



MANAGEMENT TOOLS 2013

An executive's guide

Darrell K. Rigby

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Preface

Over the past few decades, management tools have become a common part of executives' lives. Whether they are trying to boost revenues, innovate, improve quality, increase efficiencies or plan for the future, executives have searched for tools to help them. The current environment of globalization, rapid technological advances and economic turbulence has increased the challenges executives face and, therefore, the need to find the right tools to meet those challenges.

To do this successfully, executives must be more knowledgeable than ever as they sort through the options and select the right management tools for their companies. The selection process itself can be as complicated as the business issues they need to solve. They must choose the tools that will best help them make the business decisions that lead to enhanced processes, products and services—and deliver superior performance and profits.

Successful use of such tools requires an understanding of the strengths and weaknesses of each, as well as an ability to creatively integrate the right tools, in the right way, at the right time. The secret is not in discovering one simple solution, but in learning which mechanisms to use, and how and when to use them. In the absence of objective data, groundless hype makes choosing and using management tools a dangerous game of chance. To help inform managers about the tools available to them, Bain & Company launched a multiyear research project in 1993 to gather facts about the use and performance of management tools. Our objective was to provide managers with:

- An understanding of how their current application of these tools and subsequent results compare with those of other organizations across industries and around the globe
- The information they need to identify, select, implement and integrate the optimal tools to improve their company's performance

Every year or two since 1993, we have conducted research to identify 25 of the most popular and pertinent management tools. In this guide, we've defined the tools and how they are used. We have determined through our research the extent to which each tool is being deployed and its rate of success. We have also conducted one-on-one follow-up interviews to learn the circumstances in which each tool is most likely to produce the desired results.

Over time, our research has provided a number of important insights. Among them:

- Overall satisfaction with tools is moderately positive, but the rates of usage, ease of implementation, effectiveness, strengths and weaknesses vary widely
- Management tools are much more effective when they are part of a major organization effort
- Managers who bounce randomly from tool to tool undermine employees' confidence
- Hyperbole surrounding the trendiest of tools often leads to unrealistic expectations and disappointing results
- Decision makers achieve better results by championing realistic strategies and viewing tools simply as a means to a strategic goal
- No tool is a cure-all

We also found two other important trends from our 2011 survey:

- Companies are focused on growth. About 65% of executives said their companies planned to focus more on growth initiatives than cost cutting—the highest percentage since we started asking the question 10 years earlier.
- Innovation continues to be a priority for executives, with 80% agreeing that innovation is more important than cost reduction for long-term success.

Detailed results from the 2011 Management Tools & Trends survey are available at www.bain.com/tools.

Our efforts to understand the continually evolving management tools landscape have led us to add four new tools to this year's guide: Big Data Analytics, Complexity Reduction, Employee Engagement Surveys and Zero-Based Budgeting. The combination of challenging economic conditions and rising growth aspirations should make our 20th anniversary of Management Tools & Trends especially interesting.

We hope that you will find this reference guide a useful tool in itself. The insights from this year's global survey and field interviews will be published separately. Survey results may be obtained beginning in March 2013 by contacting

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Balanced Scorecard

Related topics

- Management by Objectives
- Mission and Vision Statements
- Pay for Performance
- Strategic Balance Sheet

Description

A Balanced Scorecard defines an organization's performance and measures whether management is achieving desired results. The Balanced Scorecard translates Mission and Vision Statements into a comprehensive set of objectives and performance measures that can be quantified and appraised. These measures typically include the following categories of performance:

- Financial performance (revenues, earnings, return on capital, cash flow)
- Customer value performance (market share, customer satisfaction measures, customer loyalty)
- Internal business process performance (productivity rates, quality measures, timeliness)
- Innovation performance (percentage of revenue from new products, employee suggestions, rate of improvement index)
- Employee performance (morale, knowledge, turnover, use of best demonstrated practices)

Methodology

To construct and implement a Balanced Scorecard, managers should:

- Articulate the business's vision and strategy
- Identify the performance categories that best link the business's vision and strategy to its results (such as financial performance, operations, innovation, employee performance)
- Establish objectives that support the business's vision and strategy
- Develop effective measures and meaningful standards, establishing both short-term milestones and long-term targets
- Ensure companywide acceptance of the measures
- Create appropriate budgeting, tracking, communication and reward systems
- Collect and analyze performance data and compare actual results with desired performance
- Take action to close unfavorable gaps

Common uses

A Balanced Scorecard is used to:

- Clarify or update a business's strategy
- Link strategic objectives to long-term targets and annual budgets
- Track the key elements of the business strategy
- Incorporate strategic objectives into resource allocation processes
- Facilitate organizational change
- Compare performance of geographically diverse business units
- Increase companywide understanding of the corporate vision and strategy

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Benchmarking

Related topics

- Best Demonstrated Practices
- Competitor Profiles

Description

Benchmarking improves performance by identifying and applying best demonstrated practices to operations and sales. Managers compare the performance of their products or processes externally with those of competitors and best-in-class companies, and internally with other operations that perform similar activities in their own firms. The objective of Benchmarking is to find examples of superior performance and understand the processes and practices driving that performance. Companies then improve their performance by tailoring and incorporating these best practices into their own operations—not by imitating, but by innovating.

Methodology

Benchmarking involves the following steps:

- Select a product, service or process to benchmark
- Identify the key performance metrics
- Choose companies or internal areas to benchmark
- Collect data on performance and practices
- Analyze the data and identify opportunities for improvement
- Adapt and implement the best practices, setting reasonable goals and ensuring companywide acceptance

Common uses

Companies use Benchmarking to:

- **Improve performance.** Benchmarking identifies methods of improving operational efficiency and product design.
- **Understand relative cost position.** Benchmarking reveals a company's relative cost position and identifies opportunities for improvement.
- **Gain strategic advantage.** Benchmarking helps companies focus on capabilities that are critical to building strategic advantage.
- **Increase the rate of organizational learning.** Benchmarking brings new ideas into the company and facilitates experience sharing.

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Big Data Analytics

Related topics

- Business Analytics
- Business Intelligence
- Data Mining
- Predictive Analytics

Description

Big Data Analytics enables the rapid extraction, transformation, loading, search, analysis and sharing of massive data sets. By analyzing a large, integrated, real-time database rather than smaller, independent, batch-processed data sets, Big Data Analytics seeks to quickly identify previously unseen correlations and patterns to improve decision making. Although it is related to traditional Database Management and Business Intelligence systems, Big Data Analytics dramatically increases the ability to process data in four major ways:

- **Volume:** moves beyond terabytes to petabytes and exabytes
- **Velocity:** enables real-time insights and actions
- **Variety:** analyzes everything from click-stream data to video streams
- **Variability:** manages changes in data formats and information fields

The results help managers better measure and manage the most critical functions of their business.

Methodology

Companies start by identifying significant business opportunities that may be enhanced by superior data and then determine whether Big Data Analytics solutions are needed. If they are, the business will need to develop the hardware, software and talent required to capitalize on Big Data Analytics. That often requires the addition of data scientists who are skilled in asking the right questions, identifying cost-effective information sources, finding true patterns of causality and translating analytic insights into actionable business information.

To apply Big Data Analytics, companies should:

- Select a pilot (a business unit or functional group) with meaningful opportunities to capitalize on Big Data Analytics
- Establish a leadership group and team of data scientists with the skills and resources necessary to drive the effort successfully
- Identify specific decisions and actions that can be improved
- Determine the most appropriate hardware and software solutions for the targeted decisions

- Decide whether to purchase or rent the system
- Establish guiding principles such as data privacy and security policies
- Test, learn, share and refine
- Develop repeatable models and expand applications to additional business areas

Common uses

Companies typically use Big Data Analytics to:

- Improve internal processes, such as risk management, Customer Relationship Management, supply chain logistics or Web content optimization
- Improve existing products and services
- Develop new product and service offerings
- Better target their offerings to their customers
- Transform the overall business model to capitalize on real-time information and feedback

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Business Process Reengineering

Related topics

- Cycle-Time Reduction
- Horizontal Organizations
- Overhead-Value Analysis
- Process Redesign

Description

Business Process Reengineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality. In Business Process Reengineering, companies start with a blank sheet of paper and rethink existing processes to deliver more value to the customer. They typically adopt a new value system that places increased emphasis on customer needs. Companies reduce organizational layers and eliminate unproductive activities in two key areas. First, they redesign functional organizations into cross-functional teams. Second, they use technology to improve data dissemination and decision making.

Methodology

Business Process Reengineering is a dramatic change initiative that contains five major steps that managers should take:

- Refocus company values on customer needs
- Redesign core processes, often using information technology to enable improvements
- Reorganize a business into cross-functional teams with end-to-end responsibility for a process
- Rethink basic organizational and people issues
- Improve business processes across the organization

Common uses

Companies use Business Process Reengineering to improve performance substantially on key processes that affect customers by:

- **Reducing costs and cycle times.** Business Process Reengineering reduces costs and cycle times by eliminating unproductive activities and the employees who perform them. Reorganization by teams decreases the need for management layers, accelerates information flows and eliminates the errors and rework caused by multiple handoffs.
- **Improving quality.** Business Process Reengineering improves quality by reducing the fragmentation of work and establishing clear ownership of processes. Workers gain responsibility for their output and can measure their performance based on prompt feedback.

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Change Management Programs

Related topics

- Cultural Transformation
- Organizational Change
- Process Redesign

Description

Change Management Programs enable companies to control the installation of new processes to improve the realization of business benefits. These programs involve devising change initiatives, generating organizational buy-in, implementing the initiatives as seamlessly as possible and generating a repeatable model for ensuring continued success in future change efforts. A Change Management Program allows leaders to help people succeed, showing where and when trouble is likely to occur, and laying out a strategy for mitigating risks and monitoring progress.

Methodology

Change Management Programs require managers to:

- **Focus on results.** Maintain a goal-oriented mindset by establishing clear, nonnegotiable goals and designing incentives to ensure these goals are met.
- **Overcome barriers to change.** Identify employees who are most affected and also work to predict, measure and manage the risk of change.
- **Repeatedly communicate simple, powerful messages to employees.** In times of change, alter communication frequency and the methods to manage how a shaken workforce perceives and reacts to information:
 - **Ensure sponsorship throughout the organization.** To allow sponsorship to reach all levels of the organization, enlist multiple sponsors to provide all individuals with access to—and the influence of—a sponsor.
 - **Reorganize around decision making.** Develop a system for identifying, making and executing the most important decisions.
- **Continuously monitor progress.** Follow through and monitor the progress of each change initiative to tell if it is following the intended path or veering off course.

Common uses

Companies use a Change Management Program to:

- Implement major strategic initiatives to adapt to changes in markets, customer preferences, technologies or the competition's strategic plans
- Align and focus an organization when going through a major turnaround
- Implement new process initiatives

Selected references

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Complexity Reduction

Related topics

- Business Process Reengineering
- Decision Rights Tools
- Focused Strategy
- Repeatable Models
- Spans and Layers

Description

Complexity Reduction helps companies simplify their strategy, organization, products, processes and information technology. Reduction in any of these areas opens up opportunities for simplification in others. Unwieldy complexity often results from business expansions or bureaucracies that unnecessarily complicate a company's operating model, leading to sluggish growth, higher costs and poor returns. Complexity Reduction finds inflection points where products or services fully meet customer needs at the lowest costs. By streamlining product lines, for example, companies may be able to simplify organization structures and decision making to serve their core customers better while also reducing demands on business processes and information systems.

Methodology

Complexity Reduction requires managers to:

- Understand the sources of complexity and examine trade-offs between operations and variety or customization for customers
- Identify opportunities to simplify products, organization structures, business processes and information systems to save costs while strengthening core capabilities and increasing the focus on customers
- Take steps to stem the return of complexity by reexamining the hurdle rates for new products and other expansion activities
- Simplify decision making by clarifying roles and processes

Complexity Reduction helps reveal hidden costs and allows companies to determine which products are making money, what customers really value and which organizational or process bottlenecks are getting in the way of effective actions, setting the stage for greater growth and increased profits.

Common uses

Companies typically use Complexity Reduction to:

- Identify and strengthen core capabilities
- Build the business around customer needs
- Create a disciplined approach to releasing new products or services and trimming those that customers no longer value
- Design an organizational structure to support critical decisions
- Maximize process efficiency
- Align information systems with business objectives

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Core Competencies

Related topics

- Core Capabilities
- Key Success Factors

Description

A Core Competency is a deep proficiency that enables a company to deliver unique value to customers. It embodies an organization's collective learning, particularly of how to coordinate diverse production skills and integrate multiple technologies. Such a Core Competency creates sustainable competitive advantage for a company and helps it branch into a wide variety of related markets. Core Competencies also contribute substantially to the benefits a company's products offer customers. The litmus test for a Core Competency? It's hard for competitors to copy or procure. Understanding Core Competencies allows companies to invest in the strengths that differentiate them and set strategies that unify their entire organization.

Methodology

To develop Core Competencies a company must take these actions:

- Isolate its key abilities and hone them into organization-wide strengths
- Compare itself with other companies with the same skills to ensure that it is developing unique capabilities
- Develop an understanding of what capabilities its customers truly value, and invest accordingly to develop and sustain valued strengths
- Create an organizational road map that sets goals for competence building
- Pursue alliances, acquisitions and licensing arrangements that will further build the organization's strengths in core areas
- Encourage communication and involvement in core capability development across the organization
- Preserve core strengths even as management expands and redefines the business
- Outsource or divest non-core capabilities to free up resources that can be used to deepen core capabilities

Common uses

Core Competencies capture the collective learning in an organization. They can be used to:

- Design competitive positions and strategies that capitalize on corporate strengths

Selected references

- Unify the company across business units and functional units, and improve the transfer of knowledge and skills among them
- Help employees understand management's priorities
- Integrate the use of technology in carrying out business processes
- Decide where to allocate resources
- Make Outsourcing, divestment and partnering decisions
- Widen the domain in which the company innovates, and spawn new products and services
- Invent new markets and quickly enter emerging markets
- Enhance image and build customer loyalty

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Customer Relationship Management

Related topics

- Collaborative Commerce
- Customer Retention
- Customer Segmentation
- Customer Surveys
- Loyalty Management Tools

Description

Customer Relationship Management (CRM) is a process companies use to understand their customer groups and respond quickly—and at times, instantly—to shifting customer desires. CRM technology allows firms to collect and manage large amounts of customer data and then carry out strategies based on that information. Data collected through focused CRM initiatives helps firms solve specific problems throughout their customer relationship cycle—the chain of activities from the initial targeting of customers to efforts to win them back for more. CRM data also provides companies with important new insights into customers’ needs and behaviors, allowing them to tailor products to targeted customer segments. Information gathered through CRM programs often generates solutions to problems outside a company’s marketing functions, such as Supply Chain Management and new product development.

Methodology

CRM requires managers to:

- Start by defining strategic “pain points” in the customer relationship cycle. These are problems that have a large impact on customer satisfaction and loyalty, where solutions would lead to superior financial rewards and competitive advantage.
- Evaluate whether—and what kind of—CRM data can fix those pain points. Calculate the value that such information would bring the company.
- Select the appropriate technology platform, and calculate the cost of implementing it and training employees to use it.
- Assess whether the benefits of the CRM information outweigh the expense involved.
- Design incentive programs to ensure that personnel are encouraged to participate in the CRM program. Many companies have discovered that realigning the organization away from product groups and toward a customer-centered structure improves the success of CRM.
- Measure CRM progress and impact. Aggressively monitor participation of key personnel in the CRM program. In addition, put measurement systems in place to track the improvement in customer profitability with the use of CRM. Once

the data is collected, share the information widely with employees to encourage further participation in the program.

Common uses

Companies can wield CRM to:

- Gather market research on customers, in real time if necessary
- Generate more reliable sales forecasts
- Coordinate information quickly between sales staff and customer support reps, increasing their effectiveness
- Enable sales reps to see the financial impact of different product configurations before they set prices
- Accurately gauge the return on individual promotional programs and the effect of integrated marketing activities, and redirect spending accordingly
- Feed data on customer preferences and problems to product designers
- Increase sales by systematically identifying and managing sales leads
- Improve customer retention
- Design effective customer service programs

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Customer Segmentation

Related topics

- Customer Surveys
- Market Segmentation
- One-to-One Marketing

Description

Customer Segmentation is the subdivision of a market into discrete customer groups that share similar characteristics. Customer Segmentation can be a powerful means to identify unmet customer needs. Companies that identify underserved segments can then outperform the competition by developing uniquely appealing products and services. Customer Segmentation is most effective when a company tailors offerings to segments that are the most profitable and serves them with distinct competitive advantages. This prioritization can help companies develop marketing campaigns and pricing strategies to extract maximum value from both high- and low-profit customers. A company can use Customer Segmentation as the principal basis for allocating resources to product development, marketing, service and delivery programs.

Methodology

Customer Segmentation requires managers to:

- Divide the market into meaningful and measurable segments according to customers' needs, their past behaviors or their demographic profiles
 - Determine the profit potential of each segment by analyzing the revenue and cost impacts of serving each segment
 - Target segments according to their profit potential and the company's ability to serve them in a proprietary way
 - Invest resources to tailor product, service, marketing and distribution programs to match the needs of each target segment
 - Measure performance of each segment and adjust the segmentation approach over time as market conditions change
- decision making throughout the organization

Common uses

Companies can use Customer Segmentation to:

- Prioritize new product development efforts
- Develop customized marketing programs
- Choose specific product features
- Establish appropriate service options
- Design an optimal distribution strategy
- Determine appropriate product pricing

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Decision Rights Tools

Related topics

- Governance Roles
- Job Descriptions
- Organization Design

Description

Decision Rights Tools help companies to organize their decision making and execution by setting clear roles and accountabilities and by giving all those involved a sense of ownership of decisions: when to provide input, who should follow through and what is beyond their scope. Clear decision rights allow companies to cut through the complexity, often clouding today's global structures by ensuring that critical decisions are made promptly and well and result in effective actions.

Methodology

Each person involved in the decision-making process should be assigned one of the five decision-making roles:

- **Recommend:** Recommenders gather and assess the relevant facts, obtaining input from appropriate parties, and then recommend a decision or action.
- **Agree:** Agreers formally approve a recommendation and can delay it if more work is required.
- **Perform:** Performers are accountable for making a decision happen once it's been made.
- **Input:** Inputers combine facts and judgment to provide input into a recommendation.
- **Decide:** Deciders make the ultimate decision and commit the organization to action.

These assignments should factor in the following:

- Each decision should have only one Decider with single-point accountability
- Each decision has one individual who leads the process to develop a recommendation, factoring in all relevant input
- Agree roles should be used sparingly, typically only in extraordinary circumstances (e.g., regulatory or legal issues), otherwise they undermine speed and authority
- Input roles should be assigned only to those with knowledge, experience or access to resources that are so important for a good decision that it would be irresponsible for the decision maker not to seek their input
- Consider soliciting input from those with Perform roles in order to engage early, identify implementation issues and enable upfront planning

Common uses

Decision Rights Tools allow companies to:

- Eliminate decision bottlenecks, such as those that often occur between the center vs. business units, global vs. regional vs. local units and different functions
- Make higher-quality decisions
- Make faster decisions resulting in faster operational performance (such as product development, international rollout and so on)
- Create a healthy debate on critical decisions, but through processes that feel productive, with minimal frustration
- Have agility and flexibility in decision making and execution to respond to dynamic circumstances
- Provide a common vocabulary to discuss decisions in a constructive manner across units

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Downsizing

Related topics

- Layoffs
- Reengineering
- Rightsizing

Description

In the face of slowing or declining sales, companies often downsize their employee base as a means of cutting costs to boost profitability. Although Downsizing is effective for significant cost reduction, it often produces unintended side effects, such as damaged employee morale, poor public relations, future rightsizing hiring costs and an inability to capitalize quickly on opportunities when the economy improves. Skillful Downsizing should help a company emerge from challenging economic conditions in stronger shape. Creative efforts to avoid Downsizing include hiring freezes, salary cuts or freezes, shortened workweeks, restricted overtime hours, unpaid vacations and temporary plant closures. When Downsizing proves unavoidable, the ultimate goal should be to eliminate nonessential company resources while minimizing the negative impact on the remaining organization.

Methodology

Downsizing can be effective if it is implemented appropriately. Companies must be careful to avoid sending the wrong messages to employees, shareholders and the media. Successful Downsizing requires managers to:

- **Evaluate the overall impact of Downsizing.** The total cost of Downsizing—including both financial and nonfinancial costs—must be taken into account. Managers must calculate the present value of all costs and benefits associated with the cuts, including severance packages, lower employee productivity due to disorder or talent loss, eventual rehiring expenses, future rightsizing costs and the lost opportunity costs associated with not having the appropriate manpower to accelerate out of the downturn. Investing in areas customers care about—while competitors are cutting back—helps position the company to take or sustain the lead once conditions improve. The value created from Downsizing should exceed the cost of lower employee morale and potential damage to the company's reputation.

- **Develop a smooth Downsizing process.** It is crucial that managers invest aggressively in upfront planning for the job cuts. A company typically forms a committee to determine the appropriate level of Downsizing and creates a process that takes into account the best interests of the company and the shareholders. Other important activities are training managers to conduct layoffs and assisting former employees in their job searches.

Common uses

Downsizing can be used to:

- Reduce costs
- Rightsize resources relative to market demand
- Signal that the company is taking proactive steps to adjust to changing business needs
- Take advantage of cost synergies after a merger
- Release the least productive resources

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Employee Engagement Surveys

Related topics

- Employee Satisfaction
- Empowerment
- Human Resource Management
- Organizational Commitment

Description

Employee Engagement Surveys measure whether employees are fully involved and enthusiastic about their work and company. Intellectually and emotionally engaged employees help to create satisfied, more loyal customers and improved business performance. Employee Engagement Surveys gauge the degree of employees' attachment to their jobs, colleagues and organization, helping to determine their willingness to go beyond the basic parameters of their job. They can also be used to understand what factors have the greatest impact on engaging employees and to predict employee retention. Employee Engagement Surveys are closely linked to customer engagement and are measured in similar ways.

Methodology

Employee Engagement Surveys help companies identify and build on the strengths and talents of their workforces to gain a competitive edge. Managers should:

- Evaluate a variety of data sources to understand key drivers of engagement. Key data sources often include anonymous surveys, employee suggestions, predictive modeling based on previous surveys, in-depth discussions with employees at all levels and social media. Engagement motivators usually include employee satisfaction with the impact of their work, rewards, relationships, values, mission, sustainability and working environment.
- Translate key engagement motivators into a short survey that respects employees' time and yields the most important insights.
- Conduct the surveys frequently enough to generate a steady stream of information about engagement levels and ideas for improvement.
- Make sure employee engagement is a top priority for front-line managers and employees themselves, with reliable procedures for quickly responding to feedback and developing solutions to key issues.

Common uses

Companies use Employee Engagement Surveys to:

- Develop more productive, satisfied and motivated employees by instilling a sense of purpose and autonomy, as well as a strong affiliation with the company and its offerings
- Create an emotionally safe environment, with the right tools to perform work for fair compensation
- Understand what investments will have the greatest impact on employee engagement
- Cultivate more satisfied and loyal customers by improving employee engagement and overall business performance
- Increase workforce retention, reducing the costs of turn-over and training

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Mergers and Acquisitions

Related topics

- Merger Integration Teams
- Strategic Alliances

Description

Over the past decade, Mergers and Acquisitions (M&As) have reached unprecedented levels as companies use corporate financing strategies to maximize shareholder value and create a competitive advantage. Acquisitions occur when a larger company takes over a smaller one; a merger typically involves two relative equals joining forces and creating a new company. Most Mergers and Acquisitions are friendly, but a hostile takeover occurs when the acquirer bypasses the board of the targeted company and purchases a majority of the company's stock on the open market. A merger is considered a success if it increases shareholder value faster than if the companies had remained separate. Because corporate takeovers and mergers can reduce competition, they are heavily regulated, often requiring government approval. To increase the chances of a deal's success, acquirers need to perform rigorous due diligence—a review of the targeted company's assets and performance history—before the purchase to verify the company's standalone value and unmask problems that could jeopardize the outcome.

Methodology

Successful integration requires understanding how to make trade-offs between speed and careful planning and involves these steps:

- Set integration priorities based on the merger's strategic rationale and goals
- Articulate and communicate the deal's vision by merger leaders
- Design the new organization and operating plan
- Customize the integration plan to address specific challenges: act quickly to capture economies of scale while redefining a business model; and sacrifice speed to get the model right, such as understanding brand positioning and product growth opportunities
- Aggressively implement the integration plan: by Day 100, the merged company should be operating and contributing value

Common uses

Mergers are used to increase shareholder value in the following ways:

- Reduce costs by combining departments and operations, and trimming the workforce
- Increase revenue by absorbing a major competitor and winning more market share
- Cross-sell products or services

Selected references

- Create tax savings when a profitable company buys a money-loser
- Diversify to stabilize earning results and boost investor confidence

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Mission and Vision Statements

Related topics

- Corporate Values Statements
- Cultural Transformation
- Strategic Planning

Description

A Mission Statement defines the company's business, its objectives and its approach to reach those objectives. A Vision Statement describes the desired future position of the company. Elements of Mission and Vision Statements are often combined to provide a statement of the company's purposes, goals and values. However, sometimes the two terms are used interchangeably.

Methodology

Typically, senior managers will write the company's overall Mission and Vision Statements. Other managers at different levels may write statements for their particular divisions or business units. The development process requires managers to:

- Clearly identify the corporate culture, values, strategy and view of the future by interviewing employees, suppliers and customers
- Address the commitment the firm has to its key stakeholders, including customers, employees, shareholders and communities
- Ensure that the objectives are measurable, the approach is actionable and the vision is achievable
- Communicate the message in clear, simple and precise language
- Develop buy-in and support throughout the organization

Common uses

Mission and Vision Statements are commonly used to:

Internally

- Guide management's thinking on strategic issues, especially during times of significant change
- Help define performance standards
- Inspire employees to work more productively by providing focus and common goals
- Guide employee decision making
- Help establish a framework for ethical behavior

Externally

- Enlist external support
- Create closer linkages and better communication with customers, suppliers and alliance partners
- Serve as a public relations tool

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Open Innovation

Related topics

- Collaborative Innovation
- Crowdsourcing
- New Product Development
- Open-Market Innovation

Description

Open Innovation applies the principles of free trade to innovation, advancing new ideas through the use of tools such as partnerships, joint ventures, licensing and Strategic Alliances. By collaborating with outsiders—including customers, vendors and even competitors—Open Innovation enables the laws of comparative advantage to drive the efficient allocation of R&D resources. By reaching beyond corporate borders, a company can import lower-cost, higher-quality ideas from a wide array of world-class experts to improve the speed, quality and cost of innovation. This approach allows the business to refocus its own innovation resources where it has clear competitive advantages. Ideas also are exported to businesses that can put them to better use.

Methodology

Open Innovation requires a company to take these steps:

- **Focus resources on its core innovation advantages.** Allocate resources to the opportunities with the best potential to strengthen the core businesses, reduce R&D risks and raise the returns on innovation capital.
- **Improve the circulation of innovation ideas.** Develop information systems to capture insights, minimize duplicate efforts and advance teamwork.
- **Increase innovation imports.** Gain access to valuable new ideas, complement core innovation advantages, improve the company's collaborative abilities and build its reputation as an innovative partner.
- **Increase innovation exports.** Establish incentives and processes to assess objectively the fair market value of innovations. Carefully structure joint ventures and Strategic Alliances to protect the company's rights, raise additional cash and strengthen relationships with trading partners.

Common uses

Companies use Open Innovation to:

- Clarify core competencies
- Maximize the productivity of new product development without increasing R&D budgets
- Decide quickly and efficiently whether to buy or sell patents and other intellectual capital
- Promote faster, higher-quality innovations

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Outsourcing

Related topics

- Collaborative Commerce
- Core Capabilities
- Offshoring
- Strategic Alliances
- Value-Chain Analysis

Description

When Outsourcing, a company uses third parties to perform non-core business activities. Contracting third parties enables a company to focus its efforts on its core competencies. Third parties that specialize in an activity are likely to be lower cost and more effective, given their focus and scale. Through Outsourcing, a company can access the state of the art in all of its business activities without having to master each one internally.

Methodology

When Outsourcing, take the following steps:

- **Determine whether the activity to outsource is a Core Competency.** In most cases, it is unwise to outsource something that creates a unique competitive advantage.
- **Evaluate the financial impact of Outsourcing.** Outsourcing likely offers cost advantages if a vendor can realize economies of scale. A complete financial analysis should include the impact of increased flexibility and productivity or decreased time to market.
- **Assess the nonfinancial costs and advantages of Outsourcing.** Managers will also want to qualitatively assess the benefits and risks of Outsourcing. Benefits include the ability to leverage the outside expertise of a specialized outsourcer and the freeing up of resources devoted to non-core business activities. A key risk is the growing dependence a company might place on an outsourcer, thus limiting future flexibility.
- **Choose an Outsourcing partner and contract the relationship.** Candidates should be qualified and selected according to both their demonstrated effectiveness and their ability to work collaboratively. The contract should include clearly established performance guidelines and measures.

Common uses

Companies use Outsourcing to:

- Reduce operating costs
- Instill operational discipline
- Increase manufacturing productivity and flexibility
- Leverage the expertise and innovation of specialized firms
- Encourage use of best demonstrated practices for internal activities

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- Avoid capital investment, particularly under uncertainty
- Release resources—people, capital and time—to focus on core competencies

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Price Optimization Models

Related topics

- Demand-Based Management
- Pricing Strategy
- Revenue Enhancement

Description

Price Optimization Models are mathematical programs that calculate how demand varies at different price levels then combine that data with information on costs and inventory levels to recommend prices that will improve profits. The modeling allows companies to use pricing as a powerful profit lever, which often is underdeveloped. Price Optimization Models can be used to tailor pricing for customer segments by simulating how targeted customers will respond to price changes with data-driven scenarios. Given the complexity of pricing thousands of items in highly dynamic market conditions, modeling results and insights helps to forecast demand, develop pricing and promotion strategies, control inventory levels and improve customer satisfaction.

Methodology

Price Optimization Models should factor in three critical pricing elements: pricing strategy, the value of the product to both buyer and seller, and tactics that manage all elements affecting profitability. Practitioners should:

- Select the preferred optimization model, and determine desired outputs and required inputs
- Collect historical data, including product volumes, the company's prices and promotions, competitors' prices, economic conditions, product availability, seasonal conditions, and fixed and variable cost details
- Clarify the business's value proposition and set strategic rules to guide the modeling process
- Load, run and revise the model
- Establish decision-making processes that incorporate modeling results without alienating key decision makers
- Monitor results and upgrade data input to continuously improve modeling accuracy

Common uses

Price Optimization Models help businesses determine initial pricing, promotional pricing and markdown (or discount) pricing:

- Initial price optimization works well for companies with a stable base of long life-cycle products—grocery stores, drug chains, office-supply stores and commodities manufacturers
- Promotional price optimization helps set temporary prices to spur sales of items with long life cycles—newly introduced products, products bundled together in special promotions and loss leaders
- Markdown optimization helps businesses selling short life-cycle products subject to fashion trends and seasonality—airlines, hotels, specialty retailers and mass merchants

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Satisfaction and Loyalty Management

Related topics

- Customer and Employee Surveys
- Customer Loyalty and Retention
- Customer Relationship Management
- Net Promoter® Scores
- Revenue Enhancement

Description

Loyalty Management tools grow a business's revenues and profits by improving retention among its customers, employees and investors. Loyalty programs measure and track the loyalty of those groups, diagnose the root causes of defection among them and develop ways not only to boost their allegiance, but also to turn them into advocates for the company. Satisfaction and Loyalty Management quantifiably links financial results to changes in retention rates, maintaining that even small shifts in retention can yield significant changes in company profit performance and growth.

Methodology

A comprehensive Satisfaction and Loyalty Management program requires companies to:

- Regularly assess current loyalty levels through surveys and behavioral data. The most effective approaches distinguish mere satisfaction from true loyalty. They ask current customers how likely they would be to recommend the company to a friend or a colleague, and also ask frontline employees whether they believe the organization deserves their loyalty.
- Benchmark current loyalty levels against those of competitors.
- Identify the few dimensions of performance that matter most to customers and employees, and track them rigorously.
- Systematically communicate survey feedback throughout the organization.
- Build loyalty and retention targets into the company's incentive, planning and budgeting systems.
- Develop new programs to reduce customer and employee churn rates.
- Revise policies that drive short-term results at the expense of long-term loyalty, such as high service fees and discounts given only to new customers.
- Reach out to investors and suppliers to learn what drives their loyalty.

Net Promoter® is a registered trademark of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Common uses

Well-executed Satisfaction and Loyalty Management programs enable companies to:

- Build lasting relationships with customers who contribute the most to profitability, and capture a larger share of their business
- Generate sales growth by increasing referrals from customers and employees
- Attract and retain employees whose skills, knowledge and relationships are essential to superior performance
- Improve productivity, and decrease recruitment and training costs
- Strategically align the interests and energies of employees, customers, suppliers and investors in a self-reinforcing cycle
- Improve long-term financial performance and shareholder value

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Scenario and Contingency Planning

Related topics

- Crisis Management
- Disaster Recovery
- Groupthink
- Real-Options Analysis
- Simulation Models

Description

Scenario Planning allows executives to explore and prepare for several alternative futures. It examines the outcomes a company might expect under a variety of operating strategies and economic conditions. Contingency Planning assesses what effect sudden market changes or business disruptions might have on a company and devises strategies to deal with them. Scenario and contingency plans avoid the dangers of simplistic, one-dimensional or linear thinking. By raising and testing various “what-if” scenarios, managers can brainstorm together and challenge their assumptions in a nonthreatening, hypothetical environment before they decide on a certain course of action. Scenario and Contingency Planning allows management to pressure-test plans and forecasts, and equips the company to handle the unexpected.

Methodology

Key steps in a Scenario and Contingency Planning process are:

- Choose a time frame to explore
- Identify the current assumptions and thought processes of key decision makers
- Create varied, yet plausible, scenarios
- Test the impact of key variables in each scenario
- Develop action plans based on either the most promising solutions or the most desirable outcome the company seeks
- Monitor events as they unfold to test the company’s strategic direction
- Be prepared to change course if necessary

Common uses

By using Scenario and Contingency Planning, a company can:

- Achieve a higher degree of organizational learning
- Raise and challenge both implicit and widely held beliefs and assumptions about the business and its strategic direction
- Identify key levers that can influence the company’s future course
- Turn long-range planning into a vital, shared experience
- Develop a clearer view of the future
- Incorporate globalization and change management into strategic analysis

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Social Media Programs

Related topics

- Blogs
- Multimedia Chat Rooms
- Online Communities
- Social Gaming Networks

Description

Social Media Programs allow individuals and organizations to interact with their employees, friends, customers and partners electronically across a range of devices. Social Media is rapidly changing and is used for four primary purposes: communication (driving awareness, sharing content and providing customer service), commerce (selling products directly and getting referrals), collaboration (sharing ideas and getting feedback) and communities (fostering connection with the company and within customer and employee groups). Social Media options include everything from online community pages and microblogging platforms to company-operated websites and forums to social gaming.

Methodology

To use Social Media effectively, managers need to take the following steps:

- **Understand what Social Media tools your customers are using.** Determine what they are saying about you.
- **Decide which additional tools are most valuable.** Prioritize the four primary purposes and determine which Social Media tools to apply to which purposes in collaboration with which partners.
- **Deploy Social Media tools across all aspects of the customer experience.** Attract and retain customers by allowing them to share and rate new products, make purchases or receive advice from the company about using the product.
- **Develop testing and learning capabilities.** Use customer feedback to improve services and increase loyalty. Develop insights into customer behaviors and needs with research and analytics.
- **Integrate targeted messages.** Ensure that Social Media methods and messages are consistent with the company's brand positioning and other marketing campaigns.
- **Promote the new tools.** Raise awareness of new tools with customers, employees and other targeted audiences.

Common uses

Companies use Social Media to:

- Strengthen branding
- Communicate with customers and employees
- Generate product awareness
- Sell products
- Obtain referrals
- Share ideas
- Solicit feedback
- Build communities

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Strategic Alliances

Related topics

- Corporate Venturing
- Joint Ventures
- Value-Managed Relationships
- Virtual Organizations

Description

Strategic Alliances are agreements among firms in which each commits resources to achieve a common set of objectives. Companies may form Strategic Alliances with a wide variety of players: customers, suppliers, competitors, universities or divisions of government. Through Strategic Alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills and share the risk or cost of major development projects.

Methodology

To form a Strategic Alliance, companies should:

- Define their business vision and strategy in order to understand how an alliance fits their objectives
- Evaluate and select potential partners based on the level of synergy and the ability of the firms to work together
- Develop a working relationship and mutual recognition of opportunities with the prospective partner
- Negotiate and implement a formal agreement that includes systems to monitor performance

Common uses

Strategic Alliances are formed to:

- Reduce costs through economies of scale or increased knowledge
- Increase access to new technology
- Inhibit competitors
- Enter new markets
- Reduce cycle time
- Improve research and development efforts
- Improve quality

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Strategic Planning

Related topics

- Core Competencies
- Mission and Vision Statements
- Scenario and Contingency Planning

Description

Strategic Planning is a comprehensive process for determining what a business should become and how it can best achieve that goal. It appraises the full potential of a business and explicitly links the business's objectives to the actions and resources required to achieve them. Strategic Planning offers a systematic process to ask and answer the most critical questions confronting a management team—especially large, irrevocable resource commitment decisions.

Methodology

A successful Strategic Planning process should:

- Describe the organization's mission, vision and fundamental values
- Target potential business arenas and explore each market for emerging threats and opportunities
- Understand the current and future priorities of targeted customer segments
- Analyze the company's strengths and weaknesses relative to competitors and determine which elements of the value chain the company should make vs. buy
- Identify and evaluate alternative strategies
- Develop an advantageous business model that will profitably differentiate the company from its competitors
- Define stakeholder expectations and establish clear and compelling objectives for the business
- Prepare programs, policies and plans to implement the strategy
- Establish supportive organizational structures, decision processes, information and control systems, and hiring and training systems
- Allocate resources to develop critical capabilities
- Plan for and respond to contingencies or environmental changes
- Monitor performance

Common uses

Strategic Planning processes are often implemented to:

- Change the direction and performance of a business
- Encourage fact-based discussions of politically sensitive issues
- Create a common framework for decision making in the organization

Selected references

- Set a proper context for budget decisions and performance evaluations
- Train managers to develop better information to make better decisions
- Increase confidence in the business's direction

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Supply Chain Management

Related topics

- Borderless Corporation
- Collaborative Commerce
- Value-Chain Analysis

Description

Supply Chain Management synchronizes the efforts of all parties—suppliers, manufacturers, distributors, dealers, customers and so on—involved in meeting a customer’s needs. The approach often relies on technology to enable seamless exchanges of information, goods and services across organizational boundaries. It forges much closer relationships among all links in the value chain in order to deliver the right products to the right places at the right times for the right costs. The goal is to establish such strong bonds of communication and trust among all parties that they can effectively function as one unit, fully aligned to streamline business processes and achieve total customer satisfaction.

Methodology

Companies typically implement Supply Chain Management in four stages:

- Stage One seeks to increase the level of trust among vital links in the supply chain. Managers learn to treat former adversaries as valuable partners. This stage often leads to longer commitments with preferred partners.
- Stage Two increases the exchange of information. It creates more accurate, up-to-date knowledge of demand forecasts, inventory levels, capacity utilization, production schedules, delivery dates and other data that could help supply chain partners improve performance.
- Stage Three expands efforts to manage the supply chain as one overall process rather than dozens of independent functions. It leverages the core competencies of each player, automates information exchange, changes management processes and incentive systems, eliminates unproductive activities, improves forecasting, reduces inventory levels, cuts cycle times and involves customers more deeply in the Supply Chain Management process.
- Stage Four identifies and implements radical ideas to transform the supply chain completely and deliver customer value in unprecedented ways.

Common uses

Recognizing that value is leaking out of the supply chain, but that only limited improvement can be achieved by any single company, managers turn to Supply Chain Management to help them deliver products and services faster, better and less expensively.

Supply Chain Management capitalizes on many trends that have changed worldwide business practices, including just-in-time (JIT) inventories, electronic data interchange (EDI), Outsourcing of non-core activities, supplier consolidation and globalization.

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Total Quality Management

Related topics

- Continuous Improvement
- Malcolm Baldrige National Quality Award
- Quality Assurance
- Six Sigma

Description

Total Quality Management (TQM) is a systematic approach to quality improvement that marries product and service specifications to customer performance. TQM then aims to produce these specifications with zero defects. This creates a virtuous cycle of continuous improvement that boosts production, customer satisfaction and profits.

Methodology

In order to succeed, TQM programs require managers to:

Assess customer requirements

- Understand present and future customer needs
- Design products and services that cost-effectively meet or exceed those needs

Deliver quality

- Identify the key problem areas in the process and work on them until they approach zero-defect levels
- Train employees to use the new processes
- Develop effective measures of product and service quality
- Create incentives linked to quality goals
- Promote a zero-defect philosophy across all activities
- Encourage management to lead by example
- Develop feedback mechanisms to ensure continuous improvement

Common uses

TQM improves profitability by focusing on quality improvement and addressing associated challenges within an organization. TQM can be used to:

- Increase productivity
- Lower scrap and rework costs
- Improve product reliability
- Decrease time-to-market cycles
- Decrease customer service problems
- Increase competitive advantage

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Zero-Based Budgeting

Related topics

- Activity-Based Budgeting
- Complexity Reduction
- Cost-Benefit Analysis
- Performance Budgeting

Description

Zero-Based Budgeting is a broad-reaching cost transformation effort that takes a “blank sheet of paper” approach to resource planning. It differs from traditional budgeting processes by examining all expenses for each new period, not just incremental expenditures in obvious areas. Zero-Based Budgeting forces managers to scrutinize all spending and requires justifying every expense item that should be kept. It allows companies to radically redesign their cost structures and boost competitiveness. Zero-Based Budgeting analyzes which activities should be performed at what levels and frequency and examines how they could be better performed—potentially through streamlining, standardization, Outsourcing, offshoring or automation. The process is helpful for aligning resource allocations with strategic goals, although it can be time-consuming and difficult to quantify the returns on some expenditures, such as basic research.

Methodology

For Zero-Based Budgeting, companies should take the following steps:

- Re-envision the business and ask what activities and resources will truly be needed to compete under future market conditions, then set a clear strategic vision and cost target
- Build a comprehensive fact base of current offerings, functions and expenses
- Use a “blank sheet of paper” approach to build the ideal state and identify vital initiatives
- Build the future state, bottom up, by justifying what activities should be performed
- Reset budgets and full-time employee levels, redesigning the organization and planning for implementation

Common uses

Zero-Based Budgeting is used to:

- Confront conventional thinking and resource allocations by challenging every line item and assumption, including the most sacred of cows
- Help organizations that are overly complex due to mergers or acquisitions
- Fund key strategic imperatives while removing large non-value-adding costs
- Align resources with the mission of the function and enterprise
- Justify proposed activities and resources

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