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Odometers And Speedometers

By Mitch Anthony

Being prepared to go the distance is better than sales overdrive.

Theo Skouros, Chief Executive Squirrel, called an emergency meeting in the Executive Hollow. It was time for their spring season review of financial results, which had come to be known as the Easter Hangover by the troops. He reprimanded, “These numbers aren’t where they need to be. If we don’t hit our target, Walnut Street will have us for lunch. Flying Squirrel Inc. doesn’t miss its numbers!”

By hook or crook, FSI had managed for the past 15 years to show season-over-season improvement in earnings––no small miracle considering the fact that acorns only fall in the fall season. This had been accomplished with a stealthy combination of labor and legerdemain.

“Mr. Skouros,” offered Chief Financial Squirrel Cornelius Grey, “we just barely made the winter number, but managed to pack away enough to use in the summer to hit that number. We could move early and sell the inventory and get that spring number we need.”

“And then get our tails whacked off in the summer? Get real, Grey!” Skouros blasted back. “We need to get creative around here. Somebody bring an idea that won’t kill us three months down the road.”

Senior Vice Squirrel of Sales, Dutch VanEick stood up. “Boss, I’ve had this idea for a while and think this might be the time. As you know, every fall we end up with about a 20% throwaway rate on bad nuts that are sitting out by the marsh. Since nobody’s going to want to eat them, why don’t we sell them to Beaver Industries, which has been talking about growing its own trees for some time?”

“Have you lost your mind, Dutch?” Grey objected. “Those acorns are no good. They won’t even grow. And besides, anybody who looks at them will know they are rotten––you can see holes in them!”

“I don’t want to hear what WON’T work here,” Skouros stared down Grey. “I want to know what WILL work!”

“Boss, I got it all worked out,” VanEick offered, slapping his tail furiously against the floor. “First of all, the acorns will require a little ‘cosmetic’ treatment. Secondly, I’ll grant Grey the fact that some of these might not grow, but it’s marginal. By the time Beaver Industries figures that out, we’re already two years down the road and we simply answer by saying it was due to their inexperience with husbandry.”

“SOME of them won’t grow? Cosmetic treatment? VanEick, I think I’ve heard it all!” Grey sneered. “We certainly wouldn’t be raising any eyebrows by buying huge inventories of varnish now, would we?”

“What sort of cosmetic treatment are you proposing?” inquired Skouros. “We sure as oak don’t need a varnish scandal.”

“I’ve got a solution all worked out and have already tested it with the lab. It will take a little work, but it’s simple. You stew the acorns in a sap-water mix. The bonding element in the sap causes the brown color to adhere to the discolored ‘wounds’ in the product. It truly has a healing effect,” VanEick explained (all smiles now).

“I suppose you would consider paint a ‘healing’ remedy for rotten wood as well, huh, VanEick?” Grey hollered, throwing his claws out for effect.

“Enough of the sarcasm, Grey. You don’t solve problems with sarcasm,” Skouros said in his most calming tone. “VanEick, what kind of return do you think we can get on this initiative at going rates?”

“That’s where this deal really shines,” Dutch gleamed. “I go to Beaver Industries and tell them we need to meet our winter number, and that to do it we’re willing to sell inventory at a deep discount. If anybody understands that, it’s those guys––after the beating they took two seasons ago on their waterworks contract. They need to diversify. And we’re helping them into the lumber biz at a discount. We sell this inventory at 50% off the normal rate and we still book almost a million.”

“Grey, where does that put us in regards to our spring expectations?” Skouros was staring down Grey now.

Grey was grinding his teeth, unable to look back at Skouros.

“Grey! Where does that put us?” Skouros repeated in a forcibly calmed tone.

Grey could barely spit out the words, “Just above what the street is calling for in the spring report. But Theo, a year or two from now this thing could come back to bite us big time.”

Skouros responded, “A year or two from now––if we don’t hit our numbers—this tree will be sold and cut down and probably sold for lumber to Beaver Industries. Somebody needs to be thinking about the long term around here. We don’t have the luxury of harvesting nuts four seasons a year, and so we need to use our ingenuity around here. And speaking of ingenuity, we need to start thinking now about the summer numbers and what we’ll need to do to hit that target. Meeting adjourned.”

From Squirreling Away the Future by Mitch Anthony

An advisor who works for a Fortune 500 company walked up to me after I had delivered a talk to his firm on building client relationships. He offered this little excerpt from his firm’s Monday morning “fire up the troops” meeting. “‘Do the right thing for your clients’ and ‘Take good care of them,’ we are told at the beginning of the meeting. And the meeting gets closed with, ‘And all of you need to sell more of this XYZ product. Let’s go get ‘em!’” He continued, “One can’t help but be a bit dismayed at the hypocrisy of thinking you are serving people by pushing product.”

“If you can,” I encouraged him, “try to look past your boss’ mixed message to the machinery that drives such a message. When you trace it all the way back, you will find the Wizard of Oz controlling everything from behind a curtain. And the Wizard is looking at the upcoming Wall Street expectations. The problem is the quarterly report. It’s a strange sort of fiscal insanity that you won’t find very often outside of publicly held firms.”

Running The Race

Think of it this way. Quarterly reporting is like running a four-leg relay race––where each quarter mile must be a little better than the previous quarter. So, instead of just running the race with your absolute best effort, you must conjure a pace and effort to demonstrate the result the crowd is expecting. It inevitably will lead to manipulated performances, insincere demonstrations of effort, and, as recent history has illustrated in marquee fashion, manipulated reporting.

This absurdity ignores the normal, natural course of growth (with lines that show peaks, valleys, spurts and flattening periods) and substitutes them with artificial lines that display a never-ending staircase upward and onward. Achieving such an unnatural course of growth not only takes imagination, but it also places the players (from the top on down) in a constant pressure cooker. Earnings expectations, like water, run downhill. Everything and everyone in its path is affected because the water just keeps coming. There’s no time to think or breathe.

As a consultant to companies across the industry, I can’t help but notice the difference between the quarterly reporting culture and the mutual company culture. While both parties seem to be motivated to succeed, blood pressures seems to run much higher in the former. Take away the tension of unrealistic growth patterns and people are allowed to find a pace and pattern for growth that is livable over the long run.

A vanguard of publicly traded firms has now banded together to try to orient investors toward the long-term view. For example, Google sent a letter to investors in 2004 in which Larry Page and Sergey Brin stated that they were pursuing high-risk, high-reward ideas despite short-term earnings pressures, and asked their investors to use fortitude and take a long-term view.

According to an article in the Harvard Business Review by Judith Samuelson (“A Critical Mass for the Long Term”), this vanguard is composed of 20 companies with a large enough cumulative market capitalization to persuade the market at large. Participants in this “let’s think about and orient toward the long term” effort include IBM, GE and Pepsico. They are meeting to investigate principles and to design practices that promote long-term competitiveness over short-term short-sightedness. That’s the good news.

On the other side of the ledge, we learn from a recent study by the University of Washington (Shiva Ragopal and Fuqua’s Campell Harvey and John Graham) that only 59% of executives would pursue a positive-net-present-value project if it meant missing the quarterly earnings consensus. And––it gets worse––78% say they would sacrifice value, and in some cases “major value,” in order to smooth earnings.

This is from the guys who are telling everyone at the company meetings to do what’s right for the clients. But you can’t blame the chief now, can you? After all, the chief is only following the system that everyone relies on. And what a lovely system it has proven to be. The Conference Board’s Blue Ribbon Commission on restoring public trust blamed “short-termism” for contributing to business malfeasance.

I am not foolish or megalomaniac enough to believe that my humble pen is going to convince any firms to rethink their public listing, but I will unflinchingly challenge each of them to rethink their message to retail representatives. And I will provoke this rethinking process with this encouragement––the growth you see from investing in the long-term relationship with your clients will, in the long term, lead to far superior financial results because: 1) clients will sense the dearth of self-serving undercurrents (that are given away in the pace of the advisor trying to “get a deal done”) and be inclined to entrust more assets; and 2) good, principled advisors will flourish in and be loyal to such an environment.

Measuring Success With What?

A very good man from a large multinational firm called me about coming to train his firm’s advisors on building long-term, lifetime relationships with their clients. They have been running a sales turnstile for quite some time and could see the writing on the wall.

I told this gentleman that I would be more than happy to come and train accordingly–but on a conditional basis.

“And what would that condition be?” he asked.

“That your firm reflects the long-term relational value proposition in the pay plan. If you’re not going to pay them for this, it’s a waste of both of our time to have me come in and talk about it.”

He agreed and told me that a proposed change in the pay plan would accomplish exactly this, and that we would postpone our plans until the pay plan went into effect. I cannot tell you, dear reader, how refreshing it was to hear someone admit to the silliness of trying to say one thing and pay for another.

An obsession with short-term measures for the sake of meeting short-term goals does not help and, in fact, clearly sabotages the goal of reaching a permanent destination of trusted advisor relationships.

If you want to ensure success in the long term, you need to use an instrument for measuring success that is gauged for the long term and employ the use of that instrument consistently. If it’s the right thing to invest in the long-term well-being of our clients, then the numbers should and will affirm that verity.

Firms need to make up their minds for both the above-mentioned reasons. Either you are going to run your firm by the speedometer (miles per hour) or by the odometer (miles made in the journey)–– but you can’t have it both ways. Common sense invokes us to work for the long-term relationship, but common sense isn’t going to show up like it could in the relationship if it doesn’t first show up in the advisor’s paycheck. People inevitably behave in the way they are paid to behave. The mixed message on Monday morning doesn’t get mixed in the head of the retail provider. By and large, they will do what they get paid to do.

Selling by the speedometer resembles the carnival industry more than it resembles the advice industry. When you are told to squeeze as much revenue as possible out of every interaction (mph), how do you keep the “carnie–style” manipulation and marksmanship out of your approach? It is a poisoned sort of thinking that reviles good souls who find themselves thinking such thoughts against their better selves. I have heard their confessions of such and numerous descriptions of self-loathing for having had such thoughts. These are good people I’m talking about––those who are being asked to act against the best version of themselves, only because of the Wizard’s demands from behind the curtain.

The odometer is clearly the instrument for measuring future advisor/client success. This instrument will serve well for both the client and the advisory firm. If we help our clients make considerable progress in their financial lives, then we will be rewarded with more assets and more opportunities to manage wealth and risk. When the odometer is the instrument of choice, everyone can relax and work on what matters most––and that is getting people to the destination they’ve chosen.

Imagine having this conversation:

“Mr. and Mrs. Jones, our firm is built on the principle of getting to know who our clients are and building relationships that serve you over a lifetime. Now, if you don’t mind, our hour is almost up and you haven’t decided on any insurance or investments yet. Which product sounds better for you today?”

Have we completely lost touch with sanity in our business models? Being a resident of Rochester, Minn., which is home to the world-renowned Mayo Clinic, I decided to put this question to a psychiatrist, “How would you describe this condition of focusing/obsessing on short-term results to the point of interfering with and impeding long-term stability and well being?” Here is his answer:

“This person would be classified as having anti-social personality disorder with narcissistic tendencies or having a narcissistic personality disorder with anti-social tendencies, depending on that person’s primary and secondary motivations.”

So, there you have it. If we were to lay our publicly traded models and cultures on the couch, they are diagnosed as either having ASPD (anti-social personality disorder) with narcissistic tendencies or having NPD (narcissistic personality disorder) with anti-social tendencies, depending on their primary and secondary motives of course. In other words, all are sociopaths and narcissists.

No one in their right mind would proffer something so silly, yet organizational structures and measures for success are built upon this very approach.

ASPD or NPD? Which is it? I’m not sure. It simply strikes me as downright squirrelly.

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