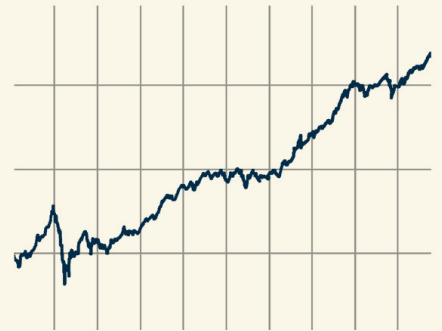


Second
Edition



101 Things I Learned[®] in Business School

Michael W. Preis with Matthew Frederick



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 | CROWN
NEW YORK

Author's Note

An MBA is one of the most sought-after postgraduate degrees, viewed by many as a reliable avenue to a good job and lucrative career. However, while an MBA can help jump-start one's career and may speed professional advancement, it isn't the most essential factor for long-term success.

As often happens, when the majority of people figure out the rules of the game, the game changes. The paradigm of spending an entire career with a single employer or within a single industry is far less common than it once was. Those starting their careers now are likely to work for multiple employers and even in multiple industries over the course of their working lives. Thus, being able to learn quickly, adapt to change, and employ ethical behavior, passion, and savvy thinking in the face of new challenges is crucial.

Business school provides specific information, skills, and tools for tomorrow's businesspeople, but more importantly it instills a desire and proficiency for learning beyond the classroom. Further, there is no single discipline called *business*; it is, rather, a broad field of endeavor encompassing such diverse areas as accounting, communications, economics, finance, leadership, management, marketing, operations, psychology, sociology, and strategy. Those who confine their learning to one of these areas may limit their potential for advancement. Those most likely to be successful in business in the long run will be those with the broadest and most open understanding of it.

This book presents lessons in business that will be most useful to you, whether you are a student, experienced businessperson, beginning entrepreneur, or someone with a casual interest in the field. It may be many years before you have the opportunity to apply some of these lessons, but it is my hope that they will increase your understanding and help you navigate the interesting and challenging world of business.

Michael W. Preis

Business is a field of multiple endeavors.

Accounting: the language of business, which organizes and conveys information about transactions in monetary terms.

Finance: the management of money and monetary assets.

Marketing: the systematic identification of and response to customer needs and wants, including the coordination of branding, promotion, distribution, and delivery.

Production and operations: the coordination and overseeing of activities such as manufacturing and provision of services.

Organizational behavior: the study of how people act and interact in work settings; may include motivational strategies, corporate organization and culture, leadership models, group psychology, and conflict resolution.

Economics: a broad social science concerned with the production, distribution, and consumption of goods, services, and financial resources.

Private businesses seek profit. Government-owned businesses seek universality.

Private, for-profit businesses are formed to earn money for their owners.

Not-for-profit organizations are created by private individuals and organizations to promote social causes, such as feeding the poor, operating museums, or teaching job skills. Monies gained through such activities must further the organization's cause, not be returned to its owners.

Government-owned businesses exist to serve universal interests. For example, it is of universal interest to have safe water; thus, a government entity might operate a water and sewer utility.

Some government businesses began as private sector businesses. Fire departments were once private businesses serving paying subscribers. But because a burning unsubscribed building threatened subscribed buildings, fire protection became recognized as a universal interest.

A common alternative to a government-run enterprise is a **regulated monopoly**, such as an electric, telephone, or

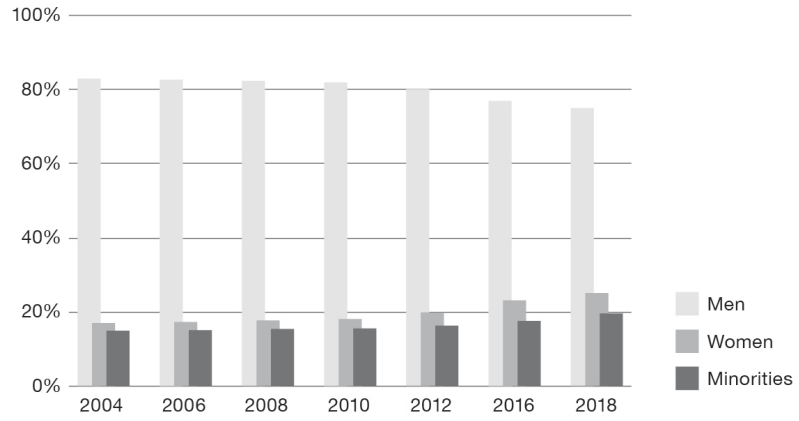
gas utility. The government controls pricing and usually requires universal service—even to unprofitable areas.

The board of directors

A corporation is required by law to have a board of directors, elected by and having a fiduciary responsibility to the owners (stockholders). A board should consist of experts in the industry and represent the long-term interests of the owners and other stakeholders.

A board governs at a strategic rather than day-to-day level. It establishes policy, sets direction, hires and supervises top management, is responsible for compliance with laws and regulations, and assures adequate resources for operations.

Directors of not-for-profit corporations do not represent stockholders, but the organization's membership as well as the general public. Some boards—non- as well as for-profit—consider themselves responsible to all parties interested in or affected by the organization's activities, including customers, employees, suppliers, neighbors, and even the natural environment. Such boards strive for a membership that reflects the diversity of the communities in which they work.



Composition of Fortune 500 boards

Source: "Missing Pieces Report: The 2018 Board Diversity Census of Women and Minorities on Fortune 500 Boards"

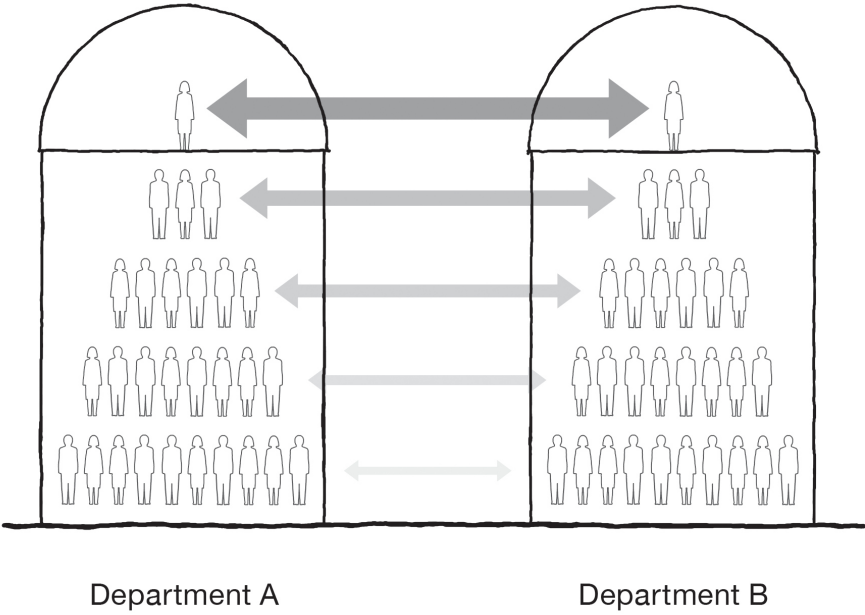
A one-person business has departments.

Many businesses have similar concerns and responsibilities, and therefore similar departments. A department in a large business may have hundreds or thousands of employees; in a sole proprietorship it may be represented by a folder in the cloud and a few hours of work per month.

Honoring the universality of departments is essential to setting up a business and facilitating growth. Putting standards and practices in place that others will readily understand anticipates the eventual hiring of employees. Even naming and arranging computer folders and files by a universal, rather than idiosyncratic, standard can help growth occur more naturally.

Functional silos can be dysfunctional.

The many disciplines in business are often organized and studied independently. This separation can provide intellectual and administrative clarity, but **functional silos** are not inherently distinct, as many business activities must be performed across them. The actions of departments and their employees invariably affect other departments, as well as the entire organization. The higher an employee advances within a silo in an organization, the greater the need to understand the activities of and interact with personnel in other silos.



The most difficult, time-consuming problems in business are not business problems.

Business endeavors are often complicated by human factors: misunderstandings, absenteeism, selfish agendas, ego clashes, personal business performed on company time, and more. Wise managers identify and minimize root factors in the work environment that contribute to people problems, and acknowledge and resolve the problems that do occur. They act as a model for others, knowing that their behaviors set a tone for the department or entire organization.

“If your thinking is sloppy, your business will be sloppy. If you are disorganized, your business will be disorganized. If you are greedy, your employees will be greedy, giving you less and less of themselves and always asking for more.”

—MICHAEL GERBER, business consultant and author

Cash versus accrual accounting

Cash accounting shows income and expenses at the time monies are received or paid out. It works best in small organizations, such as sole proprietorships.

Accrual accounting is more complex, but it provides a clear snapshot of a company's financial status at any given time by accommodating the frequent lag between when a purchase is made and when money changes hands. Every transaction is recorded in two places in a general ledger; a debit or credit entry in one account is offset by a credit or debit entry in another account.

When a business using cash accounting receives a utility bill, it records the expense when the bill is actually paid. In accrual accounting, the bill is recorded as a debt in Accounts Payable as soon as it is received. When the bill is paid, the company records accounting entries in Accounts Payable and in Cash.

Accrual accounting requires that some entries, such as bad debts, be estimated until final data becomes available.

Use several accounting reports to gauge performance.

An accounting report for one period is useful, but static. A review of several consecutive reports can reveal trends and indicate if a business's condition is improving or deteriorating. Additionally, it helps to compare an organization with others in the same industry. Standard accounting reports include:

Income Statement (also called **Profit and Loss** or **Earnings Statement**): Shows performance over a period of time, such as a quarter or year. The last line of the statement shows net profit or loss—the “bottom line.”

Statement of Cash Flows: Shows where money came from and where it went, for example, the purchase or sale of assets, and financing activities such as new borrowing and debt repayment.

Balance Sheet: Shows what a company owns (assets), what it owes to others (liabilities), and how much equity (amounts invested by owners plus profits and losses kept within the company) the owners have.

Financial ratios

Financial ratios reveal performance over time (**longitudinal analysis**) or in comparison to competitors (**cross-sectional analysis**).

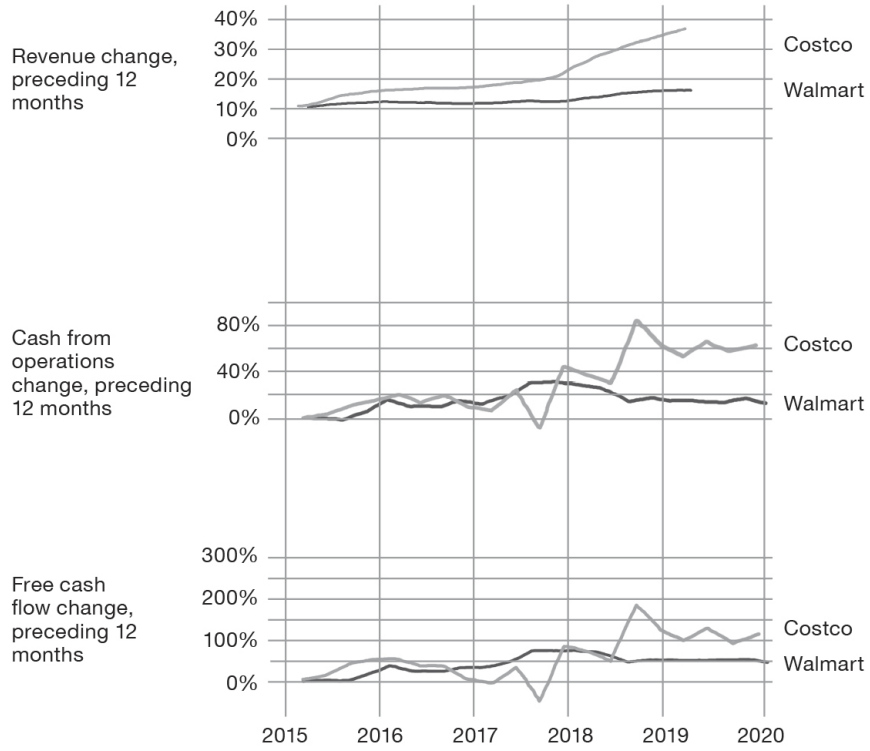
Leverage ratios measure the financial risk in an organization by comparing debt to equity or debt to assets. A lower proportion of debt indicates less risk, although a stable business with predictable revenues can safely have a higher leverage ratio.

Liquidity ratios compare short-term assets to short-term liabilities. A high ratio indicates a strong ability to meet obligations, but a very high ratio may indicate that assets are inefficiently allocated; e.g., some of the money on hand might be better used for investment.

Operating ratios indicate efficiencies in day-to-day activities, e.g., the ratio of the cost of goods sold to sales, or net profit to gross profit.

Profitability ratios measure the ability to generate profits and include profit margin, return on assets, and return on net worth.

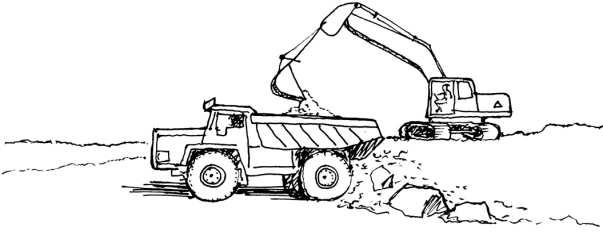
Solvency ratios measure the ability to meet long-term debt obligations by comparing short-term debt to total debt, and interest expense coverage.



Performance comparison of Walmart and Costco
Source: www.fool.com

Materials are “free”; it’s everything else that costs money.

Business costs can be categorized very generally as **material costs** or **human costs**. However, material costs have human costs embedded in them. For example, the price of an item purchased at retail has embedded in it the costs of all previous labor, profit, licenses, transportation, tariffs, etc. When a product is traced back to its physical origin—as a raw material in the ground—material costs theoretically vanish.



In the short term, some costs are fixed and some are variable. In the long run, all costs are variable.

A business's **fixed costs** are constant regardless of the level of business activity. For example, a hotel pays the same salary to a desk clerk whether one or ten guests register in an evening. Other fixed costs include depreciation, insurance, mortgage, and rent.

Variable costs depend on the level of business activity. For example, the cost of laundering linens depends on the number of occupied hotel rooms.

Fixed and variable costs both vary over longer periods of time. A permanent increase in the number of hotel guests might result in the hiring of additional desk clerks, making staffing a variable cost in the long term. If the construction of additional hotel rooms is undertaken, mortgage payments will increase to a new fixed level.

The Rule of 72

To estimate the number of years needed to double an investment when the interest rate is known, divide 72 by the rate. For example, an investment returning 9% interest per year will double in approximately eight ($72 \div 9$) years. The formula can also be used in reverse to calculate an interest rate when the time of return is known, or to calculate the halving of monetary value due to inflation: at 4% annual inflation, one dollar will have half the buying power in eighteen years ($72 \div 4$).

Greater accuracy may be achieved using 69 or 70, but 72 is more convenient as it has more divisors.

The U.S. government has two primary tools for influencing the level of business activity.

Monetary policy is the province of the Federal Reserve System, the central banking system of the United States. The “Fed” has the ability to influence short-term interest rates and the money supply. Policies that reduce rates and/or increase the money supply make it less expensive for businesses to borrow and expand, but can increase inflation; the inverse is also true.

Fiscal policy is the province of the executive and legislative branches. It refers to the rate, type, amount, and distribution of taxes and spending. It takes longer to adjust than monetary policy.



Monetary policy
U.S. Federal Reserve System



Fiscal policy
Executive and legislative branches

Deflation can be bad for business.

Inflation is the gradual decrease in the value of money. It is a normal economic state characterized by slowly rising prices and salaries. Modest inflation can help spur business activity, as the threat of higher prices tomorrow may encourage the making of purchases and investments today.

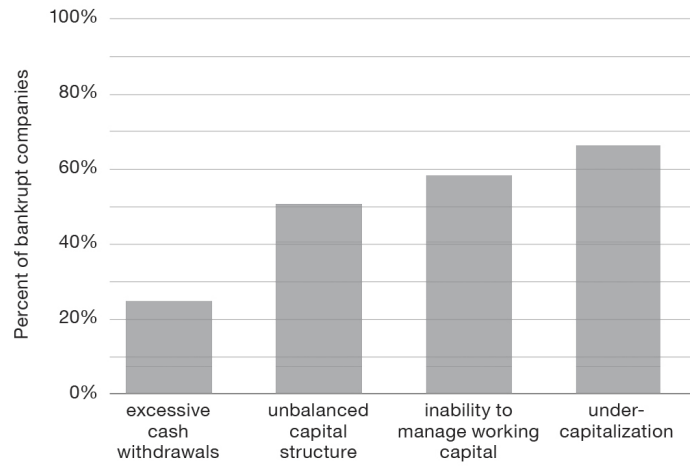
Deflation increases the value of money, and therefore may seem positive. But it can be dangerous for businesses when it occurs widely, as it may lead businesses and customers to postpone ordinary investments and purchases in anticipation of better prices tomorrow. This can contribute to an economic slowdown, further depressing prices and stifling business activity. And as a business's income and profits consequently fall, it becomes more difficult to cover existing fixed costs, such as debt obligations.

When deflation occurs within a given industry or market segment due to a productivity increase, it is not necessarily problematic as all businesses in the category are affected similarly.

A profitable company may be chronically short of cash.

A business typically makes a sale before receiving payment from the customer, while costs related to that sale, such as materials, labor, commissions, and overhead, are borne up front. Consequently, a business may be short of cash until payment is received. An especially fast-growing new company with rapidly increasing sales can be chronically short of cash, because the costs of growth (hiring and training new employees, acquiring new facilities and equipment, financing an ever-growing inventory, etc.) perpetually exceed the cash receipts from the previous, smaller sales volume.

Procuring and maintaining adequate capital is crucial, especially for a new business. Borrowing money costs money, but the alternative is worse: Undercapitalization is one of the most common causes of business failure. It can bring down an otherwise healthy organization.



Financial management problems contributing to young firm bankruptcies
Source: Oilfieldpulse.com

Bankruptcy doesn't always mean going out of business.

Chapter 7 bankruptcy is invoked when a business has inadequate assets, revenues, or markets to pay its debts and is unlikely to develop the ability to do so. It results in the company's dissolution. Assets are liquidated (sold) and the proceeds are used to pay overdue taxes, wages, and creditors. Any remaining cash is paid to stockholders.

Chapter 11 bankruptcy provides for the financial reorganization and continuation of a company that has insufficient cash to meet current debt obligations, but healthy assets, markets, or other indicators of profitability.

Most bankruptcies are voluntary; they are originated by the debtor. However, a creditor may file a bankruptcy petition against a debtor. A company forced into Chapter 7 by its creditors may file under Chapter 11 to prevent its liquidation.

Chapter 7 Businesses	Chapter 9 Municipalities	Chapter 11 Businesses	Chapter 12 Family farmers and fishermen	Chapter 13 Individuals	Chapter 15 International
Liquidation			Reorganization		

“There’s nothing so practical as a good theory.”

—KURT LEWIN, psychologist (1890–1947)



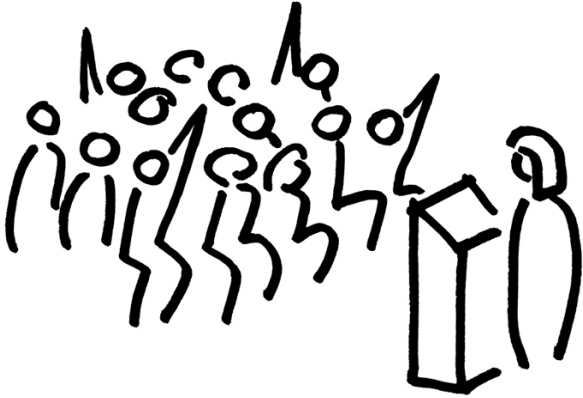
Command, consensus, or consultation?

Command decision-making is the traditional top-down, hierarchical model. It is most effective when processes or products are similar to previous examples and when management has knowledge and experience that lower-level staff do not. It is efficient but can be over-reliant on old ways when a new approach is needed. Also, in a large, highly layered organization, command decisions by upper management may seem irrelevant to lower-level employees.

Consensus or democratic decisions are made by a majority of those most directly affected by the decision. They are valued for allowing voices into the decision-making process that might otherwise go unheard. However, front-line workers may lack the strategic vision of top management and be unable to base their decisions on changing market conditions.

Consultative decision-making hybridizes the preceding models. It is an authority-based model in which managers solicit input from the affected before making decisions. It is valued for allowing diverse voices while yielding clear, final decisions for which one party is accountable.

A manager may use all three styles, switching from one to another depending on the situation.



If all options appear equal, get more information.

When feeling stuck while weighing an important decision, it is almost always helpful to seek out new, objective information on any aspect of the matter—even if the effort or information to be gained initially seems of little value. Even the most modest new data on a market, client, or technology, when probed seriously, can provoke expansive new insights that point toward a more informed decision.

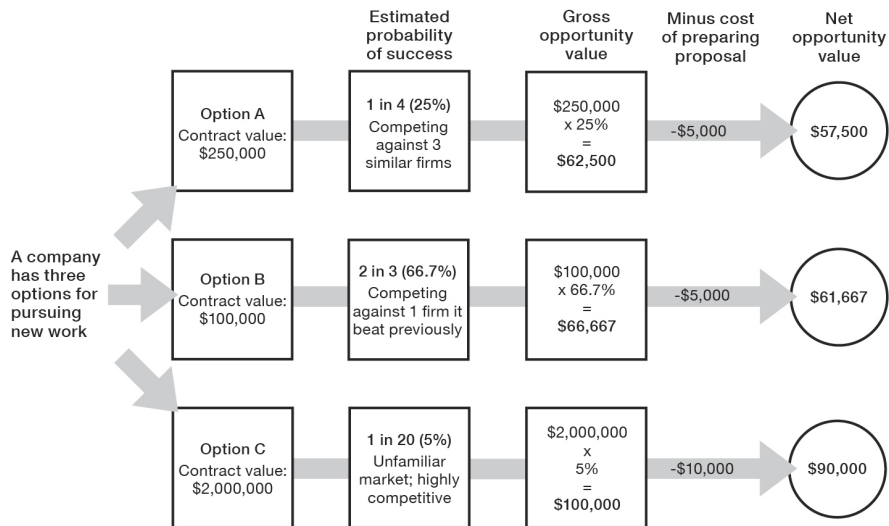
Be careful, however, that you aren't looking for excuses to put off a difficult decision. Sometimes there is a genuine need for additional data, but often one has to decide with incomplete information.



Quantify the variables.

A **decision tree** compares the likely outcomes of various courses of action. It helps temper subjective considerations and guesswork, and guards against making decisions that are hunch-based or emotional. For example, a businessperson who once failed in pursuing a particular market or client might fear pursuing that market or client again; a decision tree may help show if such fears are reasonable.

A decision tree cannot be entirely objective unless the variables and probabilities are entirely mechanical or rational. It may also be of limited use when the options have wide differences in probability or value. For example, a 100% probability of receiving \$1,000 may be for many people a superior option to a 1% probability of a \$100,000 payoff, even though the outcomes are mathematically equal.



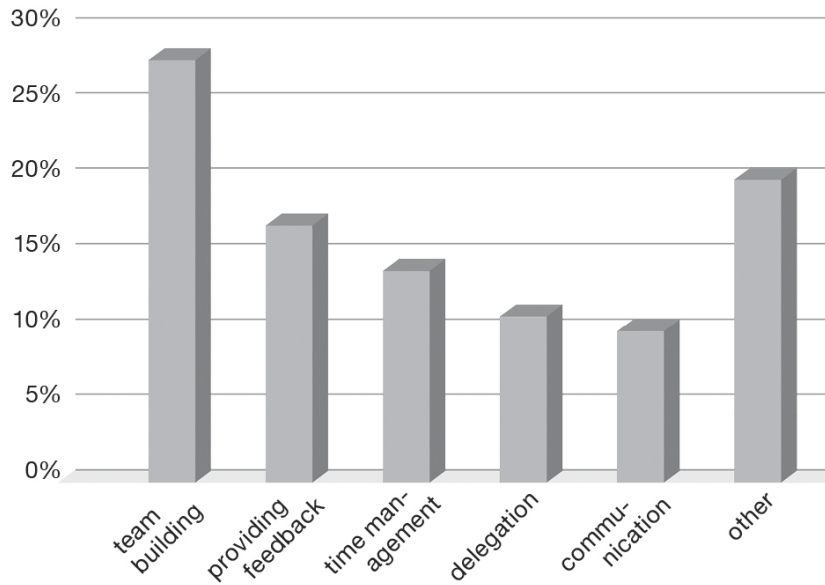
“Not to decide is to decide.”

—HARVEY COX, theologian

A manager's achievements are measured through the achievements of others.

Employees who excel in one aspect of a business are often promoted to supervisory positions. This is often a mistake, as the skills required to be a manager may be unrelated to his or her abilities or interests. A top lab researcher promoted to lab supervisor, for example, has to coach, mentor, manage, and help other researchers make discoveries. If the manager is poor at these new duties, the problem will be compounded: not only will the department be poorly managed, it will no longer have its best researcher making discoveries on the bench.

Management is its own area of expertise, distinct in many ways from the activities being managed. In very large organizations, top-level managers and administrators often lack expertise in the work being done, but are able to create circumstances that allow those under them to thrive.



What skill does your manager most lack?

Source: People Management Report 2019, by predictiveindex.com

Two views on good management

Good managers delegate. They think and work top-down. Their allegiance is to the big picture, and they leave it to those under them to carry out the manager's vision, determine logistics, solve day-to-day problems, and sweat the details.

Good managers work for those under them. They may think big, but they work bottom-up. They view their essential duty as actively facilitating staff. They identify and react to in-the-trenches needs and problems as, or even before, they arise.

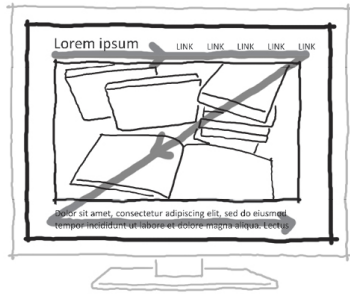
Most employees want to do good work.

Extrinsic motivation derives from anticipation of external reaction, including praise, recognition, money (positive motivators), or punishment (negative motivator). Positive motivators can lead workers to expect additional rewards for merely doing their jobs, while negative motivators may help get a task done but may have a detrimental effect over time.

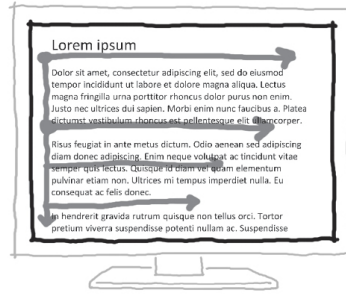
Intrinsic motivation comes from a worker's internal sense of purpose, enjoyment of the work, and satisfaction of a job done well. Intrinsic motivation can be furthered by designing jobs to best suit employees, aggregating tasks in appealing ways, enlarging responsibilities, and allowing employees more control over their duties.

Don't leave the design of your website to the IT department.

A successful brand presents itself in every medium in a visually appealing, user-friendly way. A website is crucial to this. And because it requires a high level of technical execution—writing HTML code, coordinating links, manipulating video and still images, and constantly updating content—it may seem appropriate to give full responsibility for it to technical experts. But the essence of a good website transcends mere technical execution and includes a broad set of concerns, including projection of the company's brand identity, the psychology of user interface, and consistency with other media in which the company is visible.



Z-pattern for most webpages
Viewers read the top, then scan diagonally toward the bottom to gain the gist



F-pattern for text-heavy webpages
Viewers read the top, then scan vertically on left side to identify additional items of interest

Focus on the need, not the solution.

Customers don't buy a copy machine because they need a copy machine, or a coffee maker because they need a coffee maker. They buy them because they need copies or coffee.

Customers make purchases to solve problems. A good salesperson first seeks to understand the nature and extent of a customer's problem before offering a solution. Often, the right solution is very different from what the customer assumed. A good salesperson will even talk a customer out of making a wrong purchase, because in the long run the customer will respect the salesperson's honesty and may become a repeat customer. Further, losing potential sales in this manner may help you understand the direction in which your line of goods or services needs to evolve.



If you can't do free, do cheap.

Older businesses can be caught off-guard by the giveaway policies of newer businesses, for example, newspapers that struggle to compete with online providers of free news content. But free has long been widely used in marketing: free admission before 7 p.m.; buy two, get one free; children eat free when accompanied by (hungry, paying) adults.

No giveaway is truly free, so make sure it helps sell your core product. Adobe gives away its PDF Reader software but charges for its Acrobat program that allows one to create and edit PDF documents. Google offers a free stripped-down version of its SketchUp drawing program, from which users build basic skills that create demand for the high-powered subscription version.

If you can't do free, try doing inexpensive, in which case your secondary product might behave as a core product. Printer manufacturers, for example, often sell their printers below or near cost, knowing that buyers will return again and again to buy refill cartridges.

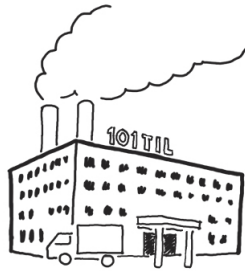
One ad, one message.

Conveying too much information in one advertisement, no matter how accurate or positive, can confuse the audience and weaken the message. It's better to tell potential customers one thing that they are likely to find important about a product than everything that may be important. Further, an ad campaign featuring different ads with different information in each may reach a wider audience, as those who overlook one ad might respond positively to another.

Are retailers and wholesalers necessary?

Wouldn't it be better for everyone if all products were sold directly by producers to consumers, bypassing the markups of distributors, wholesalers, and retailers?

No. If chewing gum, for example, were not sold through intermediaries, a manufacturer would have to sell individual packs of gum to each person who wanted one. It is estimated that nearly 400 billion sticks of gum are sold annually. If packaged in tens, manufacturers would have to sell 40 billion packs separately—an impossible task!



Producers



Intermediaries

- promote and advertise products
- match quantities to market needs
- negotiate prices and terms
- store, finance, and transport inventories
- assume risks of theft, damage, and obsolescence



Consumers



Compete in existing markets and anticipate new ones.

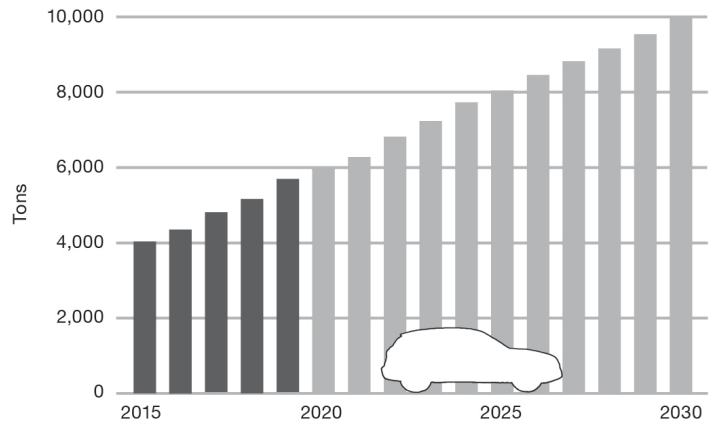
One might envision a business's future as a better version of the current business. This may limit opportunities for expansion into new and related industries. For example, a cable TV company that defines itself as providing television programming might be framing its future too narrowly. By defining its mission more broadly, as the transfer of information to and from homes, it can position itself to provide internet, home security, home automation, and telephone services using the same cable.



After the Ansoff Matrix by Igor Ansoff

Substitutes are competitors.

When evaluating competitors, consider indirect competition as carefully as direct competition. Competition from substitutes can occur at many levels, including product, ingredient, service, and convenience. Plastic, for example, is a common product or ingredient substitute for metal, glass, and ceramics, and thereby competes with them. Grocery stores providing take-out food are convenience substitutes for traditional fast-food restaurants. Even a clothesline is a substitute competitor for a clothes dryer.

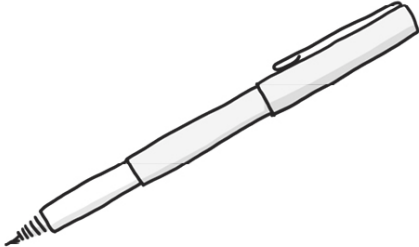
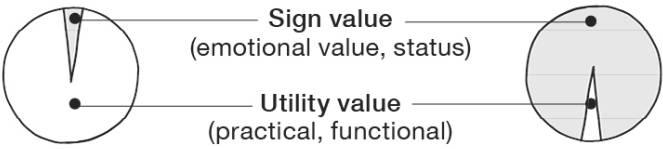


Global use of carbon fiber composites in automobiles
Source: IHS Chemical

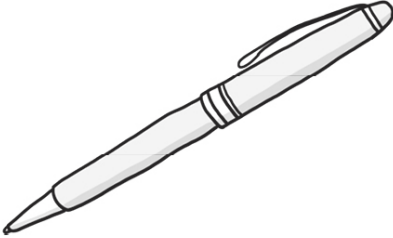
Base your prices on value to the customer, not on your costs.

It's vital to know the costs of bringing a product or service to a customer, as well as the competition's pricing. But customers are unlikely to know a business's costs or markup on what it provides. A business therefore shouldn't base its prices on markups it thinks customers will deem reasonable. It should instead base them on the customers' perceptions of the value provided.

Perception of value can be particularly variable in service industries. For example, a graphic design firm that creates a logo for a multinational corporation provides much greater value than a similar logo for a small indie store. The small business might use it on a store sign, shopping bags, and customer receipts, but the large organization may feature it at every scale from business cards to convention banners to billboards, and in every medium from clothing crests to television commercials.



Pilot: \$1.49



Mont Blanc: \$450

How to run a meeting

Prepare. Create and distribute an agenda three to seven days in advance. Put the highest priority items at the top. Let the participants know your expectations of them so they can prepare.

Consider designating someone to keep notes or minutes and watch the time, if appropriate.

Manage time and behavior. Begin punctually. Encourage participation and debate by all, but if necessary set a limit for how long each person may speak. Cut off debate if it becomes repetitive.

Honor the agenda. Review at the outset of the meeting and ask if any changes are needed. Keep discussion on topic.

Draw clear conclusions. Vote on discussion items when appropriate.

Outline the next actions to be taken by the group (things to do, next meeting, etc.). Provide a brief recap and reiterate assigned tasks.

Distribute notes or minutes promptly. Organize them in a format similar to the agenda. Include the major discussion

points and the conclusions reached. Solicit comments, questions, corrections, and clarifications.



Form, storm, norm, perform.

Group facilitation helps people with diverse interests forge common goals. Professional facilitators usually know little about the fields in which they consult, but are expert in helping others forge a common direction. They are neutral; they lead discussion and debate but not outcomes. One popular sequence of facilitation is:

Form: Organize the event; discuss the agenda; set expectations and ground rules; establish a schedule; outline the problem and the desired goals.

Storm: Brainstorm and record as many observations, ideas, strategies, and solutions as possible from all participants. Don't critique; record all ideas, even those that appear unlikely to work.

Norm: Discuss implications of the storming alternatives; identify common patterns and areas of overlap; categorize by similarity; identify hierarchies.

Perform: Help the group agree on a solution or course of action; determine what needs to be done next.

Facilitation is not linear, however. Smaller F-S-N-P cycles may be found within each phase. As well, groups frequently

acquire new insights and/or regress during the Perform stage, and must return to an earlier stage.

Effective speakers know their subject *and* their audience.

What does the audience already know? The answer will tell you where to begin your presentation. By starting with a recap of shared knowledge or concerns, the audience will feel grounded and will be more receptive to new knowledge and alternative points of view.

What is at stake for the audience? A speaker can easily assume that matters of importance to them are of equal concern to listeners. But audiences usually need to be shown what they have at stake. A presentation will be most effective if the audience and speaker have common stakes.

What does the audience need? Do they need information or inspiration? Do they need the next increment in their learning, or an expansive presentation that goes far beyond their current knowledge? And among the new material, what is the single, crucial takeaway?



The point of a visual presentation is to get the audience to *listen*.

It can be tempting to pack slides or presentation boards with extra information to look smart or give the audience extra value. But the most effective visual presentations are clear, concise, and even terse. Limit text on visual props to a few lines or bullet points; five or six is usually the maximum. Never read slides to the audience; use other words to reinforce and expand on the point being made. When using presentation software, reveal the lines as you speak them. Otherwise, the audience will stop listening to you while they read your slide. If you have additional details to convey, put them in a takeaway handout or send them afterward in a thank-you e-mail.

The party that cares less has the stronger bargaining position.

There is no stronger position at a negotiating table than indifference—to be able to walk away without negative consequence. This is not to say that a walk-away strategy is the best in every circumstance or over the long run; one can win many individual negotiating battles but lose a larger negotiating effort by alienating those with whom business could otherwise have been done in the future. One might even bring harm to *both* parties.

Win-win negotiating aims to impart mutual satisfaction through meta-strategies: Is there a higher level of engaging the impasse at which everyone can get an acceptable version of what they want? Are each party's needs truly exclusive of the other's? Does each party know what is most important to it? Is each holding on to what is most to its benefit, and willing to let go of what is not?



- Litigation**
- usually either/or outcome
 - most formal
 - most expensive
 - most stressful
 - public result



- Arbitration**
- may have either/or outcome
 - formal
 - some flexibility
 - very stressful
 - public or private result



- Mediation**
- may seek middle ground
 - usually more informal
 - most flexible
 - stressful, but less than others
 - private result

Dispute resolution

“You can always recover from the player you didn’t sign. You may never recover from the player you signed at the wrong price.”

—BILLY BEANE, executive vice president of baseball operations for the Oakland A’s, as quoted in *Moneyball* by Michael Lewis



Survival for small brick-and-mortar retail

Glom on. Locate near complementary businesses, taking note of common audience needs at specific times of day, e.g., a dry cleaner near a coffee shop (mornings), or a takeout dinner restaurant near a daycare facility (evenings).

Get signage right. Don't cram limited sign space with complex images or hard-to-read fonts that obfuscate your core business. For visibility in urban locations, try mounting an exterior sign perpendicular to the facade, if allowed.

Scale window displays to the context. A delicate jewelry display may be effective on a busy pedestrian way, but it will disappear on the front of a strip mall.

Provide transitional space. Design the entry so that arriving customers can exhibit with their body language if they wish to be immediately engaged by staff.

Make the environment immersive. Provide experiences that online retail cannot. Make all merchandise touchable, and offer food, music, community engagement, readings, lectures, and/or product demos in addition to your core products.

Make desired items harder to find, and impulse items easier. Don't bury a high-selling product, but make sure customers engage other products while seeking it.

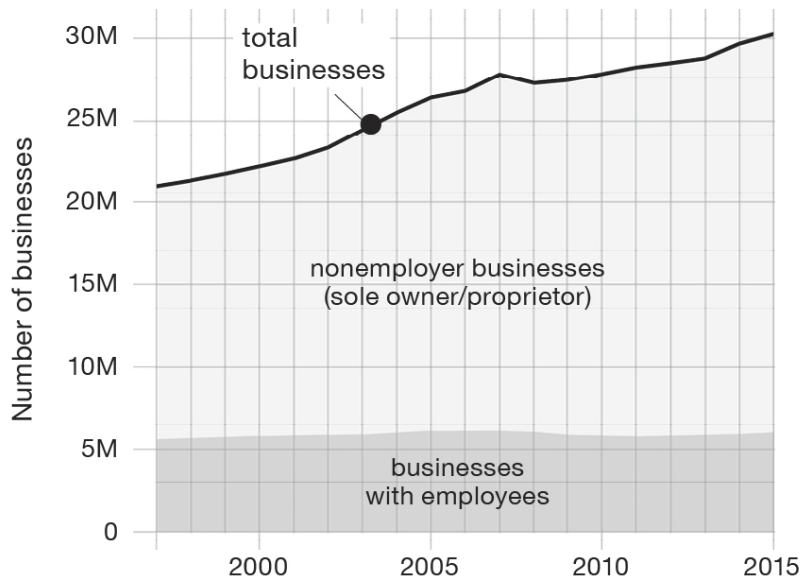
Remove one or two items from a new display. A perfect display looks like it is not to be disturbed. A not-quite-complete display suggests buying has begun.



Without small businesses, there would be no large businesses.

Large, multinational businesses have capabilities that small, local businesses do not. But small businesses also perform important economic functions. Studies show that money spent in a locally owned business has 2 to 4 times the impact on the local economy as the same amount spent at a corporate chain.

The vast majority of businesses in the United States are small and local. In fact, *every* business, at some point in its lineage, was a small, local business.



U.S. employer and nonemployer businesses
Sources: U.S. Census Bureau and Small Business Association

Two retail giants grow from a yard sale

In 1873 in Wheaton, Illinois, Reverend Charles Barnes decided to sell some books from his home library. The success of the sale led him to open a retail bookstore in his home.

Three years later, Barnes moved his burgeoning enterprise to Chicago. His son William eventually assumed ownership, which he later passed to Charles Follett, a stock clerk who had risen into management. William Barnes moved to New York City, and with Gilbert Noble established the Barnes & Noble bookstore chain in 1917. Meanwhile, in Chicago, Charles Follett continued to expand his enterprise by opening bookstores on numerous college campuses.

The two businesses grew throughout the twentieth century. While the original Wheaton store is long gone, and the zoning of the neighborhood now forbids retail businesses, an ad hoc startup in a home ultimately helped create two major corporations. Today, Barnes & Noble and Follett Corporation operate nearly 3,000 general and college bookstores, and generate nearly \$7B in total annual revenue.



“All people are entrepreneurs, but many don’t have the opportunity to find that out.”

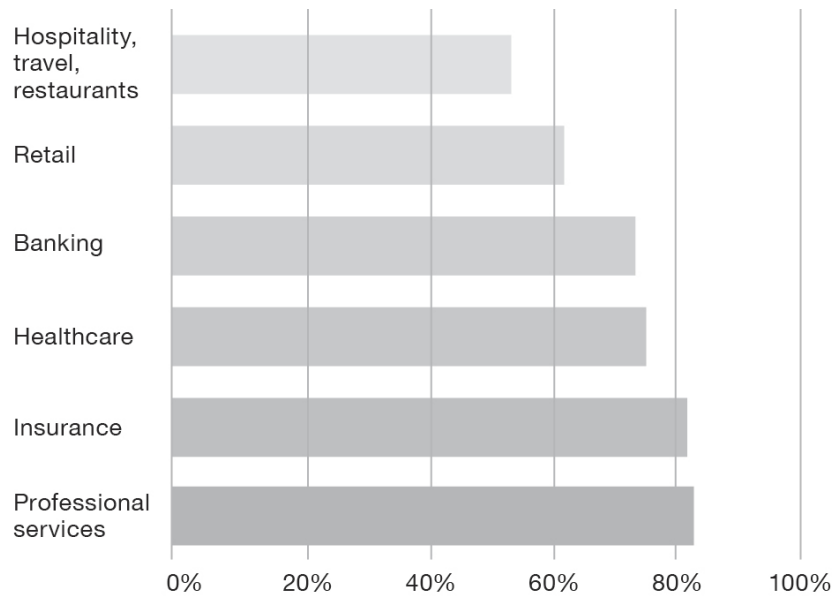
–MUHAMMAD YUNUS, founder of the Grameen Bank and
Nobel Peace Prize winner



Don't let one customer dictate your business.

Acquiring new customers can be difficult and expensive, so one might be inclined to try to hang on to all of his existing customers. But some might not be worth it. Many customers will value a business's products or services, know how to use them, respect the company's time and attention, and buy in reasonable quantities, but others will make unreasonable demands, have a constant stream of returns, and be slow in paying, all while buying in quantities too small for the business to be profitable.

Big customers also can become detrimental. Their large, consistent purchases can grant predictability, profitability, and economies of scale, but losing them can be devastating. A customer whose regular purchases constitute a disproportion of a business's sales, and who is aware of his or her consequent power, may demand that the business lower its prices to an unreasonable level. An especially aggressive customer may even threaten to stop all purchases if not allowed to buy the entire business at a bargain price.



Customer retention rates in selected industries worldwide, 2018
Source: Statista

Complaining customers want to keep doing business with you.

Most customers who complain about a business don't want to end their relationship with it; they just want something to change. Customers whose complaints are resolved quickly and satisfactorily often become very loyal, become personally attached to the business and its employees, provide positive word of mouth, and make larger purchases. They may even pay more for the product or service.

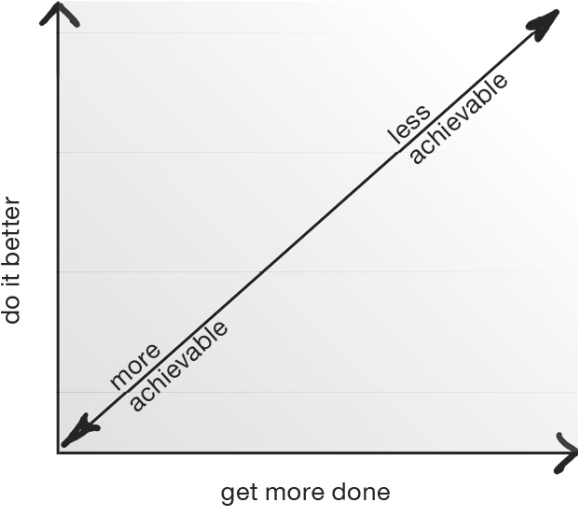
There are costs to resolving complaints, but recruiting new customers usually costs more than retaining existing customers. And for every customer who complains, many unsatisfied customers quietly leave and never come back. A complaining customer ultimately saves a business money.



Do fewer things, but do them better.

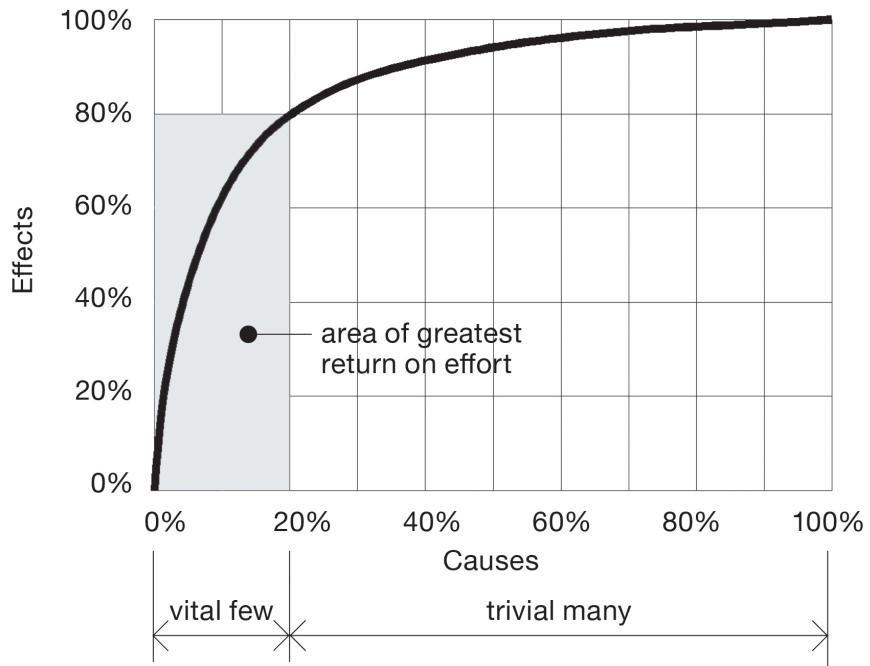
Business owners, managers, employees, and students can become overwhelmed, distracted, and frustrated by trying to do too many things well. When having difficulty maintaining quality standards, achieving desired outcomes, meeting schedule and cost targets, or getting others to prioritize and perform well, try reducing the number of things being attempted, and focus on doing those fewer things better.

There are important tasks that must be done promptly, unimportant tasks that must be done promptly, important tasks with no particular rush, and unimportant tasks with no particular rush; and sometimes there are things that seem crucial but may not need doing at all.



Sacrifice the trivial many for the vital few.

The **Pareto Principle**, a concept created by Joseph Juran, says that 20% of causes are usually responsible for 80% of results. This suggests that businesses are best served by giving the most attention to the 20% of customers accounting for 80% of its sales, to the 20% of efforts that will achieve 80% of the outcomes, or to solving the 20% of factors causing 80% of its problems. Some will even argue that 80% of the work in an organization is done by 20% of its people.



The Pareto Principle

Quality, price, service: pick two.

The quality of a product, its price, and the level of service its seller provides are interdependent. No seller can offer the best of all three—highest quality, lowest price, and best service—and remain in business. A discount store that offers high-quality merchandise at low prices will necessarily provide minimal personal service. A store selling the same merchandise with a high level of attention from staff will charge a higher price.

In project management, three similar factors are in play: quality, price, and time; one can prioritize only two of them. And if one of the factors is changed after the project is begun—a suddenly tighter schedule, a demand for better (or more) work, or a budget cut—you must change two of them: A request for higher quality means one will have to pay more or expand the schedule. An accelerated schedule will require paying more or accepting lower quality. A reduced budget will mean a slower schedule or reduced quality.

Risk seeks its own level.

Risk homeostasis theory says that people have an innate sense of the level of risk they consider acceptable in a given activity. When the activity is made safer, they behave more recklessly, at least partly nullifying the safety gains.

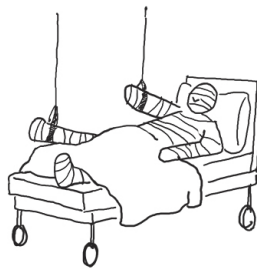
A study at the University of Bath found that drivers drove measurably closer to bicyclists who were wearing helmets than those without helmets. Another study found that Munich taxicab drivers of vehicles with antilock brakes took corners faster and left shorter reaction zones than drivers of cabs with conventional brakes. The two groups ultimately had the same crash rate.



Risk appetite
willingness or desire
to take a risk



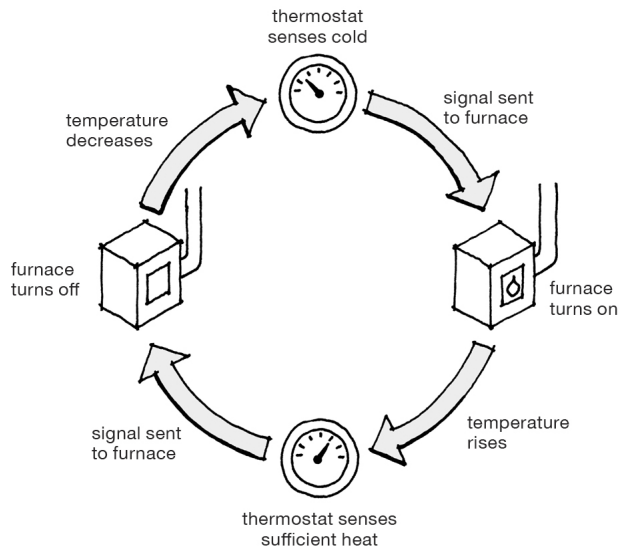
Risk tolerance
ability to manage the
downside of a risk



Positive and negative feedback loops

In a **negative feedback loop**, a system responds in the opposite direction of a stimulus, thereby providing overall stability or equilibrium. The Law of Supply and Demand usually functions as a negative feedback loop: when the supply of a product, material, or service increases, its price tends to fall, which may lead to rising demand, which will drive the price back up.

In a **positive feedback loop**, a system responds in the same direction as the stimulus, decreasing equilibrium further and further. For example, a consumer who feels prosperous after making new purchases may end up making even more purchases and take on excessive debt. Eventually, the consumer may face financial ruin and have to make a major correction by selling off assets or declaring bankruptcy. Because positive feedback loops often lead to a dramatic restoration of equilibrium, it is sometimes suggested that they exist within a larger, if not directly visible, negative feedback loop.



A negative feedback loop

The Law of Supply and Demand doesn't always apply.

The familiar **Law of Supply and Demand** says that if the supply of a given product or service exceeds demand, its price will decrease; if demand exceeds supply, its price will increase. Increases and decreases in price affect demand in the same way. When supply and demand are exactly equal, the market is at equilibrium and acts most efficiently: suppliers sell all the goods they produce and consumers get all the goods they demand.

Not all products adhere to the Law, however. When the prices of some luxury or prestige items have been lowered, demand for them has fallen due to consumers perceiving reduced cachet. In other instances, rising demand for a product has led to improvements in technology, production, and distribution, driving prices down. Electronic and digital technologies have often followed this pattern.

Correlation isn't necessarily causation.

Beginning in 1924, the Hawthorne Studies were conducted at Western Electric Company in Cicero, Illinois. Various environmental changes were introduced to determine their effects on worker efficiency. Initial improvements were thought to be due to changes in lighting, work hours, and break times. However, it became apparent that almost every change in the environment, even the reintroduction of a previous condition, increased productivity. Later theorists posited that the workers worked better simply because they knew they were being observed.

The Hawthorne Studies, still debated today, gave their name to the **Hawthorne effect**, also called the **observer effect**, by which individuals under study modify their behavior because of their awareness of the study.



Keep your knees bent.

Change is constant. New competitors appear, existing suppliers disappear. Costs increase, product shortages arise, customers go away without explanation, and valued clients move on to other vendors. Natural disasters, worker strikes, and pandemics occur with little warning. Tariffs and trade policies increase prices overnight.

A crisis is a time of sudden change, and change brings opportunities—although they might lie in places other than where you preferred or were inclined to look. A hurricane wreaks destruction, but it will create a demand for plywood before it strikes and additional building materials afterward. A pandemic may force people to stay at home, but there will be greater demand for medical gear and food delivery. A trade war may produce drastic cost increases or material scarcities, but new sources will crop up that may form the basis for lifelong working partnerships.

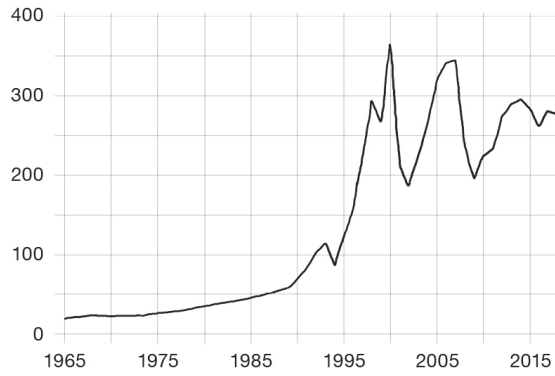
**“Two basic rules of life are:
1) Change is inevitable.
2) Everybody resists change.”**

—W. EDWARDS DEMING, management consultant (1900–
1993)

Doing good can lead to doing well.

In 2015, Dan Price, CEO of a Seattle credit card payments company, got an earful from an employee who was struggling to make ends meet. Price reacted defensively, but later thought about his own salary in contrast to those of his workers. He read that the annual salary at which workers worried least about their future was \$70,000. Price cut his own pay from \$1.1 million to \$70,000, and announced a company-wide minimum salary of \$70,000—effectively doubling the pay of over one-third of his 120 workers.

Some higher-paid staff disagreed with the policy, and left. But after a period of adjustment, productivity increased. Workers were able to let go of second jobs and focus on doing one job well. Many could afford to live closer to work, and spent less time commuting. Home ownership among employees jumped to 10% from 1%. Good press on Price's actions led to an increase in processing volume from \$3.8B to \$10.2B in five years, and the doubling of his workforce.



Ratio of for-profit CEO compensation to average employee
Source: Economic Policy Institute

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