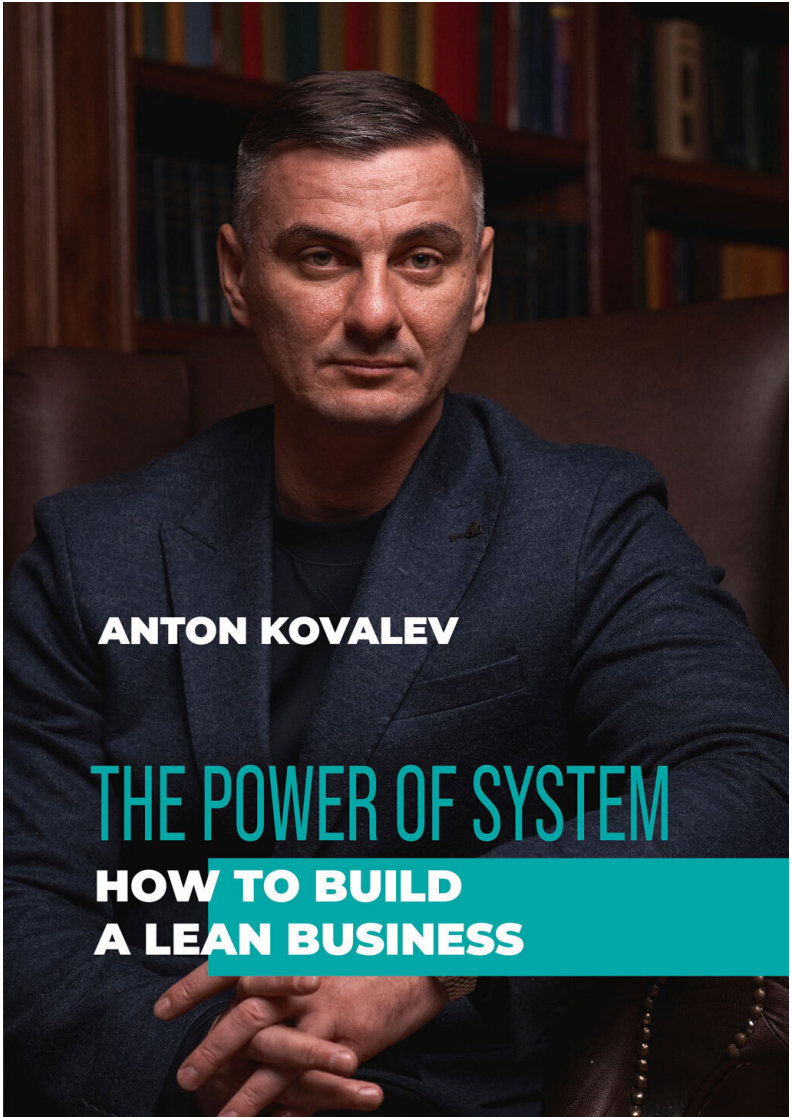

ANTON KOVALEV
THE POWER OF SYSTEM
HOW TO BUILD
A LEAN BUSINESS

Anton Sergeevich Kovalev

The Power of System. How to Build a Lean Business

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Аннотация

Lack of consistency in business operations, failure to meet deadlines, inadequate planning, insufficient delegation of authority, and reduced employee motivation are just some of the challenges that owners and managers face every day. The failure probability in a business is extremely high that's why any activity must start with building a reliable system.

A well-established business system functions anytime and anywhere, it's important to maintain it in good working order, update it on time, prevent errors, and work ahead of the curve.

The book «The Power of System. How to Build a Lean Business» offers specific advice on creating a successful business and answers common questions. It can be helpful for entrepreneurs, executives, division heads, and startup founders who want to competently run their businesses, scale them, manage their own projects, and motivate their employees to be creative and active.

Anton Kovalev, the General Director of the Belgorod amusement Park, has put into operation several entertainment industry projects in Belgorod. These include Lazurny Aquapark, Dinosaurs' Park, summer Aquapark, Zoo, and more. Kovalev has a PhD in Economics and is a professional trainer in the fields of systems business and lean thinking. He has developed his own training programs on effective management and lean manufacturing. He holds an MBA degree from the Presidential Academy at RANEPA and has the title of "Dragon Trainer", as well as the qualifications of Lean production coach and master of sports of martial arts.

Kovalev popularizes the philosophy of permanent progression in life and business and extremely interested in the success of his listeners and readers, and strives to provide them with valuable knowledge and skills.

More than a hundred thoughts confirmed by practice on how to make a business highly functional for decades, each of which can be applied and developed according to its own paradigm for action.

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Anton Kovalev
The Power of System. How to Build a Lean Business

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ANTON KOVALEV

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HOW TO BUILD A LEAN BUSINESS

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I dedicate this book to my children. The knowledge and experiences bit by bit gained from a variety of fields – economics, finance, management, and psychology – form the basis for the organization of a systemic process that can be applied in any area of life and will positively influence the development of a human personality.

Author's note

In my first book, «From a Dream to a Happy Customer», I began to share my practical experience in creating several large public-private projects in Belgorod in the entertainment industry from scratch. I want to emphasize and will always mark this fact – with practical experience.

Why is this important? After all, many people fail to implement their grandiose dreams, actually stopping at the starting point when they realize how many tasks of varying difficulty degrees they need to solve. It's good that they have stopped at this point, as they will not always be ready to deal with the large number of tasks that lie ahead. They may not listen to the advice of more experienced persons, reasoning that «It was you who didn't succeed, so I will be just fine for sure». And not everyone shares both negative and positive experiences in order to protect their reputation or avoid competition. You may be familiar with these situations.

What is the reason for the business management being unsuccessful? Of course, any project, and especially that in dreams, needs to be lived. We will have to think it over 24/7. Over time it will have to be changed and improved. This will require additional time, constant involvement, continuous training and debugging of this business running mechanisms. People are afraid of such difficulties, they often do not

understand how to start or do not want to make any mistakes (although they may lead to success), they do not attach great importance to make an intelligent business plan, they are lazy to understand the details and so on. Those who nevertheless decide to rush into the abyss of business quickly realize that the pile of problems they didn't know about or didn't want to hear about are growing deeper and it is better to give up now and pay off some reasonable debts rather than grow them more and more. And I'm now talking not about simple-minded people, who were waiting for "manna from heaven" or help from friends. All these are usually about adequate, smart, efficient, quite successful representatives of various fields of activity. So, it turns out that good intentions of potential managers are beaten against the chimera of business difficulties. All this is both true and false.

In this book, I want to talk about the specific practice of creating a business, share business ideas that are suitable for any subject matter and answer to suggested questions. A well-established business system works everywhere and always – the main thing is to keep it in working order by anticipating violations, upgrading on time, avoiding failures, staying on trend and staying ahead.

The probability of failure in business is extremely high (about 95%). Therefore, any activity starts with building a system. A business, a company, a department or subdivision is a kind of structure in which many details and processes are linked into a single network and coordinated towards one goal. This well–

established system means that the goal will be achieved on time, the tasks will be completed effectively in perfect running order. The system hasn't been fully planned out – it's obvious that there will be failures, which could lead to delays in projects implementation and may put the entire original plan at risk. Of course, it is impossible to foresee all the risks at the stage of forming such a system, but by developing a reliable system you can quickly eliminate the consequences of emergency situations, without exacerbating the risks or without putting the entire system at risk.

Who builds the business system? The entrepreneur himself. It's not enough to have a dream – you need to learn how to make it happen. How are business and dream connected – commercial and romantic? Everything in business starts with a dream. A dream gives you energy and that impulse that will always push you forward, no matter how many difficulties you face. A dream is the sun that you aim for and that illuminates your life. Your life plans, your goals and your visual picture for each year, month or day are connected to the dream. These aren't just empty words. They are reality. To adapt a dream to your goals and circumstances, you need special knowledge and first others' experience and only after your own practical experience.

The very word «entrepreneur» contains action. An entrepreneur is not the one who, like a reaper, cuts ripe spikelets and collects profits from the company, although that, of course, is one of his main tasks, but the one who, having created the

system, achieves its independent functioning, without constant interference, but also allows all the system's participants to fulfill their potential and giving them the opportunity to earn good wages and feel proud of their involvement in the system.

We know many examples of successful businesses in the world – these are megacompanies that are well-known. How do they keep their reputation for decades? How do they scale and are popular with their customers? This is not only thanks to financial policy and competent business planning, but also thanks to a well-developed training system. At every stage and for every employee, the system is perfectly honed. The skill development system never stops moving. This is important because daily training leads to daily improvements and results. You will probably think that it is impossible to improve something every day, sooner or later you will reach a dead end. I'd like to disagree. It's like being a child. In the morning, we see him one way, and in the evening, returned from work, we see something has changed in his behavior – he has already taught how to do something else. It seems like a small step, but this step is obvious. The same principle is applying to the company, when you teach and learn something new every day, even for half an hour. This process may not always be noticeable, but if you compare the result yesterday with today, you will always see a difference. And this should be with a positive sign. If this doesn't happen, then there is something wrong with the system and it needs to be fixed.

Reasoning in this way, I would like to introduce you the

concept of «Lean thinking». We will often use this term in the book, as the components of lean thinking are the basis for building a strong business system. Most of the book is dedicated to the mechanisms, techniques and technologies of lean thinking, which I've learned in due time, applied in my projects, adapted them to the specific needs of the entertainment industry, taking into account the unique characteristics of the Russian mentality and now I am able to say with a high level of certainty what matters and what does not.

A good business system is based not only on the originally accepted concept of a particular business and training employees the necessary skills, but also on performance standards. These standards and regulations allow people to work comfortably and be motivated as well as to understand each other at professional level and complete the task. Yes, standards are not set once and for all, they undergo changes in the process of lean thinking and can be adapted in some other way.

In any business, whether it is goods, complex equipment production or the provision of services, quality control is important not only at the final stage of the process, but also at the intermediate stages of the technological chain. After all, if to eliminate the defects at an early stage or assume where they may occur, you can avoid large losses at the end. That's why in entrusted me companies standards and regulations are implemented in the form of «Dragon» algorithms that all employees can read and understand. And strict adherence to

these algorithms leads to 100% compliance, which, in turn, leads to high service standards in our case.

The companies of the future are those based on lean thinking, the people of the future are those who are able to adapt quickly to changed circumstances and fix their system according them.

When I talk about a systematic business, I do not mean that the science of its running and building should be exclusively owned by the owner. In each part of the system there is person responsible for mechanism – he understands how the whole system works, what needs to be done daily to maintain and improve it.

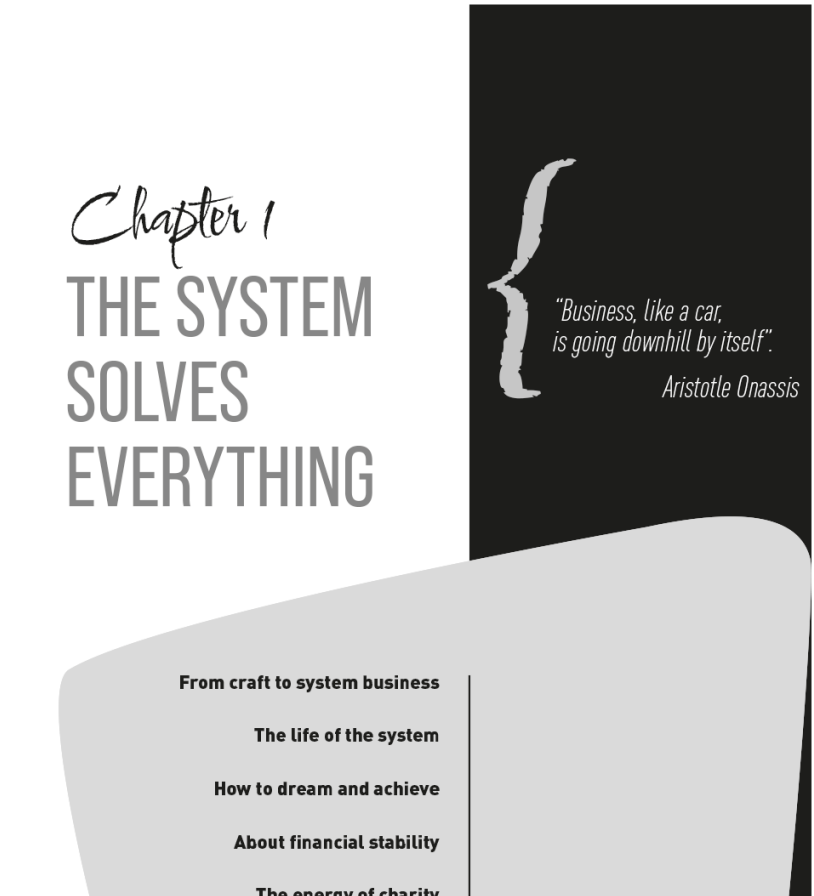
Motivation is one of the lean system drivers. Even such a moment as the involvement of each employee in a common cause indirectly affects the productivity of the company. We have discussed this point with our colleagues more than once – how nice it would be if our children would enjoy the fruits of our labor – walking in parks, going on the rides, watching animals in the zoo. It's a happiness to think like that and realize it! Therefore, the manager should choose caring, enthusiastic people for his project and give his personal attention and time for this selection. At the same time, manager should understand how to interact with such people and develop certain qualities in them in addition to their professional skills.

In terms of implementing lean technologies, visualization of all the company's processes plays a major role. From those that directly related to production, to those that aimed at

developing personal skills and the life of the company in general. Figuratively, every employee should see the entire life of the company in front of his eyes. This will ensure their motivation to be stable, and they are ready to get involved in any non-standard moment in the work, at the same time they will understand what is happening and what needs to be done. In this case, they know that they are not alone and their company is functioning stably with everything under control, they work in an ergonomic environment and all the company's employees are going to prosperity together – they are satisfied and happy.

Thanks to my experience and recommendations, your practical experience will be faster and, in some ways, easier. It will reduce the time and effort required to build your business by avoiding making many mistakes. But I want to warn you: it won't be easy for you anyway, because every business and every project is unique and individual challenges will always arise on the way, so you will have to constantly look for solutions to overcome them. And how to look for such solutions – this information can be found in this book.

Chapter 1. The system solves everything



From craft to system business

It would be incorrect to consider business as a modern phenomenon. The prototype for business relations was formed in the ancient world, but it took different forms, more primitive from a modern point of view. Over time, business relations have transformed into a complex network of interconnected resources. However, the essence of business remains the same for centuries: production of goods and services using material, financial, labor and information resources to make a profit.

A business is an independent activity registered under the law and conducted at its risk for profit from production, sales, use of assets and provision of services. Entrepreneurial activity's effectiveness is measured by both the size of profit earned and changes in its market value.

Much earlier than the emergence of any forms of entrepreneurship, labor appeared. The fruits of labor do not necessarily have to be profitable. The desire to work can be caused by various reasons – the need to provide yourself and your family with food or housing, to help others or work for society's benefit, and finally, work simply brings pleasure.

Business is a form of work, but it has one condition: it must make profit. Otherwise, it will just be a hobby or a charity. This is also not surprising or bad. After all, many hobbies become business topics, and charity is a necessary part of it. However, we'll discuss this later. For now, let's take a look at the history and tour of entrepreneurship throughout the centuries. My goal in this book is to show how business has developed into structured forms, what

a business system consists of in general, and what factors build, support, and develop this system.

For thousands of years, human activity has mainly been related to agriculture. The natural exchange of goods eventually gave way to exchange for money – this is how the goods/money relationship developed. This was the first entrepreneurial experience for mankind.

In general, entrepreneurship in the ancient world revolved around trading agricultural products and simple crafts – what nature had provided and how people could use it.

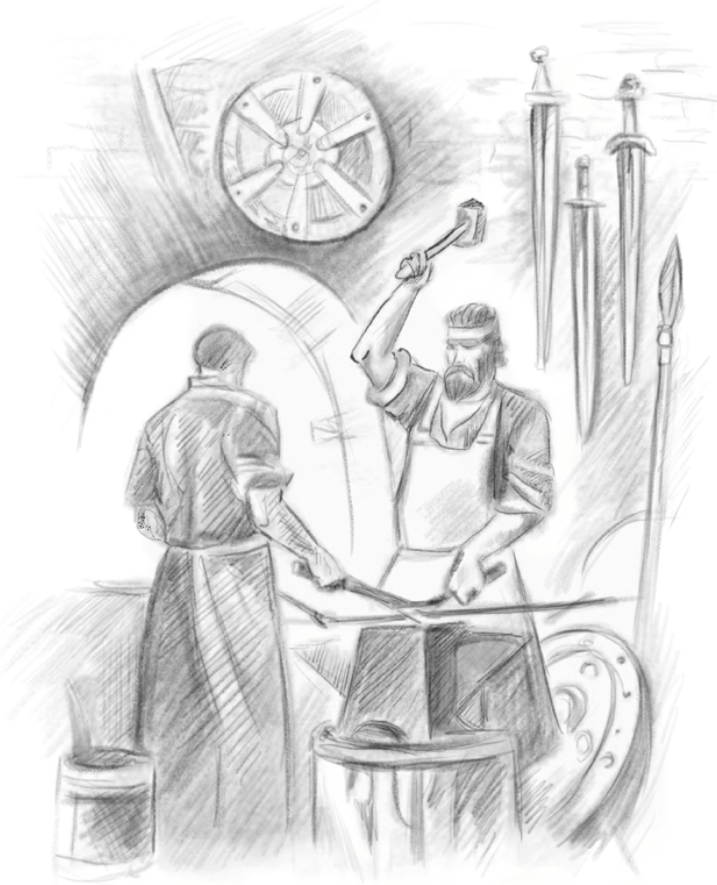
It is believed that goods-money relationships were the reason for the appearance of letters and numbers. In the third millennium BC, money, weights, measures and prices appeared in the Middle East. Even then, merchants from Mesopotamia formed partnerships and traded using noncash forms of settlement, through the mediation of third parties acting as guarantors of fair dealings. They also had sales representatives and transaction records. To a lesser extent, mining and construction were carried out, as well as clothing manufacture.

Ancient businesses were few in number – only a few people. It is notable that even then, merchants kept records of commodity supplies and taxes. Precious metals were used as currency – the exchange equivalent. A unit of measurement was the weight of barley grain.

With the appearance of the first coins and their subsequent

distribution in the 5th century BC, banking started to take shape, which already in our era received the status of an independent business. All entrepreneurs of that time could be divided into two groups: the first – small craftspeople, itinerant traders, street vendors; the other group was more respectable – the so-called «stationary» merchants, they led more or less large trading and banking activity.

So, merchants can be considered the first entrepreneurs since the beginning of mankind. Then, craftspeople joined them. In ancient Greece and Rome, trade was considered as a function of city-states, even though at some point those states began to place more value on the wealth gained during conquests.



The ancient Romans established the legal basis for entrepreneurship. Later, during the republican years, specific

corporate organizations were formed, which had their own treasury and status as a legal entity. Even later, in the Middle Ages, the University of Bologna solidified the legal principles of entrepreneurship.

The dawn of trade occurred in the XII-XIV centuries, and Venice, Genoa, Amalfi and Florence were considered the centers of business activity. During this period, the formation of the Hanseatic League (merchant guild union) began, uniting independent merchants from various cities. These merchants could carry on business without the necessity to leave their cities for long periods of time. In those days, many merchants had their own agents working for commissions and then got the opportunity to become merchants themselves.

For a long time, the Union held a dominant position in trade in the Baltic and North Seas.

However, not all merchants were willing to cross the expanses of Europe. Some of them managed to gain an understanding of the changing conditions and started to use new methods of trading, taking advantage of the important strategic port in Bruges, which was also a major textile manufacturing hub. The competitive advantage of these merchants was that they could organize trading partnerships that operated on a permanent basis with effective management techniques at the time. It was Italian merchants who started to use bills of exchange, insure goods and were the first to maintain accounting records.

> *Merchants could organize trading partnerships with effective management techniques at the time, started to use bills of exchange, insure goods and maintain accounting records.*

By this time, a new form of business had been developed – handicraft. There were businesses that mainly produced clothes and glass products. Such cooperative craft societies were based on producing small batches of hand-made items using the creative skills and abilities of a particular entrepreneur and their associates. The leaders of the cooperative craft society tried to provide their members with decent work conditions, set high standards of quality at that time, and reduce external competition. Handicraft often became a family business, equipment was used rarely – mostly tools made by the craftsman himself.

Mining businesses also existed, they seemed more interesting and profitable to entrepreneurs than manufacturing ones. In the 15th century, there were large-scale similar businesses in Central Europe that had perfect equipment.

The craft work during this period went through a long evolutionary process from the manufacture of goods in a

subsistence economy to the production of goods on a by-order basis and delivery to market. This led to the development of cities and the emergence of entertainment culture, as I described in my book «From a Dream to a Happy Customer». Craftspeople brought their goods to fairs for sale; circus performers and poets acted there; various competitions were held, creating a special social culture and new connections, which in turn led to entrepreneurship development. The crafts began to move beyond the household-level production – large workshops and cooperative craft societies formed, producing cloth, metal goods and glass most often. In addition, pottery, farriery, joinery, carpentry, furrier's, shoe-making and jewelry crafts were developed. To sum up, a special group of urban producers formed.

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