

Don't Be a "Model T" Firm!

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As a student of business history, I've learned to avoid serious mistakes by studying what has happened in the past. You might be thinking: "What do I care about business history—isn't business re-inventing itself every day? We're in a new paradigm—we have computers, technology and other cool stuff!"

Hold that thought for a minute—you can actually learn too. While business owners *do* face new technological, operating, human resources and marketing problems, many of the same issues earlier generations faced crop up again and again. One way to avoid them, or at least see them coming, is to review significant business failures to find out what people did to overcome them.

THE MODEL T COMPANY

Henry Ford was an innovator and brilliant thinker. After being employed by industrial giants George Westinghouse and Thomas Edison, Ford went out on his own to start a car manufacturing company. Ford is credited as the father of mass production. His fanatical focus on manufacturing efficiency made his name a household word. By 1914, Ford produced 267,720 cars with 13,000 employees, while the other 299 American car builders employed 66,350 workers, while turning out only 286,770 autos. By 1918, he had opened the River Rouge production facility in Detroit with the ability to transform a load of iron ore into a car in just 33 hours, with a new vehicle rolling off the line every 90 seconds. This state-of-the-art vertically integrated production facility sowed the seeds for America's second industrial revolution. Ford's innovative genius changed America from an agrarian to urban society in an amazing 25 years—something no other individual or society had been able to do in all of prior history.

However, Ford's intense focus on efficiency to produce one product rather than innovating in response to consumer demand would be his eventual undoing. In his relentless pursuit of higher margins and efficiency, he once remarked: "You can have a Model T in any color you want...as long as it's black!" Ford's failure to respond to what the marketplace wanted led to the eventual closing of the Rouge plant for five long agonizing months while he re-tooled for Model A production.

Unfortunately, the Model A wasn't good enough. It only sold for five years, rapidly becoming obsolete because of competitors' groundbreaking innovations. The once dominant industry leader could not figure how to get into touch with consumers, and sunk into "me-too" products for almost three generations. With the exception of the Mustang, it was not until over 50 years later Ford Motor Company again bet the entire company on a new visionary car—the Taurus—and regained market leadership of "family chariot" sales.

So what, you ask? What does this have to do with running a financial planning business? Everything. About two years ago, I was considering modifying our organizational structure to add an additional client relation manager. I was sure we could continue to build on our efficient business model. However, in the back of my mind was the nagging legacy of Henry Ford and the Rouge River plant. In my zeal to develop systems and procedures for every aspect of our operations, I wasn't absolutely sure the increasing complexity of the new organization would keep us as well connected to clients as we had been. We surveyed our clients using written response questionnaires, but I still wasn't sure we were getting the entire story. This really nagged at me. I knew I had to do something, only I wasn't sure what.

MOVING BEYOND THE MODEL T

After thinking for some time, I considered gathering clients together and asking them for feedback and response to questions from the firm. We decided to call this group a "Client Advisory Council" ("CAC"). Frankly, I wasn't looking for a "feel-good" session from these folks. I wanted to highlight problem areas or issues. I needed to know if we were stagnating into a Model T firm.

After thinking about it for some time, and after talking with a number of firms using some sort of client group format, I presented the idea of conducting a CAC meeting to my board of directors. Interestingly, I received a mixed response. On one hand, the board felt the idea of interaction with the clients was a good one, but also felt strongly there was a decided risk in having a large number of clients in the same room talking about what the firm wasn't doing well. In other words, the meeting could become a negative session spinning out of control. Not good.

After getting an Excedrin headache thinking about it, I decided the reward of significant client input outweighed the very real risks. We decided to employ an outside professional facilitator so clients could talk freely without feeling they might offend anyone. The staff, with the facilitator's input developed the meeting format. Questions and issues put before the group were designed to be coherent and concise, with some conclusion to be reached. The agenda wasn't too "packed, so participants were given enough time for deliberation and for everyone to speak and contribute. During the meeting, the facilitator made sure the conversation was directed and focused on issues important to the firm.

For our first CAC, we pondered the specific client mix, and ended up with a dozen single, married, widowed, retired, working and non-working clients, all of whom had experience in some sort of business or whose spouse had that experience. The facilitator asked open-ended questions about what the firm did and did not do well, what clients liked and did not like about meeting with us, how we communicated with them, and conducted a reality check on how clients thought we *really* were at meeting their needs. She also asked them how we could improve our existing services, better communicate with them, and how they could help us grow to be a better, stronger firm.

These clients had not attended a meeting or social function together. We decided an “icebreaker” dinner would allow the individuals to get to know each other a bit better personally and professionally. The Friday night dinner was attended by all participants and two senior staff. It went well and provided the impetus for free flowing conversations the next day. On Saturday, we started with breakfast. Then the CAC met all morning, followed by a working lunch attended by staff. By the middle of the afternoon, the CAC delivered feedback directly to the firm.

To say our first CAC was an eye-opener would be an understatement. In the words of one participant, it provided “corrective feedback” on many aspects of the firm. It turned out my hunch about not being as well connected to clients was on target. Luckily, we were not in serious trouble but we did need to change the format of review meetings, and broaden and deepen our communication links. There were surprises, but good things did happen. Let me tell you about them.

MOVING FROM CORRECTIVE TO CREATIVE

As the saying goes, “Talk is cheap.” If we had simply listened to feedback from that first session and taken no action, there would have been negative repercussions. My idea from the beginning had been to use the best practical recommendations from the group to improve our operations and relationships, so shortly after the first CAC session, we created a detailed outline of the discussions. From that, the staff developed and implemented an action plan, and I wrote a letter to each participant explaining what we were doing. By keeping the participants informed, I figured we would keep them involved. It worked. We removed one client from our “endangered” list—a client who might leave us for some reason. How did we know? They told us during the CAC. They were thinking about leaving, but after the meetings they had a much better understanding of what we were doing and our commitment to help them in a way that was significant to them, so they’ve continued with us.

Our second CAC recently met. For that meeting, we invited about half of the original participants back and added new participants to maintain the same size group. We reported at the start of the session how we dealt with issues brought up during the first CAC. This showed participants how serious we were about taking their advice. In large part because of our hard work during the year to implement their suggestions, participants mentioned the second year discussions had moved from corrective to “creative.” The CAC developed very positive ideas on additional services, meeting formats, marketing and image building. Several clients took an increased interest in the firm by providing additional referrals.

Implementing a CAC has worked well for us. While it might not prevent all future surprises, our connection with clients is clearer and stronger. The entire staff is aware of the results of CAC meetings, and our corporate culture now embraces constructive change. We continue to focus on efficiency, but I don’t think we’ll ever have a Model T firm. Remember, in business, it’s either evolution—or revolution.