

“It is better to give than to receive” *by Willem P. Burgers*

These are words from the Bible. Surprisingly, these words also reflect the business policies of some very successful companies and entrepreneurs. Let me show three examples of companies whose success may be attributed in part or in whole to a focus not on their own success but on the success of other companies.

Most products today are produced not by companies, but by groups of companies. Leading businesses today often are central commanders of networks of autonomous players. Car companies for example manage car dealers, parts suppliers, PR and advertising agencies, government regulatory agencies, labor unions, consumer rights groups, environmental activist groups, and so on.

How does a company earn command of a network? How does a company manage a network? What might be a guiding principle? This is not a small question of course and there are many considerations and many answers. Let me offer one key answer here, illustrated by the similar philosophies underlying the stories of three very successful network builders and managers.

In 1954, Ray Kroc started McDonald's. Mr. Kroc was a middle income, 52 years old salesman of milk shake machines. A large number of better financed and more experienced competitors were already in the process of building the fast food franchise industry. Ray Kroc followed (and then led) the industry in introducing factory type scientific management methods to the restaurant industry.

But in one critical aspect Ray Kroc did not follow industry practice. As a salesman to the industry he well knew how franchising companies typically regarded the franchisees as serfs who could be and should be exploited at every opportunity. Ray Kroc saw a simpler truth. He wrote: "My belief was that I had to help the individual operator succeed in every way I could. His success would insure my success." Ray Kroc therefore put in place McDonald's policy of never being a supplier to its franchisees, foregoing a traditionally major source of profit in the industry. According to Ray Kroc: "Once you get into the supply business you become more concerned about what *you* are making on sales to your franchisee than on how *his* sales are doing."

A very different company in a very different industry in a very different age is Brightstar, a mostly Latin American distributor and customizer of mobile phones started up by a young Bolivian by the name of Marcelo Claire. Brightstar's 1997 sales were only US \$14 million, its 2003 sales were more than US \$1200 million. What did Brightstar do right?

Ericsson made Brightstar its main distributor in South America in 1998. Ericsson's

status in South America was reflected in its choice of an unassuming small company such as Brightstar as its main distributor. Ericsson was a very small player in South America and its phones reportedly were considered unattractive and too expensive.

So how could Brightstar take advantage of this opportunity? Brightstar decided to make Ericsson the easiest brand to do business with in Latin America: Brightstar/Ericsson customers were allowed more than thirty days to pay, had no minimum order requirement, and if they couldn't sell the phones they could always sell them back to Brightstar (at a discount naturally) who would move them to another market.

Brightstar's most unique quality though was its willingness to take on the chore of dealing with the Latin American customs bureaucracies. Brightstar was willing to deliver phones to the customer's doorstep all over Latin America. Manufacturers of telephones normally offer to deliver phones to Florida or Texas and leave it to different South American customers to bring the products further down into South America. If a store or a distributor wanted to move overstocked or outdated phones from say Uruguay to Peru, Brightstar/Ericsson would take care of it. With any other phone brand, the store or distributor would be on his own.

Within twelve months after Brightstar became Ericsson's main distributor, sales for Ericsson doubled. In 2000 Ericsson's contract with Brightstar expired. Motorola jumped at the opportunity to make Brightstar its distributor. Motorola's market share in South America went from 16% in 2000 to 33% in 2003. Brightstar shows triple digit growth rates while its leading competitors cope with sluggish or even declining sales.

What makes Brightstar different? Brightstar doesn't have workers and managers who are smarter and work harder than anybody else in the industry. Instead, this company has a different vision: *What can we do to make life easier for our customers? What can we do better for them than they can do for themselves?* Brightstar found good answers to those questions both before its products reached its customers and after its products reached its customers.

Greg Wittstock too is building his business is on the principle that it is better to give than to receive. Wittstock sells supplies to specialized contractors in the United States who build ponds or small lakes for home owners. Wittstock started by building ponds himself. By good marketing - and doing a good job for his customers - he soon became very busy. This led him to design a variety of ways to standardize the process of building ponds, much like Ray Kroc standardized the making of hamburgers. Next, inevitably, he decided he should franchise his very successful business model. That did not work at all. Nobody bought a franchise.

So he decides he will give away what he had planned to sell: his building process

knowledge, his business systems, and his product designs. He decides he will earn his money by selling supplies to the contractors who come to learn from him.

Could contractors not just come to his seminars to learn from him and then buy supplies elsewhere (Wittstock does not have the lowest prices). Yes, contractors could, and perhaps in theory they should, but in reality most contractors don't. In part this is because people are not machines. People have feelings, they are loyal.

But what really helps is that Wittstock has a no-back-order-policy, meaning that his warehouse is always deliberately overstocked. If ever there is a customer who calls for a part and that part is not in inventory ready to be shipped, the flag flying in front of the building is lowered to half staff.

According to Wittstock: "If a \$2 plumbing fitting is missing, the contractor can't hook up a pump...a one day job turns into a two day job...[and] you cut the contractor's profitability in half." There are formulas to calculate what a company's optimal inventory rate should be to maximize a *company's* profit. Wittstock instead worries what his company's optimal inventory rate should be to maximize his *customers'* profits. He does not calculate what a stock-out costs *him*, he calculates what a stock-out costs *his customer*. His 35,000 customers are so loyal to Wittstock that some competitors refer to his business as a cult.

Ray Kroc sold franchises and refused to be a supplier to his franchisees. Wittstock gives away the franchise, but makes money as a supplier. Wittstock and Kroc differ on where they collect money. But they are identical in why people are so happy to give them money. People are so happy because Wittstock and Kroc, and Marcelo Claire of Brightstar, run their businesses in ways designed not to optimize their own profits; instead they run their business to optimize the profits of the members of their network: They look for opportunities to spend \$10 if it will save network members \$100. Unsurprisingly, people and companies will push one another out of the way in order to join such a network.

Kroc, Claire, and Wittstock are not the norm. Companies more normally try to push annoying problems outside the company on to customers and suppliers, etc. While a company that manages a network may be in the best position to manage the most vexing problems faced by members of the network, that company is also in the best position to push the problem onto someone else.

For any hard pressed manager a favorite solution to a vexing problem is to give it to someone else outside one's own company. When a manager saves his company 10 dollars by pushing a problem outside the company, even if the problem creates additional costs for suppliers or customers of the company in the order of 100 dollars, the manager often will be wise to do this. The manager receives applause for saving the company ten dollars and no one listens to outside complainers. Kroc, Claire,

and Wittstock show that when companies explicitly attack this problem of pushing problems away rather than making money by solving them, when they redefine their mission in terms of not their own success but the success of their network members, when they seek for ways to give more rather than for ways to receive more, amazing success can happen very rapidly

It is nice to build, manage, and make profit on your own company. It is even nicer to build, manage, and make profit on a whole network of companies. Ray Kroc, Marcelo Claure and Greg Wittstock all discovered a simple truth: If you want to build a network and prosper, then always remember: it is better to give than to receive.