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May 2009

Washington

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How one software company
learned the language
of business success

By Eric Tegler

Cover photo by Bryan Burris

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dynamic immersion



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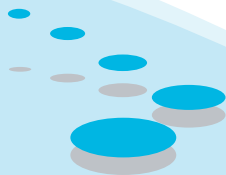


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publisher's letter

Washington SmartCEO celebrates four years

It has been four years since Ted Leon-
sis, long-time AOL executive and
owner of the NHL's Washington Cap-
itals, graced the cover of *Washington
SmartCEO's* premier issue. Since that
first issue, *SmartCEO* has continued to
tell the stories and share the insights of
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minds. In turn, the DC business com-
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in 2001. When I joined *SmartCEO's*
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ago, I was instantly captivated by the
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inspired a passion that drove me to
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Samantha Belin.

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>> PUBLISHER

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mission. I look forward to working with
many of you to continue to build
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-Jaime Park



4th HAPPY ANNIVERSARY Washington SmartCEO



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listen up: listen down

What's the opposite of Twitter?

A wise old owl sat on an oak
The more he heard, the less he spoke,
The less he spoke, the more he heard
Why can't we all be like that wise old bird?

-Unknown

About a year ago, I had lunch with an executive of a major local company. Among the things I wanted to inquire about was a potential problem I thought he might be missing with regard to some recent decisions his company had made. It was a very sensitive topic and I was a little hesitant to bring it up and somewhat nervous about how to do so without seeming presumptuous. But it was not long before this exec told me about a meeting he had with the CEO of a major Wall Street investment firm. He went to great lengths to

stress how impressed he was by how generous the Wall Street executive had been with his time. It became clear to me that he was drawing a subtle comparison to our lunch meeting and patting himself on the back for his own generosity of time with me. The analogy annoyed me enough to convince me it was not worth the trouble to try to inquire about the problem I thought I might have spotted in his company. I thanked him for lunch and kept moving with my day.

All of us do this. We miss information or feedback because we lecture when we should listen. It's an especially sensitive problem in the print media world, where we use words to paint pic-

tures about reality. If we listen well enough, we can get close to truth, but it's still just an interpretation and people closer to the reality always know what was gotten wrong and often won't tell you. Accurate writing is always a reflection of taking time to listen and then doing all the homework.

I walked away from my lunch thinking hard about what the executive was saying about time. To a large extent, business is about smart use of time. Employers pay workers for their time. Company efficiency is largely a measure of how well those workers are able to manage time. So, I don't dismiss the rel-

delegated away entirely, strategic thinking can only be shared, at best.

In this decision-making realm, what matters most is the quality and usefulness of information. Actual thinking still requires time, but a significant competitive advantage can be achieved if your systems of gathering good information are superior. Effective CEOs build networks where important information filters their way from trusted sources. The old rule of thumb here used to be that there were no shortcuts for building these kinds of networks. Most are built by developing solid personal relationships inside and outside

the company. Technology purveyors say otherwise and have for the last few years been pushing the new god of information transfer: social networking.

The question for CEOs pondering the use of these media tools, I suppose, is whether or not online social networking represents some amazing new shortcut to creating a strong information base. Reports from the front lines of early-adopters sug-



>> EDITOR'S DESK

gest a bit of a mixed bag. The latest rage in this hyperventilated space is Twitter, a Web company that essentially offers users the ability to conduct a one-way instant-message conversation. If you are asking yourself what's so groundbreaking about that, I congratulate you on your question. The answer appears to be that Twitter pushes out data in such a way that it doesn't culturally burden the reader with any expectation of reply. As a personal publishing solution, Twitter appears to be the ideal print media channel for lazy and mildly illiterate narcissists. Companies see these sites as yet another marketing channel for belching out information about the company. In the parlance of sales strategies, it caters to the "show up and throw up" approach to selling where all that matters is the number of people you hammer with a message. Eventually, if most of the messages have no value, much of the audience will drift away once the novelty wears off.

On the other side of the coin, as a business intelligence solution, social media sites like LinkedIn, Facebook and Twitter have a more interesting value proposition. The most obvious value these sites bring is in gleaning information about new acquaintances and potential hires.

And that is the conundrum about managing time. The power above doles time out to everyone in equal measure incrementally, but unequal measure in totality. Wealthy people are commonly assumed to be more skilled at time management, but sometimes the unconstrained rich squander away their time, while the highly constrained poor manage it brilliantly (think Dr. Ben Carson's mother, Sonya). There are 24 hours in a day in which to think and act. Using money to create action on your own behalf is easy. Rather than paint my house myself, I hire a painter. This is how people and companies use money to manage their time constraints. But what about the time constraints on thought and on listening? Such constraints are among the hardest of all things for CEOs to manage. Distractions ceaselessly compress deliberation, so delegation is the tool that CEOs harness to compensate for the time squeeze. But while most actions can be

active value of a CEO's time, but it's important to remember that the Wall Street CEO who was so generous with his time is also part of the crowd that just burned our economy down with unprecedented fraud. Perhaps it is misguided to be impressed when a crook spends a lot of time with you.

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Facebook works so well for this purpose that NFL teams have allegedly even gone so far as to create fake profiles of attractive young women as a means of “friending” draft prospects to learn more about them. The NFL teams apparently hope to discover whether a potential recruit has put up a false front in the evaluation process. Facebook helps them do this by providing a covert means for being completely dishonest themselves, which I guess is what they mean when they say, “We’re like one big family here.”

If an NFL team turns to Facebook as a shortcut, it is because the scouts can’t afford to spend the time getting to know every potential recruit. The old-fashioned methods of establishing personal contact and listening hard apparently aren’t working well enough. But as a technique for talent evaluation, this is a parlor trick – and one that will soon evaporate.

Social networking isn’t worthless, but finding the real value in the ocean of tech shortcuts that have popped up in the last decade is tricky. And none of it matters if it doesn’t improve your own capacity to listen, think and strategize. If you can figure out how to harness new tools to create communication systems that bring valuable information to you and target your prospects with thoughtfully contrived information, then odds are you will be ahead of the game.

But in some ways, the old-world skills of taking time to listen to the needs of customers and partners matter more than ever. Failure to deploy that skill can’t really be replaced by simply “spraying and praying” on Twitter. Just because you are not working harder does not automatically mean you are working smarter. One carefully considered handwritten thank you note to one important contact (see page 19) may eventually bring more business in the door than 100 tweets to everybody.

And if you listen – really listen – to the type of buzz surrounding social networking, you may find the chatter is laced with just a hint of fear about being left behind by an economic gravy train. It’s the type of chatter you may recognize – it sounds vaguely like hot air rushing into a balloon.

The Internet didn’t go away after the bubble popped. Neither did real estate or investment banking and neither will online social media, but the estimations of its value by its fiercest proponents might just be a little off. My advice? Listen harder than you shout.

-David Callahan

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newswatch

By David Callahan

Observations and lessons

from the news headlines

SHIVER ME TIMBERS

I nearly choked on my mixed greens on April 2, when ABC News anchor Charlie Gibson asked Bob Hormats (vice chairman of Goldman Sachs) and C. Fred Bergston, (Peterson Institute for International Economics) whether the actions of the recent G-20 meeting "represents a new world order." Bergston replied, "In a very important sense it does represent a new world order ... it's the true globalization of economic decision making."

Gibson wasn't parroting the words of conspiracy buffs; he was parroting the words of the leaders of Britain and France. But give the conspiracy guys some credit: they've been predicting a New World Order coming-out party for years.

But let's not make too much of chatter – just because British PM Gordon Brown is getting chirpy about global governance doesn't mean that the real heavy lifting has been accomplished on that score. Before global institutions like the U.N. or IMF can gain any real teeth, they need to rebuild a vanquished old revenue mechanism and foist it back on the United States and other major democratic powers: taxation without representation. The pet proposal for accomplishing this has been the oft-hyped notion of carbon taxes, but so far, the very few countries that have ventured into the territory of actually implementing a carbon tax (Finland, Sweden, Norway) have not surrendered the revenues to an unaccountable international body.

Undaunted, some globalists think they see another international problem that could finally pave the way to tax revenues flowing into the U.N. – piracy. Yes, piracy on the high seas is back after being buried somewhere for 200 years. The practice was dug up by Somalia, a coun-

try that essentially collapsed in 1991. The Somali pirates are heroes at home partly because they claim to have political motives that extend beyond money. They charge that foreign interests have illegally heavily fished their territorial waters and that some European companies have taken advantage of Somalia's plight and dumped all kinds of hazardous waste (chemical, industrial, medical and nuclear) right off their shores, sickening people. Not that it excuses piracy, but both accusations appear to have some credibility, according to the

Times of London and some other neutral reporting.

The Somali side of things isn't reported much by western news outlets, but don't be surprised if instead, you suddenly start hearing a revival of reporting on a left-for-dead treaty from the 1980s – the "Law of the Sea Treaty" (LOST).

The Reagan administration fought against joining the treaty on the grounds that it needlessly voluntarily surrendered U.S. sovereignty and violated free market principles, but the Bush administration championed the revival of the treaty and the Obama administration shows clear signs of this being yet another example of a policy stance where they are right on the same page as their predecessor. The treaty, which would empower the U.N. to regulate all human activity in international waters, was originally drafted as an idea for saving whales and other marine wildlife, but suppressing piracy may become the new tactical justification for a ratification push by the State Department.

The irony is that LOST might only make piracy worse, because once pirates made it back into their own territorial waters, an international tribunal could punish anyone who chased them. Most of the explicit provisions in the treaty are already observed by the United States with just a few meaningful exceptions and one very notable exception – U.S. ratification of the LOST treaty would represent the first time the United Nations was granted international taxing authority through license fees and direct taxes on economic activity in deep seabeds.

Where you stand on this issue probably depends on what you find scarier: Somali pirates with guns and speed-boats or international bureaucrats with handshakes, smiles and fine print.

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letting go is hard to do

WHY ARE YOU STILL RESISTING DELEGATION?

QUESTION:

I have read all the books and articles about “letting go” and encouraging my employees to grow by taking responsibility. I have tried to set clear expectations, measure results and, hardest of all, recognize that my way may not be the only way to get something done. But things just don’t feel right. What am I leaving out of my process?

RESPONSE:

Most of the writing on delegation covers what you should do in delegating. There is another dimension to the issue that is just as important: the impact that trying to delegate has on you and what to do about it.

Loss of perceived control. Being in control of our own circumstances is something we all struggle with from birth. Psychologists are the people qualified to talk to this in much greater detail. But, ask yourself how you felt in those times in your life when you did not feel in control of things – being in a skidding car, dealing with a bureaucracy that did not respond to your complaint, being snowed in (without enough bread and toilet paper). Scary, or, at least, disturbing stuff. Now, how differently did you feel when you got control of the car, resolved the dispute with the bureaucracy or got to the store for supplies? Delegation is loss of control as we have become accustomed to it.

You need to do something to establish control: learn to shift your ownership of the process to ownership of the results. This sounds simple, but it takes discipline, clear communication of the results you expect from others and the patience to support their development. So, it is really not a loss of control at all, just a change of its location.

Loss of relevance. A second personal roadblock to delegation is dealing with filling the vacuum created by transferring duties to others. What will you do with your time after delegating? If what you did before trying to delegate defined to you your relevance in your company, then you have a decision to make: either re-define your relevance or keep doing what you are doing and accept the barriers to growth (and the exhaustion) that will result.

But there is a possible rainbow here: the need for delegation usually rises



Paul Riecks

from a situation where the owner has let things other than his or her highest and best use eat up too much time. Often these things are administrative duties that can be transferred. Administrative duties can be very seductive – they are things you can do quickly, leaving behind a sense of accomplishment. They are necessary things – what can be more important than making appointments, making deposits, writing checks? They are also lousy reasons for you not doing what you do best, whatever that is, and letting the rest of the organization do the things you are not good at.

What are the things that really make you feel relevant to others and your company? Meeting with clients and prospects? Wandering the market and figuring out what’s coming next and then determining what your company will do about it? Determining the makeup of the organization you will need to support the next stage of growth? Whatever those things are, there is a close relationship between your highest and best use and your real relevance, to your business and to others.

Loss of the thrill of beginning. Sometimes, owners get stuck in the transition to the next stage of business that requires more delegation because they are bored. “Builder” entrepreneurs love

to get something started and when it really gets rolling, they get bored because they miss the thrill of the struggle and overcoming the initial obstacles. This is a very dangerous time. Not only are things not being delegated, but there might also be a need to bring in a different type of leader to drive the company forward – a “manager” entrepreneur, someone who is good at taking someone else’s idea and making it better. Then the founder has a decision: is it possible to turn the company over to the new “driver” and still find something new in the company – a new product or service, a new division,

a new location, or sell and start something new independently?

The gains. There is so much to be gained from dealing successfully with these issues: a more successful company for the owner and employees, more job fulfillment for the owner and the employees, the joy of developing others and seeing them grow by overcoming their own challenges. The bottom line is the willingness of the owner to recognize the situation and take action.

Paul Riecks is president of the Inner Circle Mid-Atlantic, which forms and facilitates peer groups of business owners and CEOs. www.innercirclemidatlantic.com.

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10 ways to effectively CRITICIZE AND MOTIVATE

Let's clear up something right from the start. As a CEO, you want to be liked and respected by your employees. You don't want to treat them in the callous and negative way that certain managers you've reported to in the past have treated you. In fact, you vowed that if someday you were to become a CEO, you would be different – you'd try your best to not to criticize employees to avoid making them feel as you had in the past.

This sounds like a good idea but, unfortunately, it isn't feasible. The hard truth is that there are times when you will have to criticize your staff as well as your managers. By remaining silent and hoping that performance issues will disappear by themselves, you are helping to preserve the status quo and also shirking your responsibilities.

1 >> FOCUS ON BEHAVIORS, NOT ON PERSONALITY

The best way to criticize others is to focus on actions that you have

observed, not on their personalities. Instead of telling one of your direct reports that he or she is not dependable or reliable, you'd be a lot better off telling them that they "show up late for staff meetings," "make budget estimate errors," and "do not submit monthly financial reports on time." Using personality traits will typically elicit a defensive or angry reaction on the part of most employees – "I resent your saying that I'm not dependable or reliable person." Employees are much more likely to accept, without becoming

defensive or angry, those behaviors that you have seen with your own eyes.

2 >> GUARD AGAINST BROAD GENERALIZATIONS

A sure way to trouble is to use two deadly words – "always" and "never." Refrain from ever telling an employee that she "always shows up late for meetings," or that he "never submits monthly reports on time." Even if your statements are accurate, you're only asking for a hot debate over precisely how frequently or infrequently the individual is late for meetings and with reports. You'll get a lot more improvement out of the individual by saying you "frequently show up late for meetings," and you "rarely submit monthly report on time."



Douglas Strouse & Kenneth Wexley

3 >> DON'T PLAY 'FREUD'

Unless you are a trained psychologist, don't try to be one. Stick to making your criticisms in the form of observable actions. Don't even try to make guesses as to what is causing an employee to do what he or she is doing. If you do, chances are that you'll be off-base. If an employee were to bait you by asking why you think they're suddenly making a lot of budget estimate errors, you might have your opinions (he's depressed as a result of his divorce; he feels bored and stifled in his current position), but keep them to yourself.

4 >> HELP THE MEDICINE GO DOWN

Criticism is like taking medicine — it doesn't taste very good, but it can be good for you. Nobody likes receiving criticism, especially from their manager. An excellent way of helping to make the medicine go down is to express your criticism as a question. For example, one CEO needed to inform a manager that he often embarrasses his employees in public and that he refuses to listen to their suggestions. This CEO

knew that this particular manager had a great deal of respect for Terry Mitchell, one of the company's senior VPs. Rather than confronting this manager directly, the CEO simply said, "My question is this: Would Terry Mitchell ever treat his people in this manner?" At that moment, this manager got insight into his own actions.

5 >> AVOID SANDWICHING

In his book, *Skills For New Managers*, Morey Stettner points out that some teachers are trained to give school children criticism by mixing it with positive comments. According to conventional wisdom, youngsters will be more receptive to criticism from teachers if it is blended with compliments. While this may prove true for youngsters, it is not a good way to handle your employees. If you try to sandwich criticism between two slices of praise to "soften its blow," you're getting nowhere fast. Don't play games. If you have something negative to say about an employee's job performance, just say it.

6 >> INSTILL CONFIDENCE IN YOUR EMPLOYEES

Criticism will have its greatest impact on improving employees' job performance when it is combined with attempts to instill confidence. Highly confident employees have the deep belief that they can cause, bring about, or make something happen. Your role is to not only inform employees when they are doing their jobs poorly, but to also instill in them the belief that they possess the wherewithal to straighten out. Here are a few ways that you can enhance employees' feelings of confidence:

- Make certain that employees get the training they need. This shows that you and the organization believe that the person has the ability to master the skill; it also sends a message that the employee is a valued resource.
- Model desired behaviors for employees. Seeing others perform a task successfully makes employees judge that they, too, possess the capability to master the observed activities.
- Work on changing employees' "self-talk" so that it becomes constructive, not debilitating. If you hear statements from employees such as, "I never make the tough sales," "I always get nervous when making presentations," and "I'll never be able to manage my time as efficiently as Terry does" – encourage them to think positively.

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7 >> SELECT AN APPROPRIATE SETTING

In his book, *Effective Coaching*, Marshall Cook points out that when it comes to delivering bad news to an employee, the setting may be as important as the message. First, for obvious reasons, criticism should never be given to any employee in the presence of others. Second, consider using the employee's own office or cubicle, so long as the setting is private. If this isn't feasible, then select a neutral site in your company. If you decide to meet in your office, don't retreat behind your desk. Instead, discuss the employee's job performance seated around a small table.

8 >> CLARIFY WHAT YOU WANT

Since the major objective of criticizing employees is to improve their job performance, they also need to be told how they can perform better in the future. Discuss specifics with your employees and get agreement from them regarding what they need to do to improve their performance. It's critically important that the dialogue is collaborative so you get the "buy-in" from your employees.

9 >> BE AWARE OF NONVERBAL COMMUNICATIONS

Be careful not to raise your voice or sound upset with an employee when providing criticism. Speak in your normal, conversational voice. Be aware of your facial expressions and body language. Take a few minutes prior to the meeting to calm yourself down so that you don't appear to be angry or frustrated.

Let employees know that you're "on their side" and that you simply want to help them to do their jobs better.

10 >> PUT YOURSELF IN THEIR SHOES

Put yourself in your employees' shoes by doing the following things:

- Explain how your comments will help them make their jobs easier and more satisfying.
- Guard against the temptation to tell them how their actions are creating headaches and problems for you.
- Give them a chance to talk and explain, from their perspective, why this is happening.

Kenneth N. Wexley, Ph.D. is an organizational psychologist and president of Wexley Consulting - HRD, an Annapolis-based management consulting firm. Douglas A. Strouse, Ph.D. is the president of the CEO Club of Baltimore and an organizational psychologist.

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black swan moments

**WHY YOU SHOULD PICK UP THE PHONE
RIGHT NOW AND CALL A CUSTOMER**

“A key to our business model was driven by an offhand comment by a friend,” exclaims Naomi Simson, founder and CEO of Sydney-based Red Balloon. It was a similar set of “customer clues” that drove a 60 percent increase in revenue for Roger Hardy’s Vancouver-based Coastal Contacts.

It’s these “Black Swan” moments that drive the success of your company – these few-times-in-a-lifetime events when the entire fate of the company is changed forever. Your only hope is to up the odds of bumping into these moments and preparing yourself to recognize and act when they present themselves.

This requires a relentless pursuit of your market involving numerous direct conversations with your customers over a sustained period of time. It involves getting on more airplanes and on more phone calls than you’ve done since the launch of your business – especially during turbulent times.

And it involves stomaching what many perceive as a lot of wasted time and effort in conversations where you must endure a monotonous rehash of issues that risk boring you to tears. In short, you must suck it up and “stay in the game.” I implore top executives to formally talk to one customer each week, a critical routine easily jettisoned if the power of the black swan moment isn’t appreciated.

what is called a “Pleasure Guarantee” – you pay no more booking through Red Balloon than you would if you went direct. And given the added convenience, service, packaging and branding Red Balloon provides, it’s become a powerful value proposition that has driven phenomenal growth, including over 60 percent in 2008.

THE EPIPHANY

A similar epiphany came to the executive team of Coastal Contacts, a global provider of contact lenses. Using SurveyMonkey.com, they survey their customers instantly after a purchase and update the management team weekly on the scores. They have adopted Fred Reichheld’s Net Promoter Score (NPS) methodology, which basically involves asking two questions: 1) would you recommend us to a friend? and 2) if you didn’t rate the answer a nine or 10 on a 10-point scale, may we give you a phone call?

The game of business is constant, direct, firsthand interaction with your customers on a weekly basis.

The NPS score gives Hardy’s team an overall gauge if they are “wowing” their customers. From this data the executive team calls 20 customers each week, which gives them insights into how they can deliver what Hardy calls a “quantum leap value proposition.”

“The process of calling customers each week lets us see the patterns and trends of our market,” Hardy says. “For instance, we realized overnight shipping was a big deal, so we started over-nighting everything and sales grew 60 percent in one of our markets.”

Hardy’s team has stuck to this weekly process of measuring “wow” and calling customers for over two years. And though there is a large amount of repetition in the feedback they receive and the stories they hear, they know they must keep at it relentlessly or they risk their competition picking up the clues and Black Swan moments before they do.

You have to stay in the game – and the game of business is constant, direct, firsthand interaction with your customers on a weekly basis. So pick up a phone right now and call a customer.

Verne Harnish is the CEO of Gazelles and founder of Entrepreneurs Organization (EO). www.gazelles.com.

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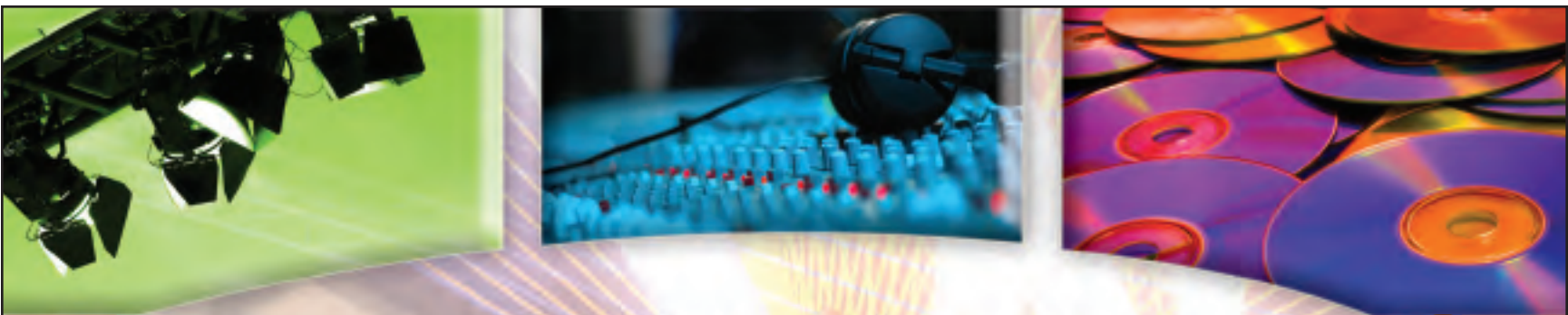
Verne Harnish

STAYING IN THE GAME

The term “Black Swan” comes from Nassim Nicholas Taleb’s in-your-face book by the same name – a book that uber guru Tom Peters has already declared the best book of the decade, and the decade is not even over. In short, Taleb drives home the point that the really important events in life and the marketplace are rare and unpredictable and what you must do is protect yourself from the downside while giving yourself a chance at the wild upside.

Which brings me back to my two opening examples. Naomi Simson, a former corporate marketing executive for Apple, already understood the importance of listening to customers when she launched her business in 2001. So when a friend of hers made an off-hand comment that he loved her company’s Web site (Red Balloon is a gifting service that today offers over 1,500 unique experiences across Australia) – and that he used it as a free directory for locating interesting experiences and then would book directly with her supplier, Naomi’s heart sank.

It was at that moment her business model was reformulated, resulting in



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run for cover(age)

It was only 11 a.m., but I could not keep my mind on work. Not with those leftovers waiting for me in the refrigerator. Come on, noon! I'd slaved all weekend making a traditional Daube de Boeuf Provençale, or beef stew. This is not just any old stew with any old beef. This takes days to get right, to eek out all the flavors. So, there I was, trying to

work, urging Father Time to shake his tail. And then the phone rang. At long last, a distraction!

"Julie, I've got Bob Finton on your line," my assistant chimed. "Hi, Bob, how you doing?" "Well, I'm still kicking, but I been better. I will say that."

Bob is the CEO of a commercial security devices company headquartered

in Bel Air, MD, that employs about 20 people. A few weeks earlier, Bob's company had been sued by a former employee claiming violation of Maryland's wage and hour law for failure to pay overtime. Bob called me when he was served with the lawsuit and I advised him to contact his insurance carrier immediately. His company was hemorrhaging cash like every other business muddling through the economy and the last thing he needed was to spend precious money on legal fees. I was quite sure the company's liability insurance would cover this type of claim.

Aside from providing valuable, practical day-to-day guidance on employee-management relations and workplace dos and don'ts, employee handbooks can be powerful defensive tools in discrimination and other employment legal claims. Trust me, I've got the stories to prove it (good and bad, alike). Not only do judges, the Equal Employment Opportunity Commission, and the Maryland Commission on Human Relations look favorably upon employee handbooks, handbooks have become nothing short of a legal necessity to avoid liability. Some courts have held that the absence of an employee handbook is akin to having no policy at all, which can cripple a company defending an employment lawsuit.

The letter from the carrier denying coverage quoted the section of the policy regarding denial of the claim on the basis of the absence of a written policy, and enclosed a copy of Bob's signed application for coverage. The application specifically inquired: (1) "Does the Applicant have an employment handbook?" (2) "Does the Applicant have a written anti-discrimination policy?" (3) "Does the Applicant have a written wage and hour policy?" (4) "Does the Applicant have a written 'at-will' provision in the employment application or handbook?" and, my personal favorite, (5) "Does the Applicant use outside employment counsel for employment advice?" Bob answered no to all. Although the insurer had issued a policy to Bob's company (albeit at a heightened premium), the policy expressly disclaimed coverage obligations in the absence of a written policy on the subject of the claim. There was really nothing Bob could do. The language was plain and he did not have a written policy.

But not all was lost for Bob. The case settled out of court after documents exchanged during litigation revealed that, while still employed by my client, the plaintiff had started his own security company, diverted Bob's customers to his own company and pocketed the cash. Bob got lucky, but you might not. Insurers may issue your company a liability policy even if your company doesn't have its workplace policies in order, but read the fine print. Issuance of a policy is a far cry from extending coverage. Don't find out the hard way.

Julie Rubin is a principal of Astrachan Gunst Thomas. Names and circumstances have been changed to protect privacy. www.agtlawyers.com



Julie Rubin

I was half right. The policy – a fulsome general liability insurance policy – did include wage and hour claims, but not my client's. The policy specifically says that coverage may be denied (1) if the "insured fails to demonstrate proof of a written policy covering the subject of the claim," and (2) if the insured could not demonstrate that the policy had been distributed prior to the events giving rise to the lawsuit. Basically, if Bob couldn't demonstrate that the company had, for example, an employment handbook that addressed overtime wages, and that the handbook had been distributed to employees before the events complained of in the lawsuit, insurance coverage could be denied. So much for cost cutting.

GET-OUT-OF-JAIL-FREE CARD

Bob had been referred to me when the lawsuit began, so I had not yet had time to get on my soapbox about employee handbooks. If only I had been his lawyer before all this hootenanny began. My clients hear "handbook" and a faraway, glazy stare comes over them. Employee handbooks are like watching wallpaper peel, I know, but – and if you're a regular reader, you've heard me say this before – employee handbooks can be your get-out-of-jail-free card.

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Get Content Get Customers

How to use content marketing to deliver relevant, valuable, and compelling information that turns prospects into buyers

By Joe Pulizzi and Newt Barrett
200 pages



Why should people buy from you? If you're like most companies that are growing, your list will have two things in common: it's long, and it deals with special insights, expertise or intelligence you provide that your competitors do not.

In today's hyper-commoditized "flat-world," the only opportunity you have to effectively differentiate yourself from your competition is your intelligence.

Here's your challenge: Your competitors have answers that are very similar to yours. So, how are your best potential customers – and even your current customers – supposed to be able to tell that you are a better alternative than your competitors? According to Joe Pulizzi and Newt Barrett, authors of *Get Content Get Customers: How to use content marketing to deliver relevant, valuable, and compelling information that turns prospects into buyers*, the answer is "content."

According to Pulizzi and Barrett, the Internet has transformed buyer behavior. Customers have access to vast amounts of online information from a broad range of sources. They can find almost anything they want in order to make an intelligent buying decision. They want plenty of information from you, too, but they want it on their terms. They expect to gather the information they need without being interrupted by unwanted marketing messages. Content marketing is the art of understanding exactly what your customers need to know and delivering it to them in a relevant and compelling way.

Content marketing takes various forms, and is by no means new. Since the beginning of marketing, growth executives have tried to find new ways to develop and package their wisdom in a manner that is innovative, entertaining and effective. The struggle for growing firms was that distribution was the content bottleneck. It didn't matter if you could create great content if there was no way to distribute it. Therefore, companies relied on traditional advertising and PR to "get their message out."

Today, the Internet allows companies to become their own publishers, and not only has this empowered companies that are taking advantage of this trend – it is punishing companies that aren't. Technology such as blogs, podcasts, YouTube, Facebook, LinkedIn and Web site content management systems allow any company or individual to bypass traditional publishing limitations and let the world know what they really have to offer.

Simply put, you can no longer rely on claims to drive and create demand for your products and services. Today, you must prove it; you must "napsterize" your knowledge. This means that if you want people to treat your offering as anything other than a pure commodity, you must allow your buyers and potential buyers to sample your intelligence.

This thought scares most traditional business people – and that leaves a wide-open opportunity for companies that are ready, willing and able to embrace the world as it is. It means letting the world know what you think – and yes, that includes your competi-

tion. Whatever risk is associated with releasing your intellectual capital is overcome by the ability such a release has to make true connections with prospective clients, to clearly demonstrate just how different you are (or are not), and to shorten the sales cycle.

In my blog, I've written about The New Marketing Funnel, which describes the approach businesses must take to create awareness, cultivate their market, convert opportunities, and ultimately to close business. The most critical piece of The New Marketing Funnel puzzle is content.

Get Content Get Customers provides the outline of how to develop and implement an effective content strategy for both beginners and the advanced. *Get Content Get Customers* is really two books in one. The first part builds the case for content, what it is and isn't and how to create an effective strategy. This part of the book is written in a breezy, effective style that will

keep the attention of experts and non-experts alike. Everyone should read the first part.

The second part focuses on a series of case studies of actual content approaches used by large, mid-sized and small companies. While this part was a struggle to keep my attention, the examples used are highly effective. My recommendation here is if you are involved in growing the business from a strategic standpoint, you don't need to read this section, so long as the person who is responsible for executing an effective strategy does.

Today's condition is best summed up by Pulizzi and Barrett, "All the rules have changed. You need to relearn the marketing game with a brand-new marketing mindset. Those who can adapt will flourish. Those who don't – well, think of dinosaurs."

Doug Davidoff is founder and CEO of Imagine Business Development. www.imaginellc.com.

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PROJECT

Loudoun Parkway Center

On the heels of the Dulles Toll Road development boom, developers Akridge and Soave Real Estate are looking to extend construction down the Dulles Greenway with Loudoun Parkway Center, a 2 million-square-foot class A office park on almost 200 acres straddling the primary north-south connector in Loudoun County west of Dulles International Airport.

The site is zoned for up to 2.4 million square feet of office, retail and hotel development located at the interchange of Loudoun County Parkway (Rt. 607) and the Dulles Greenway (Rt. 267) – the first major intersection on the greenway – and divided into two parcels. Up to 800,000 square feet may be built on the north parcel, and a south parcel can accommodate up to 1.6 million square feet.

The developers are first turning their attention to 40 acres on the north parcel on which they plan to build a 138,000-square-foot office building and 28,000 square feet of retail in the project's first phase, according to Mike Gill, project manager for Akridge. Subsequent phases will add up to five similarly sized office buildings, with additional walkable amenities concentrated

around an “amenity pond,” Gill says. Site plans for the first phase should be approved by this fall, he adds.

“We are not intending to build it on spec, so once we get a pre-lease we can build it,” Gill says. “We are looking for a big user, which could be a government user or corporation that is looking for space in this sub-market.” Gill adds that the site will incorporate adequate setbacks to meet a government user's security requirements.

“We are thinking to get the project kicked off, we'd look for someone to take up half the building, or 60,000 square feet,” Gill says.

Loudoun County has seen dramatic residential and commercial development in recent years, particularly in the areas surrounding the airport. “Dulles is a huge engine and it put Loudoun on the map commercially,” Gill says. “A lot of the development here has been residential, so I think there are a number of buildings being built on the toll road. Loudoun and Akridge see the greenway as an exten-



ADDRESS: Loudoun County Parkway and the Dulles Greenway just beyond Dulles Airport

DESCRIPTION: Mixed-use office, retail and hotel

TOTAL SQUARE FOOTAGE: 2 million square feet of office and retail space on almost 200 acres

ESTIMATED COST: \$200 million for phase 1

DEVELOPERS: Akridge and Soave Real Estate

ARCHITECT: DVA Architects

LEASE AGENT: Millennium Realty Advisors

GROUNDBREAKING DATE: TBD, site plan for phase 1 to be approved Fall 2009

COMPLETION DATE: 2019

to WATCH

Class A office space comes to Loudoun County



Image courtesy of Akridge

sion of the toll road, and this is a corridor that the county has designated as the keynote employment district.”

AOL's global headquarters and Verizon's 1.5 million-square-foot campus have also accelerated the region's growth. "The toll road has become the primary corridor, and this is the extension, so we think we are in the path of growth here," Gill says.

Loudoun Parkway Center will be located between the last two stations of the proposed Metro Silver Line Dulles extension. "With the stimulus package helping to give the Silver Line the green light, we are expecting the last two stations to be built in 2016. So within the next seven years, we'll be within a mile of two Metro stations," Gill says.

The developers are seeking LEED Gold or Platinum certification for Loudoun Parkway Center, according to Gill. "We are contemplating using geothermal for our HVAC system," he says. "Instead of cooling the building with cooling towers on the roof, you'd send the water down into 500-foot wells, and it is three to five times more efficient, so

we think there would be substantial energy and tax credit savings."

Unlike commercial developments east of the airport on the Dulles Toll Road, Gill says that Loudoun Parkway Center will include surface parking, as opposed to structured parking garages. "[Garages] can be a very expensive component of the project," he says. "A garage can sometimes be as expensive as the building. When you look on the other side of the airport, for those sites to be viable, they need to charge much more rent because they have to build the garage. Going forward, this project will have a lower cost basis than the projects on the toll road, so we can offer better rents."

Gill says that with a portfolio of class A developments in DC's central business district, Akridge is poised to bring high-quality commercial real estate to Loudoun County. "A lot of the office product in Loudoun hasn't been class A, so we'll be delivering a quality of office out there that's a great option for anyone looking to have offices out there. We are going to raise the bar out there."

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How Wellness Promotion & Consumer Driven Healthcare Can Benefit Any Organization

THE PROBLEM

Employee health care costs are skyrocketing due to a national epidemic of poor health caused by unhealthy lifestyle choices. 87.5% of health care claims costs are due to an individual's lifestyle (Source: Indiana University-Purdue University, Fort Wayne (IPFW) Study, 2006). If 87.5% of health care claims costs are lifestyle related, then these costs are potentially preventable.

For every 100 employees, 25 have cardiovascular disease, 12 are asthmatic, 6 are diabetic, 26 have high blood pressure, 30 have high cholesterol, 38 are overweight, 21 smoke, 31 use alcohol excessively, 20 don't wear seatbelts, 24 don't exercise, and 44 suffer from stress (Source: Department of Health and Human Services, 2007). In addition, on average, more than 95% of health care costs are spent on diagnosis and treatment (medical care), with only 2-3% invested in early detection (screenings), and no more than 1-2% on prevention (Source: David Anderson, PhD reporting in Wellness Councils of America's Absolute Advantage 2003). This is a purely reactive approach to health care management, and the cost to both the employer and employee is immense and growing.

In fact, poor health practices and existing health risks of employees have significant impact on an organization's bottom line including increased health claims, decreased productivity, increased presenteeism (at work but distracted by health or personal issues), increased absenteeism, and increased employee turnover.

THE ANSWER

How does a small to medium sized company combat ever increasing health care costs (not to mention low productivity, high absenteeism, etc.) fueled by employee health risks?

1. Shift away from the copay paradigm. There is a limit to the cost reductions garnered from adjusting health plan deductibles, copays and coinsurance each year. At some point, any savings associated with annual adjustments to the coverage provided by a company's health care plans is reduced or eliminated by the higher cost of employee dissatisfaction and turnover.

2. Educate employees to save money through effective and cost-saving health plan utilization. This can include better utilization of in-network providers, on-line health resources, retail clinics & urgent care centers, and/or implementing a company-wide pill splitting program.

3. Educate employees about the true costs associated with their lifestyle choices. Study data can be presented to employees along with company-specific aggregate claims data and how those claims costs directly impact company premiums.

If employees understand the direct impact their behavior can have on corporate health care costs, and their own out-of-pocket costs, there will be increasing incentive to make wellness programs successful and to embrace health and wellness in general.

4. Implement a proactive, 10-year business plan for managing the health care program. A proactive approach to the management of health care benefits would include the Strategies discussed above along with a strategic plan that identifies when to introduce wellness and wellness incentives, when to introduce consumer-driven health care, how to monitor and measure the true cost of the company's health care benefits program, and when and how to determine employee satisfaction with the program.

5. Move toward integrating an effective employee wellness program with consumer-driven health care. This is the strategy that will have the largest direct affect on health care costs over time. Employers must commit to this strategy, supporting the programs with an investment of both dollars and time.

RETURN ON INVESTMENT

The return on an investment in employee wellness is not only possible, but probable. A comprehensive wellness program can be implemented at a cost of \$150 - \$200 per employee per year including incentives. Companies paid an average of \$9,312 per employee for health care in 2008, \$7,272 of which was employer paid (Source: Towers Perrin 2008 Health Care Cost Survey). So an employee wellness program can be implemented for about 3% of an employer's annual health care bill.

There are a large number of studies showing a significant return on investment for worksite wellness promotion – anywhere from \$3 to \$6 for every \$1 invested (Chapman LS. Meta-evaluation of worksite health promotion economic return studies: 2005 Update. The Art of Health Promotion. July/August 2005). According to the American Journal of Health Promotion, the data supporting the claim that health promotion can reduce medical care costs and reduce absenteeism is of higher quality than the data most businesses have to support other investments of similar cost.



There can be even more savings associated with increased productivity, reduced disability costs, increased morale, and decreased employee turnover. The key to remember is that wellness promotion is a long-term investment. The returns described above generally take a minimum of 2 to 3 years to come to fruition.

The best possible results are garnered from coupling wellness promotion with consumer-driven health care (CDH) and employee incentives.

HEALTHe INITIATIVES

The premise behind Potomac's HEALTHe Initiatives© is that the only way to change an organization's health care cost trend is to affect a change in employee lifestyle. Promoting employee lifestyle change helps to keep low-risk employees healthy, move medium-risk employees to low-risk, and manage high-risk employee health. Prevention, health risk factors, and chronic disease management, therefore, are the primary targets of effective CDH/wellness promotion. Programs must include:

- Incentives & empowerment for employees
- Extensive employee education
- The development of a corporate culture that values wellness
- On-going evaluation & measurement of program outcomes

Potomac is able to function as a guide to the world of wellness and CDH offerings for our clients, including providing:

- **Education** – What makes up an organization's health care costs; trend data; the benefits of investing in wellness promotion and CDH
- **Resources** – Carrier wellness offerings; third-party wellness vendors; CDH and HRA/HSA analysis and education
- **Recommendations** – Wellness promotion options and CDH options based on risk analysis, corporate budget, funding and program support
- **Coordination** of program implementation and management
- **On-going Review** – Monitor program effectiveness with recommendations for modifications of the services and incentives offered

It is Potomac's intent to partner with our clients through innovative thinking and long-term planning, and HEALTHe Initiatives© is one very important facet of that partnership.





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CEO of the Year

Tom Adams Rosetta Stone



dynamic immersion

Rosetta Stone's Tom Adams dove into the pool of foreign languages and lost his trunks – Now he's dedicated to ensuring you surface with dignity.

For many of us the toughest part of speaking a foreign language is mustering the courage to begin speaking it in public. When we speak a new language, we inevitably make mistakes. It's embarrassing. Rosetta Stone CEO, Tom Adams, understands the pain of such embarrassment all too well.

Tom Adams was born in Sweden, but in early childhood moved to France with his parents. Like any child he learned the tongues spoken in and around his household with the facility children have for acquiring language, seemingly by osmosis. Everything went well for the bilingual youngster until he was 11 years old. That's when Adams family moved to England and enrolled him in an English public school (referred to as a private school in the U.S.). He did not speak a word of English.

"My parents were pretty rough I guess," Adams remembers. "They just threw me into an English-speaking classroom. I had to figure out what was going on. It was an experience like many immigrants go through here."

It's an experience Adams hasn't forgotten, in large part because he stood out so obviously on his first day in class.

"My mother was clueless [about the school]," he says. "So she goes and buys all the kits for the school. She buys all the things like a rugby shirt that we would need for sport. I like casual wear so I wanted to wear that during school. The first catastrophe for me was that I showed up in the wrong clothes. There are 400 boys all in uniform, looking exactly the same, and there I am."

The sartorial faux pas was merely the beginning of a period of unwanted attention. Things didn't improve when Adams sat down to lunch during his first week. Seated at a long table with other children, he was approached by school administrators.

By Eric Tegler

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"They were trying to determine what my phone number was," he says. "They'd forgotten to ask my parents. They started asking me in Swedish what my telephone number was – *Vad är din telefonnummer?* Then they started saying it slowly. At this point, everyone's giggling and all the kids are joining in. It's funny, of course, because I'm dumb, because I don't know your language but it also pushed me down. You're an outsider to start with and those sorts of experiences really hurt you. I don't know why but I just pressed on."

Despite his Swedish origin, Adams pronounced English words with a decidedly French accent. Predictably, the other boys gave him a fitting nickname.

"I would say 'free-hundred' [300] and 'faa man' [the man] and everyone thought I was extremely funny," he says. "I was called 'French Frog.' About four months into it, I went home one day and said to myself, 'I'm gonna get rid of this damn *fff* and start pronouncing *th*!' I had a tape recorder and I pressed play and record and sat there for hours saying, 'Three hundred and thirty three thousand three hundred and thirty three' to get rid of an effective disability to feel more integrated."

His triumph over the pronunciation and over English in general in what might be called a "shock immersion" environment are hallmarks of his determination. Adams' use of a tape recorder to help suggests a readiness (even at a tender age) to turn to technology for solutions – interesting given that Rosetta Stone relies on technology.

Adams makes the "th" sound with impressive clarity today. You hear it when he says "thank you" to staff members who stop by his office. Surrounded by smoked glass, it sits in the center of Rosetta Stone's open, window-ringed floor of an office building in Arlington. The company's headquarters are here, facilitating sales, legal, finance and other administrative functions. The firm's original (and largest) office in Harrisonburg, VA, remains, along with satellite offices in Boulder, CO, London, Tokyo, and Seoul, Korea.

When Adams joined the company, its Harrisonburg location had floor-to-ceiling partitions that allowed employees to "hide," Adams says. One of his first acts was to do away with enclosed offices, "ripping the office open," in his words. "I'm a big believer in learning and speed and ease of communication and I'm willing to sacrifice privacy for that cause."

He's certainly not shy about advertising for the cause. If you watch much TV, you've undoubtedly seen the company's ads. "Are you one of those people who think you just can't learn a new language?" the commercial asks.

The people at Rosetta Stone, from its CEO on down, genuinely believe you can. The product's bright yellow packaging can be seen at Barnes & Noble and chances are, at a kiosk at your local mall. The company's message seems to be everywhere, in fact. Yet it's a good bet that few *SmartCEO* readers are aware that Rosetta Stone is headquartered here in the DC area. That's probably because the firm's origins lie a little further south.

frustration and fairfield <<<


The company that has become Rosetta Stone was inspired in the early 1980s. That's when Allen Stoltzfus began studying Russian. But glacial progress with the language frustrated Stoltzfus, who knew that being thrust into an exclusively Russian speaking environment would greatly improve his learning curve. He'd experienced such immersion while studying in Germany, gaining command of the language in a matter of months.

That experience, coupled with his Russian frustration led Stoltzfus to imagine a way to simulate an immersive language environment. Put pictures and sounds in context, with no translation, and you'd have it, he reasoned. Stoltzfus approached his brother-in-law, John Fairfield, a James Madison University computer scientist, with the idea.

Fairfield eagerly embraced it, but the pair had to wait until the advent of the CD-ROM made the idea technically feasible. By 1992, the technology was mature and the Fairfield family partnered with Stoltzfus to launch Fairfield Language Technologies in Harrisonburg, VA. Stoltzfus' brother, Eugene, an architectural executive, joined Fairfield as the firm's first president and chairman, lending design expertise to the structural and visual components of the program.

Fairfield's product was named "Rosetta Stone" after the artifact that had unlocked the secrets of Egyptian hieroglyphics for linguists. It incorporated the immersion approach that Allen Stoltzfus had recognized as a natural path to language learning, spurning traditional institutional grammar-based instruction. In the meantime, Tom Adams was receiving instruction of his own.

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Upon graduating from Bristol University in the UK in the early 1990s, he attended INSEAD, a leading international postgraduate business school in Paris. Adams took his MBA and set himself on a trajectory far removed from the field of language learning. He became a commodity merchant.

"I was effectively traveling the world and buying the production of mines called concentrates [raw material like an ore, only refined] and shipping it to other countries for sale," Adams explains. He lived in China for two years during which time he used Rosetta Stone to learn basic Mandarin. He traveled throughout Eastern Europe as well, working in a fluid business that that effectively put him in the role of "middleman."

In the course of his travels, Adams visited an old school friend here in the United States. The friend happened to work for Fairfield and introduced him to Allen Stoltzfus. "I met Allen and he wanted me to do all sorts of things for them," Adams remembers. "Nothing materialized but then Allen passed away. There was sort of a void because he was the driving force in the company."

Allen Stoltzfus died of a heart attack at the age of 60 in 2002. Not long after his passing, Adams' old friend called again. He wanted Adams to work with him at Fairfield and to introduce him to Allen's brother, Eugene Stoltzfus.

"I was a young guy, 30 years old," Adams admits. "I hadn't done this before but my friend had worked diligently for the family for a number of years, so they trusted him. He swore I was a great guy and would do the right things. Eugene and I got on famously and he offered me the position as CEO."



Before joining Rosetta Stone, Adams lived in China for two years, during which time he used Rosetta Stone's software to learn basic Mandarin.

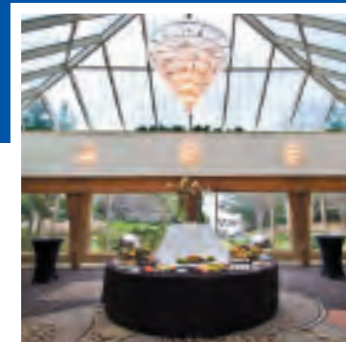
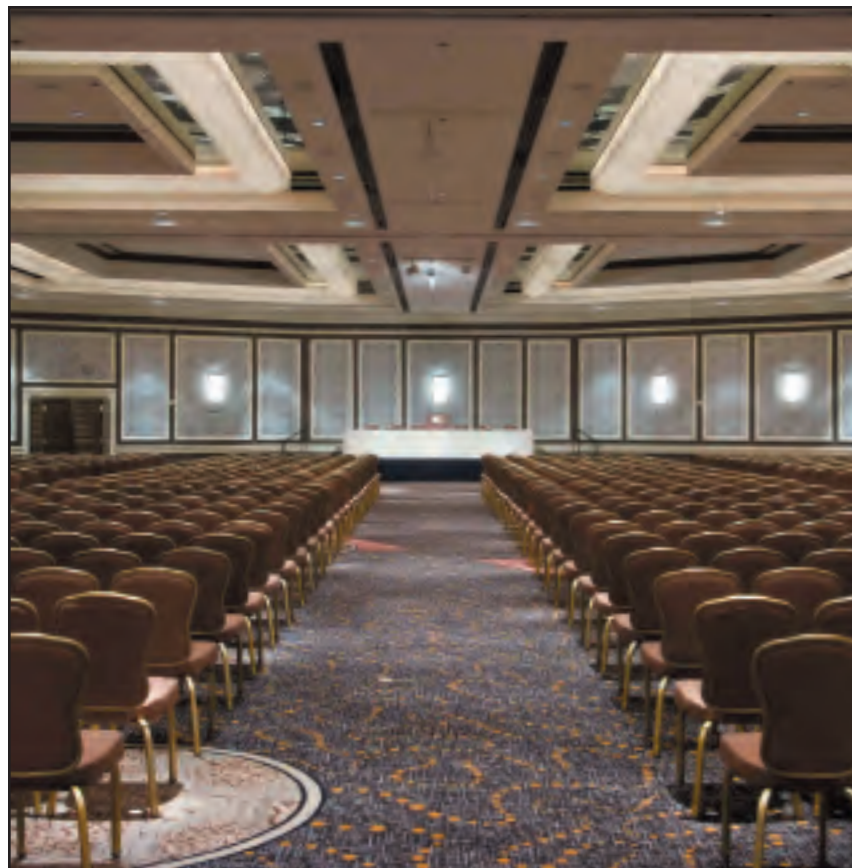
Whatever Eugene Stoltzfus and the Fairfield family saw in Tom Adams overrode any concerns they may have had about his age and general experience. While his international background and business training were undeniable assets, the switch from essentially brokering deal after deal to running a company would challenge any individual. But Adams' enthusiasm proved convincing.

"I had an MBA from a great school in Europe," he says. "I had a passion for language learning, which I had done many times. I'd also failed at it so I knew what worked and what didn't work viscerally. That passion, energy and good ideas for how to structure the business were things I had."

Adams' mission would be to grow the business and ultimately take it beyond the mid-size family-held enterprise it had become. He would make structural changes and recapitalize Fairfield, but from the start he was adamant that despite pressure, Allen Stoltzfus' basic idea would remain at its heart.

never translate <<<

Tom Adams' own English is slightly accented. You can hear it when he's describing the Rosetta Stone language learning method, particularly when he uses the word "disruptor." That's how he views the product and the company. Upon his arrival as CEO, however, some in the company were suggesting changes to make Rosetta Stone more mainstream.



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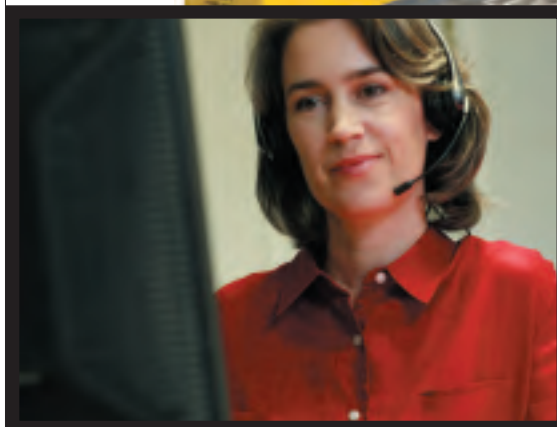
dynamic immersion

“Right about the time I joined after Allen’s passing, there was an argument about adding a dictionary and a grammar book to complete the offering that we had,” Adams says. “We had asked customers what was missing from our product and they said a grammar book and a dictionary. They thought our product was a much easier, much better way to learn, but they were so accustomed to the old way of teaching languages that they wanted those elements. That idea always tries to creep back in because it’s consistently how language has been taught. But Rosetta Stone will never translate. We will never do that in our history.”

According to Adams, our current approach to language learning emerged in the Middle Ages as monks sought to learn Latin and classical Greek, orally extinct languages that remained only in textual form. Grammar translation was thus the only method suitable for deciphering them. Bypassing grammar translation is the crux of Rosetta Stone’s methodology, which the company calls “dynamic immersion.” Essentially, it attempts to mimic our natural process of language acquisition.

“All we do is we imitate that method that you used as a child,” Adams says. “It’s portable across all languages with great ease because all children learn the same way. People often ask me, ‘Which is the hardest language to learn?’ I say, do you think children learn to say, ‘I want ice cream,’ later if they’re Arabic because of the tense or the script? No. Everybody learns at the same pace.”

I tried Rosetta Stone’s CD-ROM Swedish offering briefly. Once you’re past installation and setup, which does take a few minutes, you’re given the option of working through exercises that address specific skills from listening and reading to speaking and writing at absolute beginner or more advanced levels. Users are encouraged to do the exercises that best suit their individual learning styles and progress entirely at their own pace. The exercises are all visual in nature with combined sound and text compo-



nents. The software is able to analyze your pronunciation and correct it, adding interactivity.

The absence of a dictionary or grammatical primer forces you to take more of a stepped

approach, building on what you’ve learned rather than jumping ahead. It can be frustrating for users who wish to follow a tangent monologue/dialogue progression or extend a scenario. And there are occasional technical hurdles. Even Adams trips over one as he tries to demonstrate Rosetta Stone’s basic exercises in Russian as we sit in his office. But just a minute or two into the exercise, one of the people in the room registers an “I’ve got it!” moment, suggesting the potential of the system.

Rosetta Stone appeals to common sense. As children, we learn oral language first. Most of us are not really literate when we arrive at school. Thus we learn spoken language and literacy separately. But school-based foreign language instruction seeks to teach us both simultaneously.

Researchers remain convinced that learning spoken and written language in parallel is the best method. Research over the past decade, they say, has shown that second languages are most effectively acquired when oral, aural, visual, textual and grammatical components are taught at the same time. The also draw a distinction

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between what is commercially referred to as immersion and an academic definition of the term.

Immersion has become a highly popular catchword in the language learning business. (Berlitz has a product called Total Immersion; Topics Entertainment offers Instant Immersion Spanish; Auralog's Tell Me More is described by the company as immersion software.) But the scholarly notion of the term differs in that language immersion is considered to have been achieved only when a student is learning other subject matter (for example, science or history) in the language they are attempting to acquire.

"I had a passion for language learning, which I had done many times. I'd also failed at it, so I knew what worked and what didn't work viscerally."

Academics point out that the majority of immigrants do not share exactly the same experience Tom Adams had. They tend to come from backgrounds with differing degrees of literacy and foundations, which may handicap their language learning success. Researchers refer to their learning experience as "submersion." The point dovetails fittingly with Rosetta Stone's typical customer profile, which the company says is highly educated and economically successful.

However, Rosetta Stone director of communications, Duane Sider, sees no reason why individuals with less literate foundations cannot succeed with Rosetta Stone since it's mapped to the brain's natural process of learning, not to a specific linguistic structure. "Rosetta Stone places you in an environment where you're not translating from your native language," Sider explains. "You don't have grammar rules from the language you're learning but there's a very systematic approach that enables you to understand and develop key skills from the beginning."

The discussion among academics and commercial language learning providers is always interesting and tellingly, Adams would happily spend most of our time together talking about the manner in which Rosetta Stone works – he says no other

learning product in the world is as "pedagogically interesting." But the business and its growth are equally engaging. That growth has been pretty impressive.

create evangelists and change the world <<<

"The idea is, we're going to make our customers evangelists by making them super successful in language learning," Adams says. Word-of-mouth recommendation can spur the growth of any product, but Rosetta's CEO wants users to proselytize its learning approach.

"In our category that needs to happen," Adams says. "There needs to be a transformation in how people learn languages. We simply cannot have 12 million students a year take a foreign language course and then not be communicative. Your children shouldn't be spending that much time doing something that they can't activate later in life."

Activating what he's learned is important to Adams. One of the personal elements he's brought to the company is the goal-oriented approach he applies in his own life. As he's written down his own goals, Adams has developed a mission statement solely for the company, not for outsiders.

"It's to remind ourselves about what we're trying to do, so it's not an uplifting mission statement," he says. "We deliver the best technology-based solutions for learning languages.' Every single word is important. It's about delivery, not just developing."

In describing Rosetta Stone, its CEO uses the word "craftsmanship." It denotes the sort of company Fairfield was when Adams took the helm in 2003, a family operation with 100 employees driven by the passion of Allen Stoltzfus. Adams' success has been in maintaining that family esprit de corps while scaling up the business and adding structure.

On the people side, Adams has added expertise while being careful not to quash the individual initiative that is the hallmark of smaller firms with fewer individuals. "I believe in people being free within constraints," he says. "Why is the U.S. such a successful country? It's because there are some very high level principles in the Con-



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dynamic immersion

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1799 > The Rosetta Stone is discovered

1980s > Founder Allen Stoltzfus' idea of learning languages through immersion is born

1992 > Creation of Fairfield Language Technologies in Harrisonburg, VA, home of research and development

2000 > Rosetta Stone goes virtual, becoming available online

2003 > Tom Adams becomes CEO

2005 > The United States Army begins using Rosetta Stone for language learning training

2006 > Fairfield Language Technologies renamed for their signature product:
Rosetta Stone

> Rosetta Stone makes Inc. Magazine's ranking of the top 500 fastest-growing private companies in the country

2007 > Rosetta Stone Version 3 Personal Edition launches with 21 languages, including the most advanced voice recognition

2008 > Rosetta Stone Classroom Version 3 launches, allowing for an integration of traditional classroom education and interactive computer software

> Launch of the Audio Companion, allowing consumers to take their language learning experience on the road through the use of a portable audio player

> Launch of seven new languages in Version 3, bringing a new level of learning excellence to those wanting to learn Dutch, Persian (Farsi), Greek, Hindi, Korean, Polish and Swedish.

2009 > The United States Marine Corp. begins using Rosetta Stone for language training

Rosetta timeline

situation that are so good that society is able to function with few higher-level laws. We've tried to create the same thing."

The most obvious structural change was the opening of new offices and overseas expansion as demand for Fairfield's product continued to grow. (Rosetta's research showed that America represents but 5 percent of global language learning demand.) The company's first step abroad was to London, a location chosen for its transitional ease and its access to other markets. With increasing governmental and institutional business and the need for more administrative capability, the company next opened its Arlington headquarters.

In 2006, Adams reorganized the firm's R&D function, established with Fairfield in the early 1990s. The company had progressively put more resources into marketing and selling the product, but Adams saw "a huge opportunity to innovate" and realized that a lack of further product development would stifle growth. To emphasize the rededication to development, he moved the function to Boulder, CO, where Rosetta's speech recognition team now operates. From a total of seven R&D people on hand when he joined, Adams has boosted the number to 190.

Though much of the Fairfield personality has remained, the most significant change during Adams' tenure has been its acquisition by private capital. As the busi-



According to Adams (pictured above in Rome), Rosetta Stone uses immersion language learning to mimic our natural process of language acquisition.



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ness grew through 2006, founder Eugene Stoltzfus and the Fairfield family decided they wanted to direct their energies elsewhere. Adams and his staff carefully identified and then worked with Baltimore-based ABS Capital Partners on a management buyout that would give the Stoltzfus/Fairfield families the freedom they sought while enabling the company to move ahead with further reinvention.

Reinvention began with renaming the business. In 2006, Fairfield Language Technologies took the name of its signature product, becoming Rosetta Stone. Adams remained as CEO and while the change in ownership didn't provide significant fuel for expansion, it did release him and others in management to start executing more aggressively and to direct investments to capitalize on Rosetta Stone's chief strategic value – its difference.

the value of difference <<<

A look at Rosetta Stone's annual revenue figures strongly suggests Adams is on to something. When he joined Fairfield in 2002, annual revenue stood at a little more than \$10 million. In 2005 it hit \$48 million, then \$91 million in 2006, \$137 million in 2007 and \$209 million in 2008.

That growth stemmed from a fundamental change in consumer demand brought about by the unorthodox nature of Rosetta Stone itself. The language learning market hasn't expanded in absolute terms, Adams says, but his company's product is different enough from existing books and tapes (always a fringe category) that sophisticated consumers have recognized its power and increased Rosetta Stone's market share accordingly.

"I attribute [the growth] to our release of new product with an improved curriculum and better speech recognition," Adams says. "That allowed us to have a better conversation with customers and demonstrate something more exciting."

Advertising is crucial and constitutes a major driver for Rosetta Stone. The portfolio of activity matters more to Adams than any single channel, whether television, magazine, radio or Internet. The product is available directly from the company's own Web site and online through Amazon.com. But physical retailing is perhaps even more important because demonstration is clearly a catalyst for sales.

Rosetta Stone is available at Barnes & Noble locations and at Apple Stores, linking brands that further raise the product's visibility and consumer associations. The software is also available at a large network of company-leased kiosks in malls and shopping centers across the country. Kiosks present the opportunity to demonstrate Rosetta Stone, leading to "I've got it!" moments. Their scalability has proven valuable in the current poor retail environment – Rosetta Stone sales were not down as of fourth quarter 2008.



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"The flexibility of the kiosk set-up is a real source of strength for the company," Adams affirms. "The most powerful dimension of the kiosk network is that we're able to demonstrate the product, and our product lends itself to demonstration. You can experience how you would learn at a location. By doing that you establish confidence in the buyer's mind."

Demonstration establishes other aspects of the Rosetta Stone value proposition, as well. One of the most compelling is the one-on-one interactivity it offers. Learning to communicate in a foreign language is a process of trial and error – frequently a painful process, as Adams' own experience proves. Rosetta Stone allows the user to make the basic mistakes that are part of the learning process in private. When they go out and actually speak the language, users undoubtedly make more, but the product enables them to avoid many of the most fundamental. This private quality has tremendous appeal for children and adults.

"I went through all of that feeling like an outsider because of the language barrier, so for me language learning is very emotional. That drives me whenever I feel tired or frustrated."

There are in-person private and semi-private immersion learning offerings available, Adams points out, but they are particularly expensive. Rosetta Stone delivers immersion learning in a more cost-efficient way. Convenience is yet another factor. The CD-ROM or download-able online formats allow users to access Rosetta Stone anywhere, at any time. Just landed in Portugal and want to go over a few phrases and scenarios before you leave your hotel? You can fire up Rosetta Stone on your laptop or iPod.

That kind of portability syncs well with Rosetta Stone customers who are accustomed to accessing digital information on the fly. The portability of the Rosetta Stone methodology yields unexpected value, as well. The company offers far more

languages (31 and counting) than most of its competitors, in part because its learning format can be applied irrespective of the language.

It's a competitive advantage driven by the method, Duane Sider asserts. "There are efficiencies across the board in creating a basic template that we use for any language. One of our commitments as a company has been to make sure that everything we do from technology to method can be applied universally."

"If you look around the world at language companies, most of them have focused on English because you can make a lot of money [teaching] English," Adams observes. "Rosetta Stone is trying to change the world in terms of making it easy to learn any language. Because we teach the way we do, we're able to teach many languages."

Of course, Adams is not ignoring English, acknowledging that it is their most-subscribed offering. Like other Rosetta Stone offerings, it enjoys an element that further appeals to and absorbs users. It is playful.

"Learning anything is hard for adults because we've stopped playing and play is such a core part of learning," Adams says. "So our product tries to be game-like. I think of this as a small Sudoku puzzle."

There are adults who've not forgotten how to play games. You'll find a large group of them in the U.S. military, an institution in which "gaming" scenarios is long standing tradition. Not surprisingly, the military has been among Rosetta Stone's most enthusiastic government clients. In 2005 the Army began using Rosetta Stone, and more recently the Marine Corps has acquired an enterprise license for the product.

The USMC's Center for Advanced Operational Culture Learning (CAOCL) in Quantico, VA, awarded a contract to Rosetta Stone in October 2008 and is in the early stages of integrating the product into its Career Marine Regional Studies Program.

"Language is extremely important to us," CAOCL operations officer Lt. Col. William Shannon confirms. "Everybody recognizes Rosetta Stone because they have a great marketing program. We've purchased an enterprise license and we've put the software on our MarineNet Intranet. A Marine can simply sign on to MarineNet, click on 'language,' and sign in to Rosetta Stone. It's very easy."

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Language education is currently an elective for Marines but is considered a positive ingredient in their professional development and recognized for its tactical value. The Rosetta Stone program compliments the Corps' tactical language training system, a computer game where participants communicate face-to-face with animated characters representing local peoples. According to Marine Corps Times, Brigadier General Richard M. Lake, the Corps' top intelligence officer, is using the program to improve his Swedish – one of three languages for which he receives extra pay. Marines who can show basic proficiency in a language deemed operationally relevant are eligible for an extra \$100 per month.

The military is but one of a number of institutional clients. They include several U.N. agencies, the Foreign Service Institute of the U.S. State Department and various Homeland Security agencies.

"They look to Rosetta Stone as an integral component of the language training that they deliver," Adams says. "They do many other things in addition to Rosetta Stone, but there are very few leading language institutions in the U.S. government that don't use Rosetta Stone."

Rosetta Stone is popular with a range of corporate clients, and according to Adams, the company is a leading language technology supplier to schools in the United States, providing software to more than 10,000 schools.

This variety of institutional clients paired with its success with individuals has made Rosetta Stone noteworthy. When *SmartCEO* visited its Arlington office in the depths of unemployment growth in February, the company had some 80 positions to fill, truly a rare circumstance. As attractive as the firm is, you may be surprised to learn that it has filed with the SEC for an IPO. [See update, page 41.] Few of its peers would even consider going public in this economy, but Tom Adams is focused on something beyond the short term.

missionary <<<

"From my perspective, the company is missionary," Adams declares. "Our raison d'être is what needs to drive our decision making rather than short-term considerations."

His view explains Rosetta Stone's decision to go public at a time when but a handful of other companies are bold enough. There were zero IPO filings in February when *SmartCEO* met with Rosetta's CEO. The company had itself filed in September of 2008. Even then it was one of an intimate group. In 2007, 203 firms filed for IPOs, while in 2008 only 29 did. IPO specialist and University of Florida professor of finance Jay Ritter says the number will be smaller still this year.



"Learning anything is hard for adults because we've stopped playing and play is such a core part of learning," Adams says. "So our product tries to be game-like." Left: Adams and his wife on a trip to Rome in 2008.

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"Until the stock market recovers, the volume of IPOs will continue at a near trickle," Ritter says.

Regardless, Adams sees the step as a logical one for Rosetta Stone, whether equity market conditions are rosy or not. "We're not focused on trying to time an IPO," he says. "Some companies time their IPO perfectly, but that can be fleeting success. What's important is that if the company does go public, it's on solid ground. Financial markets can be good one month and terrible the next. We can't predict that."

Ritter agrees. "I think it depends on a case by case basis but a company like this with \$200 million of annual revenue will likely be analyzed by investors not as an IPO but as an ongoing business opportunity," he says. "It's a company with established operations and demonstrated profitability."

Speculative IPOs, like those of the tech and biotech sectors in the late 1990s, are largely a thing of the past, Ritter adds, underlining the strategic determination of firms going public in this era. "Given the substantial expense, both in dollars and management effort that go into filing, there are very few companies that file for an IPO without planning to complete it," he says.

However actively Rosetta's IPO is subscribed, the company plans to go forward with a number of initiatives in 2009, including offering more online socialization for users. Rosetta Stone currently facilitates user interaction through its sharedtalk.com platform. The idea is that users can practice speaking languages to their mutual benefit though there is as yet no particular structure. "It's not set up for learning but it is a place where you can practice with someone who is native in the language you are learning," Adams explains.

Rosetta Stone's next generation online socialization offering will use proprietary speech recognition technology, allowing additional features. The project is one of a number at a company that tends to plan in three-year cycles but looks ahead as far as 20. If Rosetta Stone's people are long-term focused while simultaneously executing on a high level operationally, they can do "amazing things," Adams enthuses. "That's what people here at Rosetta Stone have signed up for – to change the world in our own little way."

How has Rosetta Stone changed him? Adams confides that he's very impressed with how far the company has come and how different his life is. He learns "all the time," he says, but his biggest lesson has been the power of a mission.

"One should not underestimate how incredible individuals can be if given an opportunity and a unifying mission," he says. "That lesson can be applied everywhere."

As to the long-term future of Rosetta Stone, Adams feels he's helped his colleagues distill what is particularly good within the company and that they mutually reinforce each other's passion. Rosetta Stone's people periodically revisit their values and assess their progress setting the stage for an enterprise that can function without Adams. If there is an "Adams imprimatur," he concludes it is in motivating the company's people.

"All I've done, really, is channeled the energies of others," Adams says. "I believe you can do that in a way that is sustainable long term."

Improving the product, overseeing the transition to public equity, and refining Rosetta Stone's process and execution occasionally take their toll, but when they do he remembers being an 11 year old known as "French Frog."

"I went through all of that feeling like an outsider because of the language barrier, so for me language learning is very emotional," Adams says. "That drives me whenever I feel tired or frustrated."
CEO

update **ROSETTA STONE GOES PUBLIC**

Editor's Note: On April 15 in late-day activity (just before this edition of SmartCEO went to press), Rosetta Stone completed its initial public offering (IPO), gaining 40 percent in the first day of trading, closing at \$25.12 after an initial offering price of \$18. It was the best result for any IPO in nearly a year and only the fourth IPO of 2009. The success of the Rosetta Stone IPO left some market watchers wondering if it represented a turning point in the IPO market that will encourage other more reluctant companies to test the waters in the second half of 2009.

The company says it will use much of its newly raised cash to push expansion of its business overseas.

Still waiting for the right time to refresh your brand? Resolve to get it done in 2009.

In uncertain economic times, you can choose to retreat or you can choose to prepare for what's ahead. When the economy turns around again, those who are prepared will take the lead. The others? Well, better polish up your resume.

The time is now to invest in your brand:

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- Brand Rejuvenation
- Marketing Strategy

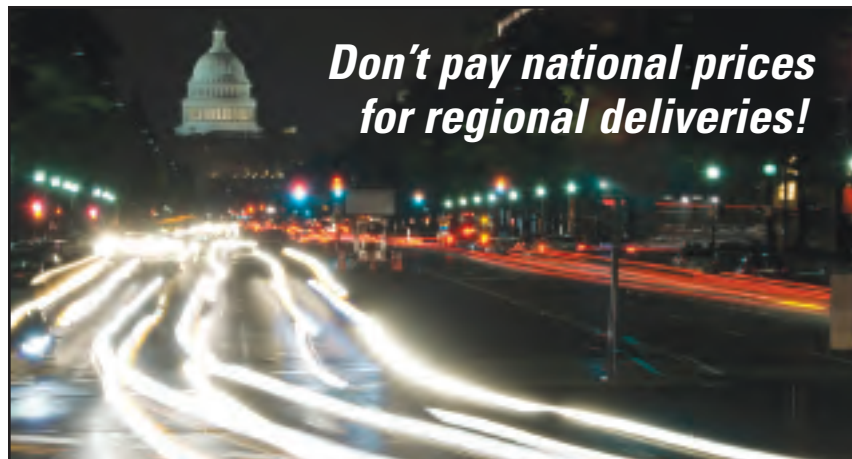
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INDIVIDUALS. IDEAS. INFORMATION.

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If it costs less to keep a client than to get a new one, why are so many companies falling short when it comes to retention? Especially in this economy, it is more important than ever to

maintain existing relationships with the customers who already know the value of your product or service. But how do you show your customers how much you care? In this month's i3, *SmartCEO* asked local CEOs to explain how they keep their clients satisfied and coming back for more.



With so many investments competing for your limited dollar in this economy, it is tempting to write off office space improvements as a frivolous spend. However, some companies view their company offices as more than just a place to plug in a computer. They see their space as a physical manifestation of their brand, a place that imbues employees with the company culture and speaks to clients about your values. *SmartCEO* asked business leaders to explain the return on their office space investment.

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INDIVIDUALS. IDEAS. INFORMATION. on COMPENSATION

COLA now?

DITCH COST-OF-LIVING ADJUSTMENTS AND TRY THESE CREATIVE SALARY SOLUTIONS

BY KAREN LEHR, SPHR

For seven years, salary increases have averaged about 4 percent per year. With the worsening of economic conditions, salary increase plans for 2009 have been revised sharply downward. Various surveys report that 35 percent to 50 percent of companies will reduce their planned salary spending in 2009, and another 25 percent are considering doing so. Some have eliminated previously planned salary increases, freezing salaries for 2009 or waiting until later this year to decide.



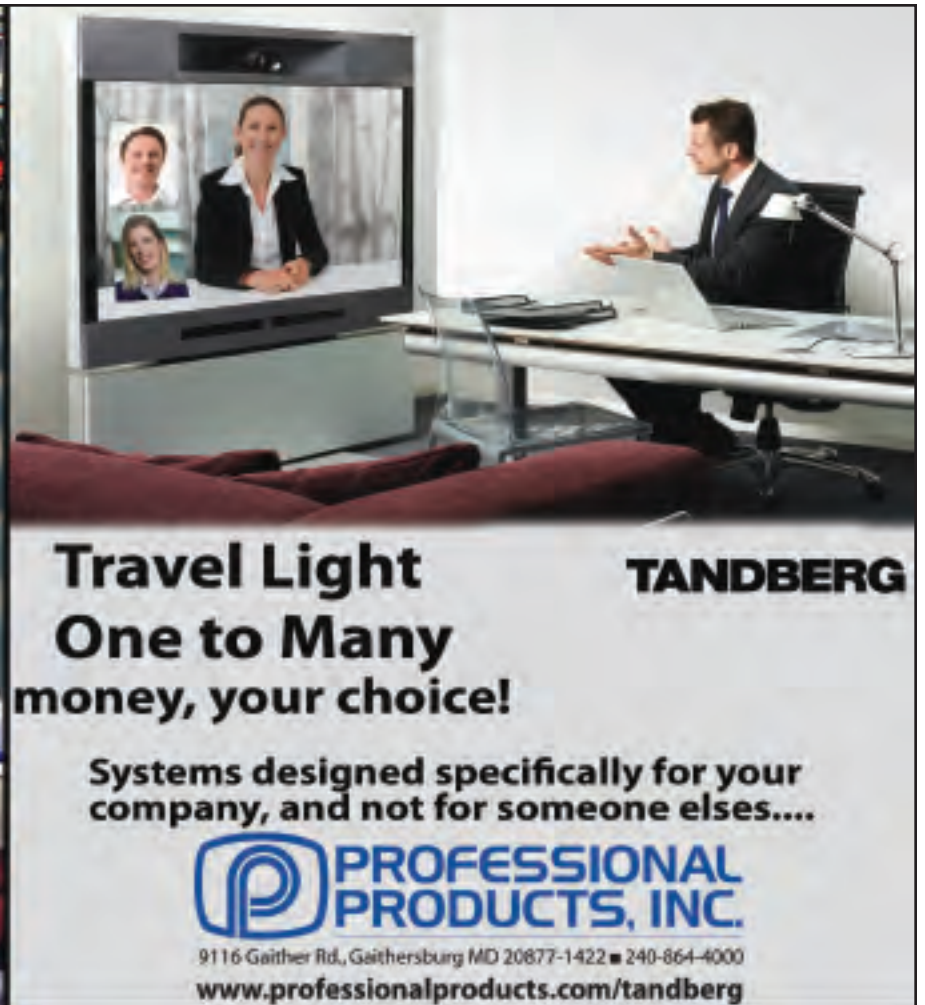
The overall result is that 2009 salary increase budgets are expected to be at least 1 percent lower than in the recent past, an average of about 2.9 percent. With reduced salary increase budgets, is this the time to consider “cost of living adjustments”? A so-called “COLA” is an across-the-board salary adjustment intended to offset price increases experienced by employees in their personal lives. This provision is found in union contracts, more so than in general industry. When salary increase budgets are small, executives might feel that rewarding excellent performers with only half a percent more in pay (for example, 2.5 percent increase for “Meets Expectations” performers versus 3 percent for “Exceeds Expectations” performance) is meaningless.

So should you resort to using COLAs in 2009? Here are three disadvantages of COLAs that may dissuade you:

- COLAs undermine the “performance matters” message. If you’ve worked hard to motivate and reward employees, stay with that message. Performance matters as much now as ever, maybe more. A company becomes what it rewards.
- COLAs may discourage high performers that you want to retain. Most employees can understand that business is tight and executive leadership needs to spend prudently on salary increases. Take care of your best performers – you need them now more than ever.



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- Inflation is negligible. Actually, for the last four months, the 12-month change in the national Consumer Price Index has been 1 percent or less. Compared to the July 2008 peak, energy costs are way down in 2009.

Instead of resorting to COLAs, consider these creative approaches to stretching your company's salary increase dollars.

- Reduce Merit Increases. With a smaller budget for salary increases, you'll need to devise a less-generous plan for merit increases. The increase for each performance evaluation rating will be smaller than in past years, but this approach continues to communicate that performance matters.
- Flat Rate Increase. Award all employees with the same performance rating the same dollar amount increase, for example, \$1,000 for "Meets Expectations" and \$1,500 for "Exceeds Expectations." This approach favors lower-paid employees because \$1,000 is a larger percent of salary for lower-paid employees than for higher-paid employees. A \$1,000 increase is worth 4 percent for employees making \$25,000 and 2 percent for employees making \$50,000.
- Merit-Based Lump Sum. A one-time payment that is not added to an employee's annual salary. Merit-based lump sums are awarded based on performance, but without permanently increasing ongoing operating costs. Options include allowing employees to defer the lump sum into the 401(k) or a similar plan, and if financial conditions improve, adding the lump sum to annual salary later.

It's advisable to select a salary increase approach tailored to meet your company's needs, and that parallels the actions of your industry's competitors. Multiple approaches can be combined for maximum effectiveness – for example, a 2 percent merit increase for employees whose performance is at "Meets Expectations" and higher, along with additional merit-based lump sums to reward your company's top performers.

As always, ensure that managers don't skew performance ratings to give higher increases to their favorites. Protect the integrity of performance evaluations, which provide valuable communication and feedback to employees in any economic climate.

Karen Lehr is President of Clear Management, a human resources consulting firm specializing in compensation consulting to small and mid-size organizations. www.clearmgmt.com

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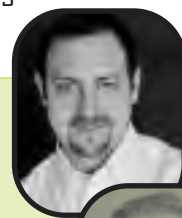
CEOs SHARE THEIR BEST CLIENT RETENTION STRATEGIES

BY JEANINE GAJEWSKI

You've heard it time and again: It costs less to keep a client than to get a new one. And in this economy, it is more important than ever to maintain existing relationships with the customers who already know the value of your product or service. But how do your best customers know how much they mean to you? These CEOs explain what they are doing to retain their clients and offer advice to other business leaders who want to keep their customers satisfied and coming back for more.



"We've increased account management staff to reach out to customers and prove our value more. We've spent time clarifying what our promise was so everyone on staff was delivering on it. I know myself, I have set aside some time to reach out to my best customers more than I have in the past. Shame on me, but we were all fat and happy for a while and adding services and people, but I think one of the benefits of the recession is we go back to what is really important, which are the great customers you have, and showing them gratitude makes a big difference."
MICHAEL MACNAIR, president and CEO, MacNair Travel Management



"There is certainly a patience aspect. Some clients aren't spending money right now, and the worst thing you can do is pressure them or make them feel guilty. You have to be sensitive because you want them to trust you once they figure out the plan that is right for their business. As much as we are focused on the short-term, you can't forget the long-term goals of running your business."
JEFFREY GOLDSCHER, president, and
SCOTT MIKOLAJCZYK, partner, Havit Advertising



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"You have to recognize how your clients are growing, and if you can become part of a solution for them, you'll keep them. We polled our clients about what else we could do to help them and we found they wanted to use us in other cities, so we created a network that covers 600 cities. We turned one reservation into four, and that has dominated our growth."

RICHARD KANE, president and CEO, International Limousine Service



"Feedback from your customers is a gift from them and you need to acknowledge it and make good use of it. That means making sure you create listening

posts in your organization so you can pick up on that feedback and incorporate that into the way you do business."

SID BANERJEE, CEO, Clarabridge

"Don't make any presuppositions and chalk it up to the economy. You



have to start with a blank slate and then go to your clients and get the feedback, and get it from your internal people, as well. Are you focused on customer service all the way through the organization, or are you just

expecting your front line folks to be service-oriented? It starts at the top."

HEINAN LANDA, president and CEO, and DAVID CAMPBELL, COO, Optimal Networks



"We've had a number of customers that have asked us to extend credit terms. We are typically a net 30 business, and in a few cases have extended a net 60. If your cash flow can handle it, it certainly shows good will in difficult times and most companies will remember that for a long time to come. A broad client retention strategy doesn't work. The strategy is personal. You can't take one and apply it the same way to everyone you have. Each client has a different set of challenges."

LARRY BLUE, CEO, Hi-G-Tek



BY HEIDI KALLETT **Thank You** THE OLD-FASHIONED WAY

OK, I'll admit it. I have been optimistically trying all the new social media outlets to try and improve our business. From blogs and Facebook, to Twitter and YouTube – we've just about covered them all. But most of these mediums haven't done a darn thing to increase how frequently our cash register rings. As a stationery store owner, a traditionalist at heart, and a small business entrepreneur, I hereby issue an alternative and a challenge to other business professionals that I believe is an affordable and more impactful way to increase sales: write a handwritten thank you note.

Seriously. That's it.

True story: Last year, I proposed this same challenge to a group of fellow small business owners. I asked all of us to commit to writing 52 thank you notes in a year. There weren't any hard and fast rules. Some wrote their notes once a week and others wrote their notes in one month. Some of the group wrote to clients and prospects, while others wrote to employees and vendors. The fact is that after one year, we found that while some of our businesses were up year over year, all of us had posted better sales than our competitors. Additionally, our best clients spent more, our employee turnover dropped, our relationships improved, and overall we unanimously felt that we had improved our quality of living by focusing on being grateful. All for the cost of a 42 cent stamp and some nice stationery.

Here a few tips of the trade so you can get the most ROI for your effort:

1. Yes, you must handwrite the letter. Sure, I understand the temptation for e-mail. But then again, everyone is doing that. Stand out from the crowd and become a pleasant distraction from the bills.

2. You are a professional. Write the part! You know how your mom told you to dress for the position you want to be? Same for your stationery wardrobe. White and ivory may sound dull. But unless you work as a graphic designer, those choices are always safe bets.

3. Remember: less is definitely more. Now is not the time for a long story. Keeping it short and sweet will have the greatest impact. To maximize success, use this simple template:

- a. Name the giver
- b. Say something nice about the "gift" or "act"
- c. Say why you think the "act" was nice or what you will do with the "gift"
- d. Sign your name

4. Beware of TMI! If you wouldn't say certain comments in person, trust me, they won't go over well here either. Leave the casual tone and banter at home.

So far, I'm not convinced that social media can provide the same outcome and contribution to my own P&L as the social grace of the written word. I've learned that sometimes doing things the "old way" and sending a message via "snail mail" is worth the wait.

Heidi Kallett is the President and CEO of The Dandelion Patch. www.thedandelionpatch.com



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When Good Relationships with Your Clients Break Down, Does Your Contract Protect You?

There are times when you may not be able to retain a client for various reasons. Here are five important provisions to include in your customer contracts that will help protect your business:

1. Clear termination rights providing for an exit strategy
2. Limitations of warranties
3. Payment of interest upon a default
4. Recovery of your attorneys' fees if there is a breach
5. Local venue and governing law if you are working with an out-of-state client

The first seven people to respond to this article are entitled to a **one hour free consultation** on matters related to business planning.



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"We do a couple different things throughout the year to boost client retention. We host a summer social and invite many of our clients – both new and longstanding – as a way to thank them. Also, throughout the year, we visit many of our clients and surprise them with coffee, lunch or a snack. Currently we are sending out a three-part postcard series. The second postcard advertises a contest where the 100th person who joins our e-mail list will receive a \$100 gift certificate. We made a point to include our current, potential and longstanding clients on that mailing so that they all have the opportunity to win."



VALENTIA MCVEY MUNDELL, founder, FatCat Studios, Inc.



"Customers are very busy, and if you demand or touch them too often – especially if nothing is wrong – if you ask them too many times, 'How am I doing? Pat me on the head,' then you can annoy your clients. It is a balancing act. To the CEO, my advice is get involved. It gives you an accurate barometer, where stats can only go so far. Being able to talk to prospects and customers and former customers gives the CEO the greatest insight into the business. And seeing the CEO in the deal flow makes customers understand that from the top down, this company has a vested interest in my satisfaction and is willing to do what it takes."

STACY HAYES, co-founder and COO, DS3 DataVaulting

"The biggest thing I'd say is focus. If it is important that you retain clients – and it is hard to imagine a business in which it isn't – I would say providing a focus on retention is critical. It is easy to lose focus, particularly in these difficult times. You have to be organized to be successful; for example if you have a fully staffed customer service area, consider a unit that specialized in troubled clients."



L. JOHN PEARSON, chairman, president and CEO, Baltimore Life

"Sales people quite often make the worst account managers. You have some that are good at getting new customers, and then you have some who are good at keeping and farming existing customers. You can't think a sales person can do both because it is rare. That's why team account management is so important. When we manage a large account, we make sure we have a team that can do client support work, manage senior-level relationships, and do project management. And account managers need to be measured and managed differently than sales people."



DENNIS CHAPMAN, founder and president, The Chapman Group

"Planning a successful client retention strategy is very difficult to do after an unsuccessful quarter, which is what so many companies try to do. It's definitely one of the biggest mistakes companies make, and it's because the decision to create a client retention strategy becomes reactive, not proactive. Emotion fathers reactive strategies, causing some companies to feel personally neglected by clients."



CHRISTINE M. EPPS, owner, Epps Consulting



"We send customer surveys out in invoices quarterly that ask brief multiple-choice questions. If we get one that says, 'I don't like you,' we are picking up the phone immediately to do everything we can to improve their experience. We also just started a courtesy call campaign. When there is downtime on the phone, we have a list of all our customers and we're calling to allow them to address problems and give them a way to get in touch."



GREG VAN ALLEN, executive vice president and general manager, and RYAN TELLE, marketing director, CloseCall America



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refer me

HOW TO FIND NEW CUSTOMERS WHILE KEEPING EXISTING CUSTOMERS ENGAGED

BY CRYSTAL UPPERCUE

A referral campaign can be a win-win approach to finding new customers and keeping existing customers engaged in a relationship without breaking your budget. A referral occurs when you ask customers to relay their success with your company to colleagues who might be interested in your company's goods or services, sometimes called viral marketing or word-of-mouth marketing.



When you ask for referrals, you learn of prospective customers – qualified, warm leads – you might not have otherwise known. If your customer agrees to introduce your company to peers, you've managed to break through the clutter of 2,999 marketing messages that bombard consumers every day. Your chances of a close have just increased.

Referral campaigns also inspire customer loyalty. By promoting your customer's success, you build a partnership and strengthen your relationship. Success-story case studies also become free publicity to help your clients market their own product or service. When a customer refers you to another department within the company, that initiative supports your customer's reputation as a forward-thinking team player.

WHOM SHOULD YOU TARGET?

Start by looking at your top customers for possible referrals. Which customers have had the most success in using your products? Create a referral campaign to see if these people are interested in helping you spread the word about your services.

Contacts can either refer you to their peers or provide you with testimonials.

Build your "mid-level" customers into the referral campaign, as well. For example, persuade these customers to refer you to other departments within their organization. Also ask them to provide introductions to contacts at a higher level within their company. In this way, mid-level customers may become some of your best referral sources. Always remember that customers probably network with peers who can use your services. You also never know when your contact may change jobs. Finally, don't forget your prospects or not-yet-customers. Just because you didn't get the work from them, doesn't mean there's not another contact they may know within their company or another organization that could use your product.

LAUNCHING A REFERRAL CAMPAIGN

Referral campaigns can employ a multitude of media options. Direct mail works well when asking your customer for a list of referrals with contact information. E-

Another One Bites the Dust WHY DO YOU THINK COMPANIES LOSE CLIENTS?



"Companies lose clients because they lack structure, focus and passion for what they do. It all boils down from the top. If there is structure, focus and passion at the top, it resonates with your company and is communicated as such to your clients through your team. The reverse is also true. You are as strong as your weakest link and clients see and feel it quicker than you realize."

LISA MARTIN, CEO, LeapFrog Solutions

"I think ultimately people lose clients because those clients are finding a better value elsewhere. When they make the comparison of where they can spend their money, if they are finding that other places are giving better product or service for the money they are spending, then I think the places where the value isn't there fall off the map."

SHEILA LADERBERG, co-owner, Punk's Backyard Grill



"Companies lose touch with their customer's needs and a better product or service is offered by another company. They don't stay relevant. In difficult economic times, such as now, companies begin to trim unnecessary or irrelevant expenses. If you don't stay relevant to your customers, you become expendable."

GARY PICK, president and CEO, Connecticut

"Why companies lose clients boils down to the fact that they over-promise and under-deliver. Our mantra is to deliver the promise of the proposal. Also, businesses don't get personal enough. They rely on e-mail and phone, and there is not enough face time. We make sure our account reps meet with our clients in person at least once a month. Good communication is the core of any retention program."

ROBYN SACHS, president and CEO, RMR & Associates



"You can do a few things well or everything badly. A lot of times, companies take too much on and can't deliver all of it, which aggravates customers more than saying no in the first place. Managing expectations is something that takes a long time to develop and more so to manage in the long haul."

CHRISTIAN SULLIVAN, CEO, FedConcepts

"They don't listen, actively listen, and hear what their clients are saying. Companies that aren't open to change are not going to be able to hang in there and continue to improve. I think the key is listening and asking clients what they need and then doing something about it. You can talk all day, but you have to act."

DETRIA COURTALIS, vice president of operations, Celebree Learning Centers



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mails, which are a less intrusive referral request, work best when asking your constituent to forward your company's information on to anyone who might need your services. Appointments and customer visits also afford a great opportunity to ask for referrals. This personal touch will usually elicit a positive response from your contact.

TIMING YOUR REFERRAL CAMPAIGN

The best time to ask for a referral is when you've completed a sale to an existing customer. With your company top-of-mind, a customer can easily translate the benefits of your product or services. Even if your contact has not yet done business with you, that doesn't mean there will be an unwillingness to refer an acquaintance. Remember to ask for the referral even at the gut-wrenching moment when the client in front of you says "no" to your services.

As soon as possible, follow up with both your customer and the person to whom they referred you. Customers who gave you a referral deserve a personal thank-you call or letter as soon as they send a list of contacts. Let them know you appreciate their confidence in your business. Likewise, contact referrals within a day or two so they remember being approached. The quick response also creates a positive impression.

ENTICE AND MOTIVATE

While your best customers might sing your praises without the need for a \$25 gift card, some customers might need a nudge to offer up friends and colleagues. Keep in mind that a more extravagant incentive can cheapen the quality of referrals. Could you offer a discount on a customer's next purchase or a complimentary upgrade? Some companies give gift cards or special perks like sporting event tickets to those who refer. Larger rewards are given if the referral then becomes a customer. Whatever you decide, make sure you calculate the ROI of any incentive you select.

Sometimes, noncommittal referrals work better. For example, rather than providing colleagues' information to you directly, some customers might prefer to pass your information along themselves. This approach makes it more difficult for you to track the source of referrals, but it could be an easier pitch to your top customers.

THINK OUTSIDE THE BOX

You can break from traditional referral campaigns and create a unique program that works best for your organization. Perhaps your customers would be interested in presenting an educational session sponsored by your organization and describing to peers how they benefited from using your product or service. Maybe your customer would be willing to show a link to your Web site on the organization's internal intranet, thereby exposing your brand to more of the customer's employees. You can use your top customers' success stories as case studies in lead handouts and your customers can use them in board presentations. Many times, before testing your services, a potential customer will ask to speak to one of your clients. Be sure to routinely ask for customer testimonials. Leave product samples for your customers to hand out; samples may pique the interest of a friend or coworker.

Crystal Uppercue is marketing manager at EU Services, a 400-person, full-service direct marketing production facility in Rockville, MD. www.euservices.com.

WHAT'S ON YOUR BOOKSHELF?

SmartCEO is looking for CEOs and C-level executives in the Baltimore-Washington area to answer the following question for our annual Summer Reading issue:

What business book would you recommend to another CEO and why?

Send your responses to managing editor Jeanine Gajewski, jeanine@smartceo.com, by May 18. Please include the name of the book, the author, and why you think it's a valuable addition to a CEO's library. Select responses will be published in SmartCEO's July issue.



iINDIVIDUALS. iDEAS. iNFORMATION. on BOOKKEEPING



small biz bookkeeping tips

10 PRACTICAL STEPS TOWARD CONSISTENT FINANCIAL TRACKING

BY GREG S. JONES

Recognizing the positive impact that consistent bookkeeping can have on the U.S. small business community, following are 10 practical bookkeeping tips:

1. MAINTAIN DAILY RECORDS

If you don't have time to do a little bookkeeping each day, when will you find time to record a month's or a year's worth of records? Different people have different systems, but what matters most is that you have a system and use it daily.

2. BANK STATEMENTS AND CREDIT CARD STATEMENTS

These statements should always come to the business owner or cardholder unopened. Review them thoroughly before passing them to the bookkeeper or other employee, thereby preventing unauthorized checks or credit card usage. Unnoticed errors on these documents represent the biggest losses within the small business community.

3. PETTY CASH BOX

Set up a petty cash fund for small purchases rather than charging a credit card or personally paying for the smaller items in order to gain control of the small charges that can add up to big expenses. Using a metal cash box, add in currency and coins that total \$50 or \$100 as a starting point. When a small item needs to be purchased, use the money from the petty cash box and replace the money with the receipt, keeping the value of the box at the starting amount. When all of the cash in the box is gone, replenish it by writing a check to cash and expensing all the receipts.

4. NEW STORAGE BOX

Keep all records for one year in one box, including the tax return for the year, bank statements, cancelled checks, paid bills, financial statements and any other backup files in case you are asked to review your books.

5. SWITCHING COMPUTER SYSTEMS

When switching from paper books to software or between software packages, do so at the end of the quarter. Run both systems for the next quarter simultaneously to make sure both systems are equal before disposing of the old method.

6. DON'T OVER-CATEGORIZE

When categorizing expenses, don't make it harder than it needs to be. For example, for office supplies, you don't need to separate fax paper, copy paper, letterhead, printer cartridges, etc. All of these items can be listed under "office supplies."

7. SEPARATE ACCOUNTS

Have a separate checking account and credit card for your business. Not only will you be able to track expenses more efficiently, but if something goes wrong or the IRS wants to review your books, you will only need to review the one account.

8. SAVE ALL RECEIPTS

The IRS may only need receipts for expenses over \$75; however, by not tracking the smaller items, you could be losing potential expenses that can be written off.

9. CLASSIFYING EMPLOYEES

The proliferation of independent contractors, consultants and freelancers has made it difficult to determine who is on staff and who is not. This results in misfiling when it comes to filing taxes, since there are different rules and regulations for employees and non-employees.

10. CHART OF ACCOUNTS

Determine what expense categories to track by taking a look at the tax return you will need to follow. If you are required to file a Schedule C, list the categories that apply to your business as your expense items on your Chart of Accounts.

Greg S. Jones is CEO of Bookkeeping Express. www.bookkeepingexpress.com.

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iINDIVIDUALS. iDEAS. iNFORMATION. on OFFICE SPACE

official business

 BY JEANINE GAJEWSKI

INVESTING IN YOUR SPACE CAN BE A STRATEGIC MOVE

With so many investments competing for your limited dollar in this economy, it is tempting to write off office space improvements as a frivolous spend. However, some companies view their company offices as more than just a place to plug in a computer. They see their space as a physical manifestation of their brand, a place that imbues employees with the company culture and speaks to clients about their values. These business leaders explain the return on their office space investment.



WOODY KAY, managing partner and chief creative officer, Arnold DC

My Goals: Transparency and Efficiency

My Space: "The move was very strategic from the standpoint of building a business, attracting talent and reflecting our culture. We have no offices, no cubicles – it's a European benching system idea. It's a transparent culture physically and intellectually. The openness allows everyone to see where everyone is; everyone sees everything going on. Part of the design of the space was an efficiency play. While the open environment reinforces the collaborative nature of advertising, from a dollar standpoint, it is a more efficient way to build out space. We moved in our space on time and on budget and I think it has been a worthwhile investment."

JEFF BROUSE, membership director, The Tower Club

My Goals: Brand Enhancement and Recognition

My Space: "We needed something timeless that would work for a number of different tastes, because we have younger and older members. It needed to convey the branding and image of high-end. We wanted them to feel good about the place. We upgraded the walls and fixtures, and brought everything more up to date. To enhance our brand, we did simple things like when you walk off the elevator, you see 'The Tower Club' written on the marble wall. That image does make a huge difference."



SCOTT LEVITAN, senior vice president, development director, Forest City Science + Technology Group

My Goals: Equality and Flexibility

My Space: "We decided to go 100 percent workstation. There is no hierarchy at all within the work stations, so we were allowed to get very high quality and spacious work stations. I sit at one, just as everyone in the office sits at one. Because of our cost savings with the open office sta-

tions, we have three conference rooms, and a nice kitchen with a [high-end] coffee machine. We have a serenity area and two telephone 'booths' – brightly colored, well-furnished rooms for conference calls. The office is a great marketing tool in terms of how client see us when they visit our office. They see that this is a physical manifestation of the culture."

STEVE RIDENHOUR, CEO, ServRight

My Goals: Sustainability and Employee Morale

My Space: "We wanted to do as much sustainable elements as possible. And now, those elements are not only affordable but also high quality. Since I was buying it, my sense of responsibility was very tangible. I believe this green movement is an ethical issue. I also felt a responsibly to my 70 employees. Morale is very important and if you want excellence from your employees, you have to provide them an excellent home."



Space Age HOW A MULTI-GENERATIONAL WORKFORCE IMPACTS OFFICE DESIGN

Environment is one of the top three reasons why employees choose to stay or leave, according to **JACQUI HIGGINS**, president of Accents by Design, so CEOs would do well to provide an office space that speaks to their workforce. However, with four generations in the workplace, pleasing everyone can be difficult.

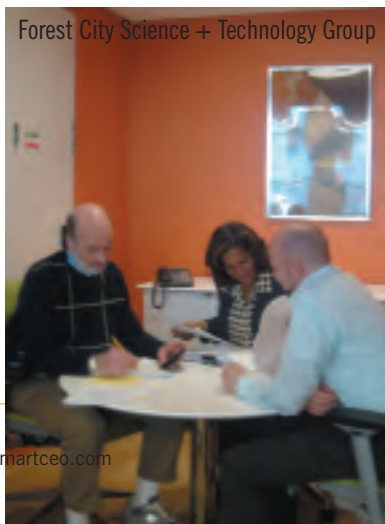
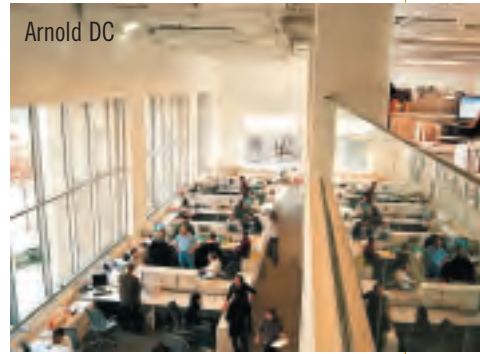
"The Traditionalists are used to the cubes from hell with the gray-haired executives in the corner office," Higgins explains, adding that AARP estimates that 70 percent of people age 43 to 65 plan to work into their retirement years. "For the Boomers, their jobs defined them and the size of their office was a reflection of their worth. X-ers and Millennials are more comfortable with technology and used to working on their laptops in a crowded Starbucks."

To encourage the generations to collaborate, Higgins says it is important to understand the makeup of your employee base. "Create pockets or communities within the space to reflect those needs," she says. "Create areas where people can collaborate, as well as spaces where employees can be alone. Create a space for games, such as Foosball."

If you have a population of older employees, consider their physical as well as cultural differences. "Employees in their 60s or 70s aren't as agile as younger employees," Higgins says. "Will hardwood floors work? Do you need to have handrails?"

To balance the older generation's wish for privacy with the younger generation's desire for a bright, open space, Higgins suggests creating office walls out of partially frosted glass instead of daylight-blocking drywall.

And remember to include employees in the process of designing your new space. "Most people are reluctant about change unless they can see the direct benefit," Higgins says.





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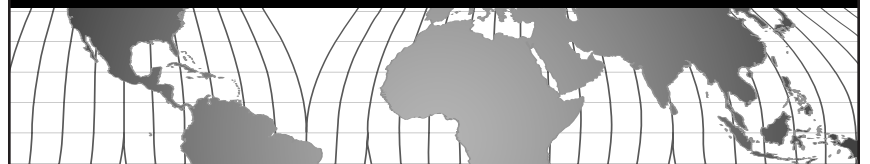
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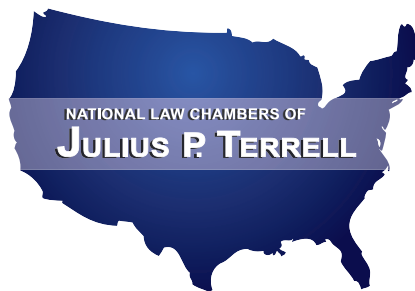
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WHAT IT MEANS IS ANYONE'S GUESS
By Barnaby Wickham

\$25.9 million

Value of the University of North Carolina men's basketball team. Forbes

1

National value rank of the Tar Heel team, the same as the year before. Forbes

\$16.7 million

Value of the University of Maryland men's basketball team. Forbes

9

National value rank of the Terrapin team, an 8-place improvement from the year before. Forbes

\$1.1 million

Additional giving to the Terp program last year that spurred the ranking increase. The gifts were a result of a new policy that assigns seats based on contribution levels. Forbes

"We outpace them all."

D.C. Councilman Jack Evans, on per capita District commercial property and income taxes relative to any other state, county or city jurisdiction in the country. Evans is leading an effort to reduce these rates to help city businesses. WBJ 3-17-09

\$10m

Funds the Jewish Federation of Greater Washington had invested with Bernard Madoff. Jewish Federation

\$5m

Goal of an emergency fundraising campaign currently underway by the Federation. WBJ 3-16-09

2

Of the five-month campaign, months it took to raise half the total. WBJ 3-16-09

7%

Interest rate that Pennsylvania charges for back taxes. Sun 3-16-09

9%

Interest rate that Virginia charges for back taxes. Sun 3-16-09

13%

Interest rate that Maryland charges for back taxes. Sun 3-16-09

\$118m

Interest on delinquent taxes Maryland collected in fiscal 2007. Sun 3-16-09

62

Percent of the income that derives from individual income taxes. Sun 3-16-09

679

Numbers of households for every one household in foreclosure in Virginia in February. RealtyTrac

730

Numbers of households for every one household in foreclosure in Maryland in February. RealtyTrac

750

Numbers of households for every one household in foreclosure in the District of Columbia in February. RealtyTrac

70

Numbers of households for every one household in foreclosure in Nevada in February. RealtyTrac

60,062

Numbers of households for every one household in foreclosure in Nebraska in February. RealtyTrac

"It makes no sense."

Six Flags Inc. CEO Mark Shapiro, on the refusal of one of the company's principal noteholders to even meet to discuss refinancing the theme park operator's debt. The company faces default if it can't refinance. WBJ 3-16-09



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