Part 3 - 10 Year Target

Lawrence: Luke, welcome back to The Membership.

Luke: Thanks for having me, Lawrence.

Lawrence: You're welcome. And thank you for doing this again. So this is part three of the traction series inside HIT business membership, where we run through the entrepreneurial operating system framework, but within a high intensity training studio business context, to really give people an idea of how to implement the principles of EOS and find the book traction within this kind of business. And so part three is all about the 10 year target. So can you just kick this one off by talking about, you know, why you think it's important to have a 10 year target in your HIT business?

Luke: So the 10 year target is important because it serves as the longest term directional goal of your company. Now, Gino Wickman's pretty clear, it doesn't have to be 10 years. I mean he named it the 10 year target. But you could also just call it the BHAG, the big hairy audacious goal. And you could set it at 15 years, or you could set it six years out, honestly. 10 years is what most of his clients and most EOS companies use, but our take home message is we need a directional goal of what we're trying to build longterm.

Luke: So the analogies are, we're setting sail from the East coast of the US and it's me and you in a vessel together, Lawrence, we're in the boat. Well, you're steering the ship when I'm sleeping, I'm steering the ship, when you're sleeping. What do we both have to be totally clear on? We have to be clear on where are we headed? I mean, are we sailing across the

Atlantic to the UK, are we sailing down around the Southern part of the US and going to end up in the Caribbean. There's no right or wrong answer, but we have to be clear directionally where we're going.

Luke: This is analogous to the cathedral that we're choosing to build. So day in and day out, we are laying bricks. But at the end of the day, all the brick laying we're doing is contributing to building a cathedral over time. So it is the owners, the leaders responsibility to determine, well, what's the cathedral we're trying to build that we're going to chip away at day in and day out?

Lawrence: Yeah. Okay, good start to this one. And this is I guess a relatively simple concept in comparison to many of the concepts of in EOS. And so, okay, so that's, I think that will make sense. I think a lot of people-

Luke: Lawrence, Lawrence, it's the simplest concept potentially, but it's also the one that if you have a studio with five trainers, that an owner, four other trainers, and you put them in different rooms and you ask them, "Where are we going 10 years from now?" Relative to all the other episodes of this podcast that we're doing and all the other key questions that Gino Wickman poses, this is the single question that everyone in that studio will have the most variability in their answers.

Luke: So it's the simplest, but we're the least likely to be on the same page on it. Like if you've never identified your core values as a company, and you put your five trainers in different rooms and say, "What do we believe?" You're going to have tremendous similarity in those responses, because the core values are essentially, they're in the organization, you just have to unearth them. Whereas the 10 year target, well one trainer thinks someday we're going to have a $250,000.00 revenue company 10 years from no. Or someone else says we're going to have a thousand locations and we're going to be as big as Orange Theory Fitness. So it's simple, but it's very rarely done and so therefore everyone that comes to work together has no idea what they're actually trying to build. And I think that's a crime.

Lawrence: Absolutely. That's a very good point, and very interesting. So, okay, so then with that said, how would you go about actually establishing a 10 year target for your business?

Luke: So a couple of simple steps. Number one, you got to pick an end date. So it doesn't have to be 10 years from now, it could be 10 years from now, but it has to be specific. So like our end date for our 10 year target is December 31st, 2025, and we've been obviously working on this 10 year target for a while. It's six years away and we have it due the last day of December. So you start with an end date.

Luke: And the next thing I think you have to think about, is you have to think about revenue. And the reason, I understand revenue's not everything, but the reason you should think about revenue, and revenue's included in so many 10 year targets, is revenue is the universal language for the size of the organization. I mean if we don't talk about revenue, we just don't understand what are we trying to build in terms of size? Now you could have some other elements besides revenue. I just think that gives total clarity to everybody in the organization around the size of what we are trying to build.

Lawrence: Okay. And what is the process then, I mean obviously there's steps in the book, but I thought you might want to just go through those and maybe tailor them slightly to your experience at Discover Strength in a high intensity training business. So then I guess the first step being to kind of meet with the leadership team or as a founder, if you've got a small business, maybe just carve some time out to really think about this, and try and define a 10 year goal?

Luke: Yeah. If you have a leadership team, sit down with your leadership team. And if you have a leadership team, they should all come to that session with their ideas in mind. So it doesn't start as an open discussion. It's everybody has something written down, but what you do have to get on the same page on is the date. So you says, okay, there's four people on this team. We've now decided on the date. And for us, like we picked 2025, because I just thought it would be weird if it was 2026 or 2028, like I wanted to end on point 25 or 2030, I just wanted it to be kind of that round number, a decade or half a decade.

Luke: So once you get that determined, then you say, all right, what's our revenue look like? Or what are some other important quantitative or qualitative elements that we want to capture here? If you're an owner and you have four or five trainers working in your studio, I don't think you should enlist them. I think you should determine this and then you got to share it with them. But I got to be very clear that the biggest mistake that I see, one of the two biggest mistakes I see with BHAGs or 10 year targets is the 10 year target serves the owner, but it doesn't serve everybody else.

Luke: Like when you announce the 10 year target, everybody else, everyone else should instantaneously think two things. They should think, heck yes, I'm inspired by that. I want to be a part of that. That's something I would sign up to actually build. So as a bricklayer, I would sign up in the 1300s or whatever it was to build the cathedral of Notre Dame in Paris. I'm going to sign up for that.That's a BHAG or 10 year target that I want to be a part of. That's number one. And the other thing that your team, your trainers, should think when you announce it to them, they should think, how are we ever going to achieve that?

Luke: So the 10 year targets should, I mean we use the word BHAG, big hairy audacious goal, it should be big, hairy and audacious, it should not be predictable. So if you stay on your current trajectory 10 years from now, you will not hit it, like you need things to happen, you need things to change in the business in order for you to actually achieve it. So a key, like one of the defining characteristics of your 10 year target is if I asked you how will you achieve this? You should not know the answer to that. You should know where you're headed. You shouldn't understand how you're going to get there. Now that's different than some of the other questions we're going to get through later, Lawrence, like the three year on the one year, you should know exactly how you're going to do those, but the 10 year you shouldn't have an understanding of what it's going to look like or how you're actually going to build it.

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Lawrence: Yeah, that's such an interesting point. I think, yeah, as you alluded to there, as we get onto some of these other topics later on in the series, we can talk about how why in the short term it actually makes sense to have very achievable goals is something I've made a mistake myself going into the 2020, and we have a newborn in the midst. So there you go. Okay, so getting back to this topic, so you sit there, you establish, you ask the questions that you mentioned there to yourself in order to try and create that goal for your 10 year target. What else is involved in terms of establishing that in the business and then also getting everyone motivated and on the same page?

Luke: So I probably cut myself off on this, but it can't serve just the owner because I mean you can't say, "Hey, in 10 years from now, my plan is to sell the business and retire and I'd love to sell it for $1 million dollars" because none of your trainers are excited about that. Like they don't want to go to work every day and build that. So it can't be about the exit. It can't be about your wealth building. It's got to be about what are you actually trying to build in the business hat's significant.

Luke: When you do that, when you complete that, here's the beauty of it is there's no right or wrong 10 year targets. That's the beauty of it, that you almost can't do this wrong as long as it just doesn't serve you. The magic of the 10 year target is now you have to communicate it, and frankly you have to over communicate it. This means it has to be written down, has to be publicized. You have to share it over and over and over so everybody knows exactly where you're going. And as soon as you state where you're going, people will be attracted to that. And the example in the United States anyways is JFK at the beginning of the decade in like 1961 he says, "By the end of the decade we will put a man on the moon and return him safely to earth." And if you asked him at that time, "How do you plan on doing that?" He would say, "Well I have absolutely no idea." But just by creating that 10 year target, that goal, he galvanized support and brought together the leading scientists and experts around the world. They all moved to the NASA headquarters in the Dallas area and said where to go to work on this together.

Luke: So by you stating it, by you communicating around it constantly, people understand this is where we're headed, this is kind of our Northern star and this is what all of our effort is going to contribute toward building. And that's probably the biggest error that I see is you have a 10 year target, but no one ever talks about it and it's only in the owner's mind, and the owner remembers it because the owner created it, but nobody else knows it. I mean everyone has to understand what this is and I think you could even develop it in a way that's pithy enough for people, it's easy to remember.

Lawrence: And there are obviously, one thing I should have said probably at the start of this, is a really important that members listening buy Traction the book so they can follow along this series as there will be nuance and more detail in the book to help you implement this into your business, and on this topic in particular, there are examples in Traction of some businesses who've identified their 10 year target, to give you more references. And on that theme, Luke, you alluded to your 10 year target for DS, your target for 2025. To give people an idea of what that looks like, do you mind elaborating on the specifics of that?

Luke: Sure, I'll share it. But let me also say the beauty of the 10 year target, and this is true of a lot of the elements of Traction, is you can go deeper on 10 year target by reading so many other things. So 10 year target is analogous to the BHAG. Well Jim Collins wrote about the BHAG and Verne Harnish in Scaling Up wrote about the BHAG or the 10 year target. So there's so many other authors that have addressed this topic that to me, if you just read Traction, you would understand the basics of how to create it. But going deeper with some of these authors who actually discuss the theory behind it, I think is really powerful. So for me, when I read Traction, it made sense, the 10 year target, it made sense because I had read it from like four other authors and I thought, "Well this is just a more actionable way to actually do it."

Luke: So our 10 year target is on the last day of 2025, so it's December 31st, this is how we write it. We call it 100, 100 in 2025. So we want to have a hundred locations, a hundred studios with $100 million in revenue by the last day of 2025. Now that's pretty darn quantitative. We also have a qualitative component that sits right above it and it's called the best company to work for and work out with. Now, the reason we needed to have that qualitative component is I am not interested in getting to a 100 locations and having $100 million dollars in revenue if we are not a great company and a great employee destination, the best company to work for, and work out with. If we've compromised the integrity of the workout, the quality of the workout, well, I'm not interested in going 100 in 100. So to me, whatever scale means to me, scale has to involve that the quality of the workout is the exact same as if we had just one location. We're not going to compromise what we would do in the workout in order to get to a certain number.

Luke: And frankly that's speaks to all of our staff. They want to provide what we would consider to be a completely uncompromised, high intensity strength training workouts, which means equipment and protocol and all of that. So 100, 100 in 2025. And when we onboard a new employee, we always say, "How will we know that we achieved it?" And they just stare at me and I say, "Well, think about it. A hundred locations, how will we know we achieved it?" And eventually they'll look at me and they'll say, "We'll count?" And I say, "Yeah, exactly. We'll count." And then $100 million in revenue, the same thing, we'll count. We're not going to like count dollar bills, but like we'll know. We're able to quantify did we achieve it?

Luke: Because the key of the key to the BHAG is when you get there, you have to be able to say, did you achieve it or did you not? You can't say, "We will become the company that provides the greatest workouts in the world", because how would you ever measure that? It has to be measurable so that you know you actually achieved it.

Lawrence: Yeah. I really admire that. That qualitative goal. And I think that's exactly why we do so much collaboration, Luke, in The Membership, because we value that highly as do everyone, all the members inside HIT business membership. Okay. Yeah. Cool.

Luke: Now the thing I'll add to that, Lawrence, that Gino says in the book, and I hope people don't miss this when they read it. I've repeated it in different presentations probably a hundred times, is be careful what you wish for when you create this BHAG, because if you are disciplined and you follow this EOS, this traction approach, you will achieve it. And so I think that a lot of times you'd say that you want this 10 year target, this longer term goal, but if you woke up and you actually had it, is that really the type of business that you want to run?

Luke: So I've talked to so many studio operators that said, "Yeah, I want to have five locations." And I think, I ask "Do you really want five locations?" And then I go through the math on what one location can actually do in terms of revenue and profit margin and a salary plus the profit they're receiving. I put all the math up on a screen for them and they'd say, "That's actually what I want. I do not want five locations. I just thought I needed five locations to achieve the earning potential or the income that I wanted."

Luke: So you got to be careful in what you wish for. And the biggest, I guess the biggest warning that I would give is bigger does not mean better, when it comes to 10 year targets. Like we automatically, I mean, I don't care if it's Howard Schultz who's backed away from CEO, longtime CEO of Starbucks, who backed away from a massive BHAG and actually, okay, "We don't need that many thousands of stores to be a great company." Or if you look at Joe Cirilli, many of your listeners will be familiar with, I mean, he has one health club with two satellite health clubs in Gainesville, but he's doing incredible things and their BHAG is captured differently.

Luke: So I don't think it has to be more locations. We were very intentional that we wanted 100, we didn't want a thousand, and there's plenty of studio concepts that are scaling to a thousand but to me, I just don't know if we can hire the right type of trainer for a thousand locations. I don't know if we can provide the right experience. I don't know if I can visit a thousand locations and to me, I want to be able to visit a location. So 100 and 100 was right for us were for somebody else, a thousand might be right, 10 might be right. And for someone else, one location might be right. There is no altruistic value in the size of your BHAG, it's just, you got pick a BHAG and then you've got to communicate around it.

Lawrence: Yeah. It's such an important point for people to meditate on and really ponder. So I really appreciate you raising that. You know, even in the context of high-intensity business and the online business in terms of the BHAG I set for that, which is over a million in revenue. It's funny because, okay, that is, you know, in a context of an online business, that's highly leveraged and relatively low overhead, that is a large amount of revenue.

Lawrence: But when you think about what one can achieve over 10 years, it's quite modest, but what I had to look at is that in the context of, as you were kind of alluding to there, the what's involved in a 10 million or 20 million pound business is an enormous sacrifice. And obviously I want to have a bigger family, and I want to have, there's other aspects of my life I want to focus on. And so I had to be honest with that and kind of look at a revenue figure that was still going to be able to achieve all the, I guess business and financial goals I had for myself. So I looked at it in a very similar way.

Lawrence: So bringing it back to this episode and the 10 year target focus. So, what was the next rule I was going to come on too? So here we go, so in terms of what you said there, the specifics around your goal for DS for 2025. Now I hope you don't mind me asking you about this, and Luke, we can cut this if you want me to, is you obviously decided to pivot and get to franchise Discover Strength. Is that because the BHAG kind of forced you to creatively figure out on the way to the BHAG how exactly you were going to achieve that, and franchising seems to be the probably one of the most effective ways to get there?

Luke: Yeah. So we established the BHAG first, or the 10 year target first, a number of years ago. And then it was up to us to decide, well how will we actually get there? So do we want to own all the locations? So they're corporate locations. Do we want to do licensing? Do we want to do franchising? And we just worked through all of the conceivable options, and there's always kind of more options than you think. And then we decided what we thought the best option was for us. And there's a number of reasons that we chose franchising. It wasn't just to achieve the BHAG there was another, there's other elements of franchising that aligned with the passions that I had and the core values of the company already.

Luke: But yes, franchising serves our ability to achieve that BHAG. Absolutely. And there's things that we strategically didn't want to do. So to get a 100 corporate owned locations, you know, we would probably have to take on venture capital. Well as soon as you take on venture capital, I mean everything in the business changes. And so I knew there are certain things that I wanted to avoid, and for me personally, that was one of them that we wanted to avoid.

Lawrence: Got it. Okay. Okay. What about some of the exceptions to this rule? How many owners have you come across, Luke, who don't set goals or don't set goals very well but are successful nonetheless?

Luke: Yeah, great question. So I think that as a entrepreneur, a single individual, without goals, you can still be wildly successful. I think you can, if you have great habits and you have a internal drive to, I guess what to be incredibly focused. So you know what's the most important thing right now, and you're always obsessed with the most important thing right now, you can be incredibly successful. I don't think an organization, I don't think a team can be successful without a goal because everyone has a different idea of where you're going.

Luke: So if it was just me, I don't think the goal is as important, I would still have the goal, believe me. But I think as soon as you have a second person, the third person and 50 people, that's when you need to have the goal and everyone needs to understand exactly what you're trying to accomplish.

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Lawrence: Yeah, good point. I agree. And one of the things I think it's important to point out, I just don't know if we've actually mentioned, we may have, that's how terrible my memory is already. But if you're, so the way it works, right, is if you're three years from your 10 year goal, so when you get to 2022, you revise the 10 year, and then your 10 year becomes your three year. So your 2025 goal becomes your three year goal, right?

Luke: That's the Traction methodology. Correct.

Lawrence: So you'd be following that, like that, would you? For DS.

Luke: Yes. But we will still publicize internally our BHAG, because we still don't want people to lose sight of, "Hey, this is what we said we're going to do." But if you don't set the next BEHAG you can't. Okay, so for us 100 locations, $100 million, 2025, we can't wait, and December 30th we realize, "Hey, we just opened our hundredth location and we are in fact at $100 million. What should we do next?" I mean the research from Jim Collins would say that companies that do that, that wait to set the next longterm goal, really struggle for a while. So you have to have the next long term goal ready. And I don't know if it's imperative that it's announced three years ahead of time. I just don't have a strong opinion on what that exact date is.

Luke: I do think it's frustrating when you set a longterm goal and when you're three years out from it, you change it because then you never actually get to feel the accomplishment of actually achieving it. So I think you should hang on to it until it is achieved, but have the next one ready to go. So maybe you're simultaneously talking about both. Maybe it's powerful just because it's now called the three year picture and, you're celebrating the fact that you achieved the three year picture. I don't have tremendous clarity or conviction on that, but the idea, and Gino's smart, the idea is that the power of the BHAG is it's directional. So you have to always understand in the far distant future where are we headed? It's not a matter of did we achieve it, it's are we pointed in the right directions and then building our strategy off of that direction.

Lawrence: And you know, as you've mentioned before on the previous episodes in the series, you've been working with an EOS implementer for years now and invested a ton of money in that process and that individual. What else, if there is anything, has that implementer advised you do slightly differently than what is recommended in Traction when comes to the 10 year target?

Luke: What a great question. He gave us the good push on the qualitative components, and he was a fan of that, and Gino definitely doesn't say it should be quantitative and qualitative in the book. You know, it's interesting, I love the book so much, but some of the examples he gives to drive home some of the different components of the CTO I don't think are good. Like the strategic niche examples, I don't think are well done. I think that part should be updated. Some of them actually make me cringe.

Lawrence: Yeah.

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Luke: So I guess I don't remember all of the 10 year target examples, but we definitely got pushed to include a qualitative component in our 10 year. And by the way, I had a 10 year target, I had a BHAG, one full year before Discover Strength even opened. So we've only, we've had three BHAGs in our company history. Our first one was to do 500 sessions at our Plymouth location, which is the only location we had. So I wanted to do 500 sessions and we achieved that after, in a week, I'm sorry, 500 sessions in a week. So we achieved that after a few years. Then we created a new 10 year target or BHAG, which was to have 10 locations and $10 million in revenue. And then that dropped into more of a three year, just like you referenced, and now jumps out to the 100 locations and 100 million.

Lawrence: Okay. No, I was just thinking, and I think this is something we mentioned previously in the series and it's important thing to note, is if your, well this is a question to you, Luke. If you're a very small business, let's say, we've got people in The Membership who are one man bands and maybe or maybe not looking to scale, do you feel that Traction is still the right resource for a very small business? I do. And only insofar as I think that may be 30, 40% of the book and the system is relevant, and just because you're not doing any or very little people management, and then the rest of the book of becomes more relevant as you scale up. Do you, is that, do you agree with that and would you? And then the second part of that question is, even as a one man band type business, would you still be looking, advise someone to implement Traction?

Luke: 100%. If you're a one man band and you don't even want to go to two people, I would still use it. I mean my own Traction implementer uses Traction for his own business and his own business has one employee, I mean it's him. He has a part time assistant that works with him and he wouldn't mind me saying this, but his revenue of his one man Traction implementation business, he'll hit $2 million this year. So he's making $2 million implementing Traction. And let me tell you, he uses all of those systems.

Luke: Now, does he do quarterly conversations? No, because he doesn't have employees to do a quarterly conversation with, and does he have a really elaborate accountability chart? No. But does he have a 10 year target, and a three year picture, and a one year plan? And does he have core values? And does he have a strategic niche knowing exactly who he wants to work with? 100%. Absolutely.

Lawrence: Yeah. Yeah, I totally agree. And that's very much how I've implemented it in the online business. And when you know, we come to open the studio in Galway, I will implement it from the get go, from the very beginning. And then as we, as we scale up, as we start to hire people, then we can start to really ramp up the other stages of interaction and to the whole business. And also take this moment to say, the resources that things like the division traction organizer and other resources are all available online at the EOS website. And I will just link to that from the post from the thread to this because you need the physical VTO sheet to really be able to put all this down on one sheet, and it's a two sided sheet and it's fantastic. And that's also obviously referenced in the book Traction as well. But I'll just link that up for, for people to check that out.

Lawrence: I've asked you most of the questions around this, Luke, but the final thing I just want to ask is, you mentioned there about how you feel like, yes, 10 year target, simple concept but rarely done properly, and you know how you could put the staff of a business in a different room and ask them what's the 10 year target and they all have a very different definition and version. But what else do you see, from all the experience you've had at Rec, at the Real HIT Experience, talking to owners, operators in HIT, like where, what other mistakes do you see in relation to 10 year targets that come to mind, if anything?

Luke: So the three big buckets are, I talked to an owner that has a 10 year target or a BHAG, and they're so excited about it and it really only applies to them, and the exit, them exiting the business and making money. So no one wants to go to work and serve that it it should inspire, anyone that you could hire, it should inspire them. If it doesn't inspire them, it doesn't work.

Luke: Another one is that it has to serve your core purpose. So it has to serve the reason the company exists. So let me just like create that connection. Our core purpose is what we call leading the movement in evidence-based exercise. So it's not a goal, we're never going to achieve that. It's just a vision of a future state that we aspire to contribute to creating. And so that core purpose is the reason we do the work that we do. It's why the company exists. Well, our 10 year target has to serve that. We can't say we're going to lead the movement in evidence based exercise and have one studio with one trainer. I mean maybe we could, but that's kind of a stretch.

Luke: So I think to lead the movement evidence-based exercise, you have to set a 10 year target that serves that, and I think a 100 locations and $100 million dollars in revenue starts to serve that a little bit because it's tangible proof that we are living our core purpose and you have this core purpose, you have to be able to point tangibly to different elements in the organization that serve as proof that you're actually doing that. So that's another mistake is the core purpose and the 10 year target are not connected and they need to be connected.

Luke: I would say that another one, another mistake that I see, is that it's not well communicated. So I mean I love to bust people and just say, "Hey, what's your 10 year target?", to an employee, and I know the owner is around, and the employee who is a tenured employee who's been around for a long time, and this is in high intensity training businesses, or any kind of business, that's using Traction. And they say, "Oh shoot, I have to look in our VTO." I say, "What? You have to look in your VTO?" You know, like the scientists at NASA in 1965 didn't have to stop and look at a document and say, "Oh yeah, it's the moon. That's where we're trying to land. The moon" No, we all need to know that we are landing on the moon. That's like why we're all here.

Luke: So the under communication around the 10 year target. And Gino may say this, and a few other authors have said this, but not until you are sick and tired of saying it, have they even heard it the very first time. And I just heard one of Verne Harnish's consultants, the Scaling Up concept, which you know, Verne Harnish was very close to Gino, and they had very similar approach to doing all this. He said not until they're sick, not until you're sick and tired of saying it, that's the indication that you are now halfway there in communicating it. So you really have to repeat it over and over and over.

Lawrence: Yeah. Great point to finish on and I've got a, I had a quick look there at your, obviously we've got Resistance Exercise Conference coming up March, 2020, really looking forward to it. You know, my favorite weekend of the year and a great chance to see you again, Luke, and lots of our colleagues in high intensity training. I had a quick look at your keynote, and it's going to be focused on driving revenue in the business. So do you want to give a quick heads up on what you're going to be talking about?

Luke: Well, I mean I feel like I shouldn't talk unless I'm talking about how do we drive revenue or specifically how do we talk about driving profitable revenue? But the talk is really, it's called the Tyranny of the Or, and Jim Collins talks about the tyranny of the or, like we can either deliver unbelievable, uncompromised workouts or we can grow really big. And Jim Collins would say we should abandon the tyranny of the or, escape the tyranny of the or, and embrace the genius of the and. Meaning we can have uncompromised high intensity training workouts and grow our revenue and our profits and our size and our scope and our scale. And so I'm going to go through all the areas where I think we have accidentally subscribed to the tyranny of the or, and it's limited the growth of the business.

Lawrence: Yeah. I love your cryptic keynote headlines. I did not get that at all by looking at just the title itself. The same with your one in 2019 about goosing the goldmine.

Luke: Yeah.

Lawrence: So now I like it, it's a good teaser. Luke, thank you so much for joining me again. This has been great.

Luke: It's always my pleasure, Lawrence. Thank you so much.