

# Good Business Run Wisely

April 2008

A newsletter to help you Maximize Value Creation in your business

Volume 2, Number 4

www.Robert-McKinney.com

## In This Issue

- Quote Of The Month
- Building the Situation Analysis: *Part 4, Your Company*
- Book Review: "Good to Great"
- Inc. Magazine Valuation Guide, Part II

### [Seyet LLC](#)

**Concise. Clear. Accurate. That is how Seyet LLC "Turns Data into Knowledge"**

### [Kemmer Consulting Group, LLC](#)

**provides expertise to clients by designing and implementing human resources management and learning solutions to maximize their people potential and process results**

## Quote of the Month

"My success, part of it certainly, is that I have focused in on a few things."

— Bill Gates

## Building the Situation Analysis: *Part 4, Your Company*

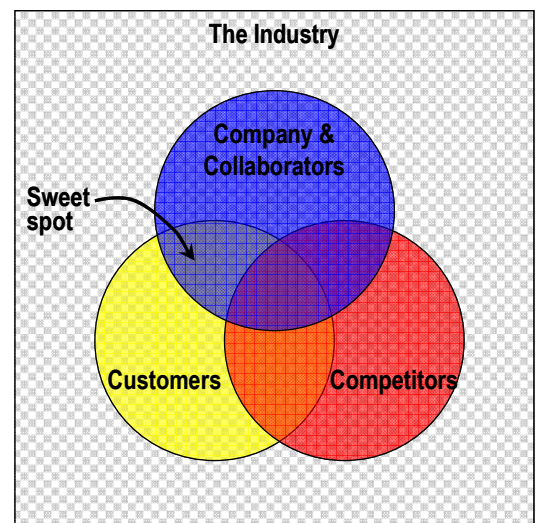
So far this year I have discussed three of the four "C"s: Customers, Competitors, and Collaborators. The final "C" is analyzing your Company to understand where you are most competitive. The detailed article, [Analyzing Your Company](#) can be viewed on the website, but here I will summarize.

Company analysis is not about touting your strengths; rather, it is about finding where you can develop a unique advantage in the marketplace. The Resource Based View (RBV) framework gives us a foundation from which to base our analysis.

The RBV framework forces us to ask if a competency is Valuable, Rare, Inimitable, and/or Non-substitutable. If the competency passes all these tests, your company has a "Competitive Advantage." Great! If not, you are not alone, but you cannot be an industry leader until you develop one. Until then you will be moderately profitable at best. To avoid mediocrity, you can work to leverage your core competencies, remembering the RBV guidelines, building them into a competitive advantage.

As shown in the diagram, with a completed situation analysis you can find your own "sweet spot" in the marketplace. Develop a competitive advantage in that sweet spot and you will own the spot—else you are on a short-term lease.

Make sure to view the detailed article, [Analyzing Your Company](#) on the site. And stay tuned because in the upcoming months I explain how to expand on our Situation Analysis and develop a strong mix of Product, Pricing, Distribution, and Promotion to fill the sweet spot and **Maximize Value Creation.**



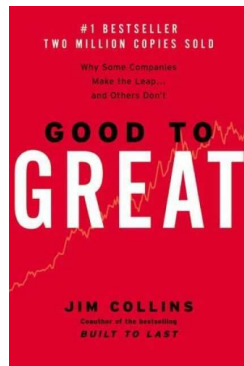
## [Kong and Allen, LLC](#)

**Kong and Allan is a unique consulting firm specializing in supply chain operations and global expansion. Located in the epicenter of global development, Shanghai, China, our team will help your company create innovative solutions and assist in the execution of these strategies to improve the movement of products to customers, manage inventory, or bring new consumers to your company. We aren't going to tell you the time. We guess you already know that.**

## [Contact Us](#)

[Robert-McKinney.com](#)

[email Robert](#)



## Book Review

In *Good to Great* Jim Collins explains the common traits he and his research team found in a short list of “great” companies. These 11 companies were “great” because they grew and became far more profitable than their industry average, and, most importantly, maintained that profitability. Beyond the common, “must have a great leader,” Collins states two main traits of a great business: The right people, and keeping business simple and focused on its competitive advantage.

Having the right people cannot be overemphasized. Mediocre people cannot bring greatness, and when top people are combined with mediocre people it is mediocrity that survives. J. Paul Getty said that when mixing top people with so-so people, “The best men are inevitably dragged down to where the insipid second-raters—the prigs, pedants, precisions, and procrastinators—set the pace.” Tough but true.

Keeping it simple and focused means not jumping with the latest trends in business, markets, or technology. Too many companies don’t know who they really are and end up dancing to short-lived company tunes at the expense of creating value. But don’t oversimplify to where decisions are made without proper analysis. Rather, balance by finding your competitive advantage and focusing on it. Collins uses a flywheel as a metaphor. He illustrates that when you point that flywheel toward your competitive advantage and everyone starts pushing in that direction, the flywheel will pick up energy and begin speeding forward, moving your company from good to great.

Altogether the book is an easy read and valuable information for those who want to be better than good enough. Hopefully just as helpful, the tools being placed on [www.Robert-McKinney.com](#) and soon [www.GoodBusinessRunWisely.com](#) have been distilled from the overly-complex, aggrandizing language of professors and gurus into something you can actually use to keep it simple and focused. Collins calls it “Good to Great”; I call it **Maximizing Value Creation through Good Business Run Wisely**.

## Inc. Magazine Valuation Guide, Part II

The April, 2008 issue of *Inc. Magazine* again has their dubious valuation guide. This year it is a trimmed down version that says prices for small businesses are at a high due to a glut of capital in the market. And the magazine implies that you better act quickly if you want to sell because the Baby Boomers are growing old and will soon be ready to sell a horde of businesses, turning a sellers’ market into a buyers’ market.

I have no reason to disagree with *Inc.*’s statistics, but I dispute their methodology. The value of a business is the net present value (NPV) of their future cash flows discounted at a rate appropriate to the risk of those future cash flows. If some people choose to incorrectly price businesses according to multiples of EBITDA—or worse, revenue—that does not change the value of the business.

Here is the link to the [March, 2008 newsletter](#) that reviews how to calculate NPV.