

WHAT LEADERSHIP PRINCIPLES CAN WE LEARN FROM COMMODITY TRADING?

As an entrepreneur at heart, I believe that leaders of new businesses must find ways to balance the need for creating *social capital* and ensuring sound *business development*. This article focuses on *business development*, defining in particular a number of key principles for leading a business through business cycles in the market place.

INTRODUCTION

Commodity trading can be traced back to Sumeria in about 3,500 BC, when baked clay tokens in the shape of sheep or goats were used in trade. From the 19th century onwards, modern commodity trading rooted itself in agricultural products such as wheat, corn, cattle, and pigs.

With the advent of the Internet, doors have been opened to retail customers to take part in various commodity markets, 24 hours a day, around the globe. New markets are even now being created by companies, such as Intrade (www.intrade.com), that allow customers to trade *any* event in the world.

The essence of a business is to make money from buying and selling goods and services between buyers and sellers. As individuals, we too are “mini-businesses”: we get up in the morning to trade our time, skill, and knowledge for a pay cheque at the end of the month. As we grow in professional experience, our responsibilities change from being workers to becoming managers – and, eventually, leaders.

One certainty for a leader is that he or she will have to lead a business through market cycles, gaining experience through the good and bad of the ups and downs of the market. It may take years for a leader to gain enough experience to lead the business successfully through these cycles.

In most instances we can only be clever after the fact – after a product has bombed in the market, or after an economic slowdown has made restructuring and lay-offs necessary.

A good leader ensures that stakeholders experience consistent wealth creation as the business experiences different market cycles.

COMMODITY TRADING

At a practical level, the business of commodity trading is easy to understand and operate. In running the business, a trader will experience “booms” and “busts” on an intraday market tick (see figure). These “booms” and “busts” cause the emotions of the trader to swing constantly between greed and fear.

It is extremely hard to do well in the commodity markets: traders need to learn to control their emotions and to do their trade consistently and rationally.



A good example of business cycles is the current boom in the property market. Many new speculators, estate agents and lenders have entered this market in the upward cycle, not knowing that it is very hard to lose money in a bull market. For the better part of the past five years, a false sense of accomplishment has been created as they have made profits with very little understanding and knowledge

of the market. Unfortunately for them, the law of nature is that what goes up must eventually come down. In all probability, very few people have defined their exit strategies for when this day arrives, and very few will survive to see the next bull market.

In contrast to this, professionals have defined exit strategies and are able to take advantage of the downturn in the market – and still make good money into the next market cycle.

In a short time span, commodity trading teaches important principles for surviving market place business cycles.

PRINCIPLES

Use market movements: Markets do not have to move according to defined causal relationships. Markets have their own energy and movement: they will move from *extreme* to *extreme*. Rather than trying to explain *why* the market moves, *use* movements to create opportunities for your business.

Have a great product: Make sure that you have a product that consistently produces good profits for the business through all business cycles. It must have an *edge* in the market place.

Make wise decisions: Making decisions in business is what leaders do. You cannot be right all the time, but when a decision produces the wrong results, have an *exit strategy* in place to take care of it.

Plan, design, and implement: You will never know everything! Start as soon as possible to engage in the real market to learn what you do not know. The *deed* rather than the *word* is priceless!

Cut your losses: Accept that markets and situations can turn *against* you and your business. Cut your losses if they do. It is good to acknowledge that you were wrong. It is bad to get stuck in a losing situation, not knowing when to get out.

Expand the business: Expanding the business from one to two customers does not imply double the effort. Complexity *grows* exponentially as volume and capacity grows in the business. Understand this and deal with it appropriately!

Stick to your game plan: Make sure that your business has a game plan that works in all business cycles. Stick to it, and do not listen to “experts” when the going gets tough. *Focus* on your plan, and trust your experience and gut feelings.

Accept that tomorrow is another day: If you are not *comfortable* about a decision or situation, let it pass. Tomorrow is another day for business and profit.

Principles define the value system of individuals. Internalising and following these principles helps them to lead a business successfully.

IN CONCLUSION

The principles presented in this article are the product of experience gained in running a commodity trading business, and come from having fast-track insight into how markets work on a daily basis.

Business is complex because it is driven by people who are emotional beings. In market movements the emotions of greed and fear are stirred, making it very difficult to be logical, consistent and rational about leadership decisions.

Leaders build a solid foundation for survival in all market cycles by acknowledging the emotions that drive our actions – but also by sticking to solid principles for business development and management.

Market movements are not new, and will continue to be part of our lives. Capitalism's first market boom was the Dutch tulip mania that started in 1633. The market went crazy as people pawned their houses and estates to buy rare tulip bulbs. And then fortunes were lost when the market crashed four years later.

We should get to know ourselves, learn from history and the world around us, and use it to build our capacity and capability as leaders. Only so will we lead our businesses to wealth creation for their stake-holders: our employees, their families, and our shareholders.

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