

Nobody is too old to learn, but a lot of people keep putting it off. **William O'Neill**

After all is said and done, a hell of a lot more is said than done. Clark Olmstead

Most people dream of success. To me, success can only be achieved through repeated failure & introspection. In fact, success represents the 1% of your work which results only from the 99% that is called failure. **Soichiro Honda Founder, Honda Motor**



Figuring out why you are in business

This is an issue that still astounds me after all this time. For years, I used a simple questionnaire when I go to speak to any kind of group, whether kids or adults. I explain to them that this is *my fee* for telling them what I know. They have to tell me what they think on a few issues in return for my time. This is, after all, the very *essence* of commerce, exchanging things of value.

The unfortunate thing that comes out in these discussions, and many others I have had with different groups, is how little people really know about business. I don't mean things like

how to compute profit (although this *clearly* is not a very well understood concept) or how to develop a business plan, but essential basic things like:

- What is the purpose of a business?
- Why are you in this business?
- Who are your customers?
- Why should people do business with you as opposed to someone else?
- What is your greatest asset? Your greatest liability?

- Who are your competitors?
- How can you make your business better?

It would seem to me that if you can't answer these questions well, you are not likely to be much of a success in business, and you will probably never really know why. These are not complex issues, and since man has been engaged in well-recorded commerce of some kind for at least 7,000 years, it is hard to credit that those wishing to be in business have managed to skillfully avoid this information on a regular basis. Nonetheless, it seems to be so, and business records and daily news broadcasts document those wide ranging failures on a regular basis.

It is an unfortunate aspect of modern life that we tend to venerate the trivial and ignore the critical in almost all our calculations. Our focus is far too often off the important point, and laser-like, brilliantly illuminates what is popular, concentrates on a snappy sound bite, or fits the preconceived "issue", while avoiding any attempt at understanding the real drama unfolding in front of us.

What is the result of not knowing or acting on this information? Usually it appears as widespread erratic performance throughout a company, and deteriorating prospects for everyone involved. It includes systemic unemployment, ongoing labor conflict, erratic prices, profits and business failures.

• A quick look at just how it's been working so far

A good illustration has been IBM, one of the strongest companies in the history of modern business, and one that has run into these problems headlong in recent years. How would you like to have been a major stockholder of IBM between 1990 and 1994? You could have watched your assets plunge from over US\$120 per share to their lowest value in years, US\$42.50, and then to finally creep back to just over US\$80 by early 1995. They finally rebounded to over US\$150 at the end of 1996. They lost US\$8 Billion in a *one quarter* in 1994, with all the charges associated with their already massive layoffs, and continued to lay off another 45,000 staff through 1994. And as the most embarrassing result, wound up as a second tier "IBM"-PC supplier in a market they literally created. In 2000, they *hoped* to break even in the PC sales unit.

IBM is a pervasive force in the development of the world's modern economy, and it is unlikely that you have managed to live without coming into contact with something they created or support. Typewriters, unit record equipment, software, military systems, mainframe computers, check-out scanners, time clocks, terminals and personal computers. For the last century, they have been filling the business needs of companies all over the world, but their size has steadily removed them from the contact and attention to customers that is essential to success. The slow erosion of their markets has all come from small events and small issues, but is now exacting a very large price. Possibly the stand-out most irritating IBM-ism? Their own PC's have repeatedly failed to be fully "IBM-compatible". I think it is hard to top that one as a corporate *faux pas*.

In 2005, IBM sold its remaining iconic Thinkpad Laptop section to its Chinese assembler Lenovo, formerly the Legend Group. This essentially marked the end of IBM's 25 year foray into personal computing.

What about General Motors, once the flagship of American heavy industry, suddenly hit with multi-billion dollar losses, dozens of plant closings, widespread layoffs and uneven product quality? Both IBM and GM did not return to reasonable business performance until early 1995, and only after massive reorganization, realignment, and recognition of the importance of making and doing what customers want.

2005 would see GM skirt financial collapse again, staved off by selling their slow moving inventory at "employee discount" prices. This strategy generated no real profits, and further eroded unit values, but provided much needed sales cash from a stagnant inventory and a product line hard to sell and clearly out of sync with exploding fuel prices. 2005 also marked the announcement of thousands more layoffs, more plant closings, and a serious tumble in corporate standing and market share at GM.

How about others like Kodak, Telefunken, Philips or DEC? These are not minor players or ill-advised and inexperienced amateur entrepreneurs. They represent mainstream business operations on a substantial international level. All were all seriously shaken between 1992 and 1994 in ways they never expected, and sustained financial and market share losses that were truly enormous. DEC was still in serious trouble in 1997, and was taken over by Compaq in 1998, and has essentially vanished from sight as a result. Compaq itself was in delicate shape in 2002, and was finally acquired in a tempestuous buy out from Hewlett Packard in a deal of very uncertain synergy.

2001 had some of the most spectacular corporate explosions in recent memory. Widely held Nortel essentially dissolved in terms of share value, due to the collapse of the hyper-inflated dot-com world, and a general slowing of telecom infrastructure deployment. JDS Uniphase, a flagship fiber optics supplier to the telecom and Internet world did the same. Even by late 2005, both companies remain at a tiny fraction of their supposed previous worth, despite a rich technology portfolio and wide industry acceptance. Lucent, the technology treasure house of Bell, was spun off as a supposedly self-sustaining entity,

presumably to create even more value, and then fell almost as hard as Nortel, plus it left Bell stripped of it's powerful R&D capability that had guided it for decades.

CNN reported that US\$350 billion dollars of value was lost in mutual funds in the year 2001 alone. This is a staggering drop in market value, and had as one of its most appalling stars, the featured collapse of Enron, the energy brokering giant. In this collapse, shareholders were left with virtually nothing, internal officials seemed to earn huge bonuses, and the other employees found their pension funds locked and un-tradable (filled with steadily decreasing-in-value Enron stock). The fall out from this single collapse was astounding, affecting many retirement investments, and ruining the lives of thousands of people.

The entire Canadian Football League has steadily fallen into deeper financial trouble since 1993, and each Grey Cup gives the feeling it may be the last performance for the entire league. Every franchise has money problems, and some had already closed or gone into receivership by the end of the 1996 season. From a once very popular national sport, the team operating costs and available fan support finally moved too far apart to ignore. This pattern was duplicated in the National Hockey League, and that most-Canadian sport is now largely dominated by American teams and markets. Like many modern sports, it is now mainly concerned with marketing and merchandising, and only in a minor way with competitive sport and the interest of fans. 2004 would find the NHL in another lock-out, and once again indifferent to its customers.

Even cities and municipalities have not been immune to re-evaluation by market forces or the impact of unexpected events. California's conservative Orange County was forced to seek Chapter 11 bankruptcy protection at the end of 1994, after being crippled by risky investment losses of almost US\$2 Billion. It is worth noting that many state, municipal, provincial and federal bond ratings are also deteriorating as they are seen to be increasingly poorer long term financial risks by potential investors.

Sudden unemployment of both highly trained and low level staff has become an institutionalized fact in modern civilization, as companies resize, downsize, reengineer themselves, rightsize or collapse. As industry tries to adjust to changing conditions and competition, it is discarding many values and social responsibilities as inconvenient, and people have become secondary to business decisions, or government ones. Homelessness is no longer an aberration in North America, it is now measured in millions, and accepted as an inevitable issue and part of our culture.

1999 and 2000 saw a new phenomenon, rapidly shrinking unemployment, in some cases skating as low as 3.8% in certain US markets, as an overheated technology market sucked up every available skilled person. This illogical market explosion was fueled by Internet related firms burning with dreams of

staggering profits, wireless communication industries and wildly unrealistic stock market expectations. Interestingly, the air has now leaked out of those fantasy balloons, and the stock market contraction, especially on the NASDAQ, has rinsed billions of dollars from the economy, which means, incidentally, that it came out of some unhappy investor's pockets. The NASDAQ lost 38% of it's value in 2000, and opened in 2001 with many of it's stellar players like AT&T and Microsoft down 60% or more from only a year before. Once topping 5000 during the height of the Internet folly, the NASDQ drifted around 1400 in mid-2002, an astonishing drop, and at the end of 2005, finally hovers around the 2200 threshold.

The idiotic Internet model of businesses that spent a fortune on promotion, but delivered little, has mainly gone up in flames, but only after consuming many fortunes and creating many casualties along the way. This was completely predictable, but hope springs eternal for that incredible deal that makes you wealthy without any deliverable work or value on your part. The slim business experience and unbridled greed of all involved pretty well insured failure, as no real effort was expended on the most basic of issues: what customers want and how to equitably satisfy that need.

2001 saw most internet or "dot-com" businesses explode in a shower of fiscal fallout that would eventually dampen the entire technology sector, and subsequently shatter the telecom industry that had been delivering the infrastructure to the internet world. In this volatile environment, JDS Uniphase and Nortel would post operating losses so large that their equal had not been seen before, in the 10's of billions of dollars PER QUARTER, and they shed over 50,000 high tech workers. Stocks that were in the \$120 and \$220 range would fall to the under \$2 dollar level, stunning many investors, and wiping out the retirement savings of tens of thousands of people. It has drifted in the 2-4 range for over a year, and only in the beginning of 2004 climbed to over \$6 a share.

April 24th of 2002 had an interesting economic tidbit, AOL-Time Warner, the "synergistic merger" of on-line internet and entertainment/publishing companies, posted the biggest loss in corporate history, an incredible *\$54.2 billion dollars*, as reported by CNN, also owned by AOL-Time Warner. This loss was caused by plummeting market values of the company and its acquisitions, and would be repeated later by Vivendi as their excesses finally caught up with them..

The science was fine, only the business expectations and the insane endless growth curve were misguided.

Nations all over the world enjoy record deficits, as do many companies, that *far outweigh their ability to repay in a practical way* without resort to heroic and somewhat desperate measures such as *devaluation or default*. As just one example, the commercial airline industry in North America has lost more money

in the 1990's than it has generated *in its entire previous history*. Selling a few more seats per flight or giving them away for air miles is not going to quickly fix that situation. November of 1996 brought Canadian Airlines and its 16,000 employees to the brink of bankruptcy, with only the promise of employee wage cuts and hundreds of millions of dollars in government loans between the company and closing. 1999 led to a pivotal decision threshold for both Air Canada and Canadian Airlines that required merging or collapse. The forced merger of these two struggling airlines was very unsuccessful in 2001, and is driving the surviving Air Canada into continuous losses, while reducing the service and choice nationwide for Canada. 2004 seems little better, especially with reduced post-9/11 traffic loads, and soaring fuel costs.

Huge layoffs have become a regular occurrence, with thousands cut from IBM, GM, Digital Equipment, Chase, Apple, Boeing, Enron, JDS Uniphase, Nortel, Global Crossing, and many others. In the summer of 1995, on the same week as the release of the long awaited 777 airliner, Boeing also announced thousands of staff layoffs. Major retailers have been devastated, and scramble to re-organize and restructure in the face of disappearing customers and unsalable goods. High tech firms are not immune, nor are other investment darlings like Bio-tech or entertainment. Even Japanese firms like Toyota or Pioneer which have had a post-war tradition of strong corporate loyalty and no layoffs have been forced to trim their workforces seriously for the first time, and not just with inter-company transfers between kieretsu members. Even the best known Japanese flagship company in North America, Sony, was hit with multi-billion dollar quarterly losses at the end of 1994 due to its unhappy and unproductive adventure into the movie business. Sony has survived, but in 2005 is now highly dependent on its game consoles alone for profitability, a very delicate balancing act in a volatile market, and a strange turn of fate for the technology giant.

Billion dollar bank failures, such as BCCI or England's Barings, not to mention the endless string of Savings & Loan failures in the USA, clearly underscore the fact that all is not well in the business community on both the economic and ethical levels. Canada was shaken in mid-1994 by the collapse and sale of Confederation Life, one of its largest and oldest insurance companies. These failures have had the secondary effect of wiping out much of the retirement savings of many seniors, further complicating an already unattractive economic situation.

International currencies have fluctuated wildly, and the supposedly indestructible pound sterling was devalued in 1993 to the *complete shock* of everyone in Europe. In the former Soviet Union, new Russian Rubles traded at over a *thousand to the US Dollar for most of the 90's*, a far cry from the official Soviet Union *parity* of only a few years ago. The rate has plunged so far and so quickly that it has only one real parallel in history, the destruction of the German Mark in the 1930's, which eventually helped ignite World War Two. This is a story that

may repeat itself in a brand new setting if economic conditions continue to deteriorate. Soviet economic performance has become so poor, and its economy so distorted by crime, political graft and favoritism that is has almost no chance of recovery without near catastrophic political upheaval. 2000 has seen revived nationalism, and an economy that continues to sink into a feudal model controlled by a few, and benefiting none in the long run. Putin faced incredible problems in 2001, and Russia remains one of the most troubled players in the world economy in 2005, even with access to the G8 summits. It has no history of economic success or skill in business, which is making it very hard to function in an unforgiving capital-driven global economy.

From early 1994 on, the Canadian Dollar traded at almost its lowest level in history against the US dollar, at just over 70 cents, and achieved what no amount of union negotiating could do. It finally made Canadian labor cheap enough to export to the United States at an effective level. In 1999, the Canadian dollar stabilized at about US\$0.66 in about a 3 cent range, and with the fundamental shift in relative value now established, allowed business to function effectively. 2002 saw the Canadian dollar drop further to the US\$0.62 range, but mid-saw a bit of improvement to US\$0.66 due to falling US dollar worth internationally caused by a loss of confidence in the accuracy of US corporate reporting. The Canadian dollar finally climbed to US\$0.81 in 2004, but it was mainly due to the plummeting value of the US dollar against all currencies, especially the Euro. The US led war in Iraq and huge tax cuts domestically caused mushrooming deficits of over US\$2.6 Trillion in the US by the end of 2004, and totally erased the previous huge surpluses, leading to a steady decline in value of the US Dollar.

In the first few weeks of 1995, the Mexican Peso was hit by a devaluation of 40% in only days, triggered initially by concern over internal political unrest in Chiapas, but then deteriorating into a generalized international loss of faith in its economy and foreign indebtedness.

Canada was rocked in early 1997 by the announcement that Eaton's, the country's premiere retailer, was seeking bankruptcy protection, and would have to reorganize, probably in a much smaller format. Literally an institution in Canada, with some landmark retail centers in major cities like Vancouver and Toronto, this announcement was a very sobering moment in Canadian business. Eaton's deteriorated painfully through the 90's, and finally slid into bankruptcy and liquidation in mid-1999, ending a very long run as a family held business. Other major retailers with massive market capitalization and enthusiastic launches also disintegrated under the relentless pressure of 90's market forces, including Incredible Universe, Doppler and the US portion of Future Shop.

What is really going on here? Is this just the physical manifestation of the greed and stupidity of some powerful individuals, or does it reflect more serious

systemic mistakes as well? Does it suggest that some things are fundamentally incorrect in approach or focus?

When we had high interest rates, economists and politicians were certain that a shift to low interest rates would cure everything significant that was wrong with the economy, stimulating business growth and capital acquisitions. Once we had the lowest interest rates in twenty-plus years during late 1993 and early 1994, suddenly the allure of interest rates as a panacea waned, and now economic problems appear to be tax or government policy related. Even lower interest rates were world wide in 2003 through 2005, but the US economy continues to sink deeply in debt, and has lost over a million manufacturing jobs since 2000. In real life, the *problems remain unchanged* and the significance of all these *largely irrelevant economic issues* is on a par with rearranging the deck chairs on the Titanic in terms of keeping us all afloat.

In 2000 and 2001, and continuing through 2005, interest rates remained at very low levels, fueling stock market investment in the endless quest to get higher returns than banks can provide. That investment has driven the Dow to absurd levels over 10,000, despite mediocre corporate performance. Stocks are trading at perilously high multiples of earnings, and endless churning through buyouts, mergers and takeovers throws off billions of dollars that come from the pockets of small investors, and concentrates them in ever fewer hands as time goes on. It is frightening to speculate on how this systemic inflated valuation will ever survive even the modest and inevitable increases in interest rates, or any serious economic disruption.

From 1999 to 2002, hundreds of billions of dollars would disappear from equity markets, as the superheated stock market, eager for any promise of returns, would lure in customers, and in the end, deliver nothing but losses on their investments. It helps to remember that the "Dow, Dow Jones Industrial Average or DJIA" often cited is merely a weighted industrial cross section of only 30 stocks, and no matter where that level goes, it says nothing about the stock *you may hold*, or of the thousands of other stocks on the exchange. People often find it astonishing that the Dow climbs while their investments disintegrate, but remember that it is NOT a composite of the entire exchange, it is just a very tiny (and elite) sampling of the entire offering.

• Some key issues to consider

To further complicate our mutual lives, we have automated and accelerated many economic and financial processes so that natural delays and pauses have disappeared from our systems, making the entire world culture more volatile and prone to damage. This affects everything from the stability of financial markets to the spread of disease, and is rapidly reducing the fundamental survival ability and robustness of our global culture, while replacing it with the highly inappropriate illusion of progress.

There is no doubt in my mind that two things are true today: First, we aren't doing a very good job at anything *important*. Second, things will get significantly *worse* if we don't pay better attention to what *is important*.

Of all the things that are taught in modern civilization, business receives the least attention and enjoys the most humble social status, yet on it turns the daily welfare of every individual on Earth. Without business, we do not eat, we have no place to sleep and could not cure even the simplest illness. Power and heat, food and shelter, even how we think of ourselves, are all aspects and products of everyday business and commerce.

Certainly, we study money. For many people, this passes as an in-depth analysis of business, which is a fatal mistake, since *the tracking of money is not the thing that creates it*. Accounting, business management and economics all substitute for this fundamental knowledge, steadily worsening our misfortune.

We are experiencing this far reaching difficulty in business and commerce at every level because people *have simply lost sight of the important issues and concepts that drive business and civilization in the first place*. Once you have forgotten *what you should do and why you do it*, exactly *how you do it* simply isn't very important.

Business and commerce is all about the *mutual satisfaction of needs between the vendor and consumer*. It revolves around the fundamental issues of fair transaction and equivalent value.

It is equally important to recognize that the same essential fair exchange and mutual satisfaction of needs that drives business *also drives government*. *Government is merely a special business case in which the entire population has ownership in the corporation*, and it must pass the same functional test to remain in existence. Every government on Earth has eventually forgotten this simple fact, to our very serious detriment and considerable suffering. People do not exist to serve the government, the government exists only to serve its citizens, and nothing further. This will come as a complete shock to most politicians.

The other critical issue is to understand in all of this discussion is that *all money is really a cooperative fiction we have agreed on for administrative convenience.* To focus on something so insubstantial and transient at the expense of what creates it in the first place is a tragic and fatal mistake, as recent economic events clearly show.

Never lose sight of what has real value and what is *just convenient* or transient when you are evaluating any situation, whether in business or personally. Some days it can be very hard to do that, but it remains the only avenue to real solutions.