

# Werner Otto's Entrepreneurial Principles

*"Reduce every problem to a simple denominator"*

Anyone who wants to understand how Werner Otto worked and find the key to his unparalleled success needs to examine his twelve entrepreneurial principles. Anyone who reads through them carefully will detect another step in the business life of Werner Otto in each successive item. These principles accompanied him during his entire life and were applied as a whole at all times. This said, each individual principle taken on its own offers a valuable guide to both life and the correct way to act which, even today, should still be taken to heart by every entrepreneur.

## 1. Know yourself

Recognise your mistakes! Try to look your mistakes or, in other words, yourself directly in the eye. We can only improve our performance when we have thoroughly accepted our weaknesses. Capable, active people make the most mistakes, but they differ from incapable people in that they face up to their mistakes. They transform them into something positive. They at least draw a positive lesson from the damage which is done and regard it as valuable experience. You can only enhance your ability to act if you gain knowledge along the way.

Some people are petrified by the prospect of getting to know themselves. Their self-confidence is so poorly developed that they consistently adopt a contrary position each time a mistake occurs. They refuse to recognise their own failure, believing that this would make it impossible to look at themselves in the mirror again. This attitude blocks their personal advancement. Only those who can, figuratively speaking, slap themselves on the forehead and say "How did I manage to make this mistake?" will be any the wiser. The person who, through observations, manages to reduce the level of mistakes in his or her actions is successful.

A hard line when it comes to self-education and a healthy dose of self-deprecation is important if success is to be achieved: self-satisfaction does not trigger a will to advance. Know yourself – that also means recognising your own talents and strengths. Just how much unexploited talent do you think exists all around us! And not because the people in question were not presented with an opportunity in this respect. The reason is frequently found in the absence of a chance to get to know oneself and compare oneself with others. One of my most capable employees was an administration manager in the Otto mail order group. However, the career in administration never gave him the opportunity to get to know his real capabilities. I remember how he used to pace up and down in his office like a caged lion. His performance in administration was only average, but his true talent was revealed when he joined our young real estate firm. He became a full-blooded entrepreneur overnight who, filled with zest and a clear sense of realities, built up our shopping centre group in only a few short years.

## 2. Liberate yourself through work

Success is achieved when, once again, one manages to place a particular business area in capable hands. A manager should at all times endeavour to achieve greater freedom. The goal is to find the right employees who can take over his working duties. One should not interfere in a department which is effectively run by a manager. The responsible employee will do some things differently, other things not very effectively but, then again, realise a lot of things extremely well. Only the person who has liberated himself through work has the time to dedicate himself to new tasks in a creative manner, tasks which are important for the growth

of an enterprise. At the beginning of the 60's, when I had built up a management that functioned relatively well, I transferred my office out of the OTTO mail order group so as to cut the threads binding me to the managers of different departments, managers with whom I had previously had extremely close contact and who repeatedly tried to circumvent the new managing director to receive decisions directly from me.

In practical terms, this functioned as follows: I met one of my old employees in the lift. He outlined a new project to me which I regarded as an extremely sensible proposition. I patted him on the shoulder and wished him the best of luck, little knowing that I would be in for a surprise a few hours later. The responsible managing director came to me and complained that I had once again issued instructions which differed from his. It then transpired that the project had been turned down for practical reasons, but the employee did not want to give it up and, as a result of the meeting with me, told the managing director that it was my wish that this project should be realised.

Cases of this nature occurred continually at the most varied levels and in every conceivable variation. After all, I had previously held all the strings in my hand and issued all instructions myself. The transition of my function to management led to friction and vexation for a few years. There was nothing left for me to do other than cutting all personal contacts to my old employees by moving out and allowing the managing director to work free of interventions on my part.

When a new administrative building was occupied in Hamburg-Wandsbek five years later, management was now working so smoothly and held all the threads so firmly in its hands that I could move into the same building again with my office. The spatial distance from the Otto group had liberated me from the day-to-day business, allowing me to dedicate myself to greater problems which, when solved, moved the company forwards. I now had the time I needed to build a first-class team. Distance allowed me to observe the performance of individual managers much more effectively.

### **3. Discuss and inform**

No idea is so good that it cannot be improved further through discussion. Some entrepreneurs have failed because they were pretentious and believed they knew everything better. The objective is to involve even apparently "unimportant" people in the discussion. It is sometimes miraculous to experience the excellence of ideas that emanate from third-level employees.

In 1969, we were visiting a site on which we wanted to build a shopping centre. The managers of our "Realkauf" chain voiced their concepts. A discussion was held between them and the members of the board of the Otto group. I was not happy with the debate, as no clear decisions were being generated from it. The subject being discussed was the location of the site and, consequently, the sales opportunities in this shopping centre. Opinions were very contentious.

I turned around and saw a young female employee from our market research department on the edge of our group. She had presumably been taken along because she had been involved in the compilation of the documents for the project. I asked her for her opinion, and she gave us such an excellently clear report that we were able to immediately reach a decision.

Her thorough, well-founded statement so impressed me that I immediately wanted to make her an authorised representative. On coming into my office the next day and hearing my offer, her answer was more or less as follows: "I'm very honoured that you want to offer me this position, Mr Otto, but I have just decided to leave the company. I want to work for myself and set up my own market research institute." Elisabeth Lange has since become the owner of a renowned, first-class market research institute.

Discussion also means information. Employees can only be trained and prepared for greater tasks in a practical situation which is discussed and developed together with the employees. It is essential here that a discussion be held in a manner which allows those involved in the meeting to have their say. Some people believe they have held a discussion when they have disseminated their opinion among their employees, these having become so conditioned in the meantime that none of them would dream of disagreeing. A real discussion means putting forward a proposition, waiting to hear the antithesis from your listeners and, ultimately, ending the discussion in a synthesis. A truly fruitful meeting produces a better result than the first version where an opinion is advocated solely on the basis of one's own opinion. And if one's own opinion is supported through other important facts from the other participants in the discussion, then the meeting was worth it, as one is more certain of one's position at the end.

I have often found myself swaying towards the opinion of others in discussions, purely because they presented much better proposals. As that which was right and the very best for the company was always the most important thing, the proposal supported by the better arguments was accepted. We have often come a step closer to success as a result.

#### **4. Simplify problems**

Reduce every problem to a simple denominator. We were working on a concept for our shopping centres and, in doing this, we reduced the leasing problem to a simple denominator: "The customer visiting our shopping centres should be able to find the product he or she wants to buy at least once a year in our centre, and this should be the case in at least two different businesses, ensuring that competition is encouraged in the centre."

This simple rule created the preconditions for a sector mix which was exclusively oriented towards centre visitors, thus ensuring that the centre developed positively. The centre should not only take on jewellers who are ready to pay high rents, as turnover would drop rapidly as a consequence. The customer should also be able to find bakeries and fish shops, even where these businesses can only afford the rent for a few square meters. The centre was oriented towards the customers on the basis of this concise instruction. The successful development of our shopping centres is proof of the correctness of this simple rule.

As we purchased our first office building in New York in 1976, nobody was tempted to invest in New York. The word then was that New York was bankrupt. The New York bankers were extremely nervous and, consequently, delighted when they managed to get rid of the buildings so quickly which, out of necessity, they had taken over as security for their mortgages. This is why it was possible to purchase office buildings at uniquely attractive prices.

The buzzword "A metropolis is bankrupt" sounded horrifying, but it did not mean that municipal services such as the fire department, schools and the police could no longer perform their duties. People still travelled as usual on the subway. Services still had to be provided for over ten million people. Put simply: the bankruptcy of a city does not mean the

end of a city. It may not even mean the economic deterioration of a city, because you cannot place the jobs of millions of people in jeopardy. Saving measures will need to be introduced, but they will not have any measurable negative effect on the population. Under no circumstances should companies be burdened with special taxes. Indeed, the opposite should be expected: the fight should be launched to attract every new company that wishes to base itself in the city.

Described in these simple terms, it is obvious that it was no problem to buy your way into this city. People thought I was being very brave at the time, but courage was not needed to any great degree. All I did was to reduce the problem to a simple denominator.

It became evident after a few years that, much to the surprise of many, our New York buildings were the most profitable among our investments. We experienced a fascinating increase in the value of our office buildings.

## **5. Systematise and retain valuable know-how in the firm**

Create checklists for important, recurring decisions.

We started building shopping centres at the end of the 1950's, and I myself drew up a checklist during construction of the first two centres which contained the important questions which we would need to answer if we were to create a successful shopping centre. When we wanted to build our third centre, the managers of our shopping centre group joined me in overhauling the checklist. It was now perfect and contained our complete know-how.

Drafts containing everything necessary to make a decision needed to be prepared each time in four stages: a preliminary stage involving analysis of the location, the next stage addressing the purchase of the site, a third for construction and the final stage being an inspection to ascertain whether everything in the data had been achieved.

Our comprehensive knowledge and our entire experience were contained in this checklist. Even a new employee could not make the mistake of overseeing an important point during project realisation, because the checklist indicated precisely the facts which needed to be examined and compiled. It transpired that, for example, a map of the city or town with a location annotation had to be available in stage 2, paragraph 3a, while paragraph b contained the surrounding area with the location of competing centres. The fact that these maps needed to be presented at this point and not at another had been carefully considered. What use were the best city maps which were possibly distributed in stage 1 if, in stage 2, decisions needed to be taken which only become apparent to the committee member after he had a chance to look at the map again.

I developed numerous guidelines during my business life and, on reviewing these again at a later date, realised how long these guidelines managed to retain their validity.

It is always rewarding to take time to clearly specify knowledge which you have gained. This means maintaining valuable know-how. Employees, particularly new member of staff, can refer to this know-how at any time, an advantage which ensures that they need not take the laborious route of garnering this experience all over again.

## **6. Practice constructive criticism through analysis of deficiencies**

Whenever any action we took failed to be successful - be it the issuing of a new special catalogue or taking up a new activity such as entering the tourist business or the purchase of real estate in dubious terrain – we always sat down together to examine and discuss the reasons why this or that had not developed according to plan.

Continually shedding light on and sounding the depths of procedures and actions which did not live up to our expectations or, in other words, were not as successful as they might have been, enabled us to amass enormous experience over many years. We have built up an excellent team which works in an exacting manner and can draw upon an outstanding appraisal system and first-class analytical skills.

Criticism is not the damning of some incorrect measure. Its real objective is to continuously improve the performance of our decision-making bodies through the recognition of mistakes. Discussions of this nature should therefore be factually based. I came across a similar procedure in a Canadian real estate group with which we had friendly relations. All the mistakes occurring during construction were recorded, errors such as insulating boards which allowed damp to penetrate, fans which did not work or poor-quality bathroom fittings. The board held a meeting once a month to discuss these errors. Anything considered insignificant was struck off the list, while important and typical errors were recorded in a book of errors which was forwarded to the responsible departments. Continuous optimisation was achieved as a result, and the company gained a reputation as a constructor of excellent quality apartments. Its quality work was revealed later in other building sectors. The business group has since become one of the largest real estate developers on the American continent.

The management of a business can only improve if it is willing to accept deficiencies as a learning model, rather than the slings and arrows of fate and the malicious failure of an employee.

On visiting suppliers, I always enjoyed touring the companies and was frequently astounded at the sensitivity of reactions if I pointed out any deficiencies. I cannot understand this attitude, as I have always been thankful for any criticism I received from an outsider. Even though people outside a company have not got the information available to an insider, their distance from the business sometimes enables them to see potential for improvement in an enterprise that the internal specialist tends to overlook, due to a certain degree of business myopia. Every entrepreneur should therefore be thankful for each and every piece of valuable advice he receives free of charge.

## **7. Act consistently**

Pursue a fixed goal with dogged consistency; solve tasks which you have identified as necessary with tenacity and single-minded resolve. We needed a first-class advertising manager for the company, but this sort of talent was difficult to find after the war. There were too many people bustling around in the advertising sector without the capacity to address our needs. I pursued my goal in a consistent manner and continually parted company with those employees who were incapable of filling this position in a manner that satisfied my expectations. The 13<sup>th</sup> advertising boss to be employed within a period of around seven years proved to be the right man for the job. Most of them had given up the fight on the third or fourth attempt. I remained resolute. This is how we acquired Wolfgang Thill who then, over a period of 20 years, guided advertising strategy in the Otto group. We considered offering the

customer the very best to be our paramount task. The Purchasing Department sometimes tried to take on board low-quality price cutters to achieve a significant increase in turnover. I always supported the idea that only top-quality goods should be purchased for customers, and that this principle should be maintained in all areas. It meant avoiding compromises and fighting tenaciously for the quality of the goods on offer. The company would only grow if we had enough well-trained managers to tackle the tasks with which we would be faced. During presentations and addresses to managers, I continually and repeatedly pointed out the fact that the most important task of an executive is to build a good team for his or her area, and that he or she can only hope to advance if the foundation he or she had created was of first-class quality. My continual *ceterum censeo* was: "Develop good personnel. You will only rise here in our company on the shoulders of capable people."

We have an outstanding team today. We enjoy the services of an excellent training system. My consistency has paid off.

## **8. Beware of hidden risks**

Risks are particularly dangerous if they come from a company which you have considered to be perfectly safe. So-called risk buildings never led me to lose a single night's sleep. We obtained securities for buildings in which we perceived risks to exist – we always had a plan of retreat in our pocket for such eventualities. We limited the risk by developing alternatives for emergencies. On the other hand, we sometimes encountered problems with businesses which we considered to be an absolutely safe business proposition.

When we built our first major shopping centre, we considered it to be a project which, in our estimation, would be an unqualified success. The situation was unique. We sized it up correctly, an assessment which was proven correct by the manner in which the centre later developed. In the knowledge that people would flock to this location, we built two department stores in the centre without securing ourselves with regard to the operators being considered. Friedrich Roesch, who has an excellent nose for market conditions and their development, immediately recognised the quality of the location and took over one of the department stores for Kaufhof. However, we were stuck with the other store. We failed to convince any other suitable interested parties.

Every business deal concluded involves two parties. The other party should also recognise the advantage to be gained. What are the chances of the partner on the other side of the negotiating table being unwilling or unable to see the advantage! These range from the fact that he does not possess the necessary intelligence to reach a decision to a predicament where he is forced at this moment to take a break from his expansion plans. There are many reasons for saying no or for having to say no.

The failure to sell this department store could have stalled our expansion at this time if we had not, by chance, found another solution.

So-called risk-free surety guarantees harbour enormous risks. The surety guarantee is given during the good times for a good reason, otherwise it would never have been pledged. When will the surety guarantee be called in? Naturally enough, the time comes when the business venture for which surety was pledged experiences difficulties. When does that happen? During difficult times, meaning times in which one either has to hold everything together oneself to see out the storm, or wishes to take advantage of the opportunity to invest somewhere cheaply with one's own liquid assets.

Surety pledged for a good business venture conceals an inherent risk. It is not secured financially to an adequate degree to ride out a crisis. The business venture would otherwise not require a surety guarantee. On the other hand, it is so good that it takes a crisis to bring it into difficulties. The surety pledge is then called in at the most unfavourable moment.

The same applies to firms in a business group which should not bear liability in relation to each other, leading to the so-called zipper effect in the event of a critical situation occurring. We experienced it in the case of a good, solid manufacturer whose three healthy firms become insolvent as a consequence of a minor difficulty occurring in his fourth firm. A variety of factors came together to create the situation. The fourth company was bought in from a liquidation case and had not developed an adequate degree of stability. The sector was experiencing a minor crisis, and the bank providing loans had become particularly hardened in its attitude as a result of experience gained in several cases of bankruptcy in which it had lost money. For convenience sake, the finance manager had assigned collective liability to the individual businesses of all firms as surety for the loans. This led to a healthy company having to file unnecessarily for bankruptcy.

## **9. Maintain the collective flow**

“Panta rhei – everything flows.” I adopted this motto as a young man on coming across the aphorism from Heraclitus during Greek lessons. I had the good luck of being born into today’s dynamic epoch and being imbued with a nature that embraced change. The era which preceded us was distinguished by massive innovations in every area. Only those who were willing to initiate change themselves, to partake in this current and not cling to that which was old had a chance of success.

When we think back now to the good old days, we regard them as a comfortable and static time, but only because we are viewing them from a distance. The reality is that the past 2000 years have rarely experienced any period not marked by change. Only the pace of change varied. In other words, change itself proved to be changeable. Movement is everything. An entrepreneur needs to adjust to the continuous change in his environment. The market, products, economic policy, currency relationships – everything is subject to continuous change. It is important to know today what will change tomorrow. One has to take enough time to consider the question of how environmental conditions will be tomorrow. This is necessary to ensure that the company is ready to face these conditions.

The main focus of an enterprise must be on the future. The entrepreneur should not allow himself to become overburdened with today’s problems. He should never try to fulfil anything one hundred per cent. Put another way, he should not cling to old things. A heavy price will otherwise be paid in terms of nerves, money and time. The entrepreneur should have enough time left to identify the changes which must be made in his company if he is to reap the rewards of the future. To address this consideration, it is adequate to fulfil a task quickly and in an orderly fashion, rather than getting caught up in perfectionist tendencies. It is considerably more important to tackle new tasks. These arise continuously. It is astonishing how some large corporations maintain the flow of their overall development and remain up-to-date, while a small business frequently stagnates and perishes, because the proprietor has failed to recognise the signs of the times.

Never forget that everything continues to flow around us. Our businesses also have to change in the same manner as our living habits and conventions, laws, forms of states and supranational ties alter in a continuous evolutionary process.

## **10. Share and grow**

Many family businesses could have developed into a large company, if the proprietor was capable of deciding to take partners into his firm. Our development could never have been possible if I was not always willing to share things where necessary. I sold shares in the Otto group in good time, thus gaining the necessary capital with which I could not only generate the basis for further expansion, but also create diversification to provide the group with greater security in times of crisis.

The second major sale of shares occurred when I parted with 50 per cent of the shares in our German shopping centre group and invested the money in our overseas businesses. Both restructurings led to a considerable strengthening of the Otto group.

Our sales of shares often led to distrust on the part of my employees, and we were frequently asked why we wished at all to shed shares with such an interesting value. After all, we did not need to take such steps. However, this was not correct – we continually needed to take such steps to free resources. The drive to expand and the capacity to tackle tasks which were more interesting were at all times greater than the assets at our disposal. Anyone who has first-class know-how in his company should never leave it unused, because it is certain to decline. A capable team needs to be challenged, and its sporting spirit needs to be kept alive through the possibility of expansion. Stagnation is regression. Despite our successes, the most favourable profits were never enough to finance the variety of further developments we needed to pursue. Despite an excellent level of creditworthiness, I was always reluctant to work with an overtly high level of credit.

The fundamental rule of always having enough of one's own assets to ward off any crisis and remain one's own master can only be maintained in the face of a major expansion drive if partners are permitted to share in equity capital. I was always ready to take partners on board when we needed more resources.

## **11. Intelligence is no substitute for experience**

I am pretty certain that I was not less intelligent 20 years ago than I am today. However, when I look back, I am aware of how unsure I was in relation to some decisions. I failed to recognise some opportunities back then, and some of the risks involved escaped my attention. Risks and opportunities – these are things which I find easy to judge today. Have I become more intelligent in these 20 years? I believe not. Only my level of knowledge has improved. Today I can draw upon 20 years of additional experience.

It has not been that long since I gained this insight, but its significance cannot be overlooked. It indicates how important it is to introduce employees to new tasks in a correct manner. I did not always give this the attention it required and, as a consequence, experienced my fair share of setbacks. I was frequently impressed by the intelligence of a new employee and, too prematurely, allowed him or her to make major decisions. The negative effects of this made themselves felt.

In the meantime, and this is one of the things which experience has taught me, I avoid where possible putting employees in positions which demand independent decision-making if they are not yet familiar with our specific know-how. Enormous experience has been amassed in the management group of our companies. This valuable know-how should not remain unexploited as a result of the lack of awareness and inexperience of our new personnel. It is more advantageous for the company if a new employee starts in our enterprise at the second or third level. This gives him or her enough time to gain experience of the internal workings of the business before moving up to management level and making decisions with far-reaching consequences. We strive at all times to educate management trainees in our company. Employees who have been with us for many years have a significant edge on those new to the company. They have gained exactly the experience which we require. The dynamism of our corporate group ensures that their knowledge is always up-to-date. The following two examples should demonstrate how little intellect can replace experience.

A new, young and, given his background, capable employee was entrusted with investigating diversification options in the oil industry for our overseas companies. This was realised in the form of an involvement which we regarded as a test. He returned full of enthusiasm from Canada and described the certainty with which the geologists made their measurements, how candid business was conducted in the oil sector and that business deals were concluded with a handshake. It did not take very long before he realised that things in this sector were achieved in exactly the opposite manner. In addition to being confronted with fraudulent geological appraisals, we also gained the impression that the oil industry was one of the hardest and most ruthless of businesses. We had only our fundamental caution to thank that this voyage taken into a new area devoid of experience on our part did not become an extremely costly venture for us.

I experienced the second example during the first major crisis following the war. When I prophesied this crisis, nobody was willing to believe me, and many of my colleagues and business friends regarded my opinion as overly pessimistic. The perception that this enormous boom could ever end exceeded their powers of imagination. They were clever, intelligent men, but they were lacking the experience which I had gained at the beginning of the 1930's.

## **12. Maintain your overview and foresight**

This issue has been heard in a variety of manners in the previous remarks. It is important to summarise it once again in a final chapter.

When one hears of the collapse of a previously successful company and examines the background to this crash (and everyone should do this to learn from these mistakes), it can be determined time and time again that these entrepreneurs lacked a farsighted strategy. Company management was blinded by success and drove the daily business onwards with vehemence. Foresight was singularly absent. The questions which were not posed were: "Why are we successful? What combination of factors has led to this success? What would happen if a few of these preconditions were to be removed? How should we react to a change in the fundamental conditions behind our success?" All energy was invested in expansion. The search for answers to critical questions was postponed. The company sailed into the crisis with a complete lack of foresight.

It is generally known that a major success also creates bottlenecks for a company. Those managers who bravely expanded their department in an expeditious and unhesitating manner avoided bottlenecks in this fashion; they were regarded as particularly capable and won

enthusiastic imitators. This led to the creation of a bloated machine whose ever increasing costs were concealed by rapid growth. This model then proved to be oversized and too complex when the company stagnated.

One can retain the overview over a company if consolidation phases are built into the organisation in good time. Discipline is required to consider the regulation of that which has been achieved during the heady days of growth and to reorganise the company at the right time.

The lifetime of an enterprise is rarely marked by long phases of uninterrupted growth. Think of all the external factors which can lead to disruption! Skilful reactions on the part of competitors, changes in the market, undesirable developments in economic or financial policy, new legislation and decrees, technical innovations, crisis or boom sentiments, new interest or credit conditions.

A company should never get into a situation where it is unable to react to the influences just mentioned.

One of the main duties of an entrepreneur is to anticipate the future and weigh up the risks with which the company could be faced, and he should take measures to ensure that he can react in a timely manner to changes in the economic environment.