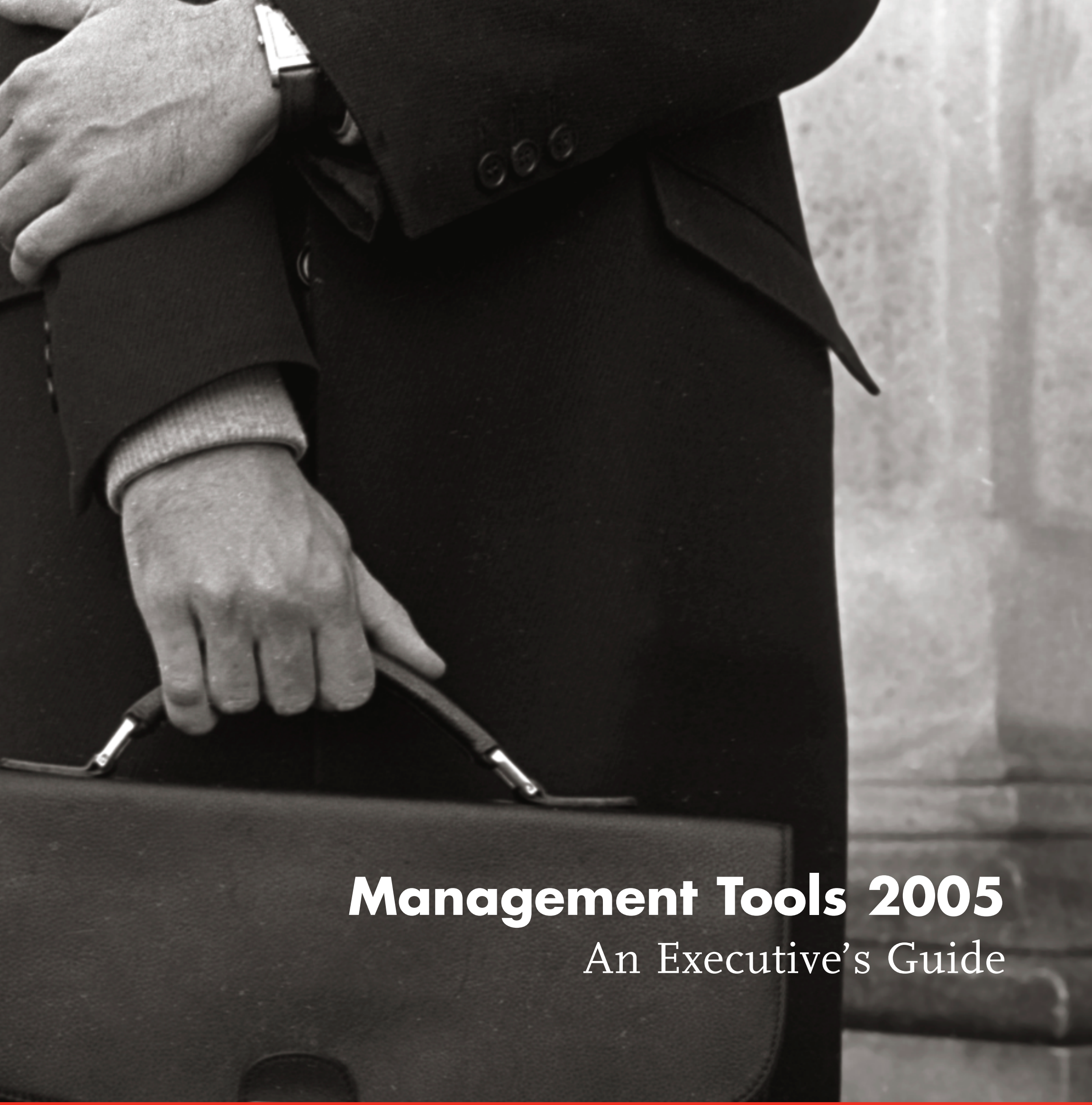

Management Tools 2005

An Executive's Guide

Darrell K. Rigby

BAIN & COMPANY

Management Tools 2005

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Darrell K. Rigby

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ISBN: 0-9656059-6-5

Published by:
Bain & Company, Inc.
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Preface

Over the past decade, executives have witnessed an explosion of management tools such as Customer Relationship Management, Scenario and Contingency Planning, and the 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. At the same time, companies themselves have become more complex—with operations spanning far more businesses and locations around the world—adding to the challenge and number of decisions that corporate leaders face.

As a result, executives must be increasingly sophisticated in their selection of tools. They must seize on the tools essential to increasing their company's performance and use them 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. 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.

Every two years, 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 a detailed survey 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 over time 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.
- 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.

We also found some new trends from the 2003 survey:
- The use of tools has increased significantly in the past few years.
- The tried-and-true, rather than new and untested, tools accounted for most of that increase.
- Companies sought to grow, rather than retrench, during the recession (two-thirds of those surveyed focused on growth rather than cost cutting), and it showed in their choice of tools.

Detailed results from the 2003 Management Tools survey are available at www.bain.com/tools.

Our efforts at understanding the changes in tools being used by management have led us to add seven new tools to this year's guide—Loyalty Management, Mass Customization, Offshoring, Open-Market Innovation, Price Optimization Models, RFID and Six Sigma. While not one is a brand new tool to the business world, the use of each seems to be increasing in today's 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 (ABC)
- 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:

- *Re-price 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 re-pricing 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 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 company-wide 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 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 with those of competitors and best-in-class companies and internally with other operations within their own firms that perform similar activities. The objective of Benchmarking is to find examples of superior performance and to understand the processes and practices driving that performance. Companies then improve their performance by tailoring and incorporating these best practices into their own operations—not by imitating, but by innovating.

Methodology

Benchmarking involves the following steps:

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

Common uses

Companies use Benchmarking to:

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

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Business Process Reengineering

Related topics

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

Description

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

Methodology

Business Process Reengineering is a dramatic change initiative that contains five major steps. Managers should:

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

Common uses

Companies use Business Process Reengineering to substantially improve performance on key processes that impact customers. Business Process Reengineering can:

- *Reduce 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 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
- Managing Innovation
- Organizational Change
- Process Redesign

Description

Change is a necessity for most companies if they are to grow and prosper. However, a recent study found that 70 percent of change programs fail. Change Management Programs are special processes executives deploy to infuse change initiatives into an organization. These programs involve devising change initiatives, generating organizational buy-in and implementing the initiatives as seamlessly as possible. Even armed with the brightest ideas for change, managers can experience difficulty convincing others of the value of embracing new ways of thinking and operating. Executives must rally firm-wide support for their initiatives and create an environment where employees can efficiently drive the new ideas to fruition.

Methodology

Change Management Programs require managers to:

- *Focus on results, not process.* Maintain a goal-oriented mind-set by establishing clear, non-negotiable goals and designing incentives to ensure these goals are met.
- *Identify and overcome barriers to change.* Anticipate reactions by identifying potential barriers to change and developing formal (organizational structures, incentive systems, etc.) and informal (personal persuasion, etc.) initiatives to overcome those barriers.
- *Repeatedly communicate a simple and powerful message to employees.* Any individual's first reaction to change will be one of doubt, and managers must work to overcome this initial obstacle. Change Management Programs should identify the key influencers within an organization and educate them about the change.
- *Create champions and change out senior managers who will inhibit change.* In most success stories, significant changes in senior management were required. For the broader employee base, involvement tends to increase support for change—employee participation in committees, town meetings or workout sessions ameliorate the acceptance process.
- *Continuously monitor progress.* Take care to follow through and monitor the progress of change initiatives. Create and carefully track measurements of success to ensure a positive outcome.

Common uses

Companies can use change management programs to:

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

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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 Retention
- Customer Segmentation
- Customer Surveys
- Loyalty Management

Description

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

Methodology

CRM requires managers to:

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

Common uses

Companies can wield CRM to:

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

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Customer Segmentation

Related topics

- Customer Surveys
- Factor/Cluster Analysis
- Market Segmentation
- One-to-One Marketing

Description

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

Methodology

Customer Segmentation requires managers to:

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

Common uses

Companies can use Customer Segmentation to:

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

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Economic Value-Added Analysis

Related topics

- Discounted and Free Cash-Flow Analyses
- ROA, RONA, ROI Techniques
- Shareholder Value Analysis

Description

Economic Value-Added Analysis measures the amount of value a company has created for its shareholders. It determines how much profit a company has produced after it has covered the cost of its capital. Whereas conventional accounting methods deduct interest payments on debt, Economic Value-Added Analysis also deducts the cost of equity—what shareholders would have earned in price appreciation and dividends by investing in a portfolio of companies with similar risk profiles. Economic Value-Added Analysis thus offers a truer picture of the return a company delivers to its shareholders and provides a framework to assess options for increasing it. By making the cost of capital visible, Economic Value-Added Analysis helps companies identify whether they need to operate more efficiently, to focus investment on projects that are in the best interests of shareholders and to work to dispose of or reduce investment in activities that generate low returns.

Methodology

Economic Value-Added Analysis consists of three primary analyses. A manager should:

- Determine the net after-tax operating profit generated by a business.
- Estimate the return required by investors. This calculation requires two inputs. First, identify the dollars invested in the firm. Then determine the cost of equity, or the return shareholders could have expected in dividends and appreciation from investing in stocks about as risky as the company's.
- Determine the Economic Value-Added by subtracting the expected return to shareholders from the profits created by the firm. (Firms with positive Economic Value-Added generate value above and beyond the level expected or required by shareholders.)

Common uses

Economic Value-Added Analysis is used not only to aid in onetime major decisions (such as acquisitions, large capital investments or division breakup values) but also to guide everyday decision making throughout the organization. It can be used to:

- Assess the performance of the business. Since Economic Value-Added Analysis accounts for the cost of capital used to invest in a business, it provides a clear understanding of value creation or degradation over time within the company. This information also can be linked to management compensation plans.
- Test the hypotheses behind business plans, by understanding the fundamental drivers of value in the business. This provides a common framework to discuss the soundness of each plan.
- Determine priorities to meet the 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.
- Help companies enhance their ability to acquire capital, either by demonstrating that they provide superior returns to investors or by identifying where they need to make improvements.

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Growth Strategies

Related topics

- Adjacency Expansion
- 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 these strategies involve redefining the core. They typically require increased R&D investments, reallocation of resources, greater emphasis on recruiting and retaining extraordinary employees, additional incentives for innovation, and greater risk tolerance.

Methodology

Growth 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.

Successful implementation of Growth Strategies requires managers to:

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

Common uses

Managers employ Growth 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 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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Loyalty Management

Related topics

- Customer and Employee Surveys
- Customer Loyalty and Retention
- Customer Relationship Management
- Revenue Enhancement

Description

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

Methodology

A comprehensive Loyalty Management program requires companies to:

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

Common uses

Well-executed Loyalty Management programs enable companies to:

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

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Mass Customization

Related topics

- Build to Order
- Cycle Time Reduction
- Micro Marketing
- One-to-One Marketing

Description

Mass Customization is the large-scale production of personalized goods and services. To succeed at it, companies must harness technologies that revamp their speed, flexibility and efficiency at minimum expense. Combined with organizational changes to focus firms on the unique needs of very small customer segments, these technologies help companies affordably deliver custom versions of their offerings to profitable niche markets. Once considered a manufacturing and supply chain capability, Mass Customization now encompasses a company's ability to differentiate a product or service in any way—from distinct branding to unique delivery. There are four basic modes of Mass Customization: the collaborative approach, in which businesses help customers choose the product features they need; the adaptive approach, in which companies offer a standard but adaptable product users can alter themselves; the cosmetic approach, in which only the presentation of the product, such as its packaging, is customized; and the transparent approach, which provides customers with individualized offerings without their knowledge of it.

Methodology

The steps necessary to successfully implement Mass Customization are:

- Decide how to adapt Mass Customization principles to the business's unique customer needs and system economics;
- Design product and service options that create enough customer value to justify customization expenses;
- Develop modular components that can be combined late in the manufacturing and delivery process to create a wide array of end products and services;
- Build manufacturing systems that can produce families of products while simultaneously minimizing setup and change-over times;
- Reduce the time to market across the entire chain of activities that produce the custom goods and services.

Common uses

Companies use Mass Customization to:

- Reach ever-smaller market segments, even niches containing as few as one customer;
- Drive down the higher costs associated with addressing differentiated markets by creating greater economies of scale at smaller volumes along the supply chain;
- Respond to fast-changing markets in order to simultaneously preserve customer loyalty and protect profit margins.

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Mission and Vision Statements

Related topics

- Corporate Values Statements
- Cultural Transformation
- Strategic Planning

Description

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

Methodology

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

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

Common uses

Mission and Vision Statements are commonly used to:

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

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

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Offshoring

Related topics

- Core Competencies
- Cost Migration
- Outsourcing

Description

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

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

Methodology

A company that pursues Offshoring should:

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

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

Common uses

Companies use Offshoring to:

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

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Open-Market Innovation

Related topics

- Collaborative Innovation
- New Product Development
- Open Innovation

Description

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

Methodology

Open-Market Innovation requires corporations to:

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

Common uses

Companies use Open-Market Innovation to:

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

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Outsourcing

Related topics

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

Description

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

Methodology

When Outsourcing, take the following steps:

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

Common uses

Companies use Outsourcing to:

- Reduce operating costs;
- Instill operational discipline;
- Increase manufacturing productivity and flexibility;
- Leverage the expertise and innovation of specialized firms;
- Encourage use of best demonstrated practices for internal activities;
- Avoid capital investment, particularly under uncertainty;
- Release resources—people, capital and time—to focus on core competencies.

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Price Optimization Models

Related topics

- Demand-Based Management
- Pricing Strategy
- Revenue Enhancement

Description

Price Optimization Models are mathematical programs that calculate price elasticities, or 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. Price Optimization Models simulate how customers will respond to price changes, supplementing managers' instincts with data-driven scenarios. The insights help to forecast demand, develop pricing and promotion strategies, control inventory levels, and improve customer satisfaction.

Methodology

To implement Price Optimization Models, practitioners should:

- Select the preferred optimization model, determine the desired outputs and understand the required inputs;
- Collect historical data—including product volumes, the company's prices and promotions, competitors' prices, economic conditions, product availability, and seasonal conditions as well as 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 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 are used to determine initial pricing, promotional pricing and markdown (or discount) pricing.

- Initial price optimization is well-suited to businesses that have a fairly stable base of products with long life cycles, such as grocery, chain drug, and office-supply stores, and manufacturers of commodities like packaging and tools.
- Promotional price optimization helps businesses set temporary prices to spur sales of items with long life cycles, such as newly introduced products, products bundled together in special promotions and loss leaders.

- Markdown optimization is well-suited to businesses that sell short life-cycle products that are subject to fashion trends and seasonality. Examples include service businesses like airlines and hotels, and certain kinds of specialty retailers, such as apparel retailers, mass merchants and big-box stores.

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RFID

Related topics

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

Description

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

Methodology

Implementing RFID involves these steps:

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

Common uses

RFID can be used to:

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

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Scenario and Contingency Planning

Related topics

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

Description

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

Methodology

The key steps in the Scenario and Contingency Planning process are to:

- 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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Six Sigma

Related topics

- Lean Manufacturing
- Statistical Process Control
- Total Quality Management

Description

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

Methodology

Six Sigma entails five key steps:

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

Common uses

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

- Make processes more rigorous by using hard, timely data, not opinions or gut feel, to make operating decisions;
- Cultivate customer loyalty by delivering superior value;
- Strengthen and reward teamwork by aligning employees around complex processes whose performance can still be easily, clearly and empirically measured;
- Accustom managers to operating in a fast-moving internal business environment that increasingly mirrors marketplace conditions outside the company;
- Achieve quantum leaps in product performance;
- Reduce variation in service processes, such as the time from order to delivery, or offering a consistent, high-quality service experience;
- Improve financial performance, through cost savings from projects, increased revenue from improved products and expanded operating margins.

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Strategic Alliances

Related topics

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

Description

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

Methodology

To form a Strategic Alliance, companies should:

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

Common uses

Strategic Alliances are formed to:

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

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Strategic Planning

Related topics

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

Description

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

Methodology

A successful Strategic Planning process should:

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

Common uses

Strategic Planning processes are often implemented to:

- Change the direction and performance of a business;
- Encourage fact-based discussions of politically sensitive issues;
- Create a common framework for decision making in the organization;
- Set a proper context for budget decisions and performance evaluations;
- Train managers to develop better information to make better decisions;
- Increase confidence in the business's direction.

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Supply Chain Management

Related topics

- Borderless Corporation
- Collaborative Commerce
- Value Chain Analysis

Description

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

Methodology

Companies typically implement Supply Chain Management in four stages:

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

Common uses

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

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

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Total Quality Management

Related topics

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

Description

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

Methodology

In order to succeed, TQM programs require managers to:

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

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

Common uses

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

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

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ISBN 0-9656059-6-5
$14.95 US