Epidemics, Broken Windows and Your Profitability

By FRED PARRISH

In his book *The Tipping Point*, Malcolm Gladwell addresses the factors that produce and sustain epidemics. He states "the best way to understand the emergence of trends… is to think of them as epidemics. Ideas and products and messages and behaviors spread just like viruses do."

To illustrate the power of environment, Gladwell uses the Broken Window theory[1] that describes conditions by which crime is propagated readily and continuously. It shows "crime is the inevitable result of disorder. If a window is broken and left unrepaired, people walking by will conclude that no one cares and no one is in charge. Soon, more windows will be broken and the sense of anarchy will spread from the building to the street…, sending a signal that anything goes. Relatively minor problems such as graffiti, public disorder and aggressive panhandling are…, invitations to more serious crimes." Application of this approach was responsible for the dramatic improvement in the New York City crime rate during the early 1990s.

The same approach must be taken with your business. If a "window is broken" and "left unrepaired" your staff will get the idea that there is no concern for efficient, orderly operation. That it is okay to waste time or resources. It's okay to be haphazard about the way customers are managed. As with crime, "disorder" in the environment is contagious and drains the company of cash.

Consider a company of 25 employees. Let's say there is an item that costs $1.00 each and it is something that is consumed regularly in the business. If each employee were to waste only one of these items per day (drop it on the floor to be discarded later, leave it out to be spoiled in some way, use it improperly or ineffectively to cause it to be made unusable, etc.), does that seem like a big deal? Maybe…?

In fact, 25 employees "wasting" that $1.00 per day every day of the year would cost the company $6,625. Given this operating style and the reality that there are hundreds of these $1.00 items to be managed during a normal business day throughout the organization, you could easily take the $6,625 and multiply it by 10 – $66,250!

Given that profits (cash) cannot be generated without revenue, the ability to continually replenish the company's cash supply requires that revenue continually be generated at levels sufficient to cover the expenditures. The amount of revenue required to replace the $66,250 is directly related to the company's profit margin.

Company Profit Margin	Revenue Required for Replacement
15%	$441,667
10%	$662,500
5%	$1,325,000

The bottom line – profitability is the direct result of an organized, efficient operating environment and the penalties for failure can be severe. Benjamin Franklin put it this way – "beware of little expenses; a small leak will sink a great ship." Set an expectation for profitability. Search out and stop your profit leaks!

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[1] formulated by criminologists James Wilson and George Kelling (*The Atlantic Monthly*; March 1982)