Management Tools 2007

An Executive's Guide

Darrell K. Rigby

BAIN & COMPANY

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Preface

For two decades now, executives have witnessed an explosion of management tools, ranging from Knowledge Management to Strategic Alliances. That burst was fueled by their need to successfully navigate an increasingly competitive marketplace. With operations spanning the globe, companies have become more complex, adding to the challenging decisions corporate leaders face. Fortunately, they now have an expanded toolset at their fingertips, thanks to the emergence of faster, less expensive information delivery systems.

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 business decisions that lead to enhanced processes, products and services—and result in superior performance and profits.

Successful use of such tools requires understanding the strengths and weaknesses of each tool, 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 magic device, but in learning which mechanism to use, how to use it, and when. 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, in 1993 Bain & Company launched a multiyear research project 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 right tools to improve their company's performance.

Every year or two since, we've interviewed senior managers and conducted research to identify 25 of the most popular and pertinent management tools. We've defined the tools in this guide and, based on a detailed survey of managers, we explain how the tools are being used. We determine the rate of success for each tool. We also conduct 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:

- Overall, satisfaction with tools is moderately positive, but the rates of use, ease of implementation, effectiveness, strengths and weaknesses vary widely;
- Management tools are much more successful when they are a part of a major organizational effort;
- Managers who promote fad tools undermine employees' confidence. Decision makers achieve better results by championing realistic strategies and viewing tools as simply a means to achieving a strategic goal;
- No tool is a silver bullet.

We also found some new trends from the 2005 survey:

- Executives are spending more time thinking about customers—how to acquire them and how to keep them—and then satisfying and delighting them;
- There is an increased sense that goods and services are becoming commodities, causing managers to search for more effective ways to innovate;
- Global competition continues to be fierce, which is a major reason for the growing interest in management tools. Those companies searching to finance growth through customer satisfaction and innovation continue to look for ways to cut costs;
- Tools with strong technology components are coming of age.

Detailed results from the 2005 Management Tools survey are available at www.bain.com/tools.

Our efforts to understand the continually evolving management tools landscape have led us to add five tools to this year's guide—Consumer Ethnography, Corporate Blogs, Lean Operations, Mergers and Acquisitions and Shared Service Centers. While none is new, per se, each tool is growing in use and playing an increasingly important role in today's business world.

We hope 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 and additional copies of this guide may be purchased by calling or writing to:

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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 what management means by "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 (percent 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 (e.g., 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 within their own firms that perform similar activities. The objective of Benchmarking is to find examples of superior performance and to 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 company-wide 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 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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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. Managers should:

- 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 substantially improve performance on key processes that impact customers. Business Process Reengineering can:

- *Reduce costs and cycle time.* 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;
- *Improve 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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Collaborative Innovation

Related topics

- New Product Development
- Open Innovation
- Open-Market Innovation

Description

Collaborative Innovation applies the principles of free trade to the marketplace for new ideas, enabling the laws of comparative advantage to drive the efficient allocation of R&D resources. By collaborating with outsiders—including customers, vendors and even competitors—a company is able to import lower-cost, higher-quality ideas from the best sources in the world. This discipline allows the business to refocus its own innovation resources where it has clear competitive advantages. The company is also able to export ideas that other businesses could put to better use, raising cash for additional innovation investments.

Methodology

Collaborative Innovation requires corporations to:

- *Focus resources on core innovation advantages.* Allocate resources to the highest-potential opportunities in order to strengthen core businesses, reduce R&D risks and increase innovation capital;
- *Improve innovation circulation.* Build information systems to capture insights, minimize duplication of efforts, improve teamwork and increase the speed of innovation;
- *Increase innovation imports.* Access world-class ideas, complement core innovation advantages and strengthen the company's cooperative abilities and its reputation;
- *Increase innovation exports.* Establish incentives and processes to objectively assess the fair market value of innovations, raise incremental cash and strengthen relationships with trading partners.

Common uses

Companies use Collaborative Innovation to:

- Clarify core innovation competencies;
- Maximize the productivity of new product development without increasing R&D budgets;
- Decide quickly whether to pursue or sell patents and other intellectual capital;
- Increase the speed and quality of new product introductions.

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Consumer Ethnography

Related topics

- Corporate Anthropology
- Day-in-the-life Ethnographies
- Observational Research
- Slice-of-Life Research
- Voice of the Customer

Description

Consumer Ethnography, a qualitative research technique, uses a variety of methods to study behavior, attitudes and culture to better understand what customers want and how they make their purchasing decisions. Ethnography, a branch of anthropology, is viewed by a growing number of experts across industries as a core marketing competency and an alternative or supplement to traditional focus groups. Instead of asking consumers to discuss products or services while sitting in a room, researchers, who are trained in ethnographic fieldwork, observe people (openly or secretly) and interview them where they live, work, play and shop. A detailed analysis of observations reveals consumer motivations and interactions with brands, and enables companies to discover new segments and design more satisfying offerings and more effective marketing campaigns.

Methodology

Consumer Ethnography has the greatest impact when used at the start of product development, where findings can spark innovation that translates into a winning product or service. A trained ethnographer should oversee the step-by-step research process:

- Create a focused research proposal;
- Allow time for thorough observation;
- Develop an interview outline;
- Select field techniques: one-on-one interviews, audio/videotapes, photographs, team observations;
- Conduct fieldwork: at homes, stores, work, recreational sites, or a combination of locations;
- Analyze findings.

Common uses

By chronicling the cultural trends and lifestyles that influence consumer decisions—habits, annoyances, desires, unfulfilled needs of emerging markets—Consumer Ethnography can help companies:

- Break into new markets;
- Refresh established products;
- Transform a corporate culture—for example, transition from a technology to consumer-product focus;
- Create brand image or re-brand a company or product;
- Validate a new product concept.

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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 of 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:

- 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 noncore 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;
- 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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Corporate Blogs

Related topics

- Avatars
- Online Communities
- Podcasting
- Viral Marketing
- Wikis

Description

A blog (short for Web log) is a website where communities of users create the content by sharing information with each other. A corporate blog is managed by company employees to post information about the company and its products for public consumption. There are two common types: external and internal blogs. External blogs can strengthen relationships with targeted customer groups and position CEOs and other employees as industry experts. Internal blogs promote collaboration, foster discussions among employees at all levels of the organization, and enable the quick exchange of knowledge and information. Blogs often are more practical than e-mail for sharing information. They also are more inclusive. Blogs are open to the entire community, and anyone can participate by adding comments or suggestions.

Methodology

Corporate blogs are transforming the way corporations communicate, both internally and externally, by reducing the reliance on internal e-mail and the traditional public relations-oriented corporate website. A successful corporate blog should:

- Establish the blog's focus and mission;
- Develop a simple-to-use site and update it frequently;
- Create links with key audiences;
- Ensure consistency with corporate image and product branding;
- Employ RSS (Really Simple Syndication) technology: RSS encourages readership by displaying recent posts without the need for readers to log onto the blog website;
- Consider the option of wikis (named for the Hawaiian word for "quick")—a variation on corporate blogs that promote collaborative brainstorming, in which visitors can easily add, remove or alter the content itself by using links at the bottom of a page;
- Establish clear blogging guidelines for the corporation and educate employees about potential legal repercussions. Postings become part of a permanent public record.

Common uses

Blogs are being used innovatively to boost product sales, respond to a crisis, encourage teamwork, and reach out to new consumers to spur growth.

External blogs promote:

- *Improved branding*. Blogs can create product communities that increase customer loyalty;
- *Gathering market research*. Feedback from customers about new products and services can help companies develop a rapid response to problems;
- *Stronger market segmentation*. Blogs can build brand awareness in market niches;
- *Broadening the CEO's reach*. CEO bloggers reinforce the company's image and message, establish the CEO as an expert, and provide customers with direct access to top management. A growing number of Fortune 500 CEOs are tapping into the power of blogs, including the heads of McDonald's, IBM, GM and Sun Microsystems.

Internal blogs encourage:

- *Sharing and distributing information*. Employees who've been outside the decision-making or brainstorming process are encouraged to participate;
- *Round-the-clock employee forum*. Blogs can become a virtual meeting place for a global corporate community working in different time zones.

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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 help 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 provide 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 by 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 are collected, share the information widely with employees to further encourage 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
- Factor/Cluster Analysis
- 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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Growth Strategy Tools

Related topics

- Adjacency Expansion
- Managing Innovation
- Market-Migration Analysis

Description

Growth Strategy Tools focus resources on seizing opportunities for profitable growth. Evidence suggests that profit grown through increasing revenues can boost stock price 25 to 100 percent higher than profit grown by reducing costs. Growth Strategy Tools assert that profitable growth is the result of more than good luck—it can be actively targeted and managed. Growth Strategy Tools alter a company's goals and business processes to challenge conventional wisdom, identify emerging trends, and build or acquire profitable new businesses adjacent to the core business. In some cases these strategies involve redefining the core. They typically require increased R&D investments, reallocation of resources, greater emphasis on recruiting and retaining extraordinary employees, additional incentives for innovation, and greater risk tolerance.

Methodology

Growth Strategy Tools search for expansion opportunities through:

Internal ("organic") growth, including:

- Greater share of the profit pool for existing products and services in existing markets and channels;
- New products and services;
- New markets and channels;
- Increased customer retention.

External growth (through alliances and acquisitions):

- In existing products, services, markets and channels;
- In adjacent businesses surrounding the core;
- In noncore businesses.

Successful implementation of Growth Strategy Tools requires managers to:

- Communicate the importance of growth;
- Strengthen the creation and circulation of new ideas;
- Screen and nurture profitable ventures effectively;
- Create capabilities that will differentiate the company in the marketplace of the future.

Common uses

Managers employ Growth Strategy Tools to improve both the strategic and financial performance of a business. By strengthening and expanding the company's market position, Growth Strategy Tools improve both top-line and bottom-line results. Growth Strategy Tools also may be used to counteract (or avoid) the adverse effects of repeated downsizing and cost-cutting programs.

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Knowledge Management

Related topics

- Groupware
- Intellectual Capital Management
- Learning Organization
- Managing Innovation

Description

Knowledge Management develops systems and processes to acquire and share intellectual assets. It increases the generation of useful, actionable and meaningful information and seeks to increase both individual and team learning. In addition, it can maximize the value of an organization's intellectual base across diverse functions and disparate locations. Knowledge Management maintains that successful businesses are a collection not of products but of distinctive knowledge bases. This intellectual capital is the key that will give the company a competitive advantage with its targeted customers. Knowledge Management seeks to accumulate intellectual capital that will create unique core competencies and lead to superior results.

Methodology

Knowledge Management requires managers to:

- Catalog and evaluate the organization's current knowledge base;
- Determine which competencies will be key to future success and what base of knowledge is needed to build a sustainable leadership position therein;
- Invest in systems and processes to accelerate the accumulation of knowledge;
- Assess the impact of such systems on leadership, culture, and hiring practices;
- Codify new knowledge and turn it into tools and information that will improve both product innovation and overall profitability.

Common uses

Companies use Knowledge Management to:

- Improve the cost and quality of existing products or services;
- Strengthen and extend current competencies through intellectual asset management;
- Improve and accelerate the dissemination of knowledge throughout the organization;
- Apply new knowledge to improve behaviors;
- Encourage faster and even more profitable innovation of new products.

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Lean Operations

Related topics

- Lean Consumption
- Lean Manufacturing
- Lean Six Sigma

Description

Lean Operations is both a methodology and philosophy that focuses on eliminating waste and reducing the time between a customer's order and delivery. By trimming waste, companies—manufacturers of goods and providers of services alike—can achieve higher quality, increased productivity, improved customer interactions and speed. The goal of Lean Operations is to get the right things to the right place, at the right time, in the right quantities, while minimizing waste. The Lean concept was pioneered by Toyota founder, Taiichi Ohno, as a much faster, better and less-expensive way of producing vehicles. Lean Operations redefines waste as anything the customer won't pay for—everything from clerical errors to idle machine operators. The process identifies seven types of waste:

- Waiting—for products, personnel, parts, the availability of machines;
- Transportation time—for equipment and parts needed for repairs;
- Processes—duplicate data entry, inefficient stocking;
- Excessive inventory;
- Unnecessary motion by people and machines;
- Overproduction;
- Correction of defects or service errors.

Methodology

There are three key elements in Lean Operations: ensuring that the product flows through production without interruption; systems that replenish supplies and products in response to customer demand; and a culture that strives for both excellence and continuous improvement. Five basic steps are used to improve the process flow:

- Identify activities that create value;
- Determine the major steps to deliver that value;
- Eliminate activities that do not add value;
- Ensure that products are available when consumers want them;
- Continuously improve processes.

Common uses

While the Lean approach originally was designed for manufacturers, a broad range of industries now use the Lean concept to improve both operations and customers' experience by:

- Spending less on equipment;
- Redesigning factories, stores and processes to increase efficiency of workers and machines;
- Reducing the number of workers needed to accomplish a task;
- Increasing efficiency of inventory stocking and replenishing;
- Improving customer service;
- Creating varied store formats;
- Developing branding—win customers by having cheaper prices, faster service or wider product selection.

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Loyalty Management Tools

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 turn them into advocates for the company. 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 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 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 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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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 chances of the 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 stand-alone 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:

- Setting integration priorities based on the merger's strategic rationale and goals;
- Articulating and communicating the deal's vision by merger leaders;
- Designing the new organization and operating plan;
- Customizing the integration plan to address specific challenges: Act quickly to capture economies of scale; redefine 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 by:

- Reducing costs by combining departments, operations, and trimming the workforce;
- Increasing revenue by absorbing a major competitor and winning more market share;
- Cross-selling products or services;
- Creating tax savings when a profitable company buys a money-loser;
- Diversifying 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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Offshoring

Related topics

- Core Competencies
- Cost Migration
- Outsourcing

Description

Offshoring is the relocation of some of a company's operations to another country. Typically, the new location offers markedly lower labor costs, but more recently other factors have influenced companies' decisions to move offshore. For example, proximity to large, emerging end markets and access to growing pools of highly skilled talent may also lure companies overseas. Offshoring presents a public relations risk, because it eliminates jobs in a company's home country. Firms must carefully weigh all the risks in Offshoring: the offshore location's political climate and infrastructure; the stability of its currency; its capital controls; its trade barriers; and the need to safeguard intellectual property.

There are two types of Offshoring: Captive Offshoring occurs when a company maintains a function or process in-house, and just moves it to a company facility in a different country. (If the country is on the same continent, this can be referred to as "Near-shoring.") Offshore Outsourcing, by contrast, occurs when a company outsources a function or process to another country through a third-party vendor. Both are part of a spectrum of strategic sourcing options companies can pursue, including Domestic Outsourcing and Insourcing.

Methodology

A company that pursues Offshoring should:

- Quantify the costs and benefits of moving process steps offshore—especially business processes that are standard, routine and mature. Concentrate Offshoring analyses on functions that are major cost centers but not core competencies;
- Determine which processes should be conducted internally at offshore locations and which processes should be outsourced to more efficient partners by considering not only the all-in costs of each process but also the quality of performance improvements that need to be made;
- Create a short list of locations to be considered for Offshoring, considering financial implications but also political stability, security and intellectual property enforcement;
- Research characteristics of the labor force in each country being considered for Offshoring, including information

technology skills, educational levels, language skills and the willingness of workers to work flexible hours;
- Consider transportation and other supply chain costs. In extreme cases, a lack of necessary infrastructure (roads, rails, Internet service) could disqualify an otherwise excellent location;
- Conduct final negotiations and select preferred locations and partners;
- Prepare migration and contingency plans;
- Work to address any issues around cultural and infrastructure dissimilarity between the company's country of origin and the countries that are selected for Offshoring.

Common uses

Companies use Offshoring to:

- Gain access to human capital—not just low-cost labor but also highly skilled technical talent;
- Gain entry to customers in emerging, high-growth regional markets;
- Secure a global presence;
- Shorten the time to market by distributing workloads globally and enabling operations to continue 24 hours a day;
- Create low-cost offerings to meet the needs of low-end markets;
- Achieve quality and performance improvements.

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Outsourcing

Related topics

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

Description

When Outsourcing, a company uses third parties to perform noncore business activities. Contracting third parties enables a company to focus its efforts on its core competencies. Many companies find that Outsourcing reduces cost and improves performance of the activity. 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 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 non-financial 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 noncore 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;
- Avoid capital investment, particularly under uncertainty;
- Release resources—people, capital and time—to focus on core competencies.

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RFID

Related topics

- Automatic Identification
- Electronic Article Surveillance
- Electronic Product Codes
- Supply Chain Management

Description

Radio Frequency Identification (RFID) is a technology that uses radio waves to identify objects and read data. Windshield tags that pay tolls, security tags for apparel and identity cards that permit access to restricted areas are three common applications. RFID tags consist of an electronic device—no larger than a pinhead—containing an antenna and a chip. Like their precursor, bar codes, they're often employed to track and manage inventory and works in progress. But not only are RFID tags smaller, hardier, and cheaper, they can carry far richer amounts of data. Wireless scanners can read them at a distance, without a direct line of sight, and download detailed information on entire pallets of products from them instantaneously. Paired with sensors, these so-called smart tags can even be used to automatically monitor items' temperature, pressure and other conditions.

Methodology

Implementing RFID involves these steps:

- Determine which products or processes are suited for this technology. Factors to consider include the type of data to be encoded, required read range, frequency of measurements, and environmental constraints. RFID is particularly compelling if read and write capabilities are required, the tag is hidden, surface contamination is likely, or reading multiple tags simultaneously is necessary;
- Choose the timing and pace for RFID adoption, given the costs, benefits and customer mandates. Also evaluate the cost of not adopting RFID;
- Select the appropriate RFID standard and the level of integration desired with the supply chain management software;
- Roll out a pilot program, starting with the highest-value products first. Expand implementation of RFID based on customer mandates, and as cost and benefits warrant expanding the program.

Common uses

RFID can be used to:

- Streamline the flow of products through the supply chain, thus reducing overall inventory levels and working capital;

- Decrease the time and expense of managing inventory, while improving the efficiency of shipping, receiving and order processing;
- Reduce labor costs, product tampering and theft;
- Improve forecasting and invoicing accuracy;
- Track parts, finished goods, and reusable containers through manufacturing and assembly processes;
- Ensure that production procedures are followed and pinpoint the source of production issues;
- Remotely monitor the conditions of components, products and equipment;
- Increase security and control access when placed on personnel badges.

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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 non-threatening, 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 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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Shared Service Centers

Related topics

- Joint Ventures
- Offshoring
- Outsourcing
- Performance Improvement
- Strategic Partnerships

Description

Shared Service Centers (SSCs) reduce costs by consolidating one or more back-office operations used by multiple divisions of the same company—such as finance, information technology, customer service and human resources—into a shared operation. By creating a stand-alone or semi-autonomous Shared Service Center, companies can eliminate redundant activities and improve efficiency, services and customer satisfaction. Because of the need by every corporate department for finance and human services, these functions offer a common opportunity for an SSC model. Many of the savings come from standardizing technology and processes on a national and regional basis, making it easier to provide support for multiple business units, reduce personnel and improve the speed and quality of service. Despite the success of Shared Service Centers, some SSC pioneers are moving to variations on the model: outsourcing back-office operations to a third-party provider, and consolidating and moving SSCs to countries with lower labor costs.

Methodology

A successful move to a Shared Service Center model requires a carefully planned and managed transition. The transition should:

- Standardize processes before the shift;
- Consolidate processes and people without losing key employees and disrupting services;
- Reengineer systems: The first cost savings usually come from reduced headcounts and redesigned processes;
- Communicate clear vision and early successes by top management;
- Win buy-in from departments that will use SSC.

Common uses

Shared Service Centers are used not only to improve cost savings; they also help companies respond to the marketplace and pursue rapid growth strategies by:

- Delivering higher quality service and improved customer satisfaction;
- Capturing economies of scale;
- Increasing standardization and use of leading-edge technologies;
- Freeing up employees to spend more time and resources on their core jobs;
- Providing flexibility to quickly add new business units and expand geographically;
- Enabling rapid integration of new acquisitions.

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Six Sigma

Related topics

- Lean Manufacturing
- Lean Six Sigma
- Statistical Process Control
- Total Quality Management

Description

"Sigma" is a measure of statistical variation. Six Sigma indicates near perfection and is a rigorous operating methodology aimed to ensure complete customer satisfaction by ingraining a culture of excellence, responsiveness and accountability within an organization. Specifically, it requires the delivery of defect-free products or services 99.9997 percent of the time. That means that out of a million products or service experiences, only 3 would fail to meet the customer's expectations. (The average company runs at around Three Sigma, or 66,800 errors per million.) To raise operations and product designs to the highest benchmark, Six Sigma programs constantly measure and analyze data on the variables in any process, then use statistical techniques to understand what improvements will drive down defects. Such programs also incorporate a strong system for gathering customer feedback. Companies have applied Six Sigma to functions ranging from manufacturing to call centers to collections. Some companies estimate that the Six Sigma methodology has helped them realize savings upwards of $1 billion.

Methodology

Six Sigma entails five key steps:

- *Define*. Identify the customer requirements, clarify the problem and set goals;
- *Measure*. Select what needs to be measured, identify information sources and gather data;
- *Analyze*. Develop hypotheses, identify the key variables and root causes;
- *Improve*. Generate solutions and put them into action, either modifying existing processes or developing new ones. Quantify costs and benefits;
- *Control*. Develop monitoring processes for continued high-quality performance.

Common uses

Companies use Six Sigma to set performance goals for the entire organization and mobilize teams and individuals to achieve dramatic improvements in existing processes. More specifically, Six Sigma can:

- Make processes more rigorous by using hard, timely data, not opinions or gut feeling, to make operating decisions;

- Cultivate customer loyalty by delivering superior value;
- Strengthen and reward teamwork by aligning employees around complex processes whose performance can still be easily, clearly and empirically measured;
- Accustom managers to operating in a fast-moving internal business environment that increasingly mirrors marketplace conditions outside the company;
- Achieve quantum leaps in product performance;
- Reduce variation in service processes, such as the time from order to delivery, or offering a consistent, high-quality service experience;
- Improve financial performance, through cost savings from projects, increased revenue from improved products and expanded operating margins.

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Strategic Alliances

Related topics

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

Description

Strategic Alliances are agreements between 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 versus 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;
- 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

- The 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 I 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-term commitments with preferred partners;
- Stage II 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 to improve performance;
- Stage III 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 IV identifies and implements radical ideas to completely transform the supply chain 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 noncore 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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