

A Consultant's View

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Is it time to start over?

Recently, Texans went to the polls. On the ballot were a number of amendments to the State Constitution. One of which was a measure changing the wording about a specific county being allowed to build a hospital. The Texas State Constitution is over loaded with specific issues for single counties or even single cities. Nearly every election, there is another item that needs to be changed to reflect current conditions. Is it time to start over with a clean slate? Political systems need revolution to be renewed. Biological research suggests other mechanisms by which businesses can be rejuvenated.

Is it time to start over? This is a common question in business.

Every business sets up policies and procedures along with numerous unwritten rules and culture. Over time, those can coalesce into a system that can not adapt when the environment changes. At what point is it time to start over?

Thomas Jefferson suggested that we need to renew our political system every twenty years. He stated, "God forbid we should ever be twenty years without such a rebellion. The people cannot be all, and always, well informed." On a practical level, a number of states have "Sunset Commissions" which review their laws on a regular basis.

Twenty years is too long for a business. Business cycles are much shorter than that. A business needs to review its operations several times during each

cycle. Structures that worked at one point in the business cycle will not work at a later part of that same cycle.

Unfortunately, for many businesses, they have not had the practice of such reviews and redesigning of their businesses. The business will fight such a rework. Thus, Richard Buckminster Fuller stated, "You never change things by fighting the existing reality. To change something, build a new model that makes the

existing model obsolete."

In such situations, the best way to review and redesign the business is for key employees to quit and build a new company that out competes the old company.

Recent biological research is finding that some cells do not equally

divide. These divide into an "old" cell and a "new" cell. The old cell keeps the damaged proteins and other parts that will cause that cell to "die" while the new cell has new parts and can keep going for a lot longer.

Perhaps our practice of people leaving one company to start a competitor is our business practice of the same thing. In that new business, they can keep the "DNA" that is important from that old business while building new forms, procedures, and culture that can meet the current business needs. Other companies create new divisions to handle new products or services and allow a new culture to arise in those new divisions.

Biologist Carl Bergstrom stated, "Biological systems fail because at some point it's cheaper to make new ones." The same is true for human systems, political systems, and business cultures.

**Sometimes It
Is Cheaper To
Start Over**

The wisdom of crowds is wrong.

If everyone is doing it, you can be sure that it is the wrong thing to be doing. Instead of following the crowd, seek out the path that everyone is ignoring. Therein lies the profit.

Both John Bogle and Warren Buffet have made huge fortunes by not following the crowd. One did it by offering a more sensible way to invest and the other by investing in stuff that people were ignoring.

The current investment trend is high speed trading. Nearly every major trading company is investing in that technology. Currently, 70% or more of the trading volume on the stock exchanges is done by these trading programs. It is mathematically impossible for all of them to make money in the long term. We are going to see some spectacular crashes driven by these trading programs.

When a new style of trading, manufacturing, retailing, banking, or technology appears and is profitable, we see everybody piling into that style. We saw that with personal computers. We saw that with sending work to India. We saw that with branch banking. Always, the result is that most such attempts fail.

"Success always obsoletes the vary behavior that achieved it", Peter Drucker

Organizations make a profit by either being the largest entity offering a commodity to the public, or by exploiting a niche. We humans often see an organization profiting from a niche and assume that we all can pile into that same niche and make money like they are. Consistently, the results have been a bunch of companies going broke.

Go for the niche that others are ignoring.

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Risky World

A new type of attack on smart phones shows that a PIN can be guessed 50% of the time (in 4 attempts) by using the camera to watch the user's face and listen to the click sound when a key is pressed University of Cambridge researchers found. Smart phone banking is at risk here.

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