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## **Is Your Company Thinking Beyond the Next Quarter?**

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Running a public company for the past 22 years has left me feeling like Cal Ripken, Jr. I'm no Iron Man, but I've conducted nearly a hundred consecutive earnings calls. I've endured my share of lumps and bruises, but I've still remained upright at the end of every session.

Every 13 weeks brings the beginning of yet another cycle of reporting to our investors, analysts, board, banks, franchisees, and team members. After hearing our reports, many of these stakeholders focus on a metric that means a lot to them but comparatively little to me, earnings-per-share growth.

In the aftermath of every call, we get either applause or boos based solely on how our EPS growth has fared against analysts' estimates, which always amuses me. If we exceed Wall Street's consensus estimates for the quarter, we are deemed a brilliant, forward-thinking management team. If we miss the Street's estimate, we land on the list of downwardly spiraling companies that are plagued with questionable leadership. That's an awfully wrongheaded approach to gauging a company's long-term prospects.

The fact is, I don't pay much attention to quarterly earnings. They're not something that I or any other chief executive can create in so short a time. Rather, EPS growth and increased shareholder

value, or the opposite, result from management initiatives that play out over years, and certainly not over 13 weeks.

Too few people acknowledge that EPS growth is a byproduct, not an end in itself. In the restaurant business what matters most is ensuring that existing stores continually increase their profits and that new units are opened with a high return on investment. Do that and you'll reap the byproduct of EPS growth, increased shareholder value. Just remember that you can only build the foundations for growth if you focus on the medium and long term. Reacting to short-term pressures doesn't cut it.

Think about what it takes to continually grow existing-store profits. In our industry there are just two ways to do so: Increase the number of guest visits per café, or find a way to encourage guests to leave more dollars behind each time they visit. There's no denying that it's extraordinarily difficult to achieve either of these goals. In fact, my research indicates that the majority of companies in our industry fail to grow same-store profits over multiple years.

But it can be done, and a few companies in our industry do it. They succeed by continually building competitive advantage, which comes from delivering superior products and a compelling customer experience. And that means hiring the right people for the right jobs and properly incentivizing them.

I'm always amazed at the number of restaurant companies that try to grow existing-store profits by rewarding their operators for doing the wrong things. They incentivize for a short-term goal of delivering greater than budgeted results, rather than for base-store profit growth year over year. This misguided focus on quarterly numbers, though part of a strategy to improve EPS growth, actually degrades long-term shareholder value. One way to determine whether *your* company can think beyond the next quarter is to watch how it incentivizes you and your colleagues.

The other path to greater EPS and shareholder value is through expansion, or what we in the restaurant business call unit growth. To my mind, growth is a double-edged sword. It can add economic value, but it can just as easily diminish it. Growth can build value only if the underlying business model is worth reproducing. Let's face it, the world is awash with products and services, and none of us needs another restaurant—unless that restaurant offers its customers something better.

Growth only makes sense when you've built a business model that offers a superior competitive alternative and when management is highly confident that it can deliver consistently strong returns on investment. Without those two elements in place, growth simply becomes a game of foolishly placing bets when the odds are stacked against you. For proof, just consider the number of companies that have tried to grow too fast or too soon, or simply for the wrong reasons, and are today trading at stock prices significantly below their past highs.

Such problems don't just come out of the blue. They happen because management ignores deep-seated weaknesses and allows itself to get caught up in a cycle of short-term initiatives meant to meet high expectations with high-risk growth.

How can we shake off the blinders and take a long-term view? Let me make three suggestions that are drawn from my industry but that you might apply to your own.

**First, bet on the things that will improve your competitive position, and summon the tenacity to stay at the table long enough to collect your winnings.** Making smart bets requires an understanding of what the competitive landscape will look like in three or more years. You must try to predict where the world is heading and be prepared for tomorrow's arrival. That means building your credibility with your investors and board so that you have the wherewithal to resist short-term pressures and the patience to allow your initiatives to succeed.

**Second, grow only when you know that you have forged a winning competitive advantage.** Whether your company is built around a product, a service, or what we in the restaurant business call a concept, if your business model has not yet proven worthy of reproducing, don't bet on a growth strategy.

**Finally, remember that long-term success is created when you look beyond this year's budget.** Despite the constant pressure to submit to quick fixes, you stand a far better chance of delivering strong quarterly results year after year when you focus on strengthening your competitive advantage and growing only when your business model offers a proven competitive alternative.

With my next earnings call fast approaching, I will keep those principles in mind. If I succeed, the analysts' holy grail, EPS growth, will take care of itself.

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