Management Tools 2001
An Executive's Guide

BAIN & COMPANY
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Darrell K. Rigby

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Preface

Over the past decade, executives have witnessed an explosion of management tools such as Supply Chain Integration, Knowledge Management, and Balanced Scorecard. Demands of increasing competition in the global marketplace are driving the explosion, while accelerated, lower-cost delivery systems for ideas and information have enabled it. Today the sheer volume of ideas can overwhelm a management team.

As a result, executives must cast their nets wider than ever before in a sea of options. They must seize on the tools essential to increasing their company's performance and use such tools creatively to spur better business decisions. Improved decisions in turn lead to enhanced processes, products, and services that better allocate resources and serve customer needs. This creates competitive advantage, the key to superior performance and profits.

Each tool carries a set of strengths and weaknesses. Successful use of tools requires an understanding of both their effects and side effects, 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 tool, but in learning which tools to use, how, and when.

In the absence of objective data, groundless hype makes choosing and using management tools a dangerous game of chance. In 1993, Bain & Company launched a multiyear research project to gather facts about the use and performance of management tools. Initially entitled "Management Tools & Techniques," this year we have shortened the study's name to "Management Tools." Our objectives remain 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.

- information they need to identify, select, implement, and integrate the right tools to improve their own company's performance.

Each year we interview senior managers and conduct literature searches to identify 25 of the most popular and pertinent management tools. We define the tools in this guide and conduct detailed surveys to examine managers' use of tools and success rates. We also conduct one-on-one follow-up interviews to further probe the circumstances under which tools are most likely to produce desired results.

The research to date has provided a number of important insights:

- Senior managers' overwhelming priority is to improve financial performance.

- Financial performance is driven by a company's ability to: 1) discover unmet customer opportunities, 2) build distinctive capabilities, 3) exploit competitive vulnerabilities, and 4) promote creative collaboration within and between organizations.

- Executives believe that management tools can improve their performance along these four dimensions. However, the average number of tools used declined in 1999.

- A correlation exists between financial performance and the way in which organizations use management tools.

- Overall, satisfaction with tools is mildly positive, but their rates of use, ease of implementation, effectiveness, strengths, and weaknesses vary widely.

- Managers have learned that no tool is a silver bullet.

Our efforts at understanding the changes in tools being used by management have led us to add two new tools to this year's guide—Corporate Venturing and Customer Relationship Management. While neither is a brand new tool, the use of each seems to be increasing in the current business environment.

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, and survey results and additional copies of this guide may be purchased by calling or writing to:

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Activity-Based Management

Related Topics

- Activity-Based Costing
- Customer Profitability Analysis
- Product Line Profitability

Description

Activity-Based Management (ABM) uses detailed economic analyses of important business activities to improve strategic and operational decisions. Activity-Based Management increases the accuracy of cost information by more precisely linking overhead and other indirect costs to products or customer segments. Traditional accounting systems distribute indirect costs using bases such as direct labor hours, machine hours, or material dollars. ABM tracks overhead and other indirect costs by activity, which can then be traced to products or customers.

Methodology

ABM systems can replace traditional accounting systems or operate as stand-alone supplements. They require a strong commitment from both top management and line employees in order to succeed. To build a system that will support ABM, companies should:

- Determine key activities performed;
- Determine cost drivers by activity;
- Group overhead and other indirect costs by activity using clearly identified cost drivers;
- Collect data on activity demands (by product and customer);
- Assign costs to products and customers (based on activity usage).

Common Uses

Companies use Activity-Based Management to:

- *Reprice products and optimize new product design*
  Managers can more accurately analyze product profitability by combining activity-based cost data with price information. This can result in the repricing or elimination of unprofitable products. This information also is used to accurately estimate new product costs. By understanding cost drivers managers can design new products more efficiently.

- *Reduce costs*
  Activity-based costing identifies the components of overhead costs and the drivers of cost variability. Managers can reduce costs by decreasing the cost of an activity or the number of activities per unit.

- *Influence strategic and operational planning*
  Implications for action from an ABM study include “target costing”, performance measurement for continuous improvement, and resource allocation based on projected demand by product, customer, and facility. ABM can also assist a company in considering a new business opportunity or venture.

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Balanced Scorecard

Related Topics

- Management by Objectives (MBO)
- 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, customers, operations, innovation results, 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 company-wide acceptance of the measures;
- Create appropriate budgeting, tracking, communication, and reward systems;
- Collect and analyze performance data and compare actual results to 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 company-wide 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 to those of competitors and best-in-class companies and internally to 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 the best practices into their own operations not imitating, but 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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Core Competencies

Related Topics

- Core Capabilities
- Key Success Factors
- Learning Organization

Description

A Core Competency is a special skill or technology that creates unique customer value. A company's specialized capabilities are largely embodied in the collective knowledge of its people and the organizational procedures that shape the way employees interact. Over time, investments in facilities, people, and knowledge that strengthen Core Competencies can create sustainable sources of competitive advantage.

Methodology

A Core Competency should:

- Provide significant and appreciable value to customers relative to competitor offerings;
- Be difficult for competitors to imitate or procure in the market, thereby creating competitive barriers to entry;
- Enable a company to access a wide variety of unrelated markets by combining skills and technologies across traditional business units.

To develop Core Competencies a company must isolate key abilities within the organization and hone them to embody the organization's unique strengths. Companies can compare themselves to others with the same skills to ensure they are developing unique capabilities. Companies can also develop an understanding of what capabilities their customers truly value and invest accordingly to develop and sustain valued strengths. Such strengths need to be preserved even as management expands and redefines the business.

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;
- Create links across businesses and functional units;
- Integrate the use of technology in carrying out business processes;

- Encourage communication and involvement and place a strong value on communicating across organizational boundaries;
- Make outsourcing, divestment, and partnering decisions;
- Spawn new business development opportunities;
- Make decisions about which new technologies or capabilities must be acquired.

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Corporate Venturing

Related Topics

- Business Incubation
- Core Capabilities
- Corporate Entrepreneurship
- Direct Investing

Description

Corporate Venturing provides an alternative to traditional methods of growing a company. A company invests in new products or technologies by funding businesses that have a reasonably autonomous management team and separate human resource policies. The goals can be to develop products to expand the core business, enter new industries or markets, or develop "breakthrough technologies" that could substantialy change the industry. Corporate Venturing can be done in one of three ways: by taking a passive, minority position in outside businesses (corporate venture capital), by building a new business as a standalone unit, or by building a new business inside the existing firm but with a structure allowing for management independence.

Methodology

Corporate ventures require managers to:

- Evaluate ventures based on strategic needs; understand how they fit with overall strategy;
- Determine an approach. Business building uses new ideas identified within the company. It favors firms equipped to create and screen such ideas in-house and with the currency to attract talent. It also favors projects that are long-term or develop knowledge key to the core business. Corporate venture capital, which provides access (through investments) to breakthrough technologies being investigated by start-ups, can be an effective prelude to a decision to acquire;
- Appoint a team with the capabilities, resources, and sufficient independence to manage the program. If the venture requires different incentives to attract needed talent and singularly focused management or if it is structurally very different from the core business, consider managing it outside the existing firm;
- Create processes to monitor and incorporate knowledge from corporate ventures. For corporate venture capital, use staged funding. In all cases, if a venture fails, transfer knowledge and limit employee penalties to avoid harm to the venture program.

Common Uses

Corporate Venture Capital may be initiated to:

- Diversify;
- Foster external companies key to your growth;
- Access new technology, experts, and research;
- Build businesses adjacent to the core.

Business building may be initiated to:

- Strengthen the core business;
- Provide new avenues for growth, or build adjacent businesses;
- Enter new and emerging markets;
- Shorten development cycles;
- Motivate employees to take calculated risks.

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Customer Relationship Management

Related Topics

- Collaborative Commerce
- Customer Retention
- Customer Segmentation
- Loyalty-Based Management

Description

Companies use Customer Relationship Management (CRM) to better understand customers in order to acquire, retain, and grow accounts with those most profitable. Data collected through CRM enables firms to differentially serve target segments, including tailoring products to include features valued by these segments, and exclude features that add cost but fail to significantly influence target customer purchases. CRM provides data to educate employees, align their incentives, and position a company strategically to profit from evolving market needs.

Methodology

CRM requires managers to:

- *Understand the customer*
  Knowing the customer is key. The value to customers of product attributes vs. the costs to provide them are measured across the customer lifecycle by segment. These data are used to optimize the value to the customer and company.

- *Tailor product and service offerings*
  Customer profiles are used to define and select segments. Products are tailored to deliver value and build long-term relationships with profitable segments. Short-lifecycle segments are served only if they provide near-term profits without disrupting service to high-profit segments.

- *Educate and reward employees*
  Companies educate employees on the economics of the business and implement systems to help employees meet the needs of targeted customers. Employee incentives focus on reinforcing behavior that acquires and retains these customers.

- *IT systems*
  Information systems enable CRM by tracking required data. Systems collect customer histories, product requests, service contracts, and market information. Before implementing a system, determine if it collects the data needed for analysis. Systems should be integrated across functions and available to all employees with customer contact.

- *Strategic planning*
  Analysis of customer needs, customer defections, and lost sales from the CRM process can determine the direction of the market and inform strategic planning.

Common Uses

Customer Relationship Management increases profits by:

- Improving customer retention;
- Offering differentiated products based on customer needs;
- Targeting customer acquisition and reward programs;
- Designing effective customer service programs.

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Customer Satisfaction Measurement

Related Topics

- Customer Relationship Management
- Customer Retention
- Customer Surveys

Description

Customer Satisfaction Measurement helps to determine customer requirements and identify better ways to anticipate and fulfill them. Companies collect input from customers on a regular basis to prioritize their needs and to measure their satisfaction levels. Companies use this information to identify and eliminate the roadblocks to achieving complete customer satisfaction and loyalty.

Methodology

Firms can use customer satisfaction surveys successfully to better align their capabilities and resources with customer wants and needs. To measure customer satisfaction, companies should:

- Interview customers to determine critical dimensions of performance;
- Actively solicit customer satisfaction feedback through surveys, phone calls, focus groups, and on-site visits;
- Analyze the results of customer feedback to determine opportunities for improvement;
- Disseminate these results across the company;
- Design and implement changes to improve satisfaction levels.

Common Uses

Managers use customer satisfaction surveys on an ongoing basis to understand how well they are meeting their customers' needs. Customer Satisfaction Measurement focuses attention on the most highly leveraged opportunities for improvement. This process provides timely feedback on the firm's success in meeting customer needs and enables employees to react swiftly to improve customer satisfaction.

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Customer Segmentation

Related Topics

- 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 achieve a leadership position by being the first to serve them. Understanding the specific needs of each segment enables companies to develop tailored product offerings or marketing programs for groups of customers with similar purchase criteria. Customer Segmentation is most effective when a company tailors offerings to segments that are the most profitable and targets them where the company has a distinct competitive advantage. 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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Cycle Time Reduction

Related Topics

- Just-in-Time (JIT) Inventory Management
- Manufacturing Resource Planning (MRP)
- Time-to-Market Analysis

Description

Cycle Time Reduction decreases the time it takes a company to perform key activities throughout its value chain. Cycle Time Reduction uses analytic techniques to minimize waiting time, eliminate activities that do not add value, increase parallel processes, and speed up decision processes within an organization. Time-based strategies often emphasize flexible manufacturing, rapid response, and innovation in order to attract the most profitable customers.

Methodology

Cycle Time Reduction tries to decrease the overall time taken from conception to delivery of products and services. The methodology focuses on three primary areas within a business:

- *New product development*
  Cycle Time Reduction makes use of cross-functional teams to shrink the time required to take a product from conception to market. The tool involves key decision makers from each functional area at the beginning of the development process.

- *Operations*
  Cycle Time Reduction minimizes complexity, stream lines processes, and decreases run lengths. This allows the organization to eliminate bottlenecks, decrease unproductive waiting time, and reduce the carrying cost of inventory. In service operations, this tool speeds up work flows and decision making throughout the organization.

- *Delivery and logistics*
  Eliminating unnecessary work and speeding up decision making can decrease the time required to fill orders and can increase the predictability of response.

Common Uses

Cycle Time Reduction is used to:

- Increase productivity and employee effectiveness;
- Increase profit margins of products or services through lowering costs of production and inventory;
- Better meet changing customer needs through shortened product development cycles;
- Support more product changes over a shorter period of time.

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Growth Strategies

Related Topics

- Managing Innovation
- Market Migration Analysis

Description

Growth Strategies 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 Strategies assert that profitable growth is the result of more than good luck—it can be actively targeted and managed. Growth Strategies 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 they 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 Strategies 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.

Common Uses

Successful implementation of Growth Strategies requires both time-tested and innovative approaches to help managers:

- Communicate the importance of growth;
- Strengthen 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.

Managers employ Growth Strategies to improve both the strategic and financial performance of a business. By strengthening and expanding the company's market position, Growth Strategies improve both top-line and bottom-line results. Growth Strategies 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 not a collection 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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Market Disruption Analysis

Related Topics

- Disruptive Technologies
- Profit Pools
- Value Migration

Description

Market Disruption refers to a trend or an event that leads to a shift of market power from established to emerging players. Such shifts occur when established companies fail to adapt their business models to changes in the environment such as technological innovation, shifting consumer preferences, or regulatory intervention.

Companies need early warnings about market disruptions to avoid losing business. They also need to anticipate change in order to capitalize on it. Although market disruptions offer dramatic performance benefits, these benefits may not be valued immediately by mainstream customers. For example, new technologies may emerge that will revolutionize the basis of competition, yet established market leaders are often slow to incorporate them.

What should tip off managers that a disruptive technology is on the move? It might be the emergence of a new consumer segment, like online shoppers; intensified disagreements between a company's research and marketing staffs; or growing flows of venture capital into new companies. After analyzing such disruptions, companies should act quickly to address the new technologies in their strategies.

When changing customer preferences disrupt a market, the early warning comes through a shift in the industry's profit pool and waves in its market valuations. Turbulent competitor stocks, thinning profits at mainstream players, or new and growing pools of profit at new players, all these signal fundamental change. Analyzing these disruptions requires quantifying the market values and profits of all industry participants (both direct and indirect competitors) over time. It next requires evaluating the business models of companies that have gained or lost significant market value and determining which alternative business models would best satisfy customer needs.

Methodology

Analysis of a market disruption due to technological innovation can help managers:

- Determine whether to listen to their existing customers;
- Decide when to invest in initially inferior and lower-margin technologies;
- Decide whether to pursue smaller, intially unattractive markets.

Common Uses

On the other hand, analysis of a customer-driven market disruption enables companies to:

- Objectively understand their industry's evolution and changing competitive landscape;
- Assess the relative strengths and weaknesses of alternative business models;
- Learn how to modify obsolete business models to better satisfy customer needs;
- Focus on the priorities that actually drive customer purchases.

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Merger Integration Teams

Related Topics

- Mergers and Acquisitions
- Strategic Alliances

Description

A Merger Integration Team is a group of senior managers from two merged companies charged with delivering on sales and operating synergies identified during the deal's due diligence. The team's composition should equally represent both companies, and the team's role is critical: acquisitions most often fail because merged companies fail to successfully integrate. The Merger Integration Team should bring together champions with long-term prospects at the new company. The team doesn't do everything but does make sure that everything gets done; individual sub-teams perform the detailed integration work. Beyond driving the integration, the Merger Integration Team ensures core line managers remain focused on running the base business.

Methodology

A Merger Integration Team should be established quickly (ideally before a deal closes), and an integrated organizational structure should be set before the work of capturing synergies begins. To capture synergies, a Merger Integration Team should:

- Build the master schedule of what is to be done and when;
- Determine the required economic performance for the combined entity;
- Establish sub-teams to work out how each function and business unit will be combined (e.g., structure, job design, staffing levels, locations, downsizing);
- Focus the organization on meeting ongoing business commitments and operational performance targets throughout the integration process;
- Create an early warning system of performance measures to ensure both the integration and base business stay on track;
- Monitor and expedite key decisions;
- Establish a rigorous communication campaign to aggressively and repeatedly support the integration roadmap, addressing internal and external constituencies.

Common Uses

Merger Integration Teams help companies:

- *Focus on key sources of value for the merged organization*
  An effective transition team can ensure the right integration decisions and tradeoffs are made to focus attention on underlying strategic issues. Rather than getting mired in details, the team focuses on key concerns such as drivers of long-term profit, performance targets, cost management, and competitive, product, and customer strategy.

- *Maintain performance of the base business*
  Allocating dedicated resources to the integration effort clarifies non-team-members' roles and enables day-to-day operations to continue at pre-merger intensity. As part of the integration process, the Merger Integration Team should develop and monitor a set of key performance measures that track underlying profit drivers. Such monitoring constitutes an early-warning system for unfavorable trends.

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Mission and Vision Statements

Related Topics

- Cultural Transformation
- Strategic Planning
- Values Statement

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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One-to-One Marketing

Related Topics

- Data Mining
- Dynamic Pricing
- Mass Customization
- Permission Marketing

Description

One-to-One Marketing, also referred to as direct or relationship marketing, is marketing that focuses on an individual customer. It draws on extensive, repeated, and recorded communication with the customer as well as a company's ability to store, analyze, and process such customer data. One-to-One Marketing takes place when a company retrieves and applies individual client data to customize a dialogue—be it through calls, mailings, or electronic messages—with that client.

This approach stands in stark contrast to mass marketing. Mass marketing uses a standard product and looks for a customer to buy it. One-to-One Marketing starts with an individual customer and then develops a tailored product offering for him/her. Although One-to-One Marketing can use a variety of channels, the Internet has been the catalyst most responsible for this tool's recent proliferation. The Internet makes One-to-One Marketing cost-efficient, customer-effective, and immediate.

Methodology

To adopt a One-to-One Marketing strategy, companies typically follow these steps:

- Collect extensive customer data. Include not only identifying information such as name, address, age, sex, etc., but also buying preferences and habits;
- Mine the data. Use database analysis software to sort, retrieve, and relate data, ferreting out trends and patterns for each client. While mining, be sure to identify the precious metals—the most valuable customers;
- Start a dialogue. Choose an appropriate media channel and establish direct customer contact. Tailor communications to address each customer's preferences. If communicating with all customers is not cost-efficient, focus on the most profitable ones;
- Customize the product/service offering to an individual customer's needs;

Common Uses

Before the Internet, companies used One-to-One Marketing only in sectors with high-value products and services, such as cars and airlines, or in sectors with high and repeat shopper interaction, such as grocery retail. With the advent of the Internet and its cost-efficient customer communication, One-to-One Marketing is growing popular in other sectors as well, especially in online retail, financial services, investor relations, and travel services.

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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 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

Outsourcing involves 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 nonfinancial costs and advantages of outsourcing*
  Outsourcing may also bring expertise or innovation available only in a firm specialized in its chosen field. Even if an activity is kept in-house, the evaluation of external resources may improve internal performance.

- *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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Pay-for-Performance

Related Topics

- Balanced Scorecard
- Gain Sharing
- Management by Objectives (MBO)
- Performance Appraisals

Description

Pay-for-Performance systems tie compensation directly to specific business goals and management objectives. These systems try to improve individual accountability, align shareholder, management, and employee interests, and enhance performance throughout the organization. To achieve the latter, they match measurable and controllable performance targets and appraisal mechanisms to corporate objectives.

Methodology

Pay-for-Performance systems consist of two components:

- *Performance measurement systems*
  For this tool to be effective, a system must be developed that ties a company's short and long-term strategic objectives to its performance measures.

These measures are classified into categories that focus employees on the most important activities. They include:

- *Financial indicators*—such as ROS, ROA, ROE;
- *Nonfinancial indicators*—such as customer retention, product quality, development speed, and cost reduction.

They also establish the importance of individual versus group performance. Group performance is measured at the team, facility, divisional, or corporate level.

There are many permutations of systems that can be used; the optimum choice depends on the corporate culture, company strategy, and industry characteristics.

- *Compensation methods*
  In Pay-for-Performance systems, an employee's compensation is composed of a fixed base salary and a variable pay component. The most commonly used variable pay methods are:

- *Stock options*—the quantity and strike price are typically based on a percentage of value added as determined by the performance measurement system;
- *Bonuses*—one-time cash awards for extraordinary accomplishments or other profit-related distributions;
- *Gain sharing*—distribution of a portion of profits to employees based on performance versus plan.

Common Uses

These systems are designed to retain top-performing employees, motivate the desired performance, and control costs. They can be applied to many levels within an organization, from executives to plant operators. Depending on the level within the company, different approaches are appropriate.

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Real Options Analysis

Related Topics

- Discounted Cash Flows
- Scenario Planning
- Shareholder Value Analysis

Description

In rapidly changing markets, business managers like to keep their options open. Real Options Analysis enables executives to do just that: analyze and invest in Real Asset Options in the same way that financial managers evaluate and purchase stock options. An option allows, but does not oblige, its holder to buy, sell, or exchange an asset. Options increase in value as outcomes increase in uncertainty, the cost/benefit ratio of changing directions declines, and/or the timing of final decisions can be deferred.

Real Options that managers might purchase include investments in facilities, people, products, alliances, or any other assets that give managers the flexibility to adapt future actions to changing market conditions. Real Options Analysis quantifies the value of business options and encourages strategists to leave room for frequent adjustments as new information emerges. It can lead to different conclusions than those arrived at through traditional analysis of discounted cash flows.

Methodology

Real Options Analysis treats strategies as chains of related business options that should be torn apart and quantified. The process consists of four steps:

- *Uncover Real Options*
  Real Options are usually buried inside complex webs of interdependent investments. To expose option opportunities, practitioners frequently use Scenario Analysis to identify variables that could significantly alter outcomes. They also examine cash-flow patterns, searching for investment peaks that may signal opportunities to change paths.
- *Gather the data necessary to value Real Options*
  Accurate quantification of Real Options requires data on several variables:
  - The cost/benefit ratio of the option;
  - The exercise price;
  - The value of the underlying asset;
  - Time to expiration;

- The risk-free rate of return;
- The uncertainty (e.g., standard deviation) of projected returns.

• *Calculate the value of the option*
This step employs tools common to financial option analysis, such as the Black-Scholes option-pricing model, to quantify a Real Option's dollar value.

• *Use the analysis to create beneficial strategies*
Add the value of Real Options to the value of the same project as calculated by traditional analyses. Develop dynamic strategies that convince the organization to change behaviors.

Common Uses

The primary value of Real Options Analysis, according to some managers, is that it allows them to tear apart and reassess a business strategy. It enables them to break large, complex problems into smaller, simpler ones. It also helps them identify risk components and decide which ones to hold, hedge, or transfer. Real Options Analysis trains managers to look for opportunities to increase flexibility, including:

- Options to wait (e.g., test marketing);
- Options to grow (e.g., new product development);
- Options to switch (e.g., flexible manufacturing lines);
- Options to abandon (e.g., staged capacity expansion).

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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 people and organizational 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 produce the following results:

- *Reduced cost and cycle time*
  Business Process Reengineering reduces cost 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 hand offs.

- *Improved 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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Scenario Planning

Related Topics

- Contingency Planning
- Real Options Analysis
- Simulation Models
- Strategic Planning

Description

Scenario Planning allows users to explore the implications of several alternative futures. This avoids the dangers of single-point forecasts. By surfacing, challenging, and altering beliefs, managers can test their assumptions in a nonthreatening environment. Having examined the full range of possible futures, the company can more rapidly modify its strategic direction as actual events unfold.

Methodology

The key steps in the Scenario Planning process are to:

- Determine the model's scope and time frame;
- Identify the current assumptions and mental models of individuals who influence these decisions;
- Create divergent, yet plausible, scenarios with underlying assumptions of how the future might evolve;
- Test the impact of key variables in each scenario;
- Develop action plans based on either:
  - The solutions that play most robustly across scenarios, or
  - The most desirable outcome toward which a company can direct its efforts;
- Monitor events as they unfold to test the corporate direction;
- Be prepared to modify it as required.

Common Uses

Through the use of the Scenario Planning methodology, a company can:

- Achieve a higher degree of organizational learning;
- Surface and challenge both implicit and widely held beliefs and assumptions about the business and its likely future;
- Identify key levers that can impact the company's future;
- Turn long-range planning into a vital, shared experience;

- Develop a distinctive, farsighted view of the future;
- Incorporate globalization and change management into strategic analysis;
- Establish contingency plans to respond purposefully to changes in the environment.

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Shareholder Value Analysis

Related Topics

- Discounted and Free Cash-Flow Analyses
- Economic Value Added
- ROA, RONA, ROI Techniques

Description

Shareholder Value Analysis (SVA) demonstrates how decisions affect the net present value of cash to shareholders. The analysis measures a company's ability to earn more than its total cost of capital. This tool is used at two levels within a company: the operating business unit and the corporation as a whole. Within business units, SVA measures the value the unit has created by analyzing cash flows over time. At the corporate level, SVA provides a framework to assess options for increasing value to shareholders: the framework measures tradeoffs among reinvesting in existing businesses, investing in new businesses, and returning cash to stockholders.

Methodology

SVA consists of three primary analyses. A manager should:

- Determine the actual costs of all investments in a given business, discounted to the present at the appropriate cost of capital for that business;
- Estimate the economic value of a business by discounting the expected cash flows to the present at the weighted average cost of capital;
- Determine the economic value added of each business by calculating the difference between the net present value of investments and cash flows.

Common Uses

This tool requires a thorough understanding of each business in order to accurately determine the amount of investment required and the expected cash flows that investments will yield.

SVA is used both as a tool to aid in one-time major decisions (such as acquisitions, large capital investments or division breakup values) and to guide everyday decision making throughout the organization. When used as an everyday tool by line managers, SVA can be applied in many ways to:

- *Assess the performance of the business or portfolio of businesses*
  Since SVA accounts for the cost of capital used to invest

in businesses and the cash flows generated by the businesses, it provides a clear understanding of value creation or degradation over time within each business unit. This information also can be linked to management compensation plans.

- *Test the hypotheses behind business plans*
  By understanding the fundamental drivers of value in each business, management can test assumptions used in the business plans. This provides a common framework to discuss the soundness of each plan.

- *Determine priorities to meet each business's full potential*
  This analysis illustrates which options have the greatest impact on value creation, relative to the investments and risks associated with each option. With these options clearly understood and priorities set, management has a foundation for developing a practical plan to implement change.

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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 customers, suppliers or competitors. 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 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 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 questions.

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 Integration

Related Topics

- Borderless Corporation
- Collaborative Commerce
- Electronic Commerce
- Value Chain Analysis

Description

Supply Chain Integration synchronizes the efforts of all parties—suppliers, manufacturers, distributors, dealers, customers, etc.—involved in meeting a customer's needs. The approach relies heavily on Internet 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 virtual corporation, fully aligned to streamline business processes and achieve total customer satisfaction.

Methodology

Companies typically implement Supply Chain Integration 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 Integration 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, yet only limited improvement can be achieved by any single company, managers turn to Supply Chain Integration to help them deliver products and services faster, better, and less expensively.

Supply Chain Integration capitalizes on many trends that are changing worldwide business practices, including just-in-time (JIT) inventories, electronic data interchange (EDI), outsourcing of noncore activities, supplier consolidation, and globalization. But it is really the Internet explosion that is making Supply Chain Integration feasible for companies of all sizes in almost all industries.

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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 that marries customer performance requirements for products and services to their specifications. TQM then aims to produce to 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 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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