Part 4 - 3 Year Target

Luke: Luke, welcome back to the Membership.

Lawrence: Lawrence, thanks for having me.

Lawrence: You're most welcome. So this is the next part of the Traction series within the Membership. This is all from the book Traction by Gino Wickman, where he teaches you how to implement the entrepreneurial operating system model in your business, which is a fantastic framework for building successful businesses in all sorts of industries. And what we love about it primarily is that it's also proven to work very well in high intensity training. And the purpose of this series is to help you implement this EOS in your high intensity training business context. So this one is all about the three-year picture. Luke, do you want to just kick this one off by describing exactly what is the three-year picture?

Luke: So to understand the three-year picture, you have to understand that it's devised to put somebody on track to achieve their longer term BHAG, big hairy audacious goal or their 10-year goal. So the answer to the question, well how do you achieve a BHAG? How do you achieve a 10-year goal? The answer to that question is you create a three-year picture or a three-year goal that when you achieve it, it puts you on track for the 10-year goal. So if your BHAG is 10 years and it doesn't have to be 10 years, it could be 15 years, at three years, you'd have to be able to say, "Hey, I'm on track to take on the next block of time." So that's how you said, "Where do we need to be three years from now, so we can confidently say we're on track for the 10-year?"

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Luke: So I stated otherwise Lawrence, you can't come up with a three-year unless you have the 10-year created first because you're basically just taking a chunk of time on the journey to that 10-year. Now to be clear, if it's a 10-year goal, you don't have to be 33.3% of the way there at your three-year picture. But you just have to be on track. You know, so maybe it's building infrastructure. Maybe it's a percentage of the revenue that you eventually want to get to. But that's how we start coming up with it. And from there it's really simple. It's just four things. It's a future date. So you pick a future date. It's a revenue, it's the amount of revenue you want to have three years from now. It's a profit margin. So unlike the BHAG, the BHAG or the 10-year, we don't usually pick a profit margin because you BHAG's more about a directional goal.

Luke: So the direction we're headed in, where the three year, this is really our strategy. This is what we have to bring down to the ground. So we need to know what that profit margin should be. And then you pick a few measureables. So you're thinking something that's going to provide scope and size of the organization. So the number of stores or locations and if we're manufacturing, it's the number of widgets or the number of people on your staff, what your product mix is like, depending on your industry. So those measurables just kind of describe what you're creating. So to restate, it's just the future date, the revenue, the profit and some measureables. That's it.

Lawrence: Awesome. Okay. Yeah. And just for some context, we've done an episode already on the 10-year target that's in the Membership and Attraction series. We have got something scheduled to cover marketing strategy, which obviously comes ... I think it comes before three-year picture if I'm not mistaken and we had to move [inaudible 00:03:31] around and, and the [inaudible 00:03:33] around for that. So that will be coming because there might be aspects of the three-year picture that require the marketing strategy, or not, for it all to make sense. So you've talked a little bit about why it's important, Luke, in terms of helping giving you some direction towards that kind of 10-year goal and breaking it down.

Lawrence: So you've also talked there about setting a future date, obviously ideally three years from now, coming up with a revenue figure, a profit margin, and in measureables. We're coming to the how you actually do that in practice in your organization, but in terms of the bit where you say what does it look like? What does our organization look like in three years? I'm very curious to know how you think about that. How vivid does it have to be? How did you do that for Discover Strength?

Luke: Yeah, what a great question. It's actually two different elements there. The first element is the three-year picture. The second element is what's been called a vivid description of the envisioned future. So the three-year picture is pretty simple. By the way, when we say future date, we don't just mean in general, we mean the specific date. So as we started talking here, Lawrence, I just pulled up our three-year picture. Our future date is 12/31/2022. So it is exactly December 31st. So it is that date. We get to work up until that date. Now the vivid description of that envisioned future is where we have all of our staff get together and say, we tell them this is the three-year picture. This is where we're going now. Now you tell us, what is it like to work here or want to achieve this?

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Luke: So I actually think that's a separate activity that I don't think we should maybe get into necessarily in this episode because that's not pure in terms of the three-year picture, that's a separate activity that helps your staff understand what will it look like or feel like for them when you actually achieve it. And that's important because there's I think significant research that indicates that people are just not very good at driving a goal, that they're not where they can't understand, they can't understand or see what it would look like for them in their role when that goal is achieved. So if I'm a personal trainer in an organization, I need to know like, well great, I see that three-year goal, but what's it mean to me? How is my life going to change? What is the organization going to look like when we actually get there?

Luke: So for us, we came up with 20 things that describe what it looks like when we achieve that three-year. And those aren't specifically goals. It's just the description of the envisioned future. For the actual three-year picture, your strategy is truly a part of your, what tracks you recall your VTO, your vision traction organizer. You just need to actually have the three-year picture, and in that one you have just a few measurables. And if it helps, I can share our measurables. I can share our whole three-year picture so that you can kind of understand how we bring this to life.

Lawrence: Yeah, I'd love that. And just so people are aware, the VTO, I mean this is why it's so important to retraction along as you go through this series because the VTO is the one pager for your business strategy effectively. So Luke, please elaborate on the three-year picture. That'd be really interesting.

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Luke: Yeah. And by the way, it is this simple for really any business. So this is not like the personal training studio for any businesses this simple. I mean, I just landed yesterday from Las Vegas speaking at a convention of about 2000 people in the custom home audio visual business. So these are people that are installing. So the guy that said he sold a $800,000 pair of speakers to a home on the east coast. I can't even fathom that but I went through this whole process with them and the three-year picture was just as simple. So our future date is 12/31/2022, our revenue goal is $20 million, our EBITDA goal is 20%. EBITDA is just earnings before interest, taxes, depreciation and amortization. Just another way of looking at profit. And then we have three measureables. So for us, we want to have 10 corporate locations. Right now we have five.

Luke: We want to award 40 franchises and we want a system-wide net promoter score or NPS that's 85 or greater. So what that does, those three measurables in a nutshell, it tells us we want to grow rapidly over three years, but we don't want to diminish our customer experience. So right now our NPS is 91. We said we want to maintain an NPS and a permitter score of over 85, which communicates right away to our team that we're trying to grow, but we can't have the customer experience be diminished as we grow. When you look at those three measurables, you understand almost everything. Now I think it's worth noting that this three-year picture, you're not dreaming anymore. Like this is what you have to bring down to the ground. So the BHAG, you know the BHAG is very different in that you get to dream.

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Luke: Eventually it will get to your one year plan. Your one year plan is like, hey, this is what you have to execute on this year. The three-year's really fun to come up with because you have to execute on it, but you still have three years, so it's a little bit harder to come up with. A one-year, it's fairly easy to understand what's realistic in the next year. It's actually easy to come up with a BHAG because so far away that you're really not held accountable to it right now. But then the three-year is a little bit more difficult because you have to bring it down to the ground over the next three years. But it's not imminent, it's not like the one-year. So you could say it's more challenging but maybe more exhilarating to come up with this three-year picture.

Lawrence: Can you elaborate on the additional bullets for what does it look like? Because you said there were 20 and you covered a few. They're more, I imagine?

Luke: Yeah. So that's all the measureables that we include. We do not include any other measurables, but then we do this activity of what does it look like? Let me pull that up. This is what our staff comes up with and we review this once a quarter with our staff.

Luke: So now as I go through these, just kind of keep in mind that these are not goals. These are just a vivid description of our envisioned future. What does it look like when we actually get there? So we say a system wide NPS of greater than 85, we'll have uniform rep excellence at all locations. So to us what's important is that you can walk in any Discover Strength and the reps are performed in the exact same way.

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Luke: Each location is a healthy, strong and cohesive team. So we ultimately think Discover Strength as a company is really not the team. It's that location, to the trainers at that location. We're passionate about our own workouts and the reason we have that in there is I see this across the entire industry, but definitely in the high intensity training world is we're so concerned with serving our clients that we don't prioritize our own workouts and man, if you lose passion for your own workout, I think you lose passion for the work that we do. We're known for our rigorous franchise approval process.

Luke: We're viewed as the Mayo clinic of the fitness industry. We have locations in three states. We are conducting and publishing the most relevant resistance exercise research in the field. One of our body comp challenges has over 500 participants. We land on the top 50 of the club industry top 100 list, Ritz Carlton, Nordstrom and Chick-fil-A got nothing on us and what that means to us, those are really great customer service companies and we want to be viewed as a great customer service company.

Luke: The Resistance Exercise Conference has 500 paid attendees. The entire system is as committed to EOS as any company on earth. Our personal trainers or doing work they love with people they love and making a great living. And then lastly, our leadership team is healthy, strong and cohesive. So we would use the terminology, one of my favorite quotes in business is a quote from Gino Wickman that as go the leadership team so goes the company and so the leadership team has to be strong and healthy and cohesive first. And that's going to be the number one predictor of whether or not we're healthy as an organization, as a company.

Lawrence: Awesome. Those were really, really interesting. So okay, just touching back on the how for a moment here, Luke, can you run over a bit? Because I know we're getting towards the half hour mark.

Luke: Absolutely. Absolutely.

Lawrence: Okay, great. In terms of the how, now you've obviously talked about how you come up with some of these factors or attributes for the three-year picture, but I think it's important to say how the listener might better to do that, how the member might better do that in practice in their business. And so step one I'm thinking is they have to sit down with their team or their leadership team and actually discuss it. Could you walk us through some of those steps?

Luke: So what we will do, if you have a team, we would say have your team come up with their own answers separately. So we do this each year, like an offsite meeting for two days. And when the implementer, we use attraction implementer, just a consultant that walks us through this and you know, we've been through it a million times ourself. Why do we still have the implementer? I still think he provides value, he charges a lot of money, so I'm not convinced he's always providing value, but it just brings some formality to the process. But when we get to that meeting, we're not, "Oh, we never thought about this, the three-year. Hmm, interesting. Where do we want to be three years from now?" Everybody comes with their notes. So they've already thought about it. So we always say, do some thinking. Gino Wickman calls it a clarity break.

Luke: So do a clarity break leading into your annual meeting and really spend some time thinking about this. And so each one of us will come with our ideas of where we're going to be three years from now. Well, the first question is easy, future date. Okay, that's easy at three years from now. So the big questions are what's our revenue going to be and what's our profit going to be? And then we can pick the measureables that would support that. And we can do a little bit of math when we come up with those measureables like what's realistic in terms of locations and what's realistic for us in terms of franchises that we would sell.

Lawrence: And obviously as much-

Luke: And then after everyone every, yeah, I'm sorry Lawrence. Go ahead.

Lawrence: No, I was just going to say it's probably a lot simpler for many of the members who might have one or two locations to figure out some of these numbers.

Luke: Yeah, I would, I would say so. Yeah, I would say so. I think if you have a team, you got to have everyone bring their ideas and then you kind of work through it together because three years is far enough away where someone may say, "Hey, we're to be $750,000 three years from now." Someone else says "We're going to be two million" and someone else says "We're going to be 15 million." I mean, a lot can happen in three years. And so it's fun to have that discussion and get on the same page and understand, all right, this is what we have to achieve and this is what we have to bring down to the ground.

Luke: One of the key components of this three-year is in business in 2020 we don't build 10-year strategies. Like don't tell me that you know what's going to happen eight years from now in your business because you just don't know. Well, three years from now, it's probably realistic to build a strategy over three years. To build a strategy eight years from now, things just change too fast. So it's unrealistic that we would do that, but we can build that strategy over a three-year period. So that's the idea here. This is three-year is a fundamental part of strategy.

Lawrence: Yeah. I feel like we've covered it pretty extensively. Again, I encourage the members to revisit the chapter in the book and read it alongside this to get a full view and then obviously implement it in your business. Luke, I guess I thought one final question that would be nice to wrap this one up would just be to get your views on the challenges on the theme of goal setting, which is kind of what we're talking about here. What do you see when you look at the high intensity or fitness industry, where do you see people make mistakes in the way they set goals in their business?

Luke: Well, one of the things you have to keep in mind is be careful what you wish for because, and this is a Gino Wickman quote, because if you really follow this process, you're going to get it. And so you write this down first of all, as a 10-year or BHAG and then a three-year. Is that what you really want? Three years from now, do you really want to be running that kind of business? And so we have to be intentional and honest with ourselves and say, "Do we really want to run this?" That's number one. And then you have to have an ability to say, "Okay, I know what the past has looked like, but we're going to start doing things differently." And if you commit to this process and you start doing things differently, you may have had 10 years. I talked to HIT business owners who have not grown in the last five years at all.

Luke: And so they find it hard to believe that, "How over three years am I going to double or triple the size of my business?" And I said, "Well, it's easy. You're going to start doing things differently. You're going to make different decisions. And if you continue to do the same things you've done, you're going to continue to get the same results that you've always got. But we're going [inaudible 00:17:17] now do you think this [inaudible 00:17:19] and you're going to produce different results."

Luke: And so when you pick this three-year picture, you have to understand that I'm now going to do things differently and I'm not going to be captive by my past and what I've done in the past. So we can look at historical trends and that's the value of having a tool like the Scorecard. It gives you an ability to predict, but when you commit to employing something like traction, you find out that while I'm creating my future, and the future's going to be very different than my past three years, five years or even 10 years.

Lawrence: Awesome, yeah. I'm so excited to talk to you about the Scorecard at some point because I know we had some Facebook chat about that and it's something I do for the high intensity business, the online business, and it's absolutely fascinating when you start measuring these different variables and seeing how they affect the outcomes you want. But anyway, that's one for another day. Luke, thank you again so much for doing this [crosstalk 00:18:18] .

Luke: Okay, Lawrence, I just, last week ... Yeah, it was my pleasure. I had just met, if I can add this, is it okay if I add this really briefly?

Lawrence: Of course, of course.

Luke: Last week was in Dallas, Texas and got to meet and talk with Alan Mulally, who's the famous CEO who turned around Ford Motor Company. At Boeing, he was recruited away from Boeing, came to Ford in 2005 or 2006 and maybe the single best business book ever written was written about that turnaround. It's called American Icon. And as a reporter for the Detroit newspaper in the US and writes this story about how Ford's about to go out of business and is scheduled to lose $17 billion and they do lose $17 billion in one year. And Alan Mulally takes over and leads the greatest turnaround we've seen in American business history. And so I got a chance to chat with him and he's an impressive guy.

Luke: And I think he would say that the Scorecard is one of the keys to turning that business around. And so some of the stories when we get to that around Scorecard and what it meant to them, it's profound. I mean it is a Gino Wickman references and Gino Wickman is very much inspired by Alan Mulally. Alan Mulally was truly Gino Wickman's hero. They lived in the same town and so forth. But I can't wait to get to that topic because it is anything but boring when you put in the context of how Alan Mulally turns around Ford at the time, with the third or fourth biggest company in the world. It's a cool story. So looking forward to chatting about that.

Lawrence: Yeah, I'm really glad we actually got to tease everyone a little bit about that because I'm equally excited. I know it's going to be awesome. So do you know what I'd like? One final thing I want to ask you Luke, is I see you all the time, going to all these conferences on Instagram and I think it's great. And you went to see Simon Sinek recently and you were really impressed by that. You must learn so much and get so much input in terms of information. How do you take the information and actually synthesize it and do something with it? And I don't know whether that's one for another time. Maybe that's a big question. I know, but I'm just curious.

Luke: Well, my short answer is so much of what I'm learning is just reinforcing or supporting some other concept that I was already using, but now I have a better understanding of it. So we've already talked about in this series, we've talked about understanding core purpose. All right, well Simon Sinek's new book and I went to hear him give a keynote and then I got to go to a Q and A with him afterwards. And then out of coincidence next morning I bumped into him in the hotel and out of coincidence, and maybe I'm a stalker, he's coming to Minneapolis, where I live, two days from now and I'm going to go hear him give a presentation to a smaller audience there. And largely, what his new book talks about, the first 30% of that book is just the best way to look at a core purpose. He calls it a just cause.

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Luke: But man, if you want to go deeper on core purpose, which is a key part of this traction, you got to read Simon Sinek. And so if you want to understand Scorecard, which is addressed in a few pages in Traction, you read American Icon about Alan Mulally's turnaround and then you really start to understand it. And so it's so many of these things are universal kind of principles in business and you find the right author or the right leader who really has gone deep on that area and it refines your thinking on it.

Luke: So I just heard the authors of a book called 4DX, the four disciplines of execution. Well they go deeper on the principle of rocks and rocks are, and then we've got to rocks yet the key part of traction, and they have a different name for rocks. That name is wigs, wildly important goals. So it all fits in a one framework, but it allows you to go deeper within that framework where if I was learning on topics that I didn't already have a framework for, I think it'd be a little bit harder to understand what do I make of this and what do I do next with all of this?

Lawrence: Yeah, I totally agree. It's all interconnected and I've had a lot of those experiences lately where I've learned from someone else about something different, but it's all similar and it just helps reinforce things and helped me understand key principles. So now I've had a lot of those experiences lately and I completely agree. Luke, thank you so much for doing this. I really appreciate it and looking forward to talking to you soon.

Luke: Always my pleasure. Thanks Lawrence. Have a great day.

Lawrence: You too.