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Plan to Win by a Touchdown or More

Often, in our planning and forecasting efforts, we plan to win by a field goal instead of a touchdown. What I mean by this is, we determine the required goal or performance level and then plan to produce that result with no margin for error or unexpected events. Early in Jim Tressel's career as Head Football Coach at The Ohio State University, many of the Buckeye's victories were by the narrowest of margins, sometimes one point or a field goal. These drove the fans crazy. Similarly, you drive yourself and those around you crazy by cutting it too close. Plan to achieve a safety margin. Here are some examples of this thinking in a couple of different contexts:

Investing

In The Snowball, Warren Buffett's biography, the author relates a story about Ben Graham, Warren's mentor and early investing idol and Rockwood & Company, a chocolate company with a large inventory of cocoa beans to unload. The owner of the company was offering a deal on the cocoa beans that would make the investor $2 a share buying the cocoa beans. Ben Graham invested and hedged his bet to ensure he locked in the $2 a share profit. This approach would yield a $444 return on the $222 Warren had to invest. Warren, however, looked for the touchdown in this deal and found it to be with Rockwood & Company ownership. So he purchased the stock of the company rather than the bean certificates that Graham bought. This strategy produced more than a $10,000 return on the original investment of $222 or better than 20 times the return that Ben had achieved.

Hiring

In a recent hiring situation, I was confident that the candidate that we wanted to hire would like to work for us rather than another firm that had made him an offer. Financially the offers were similar but I believed (and still do) that this candidate belonged in consulting. He liked the variety of fresh ideas and new challenges associated with improving a company's performance and disliked the settled environment of a mature business where routine would eventually ensue. It was my impression that he preferred our firm, but I was not satisfied to leave it at that. I called a couple of individuals that had worked for me in the past and asked if they wouldn't be willing to give him an impression of what it was like working with me. One of them is a co-founder of another consulting firm and the other is the leader of the strategy group of a division of a Fortune listed technology company. The quality of these two individuals and their experiences gave us the touchdown or more margins we needed to feel secure that we had done everything that could be done to win. And we did. The candidate selected us as his first choice.

Budgeting and Forecasting

In today's environment budgeting and forecasting can seem like a crystal ball exercise. To do it well, the process needs to start with a realistic look at sales drivers, usually units of some kind, to establish two forecasts. The conservative forecast and the stretch forecast. The stretch forecast is used with the sales team and others where motivation is a key objective. The goal here is to get the team thinking in terms of a higher level of performance. Enough higher that they have to challenge the ways in which they work and search for more effective ways of generating the revenue. The conservative forecast is used for budgeting purposes and in particular, sales, general and administrative (SG&A) expense control. It is based upon what is required to satisfy customers assuming the highest level of volume you feel you KNOW you will have. Hope and wishful thinking have no place in the conservative forecast. This one needs to be realistic. Use the conservative forecast to establish spend levels and cost structure. In this way, by trying to produce the stretch target, but planning your spend levels around the conservative target, you plan to win the profitability game by a touchdown and ensure at least a field goal's worth of margin.

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