

## Creating Alignment

Alignment is a simple concept. Think about it in terms of walking to the corner store. If you left foot is going north and your right foot is going south, you are going to have a hard time reaching the store. If the store is north of you and both feet are going south there is still a small probability that you will reach the store. You will just have to walk around the world to get there. When all aspects of a complex situation or organization are in alignment, the path is easy to follow.

The same is true in business. If you want to reach your business goals everything in your company must be aligned with those goals. Creating alignment requires that you know which direction you need to go. Without direction, you are just wondering around. You may as well not have a goal.

Your business "mission" should reflect your business goals. Throughout the 80's and 90's, developing your business mission was at the top of the hot topic list. Hundreds of thousands of hours were spent developing company missions that were printed, framed and hung up on walls everywhere in an effort to create alignment. A lot of those framed missions can still be found in infrequently visited offices throughout the country. If you look around the next time you visit a large company you are sure to run across a few.

Many companies expended a huge amount of resources to develop their mission without really understanding the true nature of the mission. You see, a mission is nothing more than a concise statement of company goals. The "formula" below was often used as a starting point for creating a company mission.

We exist to provide (your customers)  
With (what you do)  
By (how you do it)

Small businesses never seem to have a problem defining their mission. In fact just about any small business owner can do so in just a few seconds. If you don't believe me, just ask. Most of them will answer with little pause... "We're in business to make money (make a profit, grow the business, etc.)" The small business owner understands that without a profit nothing else is possible. You can't provide "great" service if there isn't enough profit to pay the service people. You can't create great products if there is not enough profit to buy raw materials. Without profit, everything else is just talk.

So, unless you are a very rich philanthropist, your first concern as a small business owner will always be "making money". Sure, there are other concerns such as treating your customers fairly and providing service after the sale. You should have your dream of "providing a service so exceptional that your customers would never consider going anywhere else". That's the fun part of owning a small business. But staying in business long enough to do that means you must concentrate on making money first.

If you are willing to accept that the primary goal of every small business is making money we can dismiss those hundreds of hours necessary to come up with a great company mission and get right to work on creating alignment.

Alignment of your business processes is just like walking to the store. You have to know where you are going and you need to understand what it's going to take to get there. Alignment is the process of getting all aspects of your business moving in the same direction. That direction is toward meeting your business goals. Alignment does not guarantee success but it does increase the *probability* of success. In fact, that's how we measure alignment... by the probability that all of your business processes combined will result in making a profit.

Probability is the likely hood that something will happen. *This* is likely to happen if you do *that*... *Cause and Effect*. There is seldom a situation where any *cause* will have a 100% probability of creating any specific *effect*. If you are 100 yards due south of the store and each step you take is exactly 3 feet long then the probability of reaching the store within 100 steps is 100%. Unless, of course, you trip and fall or get hit by a car or the streets are crowded or a piano falls on you or any of a thousand other things that *could* happen between here and there.

To be helpful, we need a way to accurately measure alignment. If we can develop an accurate measurement it will be easy to tell if your business is aligned. The following is our definition of alignment and our process for measuring it.

*Alignment is the ability of your business processes to result in achieving your business goals.*

Using this definition we can represent alignment with a simple formula.

*Cause* – the number of times you initiate a specific action

*Effect* - the number of times that action results in the desired effect

$$\text{Alignment} = \text{Effect (divided by) Cause}$$

This is pretty simple. The relative alignment of any set of processes is determined simply by dividing the number of times a specific effect occurs by the number of times the cause is initiated. The result is the probability of any action to create the desired effect. If you send out 10,000 mailers and you get 100 responses the relative alignment of this business process is 100 divided by 10,000. In other words the process of sending the mailer has a probability of one percent (or 1 out of a hundred) of producing the desired effect. If the total number of shoppers to your store is 500 and you make 250 sales the your total store presentation, price and product has an alignment rating of 50%. If you make 400 sales for every 500 shoppers your alignment rating is 80%. If your business is *well aligned* the *probability* of achieving your business goals is higher than if your business is *less well aligned*.

This would be a great measure if you could apply it to any process you do in your business. The great news is that you can... it just takes a little work to set it up.

It is impossible to see all of the interactive processes within your business. There is simply no way to see if they are all aligned. To really be helpful, we need to be able to see distinct and individual cause and effects.

This can be done with a little work by breaking business processes into smaller sections. These sections are connected to each other in a chain that leads to meeting your business goals. These chains are called *cause and effect chains*.

These cause and effect chains tie (or should tie) everything you do in your business to your primary goal of making money. Unlocking your door in the morning or answering the phone are *links* in a cause and effect chain that leads to making a sale. Obviously, if there are things you are doing in your business that are not directly tied to making a profit they are a complete waste of your time. The problem is understanding which actions *have a high probability* of helping you meet your goals and which actions have a *low probability*.



*Figure 1: Cause and effect chain - Each link in the CAUSE AND EFFECT CHAIN is a "cause" of the next link and an "effect" of the previous link. In this example, Kick a Rock is an effect of Get Angry and the cause of Break(ing) a Toe.*

Figure 1 (above) illustrates a basic *cause and effect chain*. I'm sure you are familiar with cause and effect. If you are from my generation, if you did something wrong you got a whipping. Today's generation would get a "time out". Here's an old one...

*For lack of a nail, a shoe was lost.  
For lack of a shoe, a horse was lost.  
For lack of a horse, a rider was lost.  
For lack of a rider, a battle was lost.  
For lack of a battle, the kingdom was lost.*

Your business is made up of dozens, if not hundreds, of cause and effect chains. Each chain is made up of multiple links. Each link has a cause on one end (the left end in Figure 1). On the other end is the effect. Where the two links come together is called the *transition point*. The transition point is where the *effect* becomes the *cause* of the next link.

Figure 1 illustrates the concept. The Get Angry / Kick a Rock link has both a cause and an effect. The transition point is where two links come together. In this example, Kick a Rock is the only transition point. This is where *Kick a Rock* (the effect of Get Angry) becomes the *Kick a Rock* (the cause of Break a Toe). These links and transition points should flow from the simplest process in your business directly to your primary business goal.

The concept here should be obvious. Most people understand cause and effect. Most business people understand that what they do in their business affects how much profit they make. It's how you make decisions. If sales drop... you advertise more. (IE: advertise is the *obvious cause* of selling more)

In reality, what you may be doing is looking at just the ends of the cause and effect chain. Advertise is on the *cause* end and sell more is on the *effect* end of a chain of processes. Get Angry is the *cause* and Break a Toe is the *effect*. In your business chain there may actually be half a dozen links between the beginning cause and end effect. If you don't know what those links are and how they affect the outcome of the chain, you may well spend money on advertising that doesn't produce the desired effect. In our example you may be getting angry without breaking a toe.

Once you understand the details of a cause and effect chain the process of adjusting the outcome (probability of reaching your goal) becomes a simple matter of measuring the success of each link in the chain. If each link is well aligned and all have a high probability of success you will (within the probability constraints) achieve the end goal. By measuring each link in the chain you will immediately know which part of the whole process is not working.

For instance, in Figure 1 the end goal is to "Break a Toe". If you failed to meet this goal go to the previous goal (Kick a Rock). If you achieved this goal (you did kick a rock) and did not achieve the Break a Toe goal, there must be a problem in the Kick a Rock cause. You may have to change the cause to "Kick a Rock Really Hard". Then try the process again and check the results. On the other hand, if you didn't "Kick the Rock", go to the previous goal, "Get Angry" and see if there is a problem there.

In a well thought out and measured cause and effect chains you will be able to predict the final results based on any link in the chain. For instance, we can predict that one out of every ten times we *get angry* we *break a toe*. We can also predict that 9 out of ten times we *kick a rock* we *break a toe*. The more "aligned" our cause and effect chains are, the more predictable the results. For instance, if we changed the cause *Get Angry* to *Get Angry in a Rock Pile* the probability of *Kicking a Rock* (and therefore *Breaking a Toe*) may increase dramatically.

Although the example is a very simplified cause and effect chain, it is easy to see the benefits of understanding the cause and effect chains in your organization. They can make it very easy to spot exactly where in the process a problem occurred. This may not help you create a fix for the problem but it accurately shows you where the problem is.

The problem is that, even in a small business there are thousands of links between the things you do (your business processes) and your business goals. Understanding and managing every one of those links is nearly impossible. This is especially true in a small business with limited human resources. But, unless you understand the effect of each of your processes you cannot possibly expect to know which are the most important to work on.

### **Clearly defining your cause and effect chain**

The alignment of a cause and effect link is defined by its probability of achieving the effect. If you are a poker player, you understand probability... chances are, you are NOT going to successfully draw one card to an inside straight. Probability is the likelihood that a particular thing will happen. Referring back to Figure 1, if you *Kick a Rock* your chance of *Breaking a Toe* may only be one in five... if you kick a rock five times it is probable that you will break a toe only once. If you *Kick a Rock Very Hard*, the probability of *Breaking a Toe* may increase to one in two.

Probability can also be expressed in percentages. *You have a 20% chance of breaking a toe if you kick a rock or you have a 50% chance of breaking a toe if you kick a rock really hard.*

We use the probability of a specific effect occurring from a specific cause as relative alignment. Within this framework perfect alignment is 100%... the effect has a 100% chance of occurring. To be effective for your business there must be a high probability of the "cause" resulting in the "effect". If the probability is low, we have minimal alignment.

The following example illustrates a poor cause and effect definition. Remember that we are "assuming" that your primary business goal is to make a profit.

Effect (goal): making a profit  
Cause (process): selling your products

If you sell your products will you make a profit? It's impossible to determine because there are too many variables involved. If you sell two products will you make a profit? If you sell your products at a loss will you make a profit? In this case the effect we are looking for is *making a profit*. To define an accurate cause we have to ask, "What will result in making a profit?" The answer to this may look something like this:

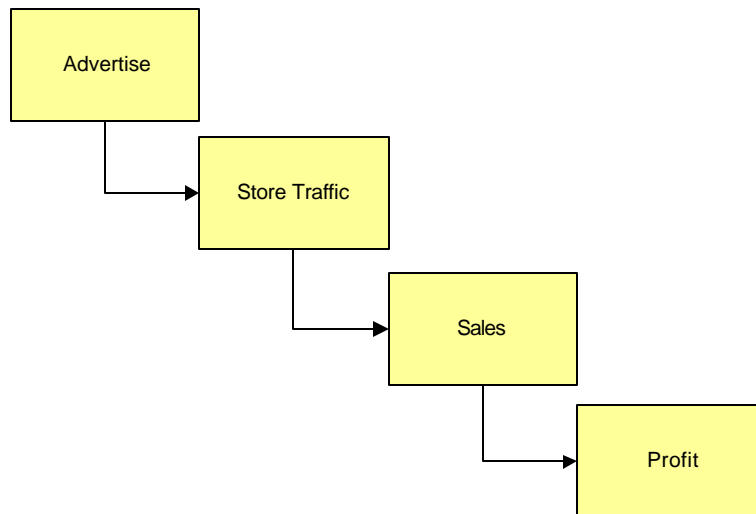
*Selling 100 products per month with a gross margin of 30%.*

Or it may look something like this:

*Sell \$20,000.00 in products each month with a gross margin of 25%.*

Both of these have a high probability of resulting in the required effect, making a profit.

Let's look at an example of a (advertising > > > making a profit) cause and effect chain.



In it's simplest form... advertising causes store traffic. Store traffic causes sales. Sales causes profit. We can start from either end of the chain. We can start with "advertise" or with "profit". In this case we will start with profit and ask, "How will advertising cause profit?"

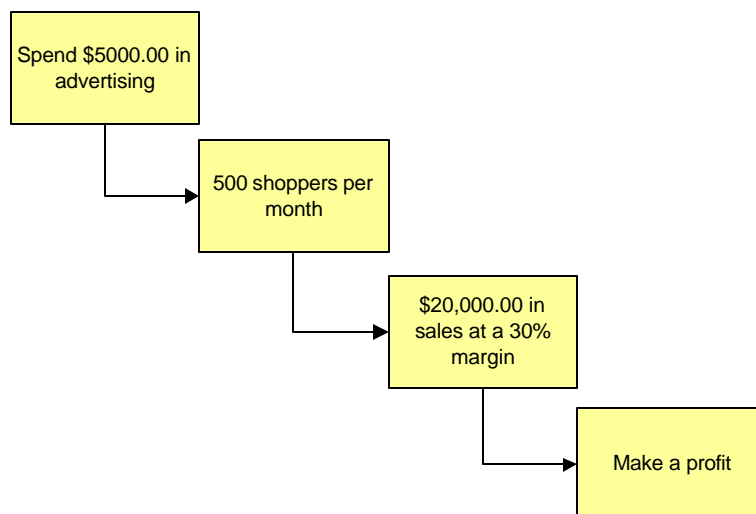
To make a profit we must sell \$20,000.00 per month at 30% margin.  
 To create \$20,000.00 in sales we must have at least 500 shoppers per month.  
 To create 500 shoppers per month we must spend \$5000.00 in advertising per month.

We know that if we sell \$20,000.00 per month at a 30% margin we will make a profit if there are no unwelcome expenses.

We know that our average sale is \$40.00 so the probability of making \$20,000.00 in sales is high if the averages hold.

Historically we know that if we spend \$5000.00 per month in advertising we will on the average get 500 shoppers in the store.

As you can see, we had to clarify our causes to end up with a viable cause and effect definition for each link in the chain. The illustration below shows how we have changed our cause and effect chain.



Having clearly defined the cause and effect links makes it easier to see exactly what is needed to make a profit. If we don't make a profit one month we can step back through the chain to see exactly where the process broke down. If we advertise in June and don't make a profit we look at the direct cause of make a profit to see if we actually sold \$20,000.00 with a 30% margin. If we didn't (we sold \$20,000.00 at a 20% margin or we sold \$15,000.00 at a 30% margin) we know exactly where the problem is. In the first case we have to look at our pricing. In the second case we have to look back at the number of shoppers. Understanding the chain makes it easy to track back to the "real" reason that our alignment slipped.

Mapping your cause and effect chains forces you to look at the details of your assumptions and clearly define the requirements for each step in the process.

Now let's look at how to develop alignment measures for each of our cause and effect links. To review:

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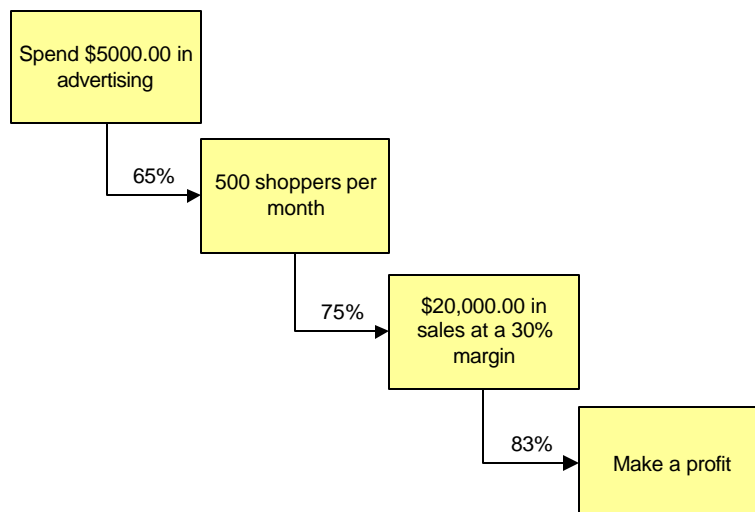
To create a measure for the *sales >>> make a profit* link we have to divide the number of times the effect occurred by the number of times the cause occurred. In a period of 6 months, every time we created the cause *\$20,000.00 in sales at 30% margin* the effect of *make a profit* occurred 5 times. We had extra expenses one month.

5 (effects) divided by 6 (causes) = alignment score of .83

OR

83% of the time that we succeed in getting *\$20,000.00 in sales at a 30% margin*, we make a profit.

In the illustration below we have added the alignment score for each of the links in the chain.



Total probability (alignment) of making a profit from advertising is 40%

At first the numbers don't look too bad. Unfortunately the probability that make a profit will occur in this chain is just a little above 40%. This means that the alignment score for the whole process is just .40. If you spend \$5000.00 in advertising for 100 months only 65 of those actions will produce 500 shoppers. Of the 65 times 500 shoppers occurs only 48 of those time will result in \$20,000.00 in sales. Of the 48 times \$20,000.00 in sales was produced only 40 will result in a profit. In other words, this chain will only produce a profit 40% of the time.

Now, think about expanding this chain to ten steps, each with an 85% alignment rating. The resulting probability of creating a profit would be under 20%. Are you beginning to see how large, complex organizations result in such low productivity ratings. The very nature of complex cause and effect chains make it nearly impossible to maintain a high probability of success even when each link in the chain has a high probability of success. If a twenty-step process chain has a probability of 99% for each step the probability of the entire process creating the desired result is just over 80%.

If you allow cause and effect relationships in your business that are not highly aligned, your chances of meeting your goals are minimal. Aren't you lucky you are in a small business with short cause and effect chains?

### Aligning your business

We know that your primary business goal is to make a profit...

We know how cause and effect chains work and how they affect your business...

We know how to clarify our cause and effect chains...

It's time to put this to work mapping the cause and effect chains in your business.

Our example will use a small, imaginary computer store. To simplify things, our computer store only sells computer hardware and repair services. It is located in a market of 20 thousand homes that has three competitors that offer the same services. Computer hardware doesn't have much of a margin... 10% for new computers and 15% on components and accessories. Computer service averages \$30.00 per hour in revenue. Each repair takes an average of about an hour and a half. Our operating expenses are \$9,000.00 per month. The store sells an average of \$10,000.00 per month in new computers and \$5,000.00 per month in components and accessories. It does an average of 100 repairs per month. Our active customer base is 2500.

Revenue:	Product/Service Revenue	Profit
	Computers	10,000.00      1000.00
	Components etc.	5,000.00      750.00
	Service	6,250.00      6250.00
	Total Profit	8000.00
	Total Expenses	9000.00
	Net Loss	1000.00

As you can see, our store is operating at a loss. We want to figure out what we will need to do to "make a profit".

Our first step is to figure out what is required to make a profit. Looking at the revenue from our products and services it's easy to see that the fastest way to increase our profit is to increase the number of computer repairs we do. Repairs are almost total profit if labor overhead remains the same. In addition almost half of our component sales is related to repairs.

The first step is to determine what the requirements are for making a profit.

To meet our goal of “making a profit” we choose the following goals for our store. Remember that, in our cause and effect chain, these become the “cause” of the “effect”, making a profit.

1. Sell \$15,000.00 in new computers per month with an average margin of 10 %. (Gross profit of \$1500.00)
2. Sell \$7500.00 in computer components and accessories per month with an average margin of 15%. (Gross profit of \$1125.00)
3. Sell \$7500.00 in computer repairs each month (Gross profit of \$7500.00)

If we achieve these goals our business will meet its primary goal of “making a profit”. Now we have to determine the requirements for causing each of these to occur.

Goal 1: Sell \$15,000.00 in new computers... How will we do it?

Sell 25 new computers per month with an average retail of \$600.00 each.

Goal 2: Sell \$7,500.00 per month in computer components and accessories... How will we do it?

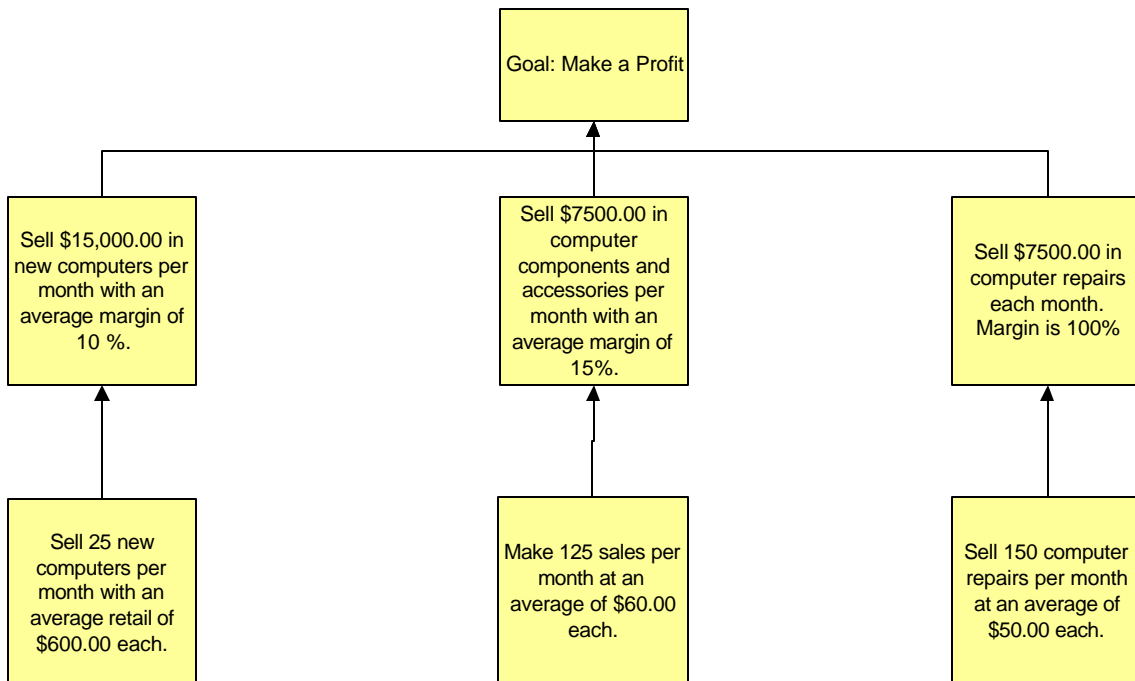
Our average sale on computer components is \$60.00 so we will need to make 125 sales per month

Goal 2: Sell \$7500.00 per month in computer repairs... How will we do it?

Our average computer repair is \$50.00 so we will need to sell 150 computer repairs per month

Remember, we are trying to build a cause and effect chain that has a high probability of success. If we accomplish each of these goals our probability of making a profit is high.

But we can't stop there. We need to continue up the cause and effect chain and determine what will give us a high probability of these things occurring. From this point on we will be using a cause and effect diagram to illustrate the chain.



We now have three different chains working toward the same goal of making a profit. Each of these has to be handled a little differently. As always we begin by asking, "What will it take to accomplish this?"

"What will it take to sell 25 new computers per month?" We know that on the average people purchase a new computer every 36 months. If we sold a new computer to every customer we would need a client base of 900 customers and have them scheduled to purchase a new computer when we needed the sale. In fact, only one out of five of our 3000 customer base buy their computers from us. The rest buy from online sources and other local computer stores. If we maintain our current sales ratio (one of every five customers) we would have to have a customer base of 4500 customers. There are only 20,000 homes in the area. To meet that customer base we would have to own almost 25% of the market.

To meet our goal of 25 new computer sales per month we will need to:

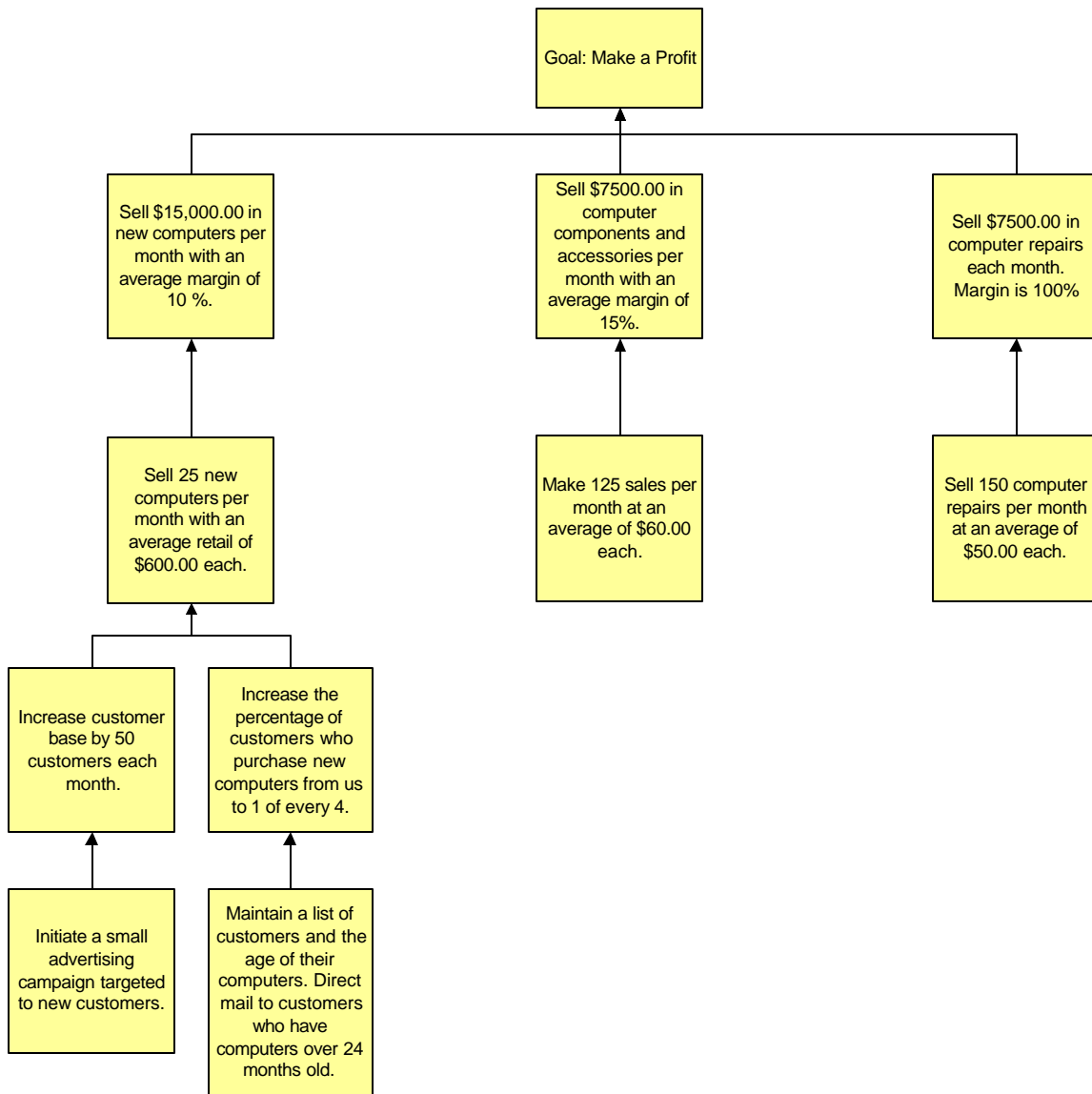
1. Increase our customer base by 50 new customers per month
2. Get one of every four of our customers to purchase their computers from us instead of another source.

We will start with the first one. "How do we increase our customer base?"

In our example, the computer store has never had an advertising budget. We have always depended upon word of mouth to attract new customers. One way to increase our customer base is to do a little advertising. We will set aside \$500.00 per month to advertise for "new" customers. Our goal is to add 50 new customers a month.

The second way to meet our goal of 25 new computer sales per month is to increase the percentage of our customers who purchase new computers from us. To do this we will keep a record of every customer and the age of their computer. Starting at 24 months after their last computer purchase we will begin mailing them "special offers" on a new computer every three months. We will also create a brochure with all of the advantages of purchasing computers from us and include those with every repair and component order we get.

Our cause and effect chain now looks like this.



Let's stop there for now and look at how we can use our new "alignment plan" to determine the effectiveness of what we are doing.

To determine how effective we are we need to be able to accurately measure our success. Measuring how many new customers we get each month is easy enough. A simple graph with the number of new customers will work. Measuring the effectiveness of our attempts to increase the number of existing customers who purchase their computers from us is a little more difficult and long range. There is simply no way to have a weekly or monthly measure of a process that can take up to three years to complete. What we can measure is how effective our attempts are at converting customers with old computers to customers for new computers over a period. Each month we will track the number of customers that go on to our "over 24 month old computer" list. The people who go on this list will stay on the list until we know they have purchased a new computer. If they purchase from someone other than us we may not know of the new purchase until they come into the store for a repair or supplies.

We can assume that everyone on the list should make a computer purchase within a 12 month period from the time they go on the list. We can get a “pretty good” picture of our success by comparing the number of computers we sell to people on the list in comparison to average number of people who could be expected to purchase a computer in any given month, IE., the number of people on the list divided by 12.

For example, if there are 1000 people on the list.

1000 divided by 12 = 83.33

We sold 22 computers to people on the list.

22 divided by 83.33 = .26 for a conversion rate of 26% (1 of every 4)

Remember, we are also measuring our success at selling 25 new computers per month. By looking at the two numbers together we will have a “pretty good” picture of how well our effect is connected to our cause.

Not every measure can be 100% accurate. That does not mean that the measure is not valid. It just means that the probability of validity is lower.

### **In Review:**

Remember that we suggested that you only map the “primary” cause and effect links to limit the amount of time you have to invest. Once we locate a cause and effect link that is not proving to have a high probability of producing the required effect we may have to create a “detailed” cause and effect chain of the processes between the effect that is failing and the previous primary cause. We can then use this “detailed” chain to determine even more precisely where the break in the chain or “low probability” cause is located.

Creating your cause and effect chains can be a time consuming process even for a small business. But the benefits are huge. Once you have your cause and effect chains defined and their associated measures are set, you can review the effectiveness of your entire business in just a few minutes. You will be able to immediately locate the links that are broken and focus your attention on fixing the things that will do you the most good.

This process has the added advantage of making it easy to communicate the most important processes in your business to your managers and employees. Take another look at Figure 3. Wouldn't this be an easy way to let your employees know where their responsibilities lie?

Simply put, clearly defining your cause and chains and establishing associated measures is the most productive thing you will ever do in your business. Lets look at a short list of the benefits:

1. Alignment: Creating and publishing your cause and effect chains insures that all processes in your business are aligned with your business goals. Your employees can clearly see how their jobs affect the business.
2. Focus: Your cause and effect chains clearly point out which processes are most important to the success of your business and keeps you focused on those processes.
3. Immediate feedback: Tracking your primary cause and effect chains tell you immediately if there is a problem instead of having to wait months.
4. Focused feedback: Tracking your primary cause and effect chains tell you immediately WHERE a problem is occurring.

If you need help getting started, give us a call.

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