Management Tools 2011

An Executive's Guide

Darrell K. Rigby

BAIN & COMPANY

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Preface

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

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

Successful use of such tools requires an understanding of 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, and how and when to use it. 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 optimal tools to improve their company's performance.

Every year or two since, we've conducted research to identify 25 of the most popular and pertinent management tools. In this guide, we've defined the tools and how they are used. We determine through our research the extent to which each tool is being deployed and its rate of success. 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. Among them:

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

We also found other important trends from the 2009 survey:

- Nearly all executives believe innovation is vital to their company's success, but few feel they have learned to harness its power effectively;
- Many executives have serious concerns about how their organizations gather customer insights and manage decision making.

Detailed results from the 2009 Management Tools & Trends survey are available at www.bain.com/tools.

Our efforts to understand the continually evolving management tools landscape have led us to add four new tools to this year's guide: Change Management Programs, Enterprise Risk Management, Rapid Prototyping and Social Media Programs. Change Management Programs and Enterprise Risk Management are not new tools, but managers may find them more relevant in the current economic environment. Social Media has grown rapidly and we look forward to understanding how companies are using it, and whether they believe it is an effective business tool for improving results.

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

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Balanced Scorecard

Related topics

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

Description

A Balanced Scorecard defines 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 companywide acceptance.

Common uses

Companies use Benchmarking to:

- *Improve performance.* Benchmarking identifies methods of improving operational efficiency and product design;
- *Understand relative cost position.* Benchmarking reveals a company's relative cost position and identifies opportunities for improvement;
- *Gain strategic advantage.* Benchmarking helps companies focus on capabilities 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 improve performance substantially 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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Change Management Programs

Related topics

- Cultural Transformation
- Organizational Change
- Process Redesign

Description

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

Methodology

Change Management Programs require managers to:

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

Common uses

Companies use a Change Management Program to:

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

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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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Customer Relationship Management

Related topics

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

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 of key personnel in the CRM program. In addition, put measurement systems in place to track the

improvement in customer profitability with the use of CRM. Once the data are collected, share the information widely with employees to encourage further participation in the program.

Common uses

Companies can wield CRM to:

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

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Customer Segmentation

Related topics

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

Description

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

Methodology

Customer Segmentation requires managers to:

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

Common uses

Companies can use Customer Segmentation to:

- Prioritize new product development efforts;
- Develop customized marketing programs;
- Choose specific product features;
- Establish appropriate service options;

- Design an optimal distribution strategy;
- Determine appropriate product pricing.

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Decision Rights Tools

Related topics

- Governance Roles
- Job Descriptions
- Organization Design

Description

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

Methodology

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

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

These assignments should factor in the following:

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

- Consider soliciting input from those with perform roles in order to engage early, identify implementation issues and enable upfront planning.

Common uses

Decision Rights Tools allow companies to:

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

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Downsizing

Related topics

- Layoffs
- Reengineering
- Rightsizing

Description

In the face of slowing or declining sales, companies often downsize their employee base as a means of cutting costs to boost profitability. In 2007, nearly one million employees lost their jobs in a mass layoff (50-plus employees) in the United States (an average of 180 workers in approximately 5,300 separate events, according to the Bureau of Labor Statistics). The number of layoff events in the United States in September 2008 was the highest since September 2001. Although downsizing is effective for significant cost reduction, it often produces unintended side effects, such as damaged employee morale, poor public relations, future rightsizing hiring costs and an inability to capitalize quickly on opportunities when the economy improves. Skillful downsizing should help a company emerge from challenging economic conditions in stronger shape. Creative efforts to avoid downsizing include hiring freezes, salary cuts or freezes, shortened workweeks, restricted overtime hours, unpaid vacations and temporary plant closures. When downsizing proves unavoidable, the ultimate goal should be to eliminate nonessential company resources while minimizing the negative impact on the remaining organization.

Methodology

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

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

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

Common uses

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

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Enterprise Risk Management

Related topics

- Risk Governance
- Scenario and Contingency Planning
- Strategic Planning
- Supply Chain Management

Description

Enterprise Risk Management (ERM) is an approach to making strategic and business decisions after considering major risks and opportunities. Originally focused simply on managing the losses and downside, ERM now is also used to help companies decide between alternative business lines and strategic growth options. Companies are using the tool to take a more value-focused (rather than loss-focused) approach to risk management amid increasing volatility and uncertainty. ERM considers everything from credit risk to operational and supply chain risk. ERM examines decisions through a risk lens, identifying creative approaches to succeed in a world of uncertainty.

Methodology

To build an Enterprise Risk Management system, all parts of the organization contribute vital perspectives:

- *Senior executives* determine the level of risk a company is willing to take. They express their risk appetite in concrete terms such as earnings volatility and potential losses of capital, equity or assets;
- The risk organization, in cooperation with *line managers*, continuously examines the potential impact of various risks (e.g., strategic, business, financial and operational risks) on the organization. They decide whether to avoid the exposure completely, effectively mitigate it (for example, through a transfer to another party) or use the company risk insight and risk management capabilities as an opportunity to generate extra profit from the exposure;
- *Line managers* embed risk management principles into everyday business decisions and activities;
- *Managers* separate risk-taking and risk-monitoring responsibilities to avoid potential conflicts of interest.

Common uses

Companies use Enterprise Risk Management to:

- Take a proactive approach to protecting assets and organizations;
- Determine which opportunities are worth pursuing;
- Formalize risk governance;
- Optimize returns on capital;
- Allow regulators and debt-rating agencies to analyze a company's risk management processes.

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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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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 standalone value and unmask problems that could jeopardize the outcome.

Methodology

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

- 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 and 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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Open Innovation

Related topics

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

Description

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

Methodology

Open Innovation requires companies to:

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

Common uses

Companies use Open Innovation to:

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

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Outsourcing

Related topics

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

Description

When Outsourcing, a company uses third parties to perform 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 a unique competitive advantage;
- *Evaluate the financial impact of Outsourcing.* Outsourcing likely offers cost advantages if a vendor can realize economies of scale. A complete financial analysis should include the impact of increased flexibility and productivity or decreased time to market;
- *Assess the nonfinancial costs and advantages of Outsourcing.* Managers will also want to qualitatively assess the benefits and risks of Outsourcing. Benefits include the ability to leverage the outside expertise of a specialized outsourcer and the freeing up of resources devoted to 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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Price Optimization Models

Related topics

- Demand-Based Management
- Pricing Strategy
- Revenue Enhancement

Description

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

Methodology

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

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

Common uses

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

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

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Rapid Prototyping

Related topics

- Computer-Aided Design
- Design Thinking
- Discovery-Driven Innovation
- Managing Innovation

Description

Rapid Prototyping is a faster, more effective and lower-cost method of designing and testing an innovation hypothesis before the product launch. It creates real-world tests by quickly putting models in front of customers and then making improvements based on their responses. The methodology reduces the design cycle time and enables multiple tests on a design with less expense, accelerating an innovation's time to market. Instead of the traditional approach—building expensive, nearly complete archetypes before testing them with customers—Rapid Prototyping uses digital simulations and simple models to test customer reactions quickly and inexpensively. Because the models give customers more of a real-world experience, their reactions generate useful information that can be rapidly incorporated in the product's design, reducing post-launch risks that the new product fails to meet customer needs.

Methodology

To build a Rapid Prototype system, development teams should:

- Identify the most important and risky elements of an innovation project;
- Determine what hypotheses must be tested before making substantial investments;
- Design the fastest, lowest-cost methods for testing hypotheses;
- Test, learn and modify. Redesign prototypes based on customer reactions, consider adding new features suggested by customers and continuously improve the prototype with repeated testing to improve quality and features.

Common uses

Rapid Prototyping is used to:

- Speed innovation through real-world testing before the product launch;
- Lower innovation costs with less costly prototypes, freeing up development teams to conduct testing that's more thorough and to explore more ideas;
- Reduce risks of failing to meet customer needs by incorporating customer feedback early in the product development cycle, helping to ensure that a product is delivered on time and on budget.

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Satisfaction and Loyalty Management

Related topics

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

Description

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

Methodology

A comprehensive Satisfaction and Loyalty Management program requires companies to:

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

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

Common uses

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

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

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Scenario and Contingency Planning

Related topics

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

Description

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

Methodology

Key steps in a Scenario and Contingency Planning process are:

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

Common uses

By using Scenario and Contingency Planning, a company can:

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

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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 standalone or semi-autonomous Shared Service Center, companies can eliminate redundant activities and improve efficiency, services and customer satisfaction. Because of the need of 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 add quickly new business units and expand geographically;
- Enabling rapid integration of new acquisitions.

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Social Media Programs

Related topics

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

Description

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

Methodology

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

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

Common uses

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

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Strategic Alliances

Related topics

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

Description

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

Methodology

To form a Strategic Alliance, companies should:

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

Common uses

Strategic Alliances are formed to:

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

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Strategic Planning

Related topics

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

Description

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

Methodology

A successful Strategic Planning process should:

- Describe the organization's mission, vision and fundamental values;
- Target potential business arenas and explore each market for emerging threats and opportunities;
- Understand the current and future priorities of targeted customer segments;
- Analyze the company's strengths and weaknesses relative to competitors and determine which elements of the value chain the company should make 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

- 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 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 transform the supply chain completely and deliver customer value in unprecedented ways.

Common uses

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

Supply Chain Management capitalizes on many trends that have changed worldwide business practices, including just-in-time (JIT) inventories, electronic data interchange (EDI), outsourcing of 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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