

F S B

FORTUNE SMALL BUSINESS

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BEST PRACTICES

What Can Small Business
Learn From Behemoths
Such as Dell, GE, and
Southwest? More Than
You Might Think.

DANCING WITH ELEPHANTS

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SOUTHWEST AIRLINES ANNUALLY ACCOMMODATES 66 million passengers. General Electric has 307,000 employees. Last year Dell Computer churned out 26 million products. These businesses are so big that they're closer to countries than companies. What could they possibly have in common with your small business? Surprisingly, quite a bit. ■ After all, these behemoths were once small too, and confronted many of the same challenges during their formative years that you're facing today. Over the years they've figured out ways to overcome some daunting business hurdles and have stored that business

wisdom in what in consultant-speak is called best practices. We got to thinking: If small companies were privy to such practices, wouldn't that give them a genuine, competitive leg up?

Unfortunately, it is next to impossible for small businesses to gain an audience with their corporate elders. The big guys tend to share best practices only with peers and major customers. But we were lucky to be able to tag along with Verne Harnish, an *FSB* contributor who is founder of Gazelles, an executive-education firm for the leaders of small, fast-growth companies that's located in Ashburn, Va. Harnish arranged a series of unique sessions with Southwest, GE, and Dell in which those corporations shared their best practices with groups of 50 or so small-business executives (pricetag: \$1,000 to \$1,295 a head).

Southwest Airlines offered insight into the personnel practices that have made it an industry leader. GE discussed its relentless pursuit of data, offering a crash course on the migraine-inducing process called Six Sigma. Dell disclosed the techniques it uses to be a productivity powerhouse.

Of course, when ants and elephants mingle, a certain measure of intimidation is unavoidable. The GE event, for example, was held in Louisville and included a visit to a company plant that occupies 1,030 acres, employs 6,000 people, and annually cranks out millions of fridges, dishwashers, and other appliances. "The parking lot is massive," said Mark Deloach with obvious discomfort. He's CFO of VideoPlus, a Dallas corporate communications outfit (featured in *FSB* in March; see *FSB.com*) with around \$10 million in revenues and a parking lot that accommodates a mere 50. Nevertheless, the various attendees walked away with quite a few useful ideas. After the sessions, *FSB* caught up with various participants to inquire whether they had instituted any of the best practices. Obviously, none simply adopted outright the approaches favored by Southwest, GE, or Dell; these are small companies, with limited resources. But a number of participants found ways to tweak the various best practices, adapting them to their specific needs. "The purpose is to learn from great companies and shamelessly steal," says Harnish. Read on and see what you can pilfer from three of the best in business.

SOUTHWEST AIRLINES

HAD YOU PURCHASED \$10,000 WORTH OF Southwest stock in 1972, it would now be worth more than \$10 million. "Competitors can copy everything else: the planes, the pricing, the no-frills style," says consultant Rita Bailey. "The secret weapon is the people."

Bailey—a former Southwest personnel executive who now runs a Carrollton, Texas, consulting firm called QVF Partners—led the recent best-practices session for small companies held in Dallas. She kicked off by showing slides of some of Southwest's recruitment ads. One featured an image of a dinosaur in a coloring book, with crayon marks scrawled way outside the lines. The tagline read: "Brian shows an early aptitude for working at Southwest Airlines." Bailey explained that such ads are invaluable for communicating Southwest's "think outside the box" corporate culture to potential applicants. More than anything, they serve as a screen: Even at this early juncture in the hiring process, they are more likely to grab the attention of people who could truly fit in. This is one Southwest technique, suggested Bailey,

When hiring, Southwest stresses attitude over skill. Skills can always be taught, but attitude is hard-wired.

that even very small companies can emulate. Through careful wording, a business that is simply placing good old Sunday classifieds has a better shot at attracting the right kind of applicant.

The main territory covered in the session, however, was Southwest's interviewing methods. When hiring, the company emphasizes attitude over skill. The thinking here: Skills can always be taught on the job, but attitude is pretty well hard-wired. As a result Southwest interviews are full of questions designed to suss out an applicant's personality, congeniality, style, and coping skills. Typical questions include "Describe a situation in which you handled a crisis at work" and "Give an example of when you were able to change a co-worker's attitude about something." The right answer is an expansive one, a well-told tale, and it's crucial that the applicant demonstrate a sense of humor. Southwest used to ask interviewees point-blank to tell a joke. But that was too much pressure in a job interview, and some applicants tended to freeze up.

"We came away from Southwest with a reminder that it's okay to have fun at work," says Advanced Circuits CEO Ron Huston. His company has 195 employees and \$30 million in revenues, and makes printed circuitboards for customers such as IBM and Lucent, a pretty somber task. Asked whether he has managed to lighten up the culture, Huston admits, "We haven't done anything yet." But then he cuts to the chase. What Huston really got out of the Southwest visit is the necessity of hiring for attitude rather than skill. Advanced Circuits' employees don't wear silly hats. They don't burst into song parodies. But Huston explains that he needs team players; his company's productivity has suffered when he's brought in people with negative attitudes. Along with the standard interviews, Huston has introduced a new screen: peer interviews in which applicants meet with teams of prospective co-workers. "We're trying to interview differently," says Huston, "with a goal toward avoiding bad hires. That's a Southwest notion. A single bad hire ends up being so expensive, both in terms of money and what it does to overall morale."

For most of the small-business attendees, the highlight was a tour of Southwest's University for People. It is housed in a former hangar at Dallas's Love Field, which also features a mock aircraft fuselage where flight attendants can practice moving in tight spaces. There's even a mock ticket counter, complete with a queue. In order to break in freshly hired ticket takers, Southwest employees are tapped to stand in the line, pretending to be travelers. Sometimes one will even do an angry-customer impression, charging the ticket counter, waving and screaming about a flight delay.

The University for People is where new recruits are sent for orientation and indoctrination into Southwest's culture. They get to see video footage of Herb Kelleher, Southwest's legendary founder, dressed as Elvis at a company party and otherwise carrying on. They learn corporate lore, e.g., the original business plan for Southwest was literally drawn on a cocktail napkin. "If people don't have a sense of identity, then it becomes just a job," says Bailey.

Immediately following the best-practices session, Phil Miner re-

turned home and established Miner U. He's CEO of Miner, a \$25 million company that distributes and services loading-dock equipment and industrial doors for clients such as Albertsons and Safeway. While Southwest's University for People occupies 22,000 square feet, Miner U is a several-hundred-square-foot room at the company's headquarters in New Braunsfels, Texas. But Miner has a similar goal: He wants to impart to his 70 employees a sense of company history. Miner Corp. is a third-generation business, founded in 1967 by Phil Miner's grandfather. He wants to make sure, for example, that employees know that Safeway is an honored customer that has stuck with the company from the beginning. Exhibit A at Miner U is a Remington Model 1 typewriter that Miner's father used during the early lean and hungry years. "It's a reminder of our roots and of how far we've come," says Miner.

GENERAL ELECTRIC

AS A HARD-CHARGING, CALVINIST CULTURE that lives, eats, and breathes data, General Electric is Southwest's polar opposite. One of the company's defining characteristics is a weakness for inelegant acronyms such as DMAIC (pronounced demayec, and meaning "define, measure, analyze, improve, control"). Employees bandy that and other un-gainly acronyms about as if to say, We're deathly serious and can't be bothered with cutesy terms. By contrast, Southwest's handful of acronyms are on the order of FLY (freedom, love, and you).

But there's no arguing with GE's success: In 2003 the company rang up a \$15 billion

profit on \$134 billion in revenues. The small-business best-practices session, held in Louisville, focused on Six Sigma, a business-improvement process that former CEO Jack Welch introduced in 1995. Essentially, a manager achieves Six Sigma when one of his processes results in no more than 3.4 defects per million opportunities. GE is a massively diversified company—it does everything from building nuclear reactors to servicing credit cards—and Welch viewed Six Sigma as a kind of lingua franca across the vast organization. Say, for example, that a service call has to be made on an appliance produced at the Louisville plant. That's deemed a defect, and it hurts the appliance division's Six Sigma. According to GE, Six Sigma has saved the company something approaching \$10 billion since adoption. But it is also a complex process that requires ample training, companywide buy-in, and endless data grubbing. "How many of you already employ Six Sigma?" asked Mike Antonietti, a senior vice president at GE who helped run the best-practices session.

No attendees raised their hands.

To get some exposure to Six Sigma, the small-business people were divided into four competing teams. The drill: Slide coins across a table and make them land on a strip of masking tape. The winner would be the one with the best on-tape performance (OTP, in GE lingo). After a number of unsuccessful efforts, the four teams gathered in a conference room to figure out how to boost their sigmi. GE execs introduced the entrepreneurs to various analytical tools, such as Pareto and Fishbone Charts, both used to sort out cause and effect behind errors and inefficiencies. The Fishbone Charts drawn up by the four teams are basically logic trees that map the steps of the

process in an attempt to discover what might have gone wrong. Maybe coin-slider attitude was to blame, because some participants didn't take the exercise seriously. Or perhaps the tables weren't as slick or level as possible. "Some people drank too much coffee, and their coins were just flying off the table," read one Fishbone Chart entry.

The teams returned to their respective meeting rooms for round two. Members of a group called the Bandits immediately removed two legs from their table so that it tilted at a 45-degree angle. They placed one of the legs against the end of the table, creating a backstop. Now every single coin came nicely to rest smack on the strip of masking tape. "You highlight a problem. You fix it. It works. You celebrate," Isabelle Monlouis, one of the GE execs, said rather robotically.

Among attendees it was generally agreed that becoming a Six Sigma coin slider is one thing, and becoming a Six Sigma company quite another. During the factory tour the attendees got a sneak peak at a brand-new oven and were informed that developing a prototype involved baking 30,000 cookies. Clearly, the rigor GE employs to achieve Six Sigma is beyond the reach—and beyond the means—of most small companies.

"I enjoyed the coin-sliding exercise," said Brett Begley, owner of ABC Hardware & Rental, "but now what do I do?"

Even so, when FSB checked back several months later, a surprising number of participants had put lessons learned from GE into practice. Paul Silvis is founder of Restek, a \$30-million-a-year

GE told the tour group that developing its new prototype oven involved baking 30,000 cookies.

chromatography company in Bellefonte, Pa. Some of his firm's products were employed aboard the recent Martian rover to detect gases such as oxygen and methane. While Restek manufactures with an impressive degree of precision, Silvis says the company still encounters periodic quality problems. To make each product requires two weeks and hundreds of steps. The temptation is for his workers to add a pinch of one ingredient here, a dab of another there, more like a chef than a chemist.

Taking a page from GE, he has asked his 200 employees to be more rigorous, gathering better data on the exact steps and precise amounts of ingredients necessary to make each product. He's in the process of drawing up a series of recipes that are to be followed to the letter. "I'm not interested in the meaning of Six Sigma in terms of actual defect rate," says Silvis. "I'm more interested in the process of improving our quality."

Silvis has even made up signs bearing a GE mantra, evoked several times during the Louisville session. He has posted them all over his company's headquarters. They read, IN GOD WE TRUST. EVERYONE ELSE BRING DATA.

DELL

OFFICIALLY DELL HAS NEVER been a \$1 billion company. It skipped that landmark, jumping directly from \$890 million in revenues in fiscal 1992 to \$2 billion in fiscal 1993. The company—started in 1983 out of Michael Dell's dorm room at the University of Texas—has since ballooned to \$41 billion in revenues and profits of \$2.6 billion. A key to Dell's growth is relentless productivity improvement. "We never rest,

never allow ourselves to reach the finish line,” says Mort Topfer, a member of the company’s board who participated in the best-practices session held in Austin.

At its factories, Dell keeps just three days of inventory on hand, vs. 45 for many of its competitors. Dell is such a formidable elephant that it demands that suppliers set up their own warehousing space near its two U.S. factories, in Austin and Nashville. When Dell needs to replenish an item, suppliers have 90 minutes to deliver. The PC maker also has its suppliers hold on to their goods for as long as possible. That has proved highly advantageous to Dell, which operates in an industry where components lose 1% of their value each week.

Tight inventory management has also become a linchpin of Dell’s direct-selling model. Nothing is built until an order is received via the Internet or over the phone. Yet once an order comes in, it takes a mere six hours on average for the specified item to be built and shipped. “I was inspired and humbled by the visit to Dell,” said Fred Crosetto, CEO of Ammex. “The experience left me thinking, Now what are we going to do?”

Ammex—with \$28 million in sales and 42 employees, and located in Kent, Wash.—imports and distributes disposable gloves made in places such as China and Thailand. It sells one billion of them a year in the U.S. One week after the Dell best-practices event, Crosetto said he decided to eliminate two of his company’s four warehouses. “We looked at Dell’s model. Who are we fooling?” asked Crosetto. “They’re one of the biggest companies in the world, yet we have four warehouses, vs. none for them.”

By eliminating warehouses in Chicago and Las Vegas, Crosetto figures he can simply divvy the U.S. into an eastern half and a western half, served from the remaining warehouses in

Atlanta and Seattle. He expects immediate productivity gains driven by improved logistics and better order fulfillment.

Another lesson from the Dell event: The company actively encourages its employees to chime in with ideas for improving productivity. During the tour of the company’s Austin plant, Graham Weston, CEO of Rackspace Managed Hosting, broke away from the group to talk to a worker. How did management’s productivity hoo-ha impact her job? Weston wanted to know. He was surprised to learn that Dell rewards employees for coming up with productivity-enhancing ideas, sometimes with bonuses as high as \$1,000. After all, who knows the inefficiencies of a job better than the person doing it?

Once an order comes in, it takes Dell a mere six hours for the item to be built and shipped.

Following the Dell event, Weston also decided to do a little shameless stealing. Rackspace is located in San Antonio, has 397 employees and \$60 million in revenues, and provides hosting of websites for

such clients as the U.S. Marines. Basically, Rackspace helps maintain its clients’ websites, making sure they don’t crash and they stay virus-free. “Dell has managed to get its employees to participate in improving productivity,” says Weston. “We decided that we also need to enlist everyone in our organization, top to bottom.” Taking a page from Dell, Weston acted on an employee’s suggestion and cut two unnecessary steps out of his unwieldy customer-service system, saving the company, he estimates, 160 hours a month of labor. As to what to name this new initiative, Graham lit on “Rackspace Fever.”

Clearly, small companies can learn a great deal from large companies. On those rare occasions where such opportunities arise, all kinds of eureka result. Who knows? Perhaps Rackspace or Restek—or maybe the company of someone reading this article—will grow into a massive enterprise. As GE might say, GLEYFB (Good luck earning your first billion). □