curricula do not adequately address such integration. In an article in the December, 1999 Issue of Fast Company Magazine, Roger Martin, head of the Joseph L. Rotman School of

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Management at the University of Toronto, wrote that he wanted the school to produce what he termed “integrative thinkers.” Most all business schools claim to do this, assuming that if they stuff enough finance, marketing, operations and strategy into students’ heads, when their students graduate they will be “integrative thinkers,” able to put it all together on their own. Only the most exceptional students even come close to this realization.

### *Purpose, Purpose, Purpose*

All organizations are formed to satisfy a human need, and each develops a process to fulfill that need. In business, this process can be defined as the method of converting resources of material and knowledge into a value that attracts a paying customer. All businesses have customers who use their services or goods, and must attract and satisfy them. Throughout my business career, to learn just where the customer stood with key management of the company or unit I managed I would inevitably ask:

*“What are we all here to do?”*

When asked in a meeting, the overwhelming majority of the time the answer was: “to make money.” Making money is a *measurement* of how well a business or organization is doing in the marketplace, and is the result of how much value the customer has placed on its product or service. But the true reason the business or organization exists (and what the people in the meeting are there to do) is: to serve the customer. While this seems so very basic, my experience has proved that many managers forget this concept, ignore it, or fail to allocate resources to its support. Only service to the customer produces the measurement of profitability; the quality of that service determines the fullness of profit.

Recently, I have come to the greater realization that to be successful and to grow both in size and quality a business must antici-



pate the needs of *all* its primary constituents: *customers, employees, suppliers and stakeholders.*

But one issue supercedes all others in the business/client relationship, and indeed among all people involved in a business – trust. As Stephen R. Covey tells us in his Principles-Centered Leadership, “Trust – or lack of it – is at the root of success or failure in relationships and in the bottom-line results of business, industry, education and government.” We can add non-profits to the list. Covey further explains that two people who trust each other can enjoy clear communication, empathy, synergy and a productive interdependency.

Any contract, agreement or personal interaction is only as good as the parties’ trust in each other. This is why ethics are important – without trust any business is operating on quicksand. As more and more transactions are being conducted on a global basis, trust has become more difficult to develop, but it can be done through personal contact, analysis of customer history and starting slowly to prove the other party can be trusted.

Empty promises kill trust. How often will you be able to explain away missed deadlines, product failures or losses on the balance sheet?

### **Government, Non-Profit, For Profit: Utilizing the Five Dimensions**

As mentioned, government, non-profit and traditional for-profit companies can all be defined as businesses:

- A government entity has all constituent groups, with the citizen as the stakeholder;
- A non-profit organization also includes all groups, with the stakeholder (membership, various donors) supplying the money or resources; and
- An organization for-profit contains all constituents, with the shareholder or the owner as the stakeholder.

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It is my belief that a successful model for every society's broader socio-economic spectrum must include all three types of organizations. Of the 1999-estimated \$10 trillion GNP, the total U.S. economy was proportioned at about 60% of for-profit organizations, 20% government and 20% non-profit (split almost equally between religious, educational and other non-profit) institutions.

Although we cannot measure the results of government and non-profit success by their profitability, these organizations, major components of any good society, can and should utilize the five dimensions and their integration to assure improvement and efficiency.

A decades-long trend, now almost pervasive, has set in among government and non-profits to utilize successful business principles and the dimensions outlined. As a prime example, let's look at what happened with the U. S. Post Office. The Postal Reorganization Act (PRA) was established in 1970 because of increasing costs and decreasing performance. One of its primary goals was to eliminate the need for regular public subsidies; the Postal Service was to become self-sufficient while continuing to provide universal mail services at reasonable rates. The result of the PRA meant public subsidy, which once contributed about a quarter of the postal budget, was eliminated in 1982 and, since 1970, postal prices have increased no more than the rate of inflation and remain among the lowest in the developed world

In another case, an article in the New York Times (2/2/2000) described how a major consulting firm addressed the problem of improving operations of a non-profit. The article pointed out that in 1999 an estimated 800,000 non-profits existed in the U. S., up from 400,000 in 1985 (excluding religious and educational institutions). These 800,000 charitable non-profits took in an estimated \$750 billion in fees, grants, donations and investment earnings, making up an approximate 8% of the economy – a lot of money, personal resources and community improvement. With so much at stake, every non-profit needs to strive for improved business practices in an economy that increasingly requires justification for every dollar spent on services paid for with taxes or donations.



## **Sooo...Why Another Business Book?**

All businesses need to have a strategy to grow the organization or to make sure the organization is improving and becoming better at what it does. Improving the organization is done by integrating people and systems, by understanding costs and good measurements and by using baselines and goals.

This book seeks to offer simple explanations toward improving any business, and, perhaps more importantly, to share insights on how to actually make the people/systems integration work. Further, it is hoped this knowledge will generate a process within the individual reader so the best method for improving that person's organization results. And finally, simplicity is followed throughout because the book's aim is to reach all levels of expertise, from top executive to student.

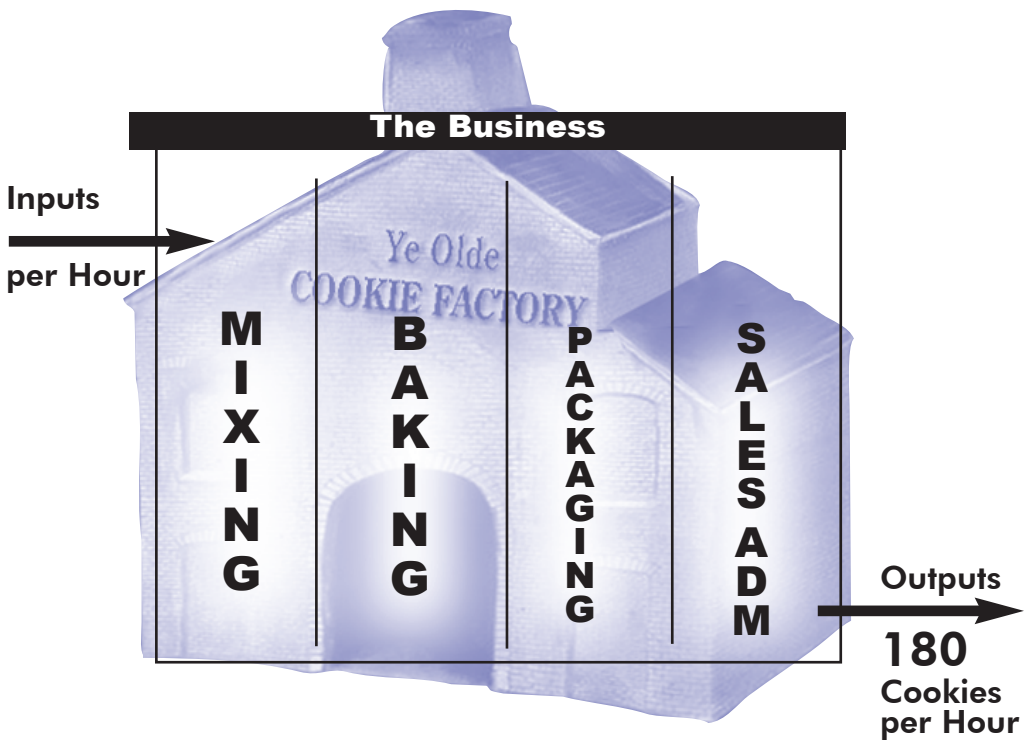
This book will give you the tools and understanding to either lead, or be a part of, a profitable, satisfying and growing organization. At the end of each chapter an analogy demonstrates each business dimension and its integration. Each dimension will be applied to a fictitious company that makes chocolate chip cookies, a business we've designed as reasonably simple and understandable – and because, well, most of us enjoy a sweet tooth, don't we?

In our mythical cookie business, its basic inputs and outputs look something like this:

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## The Business of Making Chocolate Chip Cookies



No doubt you've also heard the old folktale of The Blind Men and the Elephant. Here it is again, and we'll use it to clarify the importance of integrating all five dimensions into our successful cookie business. The story goes like this:



## The Blind Men and the Elephant

There were once six blind men who went to see an elephant. The first blind man stretched his hands in front of him and felt the animal's huge side. "This elephant is like a high, strong wall," he announced.

The second man, who was standing near the elephant's head, put his hand on its long, sharp tusk. "A wall? No! I would say that it is more like a spear."

The third man reached around the elephant's leg with both arms. "I hate to contradict you," he said, "but I am sure that the elephant is very like a tree."

The fourth man happened to reach up and touch the elephant's ear. "All of you are mistaken," he said. "The elephant is actually similar to a fan."

The fifth man was standing by himself at the elephant's other end. He happened to grab the animal's tail. "I don't understand the confusion," he said. "I am sure I am correct in saying that the elephant is much like a rope."

Now the elephant was a bit playful, so he tickled the sixth man with his trunk. The startled man pushed the trunk away and said with a shudder, "Please stay calm while I swear to you that the elephant is really a very large snake!"

"Nonsense!" said the others. Still, they quietly began to move away, and they never bothered to put their heads together to understand what the elephant was really like.

We can be blind to anyone else's truth but our own, and miss the larger scope and potential of an elephant standing right in front of us. Only by sharing and integrating all the information available from every aspect of our company can we come to correct conclusions.

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And now we will proceed to demystify and understand business:

***By making cookies and discovering elephants.***

