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Guaranteed Growth

A story of how a manufacturer promised customers money-back guarantees and in so doing transformed his company.

From: [Inc. Magazine, September 1995](#) | By: Joshua Hyatt

In a world of newfangled management theories, there may still be nothing that transforms a company quite like keeping promises to customers. Especially when those promises are in writing

On April 20, 1994, Saby Behar, worried about the onslaught of competition and fearful of an increasingly ugly price war, rallied his managers to take the only sensible action he felt they had left to them: a dramatic reading.

Behar, the president of General Stair Corp., a \$2.7-million maker of prefabricated stairs and railings, had been searching for a way to prop up the company's wobbly margins and raise its market share in the business he sometimes describes as "the vertical transportation of people." Practically since the day he cofounded the company in 1987, he'd been taking steps toward those goals. He had studiously attended seminars, participated in a CEO group, read books, pored over a do-it-yourself manual for strategic planning, and even consulted an ad-agency executive -- all in the service of answering one crucial question: how do you sell a commodity without sweating out a constant price war? "All prefab stairs are pretty much the same; they go up, and they go down," says Behar. "With customers, we needed to get the conversation away from price."

When he sat down with the three managers who ran daily operations at General Stair, which is based in Opa-Locka, Fla., Behar wanted to lay the groundwork for the change he had in mind. As they entered the company's conference room that day they found written scripts at each of their seats. Not that their weekly meetings ever lacked spontaneous drama, what with Behar snapping open his Toshiba laptop and firing follow-up questions from the agenda he had stored there. Do we have the latest drawing on the new top-mounted railing? Where's the updated pipeline report? And hardly any gathering was complete without the climactic moment in which Behar, hearing a reply he did not appreciate, narrowed his brown eyes and asked edgily, "Tell me, do I have the right to be mad?"

But as the General Stair managers read aloud from the prepared handouts that morning -- taking turns, as Behar had instructed -- they had every reason to wonder if their ultrapractical boss had been brainwashed by some touchy-feely management cult. Borrowing a technique he had learned from a nonprofit group, Behar had told them to recite the biblical tale of Moses' leading the Israelites out of slavery. "It was a break from the routine," offers controller Esther M. Garver with a shrug. That was about as much as anyone could make of it. After all, Behar's managers did not exactly think of themselves as wandering in the desert -- although they did tend to linger at Don Shula's All-Star Cafe.

But aided by charts on an easel, Behar then annotated the biblical story, showing how different players had had to assume certain roles to make change happen. "As Saby talked," recalls William B. Yager, director of operations, "it became clear that this was a story about us, not about Moses."

Behar had a big change in mind, and in one sentence he let the managers know *exactly* what it was. "What I want to do," he told them, "is offer our customers a guarantee: We're on time, every time. Or your money back."

His idea, everyone could see, made sense. Timeliness was key for merchant builders, who work on at least 30 houses simultaneously. Without stairs, they can't undergo a framing inspection, one of the milestones that means payment from the bank. And they need stairs to get certain items to the second floor, such as bathroom fixtures. Yager, the company's chief salesperson, thought he understood one effect right off the bat: We'll sign more contracts, he thought to himself. "It was another sales tool, another bullet in our gun," he says.

But sitting across from Yager, Garver, who is by her own admission "always concerned about the money," interrupted his reverie with her own loud shot. To this day she remembers her exact word to Behar. "I said, 'No,'" she recalls. "Then we had a little disagreement."

Behar's absurdly simple idea, reshaped and then hardened in the kiln of heated debate, ultimately reached into every aspect of General Stair, changing everything from the phone system to the compensation system. It altered how the company's 35 employees worked together, and what they wore while working. It played a key role in slashing such costs as labor and raw materials while boosting productivity. The process forced General Stair to define its business clearly, and in doing so freed it to pursue compatible products and businesses.

Not that anyone could have foreseen such dramatic consequences. "I don't think any of us understood the power of what Saby said that day," admits general manager Moises Vainstein.

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Saby Behar loves management ideas. But not every idea. In an era that lauds Management by Hanging Around, Behar prides himself on being a "strictly hands-off manager" who visits the company every Wednesday but otherwise works on negotiating real-estate-development deals from an office 10 minutes away. His interactions with employees are narrowly focused. "I don't joke with them or drink beers with them," he says. "That's like having your dad try to be one of your friends. He's not a friend. He's your dad."

Furthermore, Behar rails against the notion of sharing financial figures -- or profits -- with employees. "Profit sharing is stupid because people don't understand the correlation between profit and what they do," he says. And he holds out no hope to the three members of his management team that anything they achieve will earn them equity. "The team as it is right now is not prepared to take the company to the next step," he states. He professes no patience with entrepreneurs who attempt to portray their growing companies as enriching in ways that can't be captured in dark ink. "I don't pretend to change the world at General Stair," he says. "My purpose is to make a lot of money."

Toward that end Behar, who emigrated from Peru in 1968 to study civil engineering at New York University, where he later earned an M.B.A., pays close attention to everything around him. In January 1994 he noticed that Miami-based home builder Lennar Corp. had started promoting a type of dwelling called the House of the Future, which featured whiz-bang electronics that would enable its owners to turn on lights or activate an alarm by phone. What the \$819-million company was doing, as he saw it, was what he needed to do: branding a commodity. He immediately found out which advertising agency Lennar used. Then he paid a call on an executive at the same agency. "I want you to brand a stair for us," he instructed. Can't do it, the exec replied, for less than \$10,000 a month. But Behar came away with some valuable free advice: Think of something good about your stairs that goes beyond the quality of the stairs, the man advised. What are you good at? We are great at delivery, Behar had immediately answered. So, came the conclusion, brand that.

Not that General Stair needed to do anything -- right away. Behar was proud of the company's leading role in developing a market for prefabricated stairs and of its estimated market share in Southern Florida: 39% in Dade County, 26% in Broward County, and a 2% sliver of Palm Beach County. But he was also brutally honest with himself about how the company had managed to reach that point. "Someday some idiot will come and compete on price," he says. "I know, because I was that idiot." He knew that the weak competition of the past few years, combined with a home-building market whipped up by Hurricane Andrew, could not last. Starting one and a half

years ago, reports Vainstein, "we needed to lower our margins to get projects." The guarantee, Behar figured, might stop that slippage.

Companies typically hoist customer guarantees for one reason: to blow away the competition. It's a marketing ploy, a customer come-on, a valuable "gimmick," as Yager once labeled it, earning him a gazillion-watt glare from the man beside him. "It is not a gimmick," corrected Behar. To be fair, guarantees may look superficial simply because they seem so common. Consider the many high-profile companies that guarantee their services: Federal Express; Lands' End; Manpower; Sears, Roebuck and Co.; Speedy Muffler King; Xerox -- not to mention Domino's Pizza Inc., certainly the best-known company ever to abandon its own guarantee.

Starting in 1984, the now-\$2-billion Domino's promised to deliver its pies within 30 minutes or give customers a \$3 discount. The guarantee was discontinued in December 1993 after some widely publicized accidents involving Domino's drivers. The result? "We've fallen from number one nationally," laments Glenn Mueller, president of RPM Pizza Inc., a 130-unit franchisee based in Gulfport, Miss. "Taking away the guarantee has taken away our competitive advantage with customers."

But Mueller also mourns the guarantee for a much less obvious reason. Customers, he says, aren't the only group whose loyalty has started waning. "Our internal operations have lost their spark," he admits. "We're not as excellent. And that internal price is 100 times higher than any external effect." What's the connection? **An extraordinary guarantee -- that is, one in which the company pays for its mistakes in serious bucks -- can "transform a company from top to bottom," says Christopher W. L. Hart, president of the Spire Group, a consulting firm in Brookline, Mass. "The concept truly touches everything in the organization. A guarantee is like turning up the power on a hose. Suddenly, you see leaks you never saw before."**

Further, a money-back guarantee "almost always" lowers operational costs, he claims, because the threat of having to pay out focuses efforts on "making sure employees are empowered" to live up to the guarantee.

Once he had read Hart's 1993 book, *Extraordinary Guarantees*, after spotting a reference to it in a magazine, Saby Behar saw it as the perfect blueprint for General Stair.

But no sooner had Behar made his proposal than Garver began making the case against it. Behar clearly relishes such no-nonsense engagements. "I'm an argumentative guy," he says. First, Garver noted, there were plenty of instances in which General Stair and its client home builders loudly disagreed on what constituted being on time. Take the builder who called Tuesday to say lot 56 would be ready for stairs on Thursday. On Wednesday he called to say that he meant lot 36 would be ready on Thursday. Then on Thursday, when the General Stair installers arrived at lot 36, they saw not so much as a slab in place; it turned out the builder had meant lot 46. And remember the construction superintendent who called, screaming bloody murder about stairs that had not arrived -- for a house that turned out to be a one-story design? Furthermore, Garver argued, a full refund was simply too irresistible a bounty.

"What I was hearing was 'We are going to lose our asses,'" Behar says. That was OK with him. Not that he wanted the company -- which he owns with his brother-in-law and his wife's first cousin -- to suffer any crippling anatomical damage. But he was ready to follow the idea of the guarantee wherever it would lead. "What I had to do," he says, "was sell the nonbelievers."

Following the lead of his unlikely biblical role model, Behar expected there would be opposition. Instead of harping on the exact shape of the guarantee, he and his managers spent several subsequent meetings just talking about change. "I tried to preempt some of their emotions," Behar says.

For about four hours a week, they asked one another questions like, How will it make us feel to change? What will we gain, both professionally and personally? Some potential outcomes were obvious: increased market share, repeat customers, better margins, a smoother operation. Others required deeper thought: to grow as a team player, to gain an understanding of people and change, to attain higher status. "If we're recognized as the best stair company in the marketplace," said Yager, a former semipro hockey defenseman, "I'll get a feeling of self-respect that will help me be a better employee and friend and father."

None of the qualms about the guarantee evaporated. But over the weeks, the managers began discussing how such a guarantee *might* work. Since Garver opposed a full refund, could they possibly offer some sort of coupon or credit voucher? Behar proposed a \$100-a-day voucher, to be awarded if the company was late with either the delivery or the installation of stairs or railings. Nope, said Garver, that's too much. They finally settled on her \$50-a-day idea, based on figures showing what it costs the builder in interest to be delayed by a day.

As for the definition of "on time," Behar threw out a simple question: "If we can't trust the builders' information, why follow it? Why not produce our own?" So began the discussion of how General Stair might become even better informed than its customers about the status of the 65 jobs it has going at any one time. As the managers talked a vision came into view: two field reps, armed with communications gear such as two-way radios and cellular phones, routinely checking on houses to see how close they actually were to needing stairs delivered and installed. Thinking through that aspect of the guarantee would ultimately lead to an overhaul of the company's entire communications system. There would be new two-way radios and cellular phones, and a phone system that would include voice mail and would automatically beep the message recipient. Behar would invest in a couple of fax machines so that General Stair could set up a paper trail, faxing the agreed-upon delivery date to the builder as confirmation. The company would also need to hire an additional field rep to check on jobs. The total cost: about \$50,000. "Either we could be just another millwork shop, or we could become an efficient business," Behar explains.

By mid-May Behar felt ready to unveil the refashioned guarantee to employees. And he told his managers exactly how he wanted to do it: like a giant political-campaign celebration, in a hotel ballroom lined with rented chairs, with balloons falling everywhere, with buttons and T-shirts and self-congratulatory speeches. But no sooner had he finished describing the scene than came the familiar, combative reply: No. Can't do it.

This time, though, the response didn't come from any of his managers. Instead it came from Susan Lupien, president of a marketing firm based in Coral Gables, Fla. Behar had hired her to help tell employees about the guarantee -- after his harried managers had opted out of the task. "We were having these meetings every week, and there was no more I could do," says Garver. Behar understood his managers' plight. "Their primary job is to make sure that while you are making change, you are still making a profit," he says. "You do not want to overtax them."

What Lupien told Behar was this: You don't understand your employees at all. And you need to get their full commitment to any guarantee. "The best way to get people to buy in is to bring them in at the beginning, not to present this as a *fait accompli*," she told Behar. "Plus, you might learn something."

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On Friday, June 3, 1994, Lupien persuaded the managers to break employees into four groups; she would then meet with each group for two hours. She would begin by explaining that the company wanted to offer a strong guarantee, and then she would solicit their advice on what it ought to be. Behar would sit in on all the groups, just to listen.

At the meetings, as employees focused on how to make a guarantee work, they pointed to problems Behar did not know about. Like the fact that the company's two-way radio system didn't perform far enough north. Or that the truck kept breaking down. Lumber was being ordered in such a way that it was causing hiccups in production. Engineering didn't understand the urgency of delivering cut sheets and shop drawings to production. The folks in production were frustrated that they had to deal with irate clients because engineering was late. The people doing the field measuring -- checking the actual job against the plans -- worked at their own quirky pace, which meant that engineering couldn't begin shop drawings on time. One troublesome machine needed more maintenance, and one high-maintenance employee needed a job somewhere else. Suddenly, says plant foreman Manuel Martos, "I felt that the president and owner of the company was concerned about what we were thinking and how we felt."

Roberto Ruiz, who makes pickets, points out that "it was good because we were never taken into consideration for our ideas before." And the idea he proposed was actually a "very sophisticated management concept," as Behar notes. While talking about the guarantee, Ruiz began discussing his job; he could be on time, he said, only

if the departments he relied on were on time as well. Therefore, he said, what the company needed was not just an external guarantee to its customers but also an internal guarantee from one department to another. "I was very surprised they wanted to do it," says the Spanish-speaking Ruiz, who talked to *Inc.* through an interpreter, as did most General Stair employees.

Despite the helpful ideas, there was one central question that employees could not directly answer for General Stair's managers: what kind of incentive would best motivate employees to make good on the guarantee? Pizza for lunch every Friday, someone suggested. Free trips. They asked about a credit union and health insurance -- both of which they eventually received as options -- and a retirement plan. And what about . . . gulp . . . more money?

Well, what about it? When the management team reconvened, it struggled with the question. In his discussions with Garver, Behar had thrown out an idea to calm her fears of ever-impending bankruptcy. How would an insurance company reduce the risk? he asked. Then he suggested that the company, in effect, set up a self-insurance fund from which to pay out the vouchers. Working on a spreadsheet, Behar and his managers examined what would happen to General Stair's bottom line if the company adopted a guarantee but did not boost its timeliness above the current rate of about 95%. They figured they would need to set aside \$2.30 for each stair and railing that was delivered and installed on time. Any \$50 vouchers would come out of that fund. Then Vainstein and Yager suggested another modification. In 1993 Behar had sent them to visit a nearby company run by one of the members of his CEO group. To boost its safety record, the company had started a monthly lottery. Why not take half the fund and award it to five lottery winners on a monthly basis, while saving the other half to be split among all employees at year's end? Garver loved the idea. "The reality didn't change," says Behar, "but now it was quantified. It was expressed in a way you could put your arms around."

Behar dug up an idea from a three-ring binder -- he has a museum-quality collection of them -- marked "incentive programs" that he had used at a previous company after reading about it. To be eligible, employees would have to meet certain criteria: they couldn't be late more than two days a month or absent more than two days a quarter; they couldn't be the cause of any delay, even if they had had an accident. "Tough love," says Behar. To conduct the lottery, Garver went out and bought a bingo game. The drawing "is a very exciting 10 minutes," says Behar.

A little too exciting, sometimes. After the very first lottery, an employee who had been eliminated from the drawing nearly accosted Behar, who then insisted that Garver hand out written rules for eligibility. But Behar took that worker's feelings as a sign that employee commitment was strong.

Behar changed his role, too, says Lupien. "Employees had seen him as a distant person. But he was making more of a commitment, and he was becoming more responsive to them."

Garver's demeanor, too, was different. She had never been shy about her opinions, but now she was emboldened to take a step she had long considered impossible. Because "our overtime was a little bit high," as were labor costs, she proposed that the company switch its compensation from salary to piecework. It would give the company greater flexibility, she argued, and thereby give it a better chance of living up to the guarantee. She sat down with Martos, the plant foreman, and asked his opinion: How should it work? How much should we pay? By mid-September the new program was in place. Garver slashed labor costs by a staggering 30%, reducing them to a puny 15% of sales. "The first couple of days were not comfortable," recalls Martos. "But then they got used to it after one paycheck." Installer Gustavo Palacios says he now makes as much as \$400 a week, compared with \$240 before. "I want to take the risk," he says.

Behar traces such sentiments to the process brought on by the guarantee. "All kinds of barriers had broken down because so many ideas had been heard," he says. "Esther felt the confidence to broach the subject with Manuel. We took people out of their pigeonholes and gave them the opportunity to say what they could say. In opening up, we created spaces to be filled; a space of leadership was created, and Esther rose to the occasion."

She wasn't the only one.

Martos himself rallied two colleagues last October to work with him on reducing the raw materials used in

volutas -- decorative rounded stairs -- and in the supports for landings. Field rep Orlando Velez devised a 12-step diagnostic tool for quickly pinpointing how close any given house is to needing steps installed. Yager came up with a system for cleaning sandpaper, as well as the company's first significant new product since its founding: a top-mounted railing aimed at high-end customers. A group of employees also devised a new system for keeping track of loose items like screws and buttons, which installers used to grab by the handful. All in all, Garver estimates, the company has cut its raw-materials costs by about 5%, which is also a function of smarter lumber buying on Yager's part.

"These are little details," says Behar. "But everybody takes a holistic approach to the company, rather than a myopic approach. It makes a difference."

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On August 17, 1994, Billy Yager stood up in front of the employees of General Stair and made an announcement that he had long feared having to make -- so much so, in fact, that his legs were shaking. In his mind he had already played out the humiliating audience response: murmuring followed by outright laughter. This was the same Yager who could break the tension at a construction site with his mean impression -- is there any other kind? -- of Andrew Dice Clay. "Sometimes," he says, "you just have to put yourself out there."

It wasn't *what* Yager was saying at the official *celebración del comienzo* that left him feeling so uncertain. After all, he was merely explaining the guarantee, which workers had played a role in crafting. But he insisted on doing so in Spanish, a language he does not know. "I was nervous," he admits. "But it made a lot of people feel better about me." Garver actually recorded the announcement for him, and then he learned it phonetically; at night he would call her or Vainstein and recite it. "If Esther and Moises had not supported me, I couldn't have done it," he says.

All three managers gave speeches at the 7:30 a.m. gathering, which served as the official kickoff of the guarantee program. There was a pink cake in the shape of a step, and new shirts -- bearing patches that read "Quality Products on Time" -- all around. One by one, employees came up and signed the various on-time pledges: one to be hand-delivered to customers with a wax seal; another to cement the agreement between departments, including sales, production, engineering, the controller's office, and senior management; and a third in which Behar pledged to employees, among other things, the "financial resources" to carry out the guarantee and a "program of bonuses, company functions, and other benefits." He also vowed to ensure "constant communication" both between management and workers and between the company and its customers. Employees got to keep the pens they used to sign the pledges. Garver hung a board that would be used to keep track of the bonus pool, so that everyone would know how much was in it at any one time.

Installer Sergio Vidal, who has actually won the monthly lottery three times since its inception, says workers have agreed that after each drawing the five lottery winners will kick in \$10 apiece "so that everybody can celebrate. After work, we go for an hour and we share something like a beer or a Coke."

Behar knows nothing about that; but then, neither he nor his managers feel they have to get involved in every arrangement among employees. When Gustavo Sanchez hired a friend of his to help him make railings, he actually agreed to split their piecework proceeds 50-50. "It was too much," Sanchez now says. "But I did it because I wanted to motivate him, to make him feel responsible." Some two-worker teams split earnings 60-40; others 65-35. "I don't decide how they want to share the money," says Garver.

As of May 1995, nine months into the guarantee program, General Stair had issued five vouchers. Not enough, complains Behar, who worries that employees aren't giving out the vouchers unless customers specifically ask for them. The beauty of a \$50 voucher is that it *can* be given out without bankrupting the company. "It's easy to give, and it makes the client feel like a million dollars," he says. "It shows people that we are serious about this."

And Behar is very serious. In fact, he's far from finished implementing the guarantee. For one thing, Behar believes it has been more successful internally than externally. Productivity is three times higher than it used to be, he says. And Garver reports that absenteeism is down about 20%, thanks to the lottery.

While area housing starts are down roughly 5% this year, General Stair's monthly pipeline of work is up about 20% -- though Behar is quick to point out that the lucky timing of jobs, which is unpredictable, can account for some of that growth. Despite increasing competition, per-unit margins are holding steady, according to investment banker Karl Sprague, who attends the company's management meetings monthly, asking managers any financial questions that Behar might by some miracle have missed. Behar now refers to the company as GSC, a reflection of the fact that he feels the on-time system could be used for other "quality products," like windows or shutters or doors. In early May he asked Lupien to meet with employees again, department by department, to solicit ideas for how they might make the guarantee better known to the outside world. Somebody suggested affixing a tag to every product. How about handing out buttons that say "The On-Time Company"? Behar didn't sit in on those groups, but he's monitoring the results very carefully. He wants to make sure employees have not forgotten their pledge. "If I stop pressing on it, we'll go back to doing business the old way," Saby Behar says. "That much, I can guarantee."

PROMISING RESULTS

Forget what you've heard since childhood: there are actually plenty of guarantees in life. But not all of them produce the intended effects -- either externally or internally -- as the one put into place by General Stair Corp. did. Coming up with an effective guarantee requires thinking about the following fundamental questions:

What would customers consider a breakthrough in our product or service? At General Stair, president Saby Behar first wanted to guarantee the quality of the company's prefabricated stairs, but by talking to customers he learned that "more quality won't fetch more money." Timeliness, on the other hand, is key to builders, which is why he turned to on-time delivery.

What would an ironclad guarantee sound like? When it comes to injecting accountability into a guarantee -- deciding exactly what the payout ought to be -- it's easy to be intimidated into coming up with "a totally watered-down guarantee, where the promise is not very lofty and the payout isn't much," warns Christopher W.L. Hart, a consultant who has studied guarantees. "People end up putting greater value on minimizing the payout expense than they do on maximizing the value from customer loyalty and goodwill." General Stair avoided that trap in part by asking for employee input. Not only did employees tell the company what they thought was possible; they are also consumers and know what kind of companies they like to buy from.

What if my customers cheat? They will, says Hart, but not as much as you or your employees fear. Most customers seek revenge -- by cashing in on a guarantee -- only when quality is truly lacking. So the guarantee isn't really the issue. "The fact is, you've gotten their distrust the old-fashioned way: you earned it," says Hart.

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