What Makes Good Companies Great? Taking a Long Term View

BY **MIKE ESPOSITO**, PRESIDENT AND CEO, AUTO/MATE DEALERSHIP SYSTEMS

Being a leader is not just my job; it's my passion. I often hear this question from some our dealer clients: "What makes a good company great?" The answer to that is 'several things', but one of the most important things is the ability for the leaders of a company to take a long-term view of their situation.

In my experience, many dealers operate their businesses with a short-term view. As a former General Manager of a large dealership, I know the drill. We review Daily DOCs, we manage on a day-by-day and month-by-month basis. If we have a bad month, we ask what went wrong? What do we need to change? If business or the economy slows down, it seems logical to cut expenses and lay off employees. Then when things get better, hire more people again.

That's a short-term view, and it's not an uncommon business practice in any industry. But that doesn't mean it's the best approach to take. If you look at the really successful dealerships and the really successful companies, when things get tough, the leaders make management decisions with a long-term view.

Leaders in great companies tend to organize their priorities like this: employees come first, customers come second, and shareholders (which in a dealership's case would be the owner and other principles) third.

One of the greatest examples of this is Southwest Airlines. The co-founder and former CEO, Herb Kelleher, is famous for his rogue management philosophies that created the most profitable airline in the country. When Southwest started, the small company endured long, protracted legal battles with other carriers that didn't want the competition. In 1971, the fledgling company was faced with a decision: lay off employees or sell one of their four 737s. Kelleher chose to sell a 737, but managed to stay competitive by reducing turnaround times at the gate.

During the first Gulf War in the 1990s, Southwest faced escalating jet-fuel prices that prompted Wall Street investors to demand that Kelleher lay off employees. Kelleher refused. His reason was succinct: "We've always taken the approach that employees come first. Happy and pleased employees take care of the customers. And happy customers take care of shareholders by coming back." Employees were so appreciative of Kelleher's stance that they volunteered to take deductions from their paychecks so the company could buy fuel. In its 25 years of doing business, Southwest Airlines has never laid off workers.

The former CEO of Costco, James Sinegal, had the same approach. During the economic downturn in 2008 and 2009 shareholders complained about profitability and recommending laying off employees. Sinegal refused, saying that Costco employees were also going through difficult times and in fact, should get a raise. Shareholders balked but Sinegal implemented raises across the board. Sinegal is quick to say that his choice to provide workers with top-notch pay and benefit packages was not an altruistic act. Instead, it was good business. During his tenure at Costco, Sinegal managed to keep employee turnover at 12 percent.

Both Sinegal and Kelleher put their employees first and figured out other ways to achieve desired profitability, such as increasing efficiencies.

On the opposite end of the spectrum is General Electric and their infamous CEO Jack Welch. I used to work at GE many years ago and actually met Jack Welch. During that time in the 1980s, Welch's nickname was "Neutron Jack." The moniker came from the neutron bomb that was designed to kill people but leave infrastructure in tact. To increase profits, Welch immediately cut all GE business units where they could not dominate the market in the first or second position. He ordered the managers to lay off the bottom 10 percent of employees, then proceeded to lay off the bottom 10 percent of managers.

Now I can't deny that GE did become a successful and profitable company. Since 1986 the stock price has risen 600 percent. Pretty darn good! And right on par with the S&P 500.

However, in the same time period Costco's stock price has risen 1,200 percent. Exceptional!

So think about it. Right now it's good times for most auto dealers. But when things get tough, taking a long-term view and putting your employees first will return the most dividends. Your employees will be happy, your customers will be happy and your business will continue to be successful.

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