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Leverage - why it matters

In the last few years, I've spent significant time studying businesses and investments, and I found a commonality for achieving results - leverage. Leverage is the advantage or power gained by using a lever. A classic example is the story of David and Goliath, where David was able to defeat Goliath because David used the power of leverage (by using a slingshot to defeat a giant). In my experience, leverage has consistently shown up as a commonality in the companies and/or projects that achieved business success. A few of the keys are as follows:

First, there are many forms of leverage - money, resources (people), machines/ equipment, systems, etc. The key is to take a step back from your situation or issue and think about leverage options. Although it will take additional time vs. beginning the task, it could save significant cost and/or produce significantly quicker, more sustainable and significant results. I've found this to be the critical step that is often overlooked. It is a common problem to have many more tasks requiring completion than is possible to achieve within the specified timeframe, and so employees are often overwhelmed and don't have time to "put their feet up and think". One of the most powerful forms of leverage is the power of your mind. Sounds too simple to be true? Be radical and experiment with this concept on one project....the results will likely be staggering.

Second, another of the most powerful forms of leverage is people. In one example in working with a company to improve profitability, the finance leaders suggested labor cost reduction as the key to success - a common suggestion / reaction when cost reduction is required. However, in this case, labor costs were the minority cost element, whereas materials and freight were far larger (a few grains of sand in a bucket). Sure, it was possible to reduce labor costs and improve profitability; however, the effort spent on the 'grain of sand' wasn't worth it. Instead, implementing the opposite of the suggestion (finding the best resources, and adding resources as it made sense) was the key to improving profitability. Leveraging people's thinking power and implementation follow through in determining how to reduce raw material and freight costs was the critical success factor.

Third, what is the similarity between financial leverage and utilizing equipment in a plant? Quite a bit. In a plant, one of the purposes of equipment is to automate processes (hand packing boxes vs. utilizing an automatic packing machine). Therefore, utilizing the equipment typically speeds up the process, reduces the likelihood of human errors, and reduces the cost of production (increases your return). Similarly, when borrowing money to invest in real estate or another investment, the borrowed money (debt) allows you to use a smaller amount of cash to purchase a larger investment that will provide a return based on the leveraged amount (not the cash you put into the investment). A 10% return on \$10,000 cash vs. a \$200,000 investment (such as a house) is significant.

Leverage doesn't have to require significant capital investment or complexity. It is possible for everyone to utilize leverage to improve personal, business and investment results.

Lisa's Tips: Tips for Dealing with Difficult People

Lately, I've had my fare share of "dealing with difficult people". Although it is good to keep one on their toes, it also makes you take a step back and think about strategies for improvement:

1. Listen - as much as it's possible that what is being said doesn't make sense and seems like a waste of time, the key to making progress is to initially give the other party the benefit of listening. Make sure they know you've heard them - repeat back what you've heard/ understood about their goals, etc. Typically, people are more prone to listening when they feel understood.
2. Count to 10 before responding - this sounds silly but silence is fine. It is far preferred to have silence, which gives both parties time to think and calm down than it does to talk above each other, make no progress and be frustrated (of course, this is easier said than done, but give it a shot). In those 10 seconds, you have time to rephrase what you've heard and search for common ground.
3. Common ground - no matter how small or hard to find, do your best to find common ground. It is much easier to begin to make progress when you have somewhere to start.
4. "Thanks for the information" - this tool is quite helpful when you are in a situation where someone is providing all sorts of information that you don't agree with, that doesn't make sense, doesn't relate etc. Instead of moving further away from "common ground", simply say, "Thanks for the information". The next time they have information to provide, it could be critical to you - and, you'll want them to feel compelled to provide it!
5. Isolate the source of disagreement to the objective or the alternative - For example, there might be disagreement as to whether the reduction of inventory is an important objective. The other party might think supplier programs are the priority. In this case, it is a waste of time to debate the methods to reduce inventory because you don't have agreement on the objective. It is surprising how many times endless amounts of time is spent debating alternatives when the objective has not been agreed upon. On the other hand, if inventory reduction is the objective, you might focus on whether you think tools, people, or systems will help achieve the objective. Clarify your objective and then move to alternatives.
6. Don't be a wet rag - if you are being mistreated, respond respectfully but powerfully, 'no'.

Recommended Reading

"[The Effective Executive](#)" by Peter F. Drucker - it is one of the classics on leadership. He discusses the measure of an executive, which he reminds us is the ability "to get the right things done". He also discusses key points essential to business effectiveness. Peter Drucker provides fresh insights into everyday business situations.

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