TWO

Estimate Your Chances For Success

Chapter Objectives

Enhance your managerial skills as you:

1. Apply a 5-step process to estimate your chances of success before committing resources.
2. Use your organization's culture as one of the dynamic forces to make accurate estimates and personalize your leadership style.
3. Employ a 6-point guideline to deal with cultural change within your organization or group, as you develop leadership and managerial competence.
4. Incorporate business intelligence to estimate competitors' weaknesses and pinpoint strategies through which to exploit your strengths.
5. Utilize the Internet to actively tune-in to market conditions, interpret competitors' moves, provide options on how to maneuver resources, and make better use of customer relationship management efforts.
6. Use the two-level framework of knowledge management to add greater insight, value and relevance in leading an organization or a business unit.
7. Employ a 51-point checklist to make tactical estimates and develop a winning business advantage.

Managing a successful business in today's disordered economic climate is not transitory or anchored to random acts of luck. While there are numerous imponderables and seemingly unseen events, for the most part successful outcomes are based on hardnosed and conscious estimates and calculations. That means determining your chances of reaching your objectives is open to rational analysis and systematic procedures – all of which are grounded in ongoing business intelligence.

If, for instance, estimates made before entering a new market or increasing your share of an existing market indicate success, it is because measured calculations show your company's strength superior to that of your competitor. On the other hand, if estimates of the market and competitive situation indicate failure, it is because calculations confirm that your organizational resources, business plans, or people skills do not reveal a competitive advantage.

Consequently, with many estimates and calculations you can improve your chances for success; with few you severely damage your ability to cope with a volatile competitive market.

Exactly what should you estimate?

Let's look for practical answers by examining the exemplary performance of one outstanding company operating in a hotly contested global economy. It is an enterprise identified by many expert commentators as the new business model for the 21st century.

Case Example

Cisco Systems Inc., the developer of technology networks, is a model for defining how a market-driven, customer-centric company organizes systems and creates an internal environment that guides its people for optimum results. It is a prime example of a flexible infrastructure that operates by calculating changes in market behavior and responding quickly to any meaningful variations. All of which boils down to personalizing strategies based on estimates of individual customer's needs. Labeled an outside-in (market-oriented) rather than an inside-out (production-oriented) organization, Cisco operates as a resilient and adaptive champion in its industry.

Founded in 1984 by a group of Stanford University (Calif.) scientists, the company has mushroomed to annual revenues in excess of $8 billion. Behind such brilliant success, and even battered by the downturn in the world economy during 2001-03, the underpinning structure still holds firm on how business should be practiced in this new century.

The central ideas behind those practices include systematic and ongoing calculations in the following areas:

- **Customers**. This rock-solid measure is tied to the irrefutable belief that customers know more about what they need than Cisco's executives do. That means translating the outside-in approach into reality by leaning heavily on core customers to come up with viable strategies.
- **Networks**. Today's sophisticated information technology allows secure and fast links among customers, suppliers, business partners and employees. As a result, Cisco's ongoing, multi-directional flow of information synchronizes with the diverse internal and external activities from product concept to its final delivery along the supply chain.

  In turn, all these activities are overlaid with superior service that resolves customers' problems quickly and efficiently. Ably applied, its informational technology works as a powerful competitive strategy and an effective business model. The result allows hands-on managers to estimate the real-time situation among customers and suppliers.
- **Alliances**. In the current scheme of organizational and business strategy, alliances and other forms of partnering serve as the foundations for success. To make the connections work, Cisco maintains a seamless informational network by cultivating a high level of trust among various managerial levels to achieve mutually agreed short- and long-term goals.

- **Corporate culture**. The company's culture – formed by values, objects, origins, ideas and behavioural patterns – appears as a set of mutually supportive relationships, which reflect not only on customers and suppliers, but also by the viewpoint that employees are intellectual assets to be nurtured and developed. Thus, indispensable to Cisco's organization is management's ability to help all personnel acquire a mind-set and maintain an orientation that is totally customer-driven.
- **Technology**. The Internet is an integral component for making meaningful estimates and shaping them into business strategies. It impacts directly on such basic functions as R&D, manufacturing, marketing, distribution and customer service. For instance, Cisco obtains more than 50 per cent of its revenues selling complex, expensive equipment over the Net. Further, seven out of ten customer requests for technical support are filled electronically – at satisfaction rates that exceed face-to-face contact.

Summing up Cisco's strategy, Chief Executive John T. Chambers manages by believing that making estimates and calculations about a competitive environment must ultimately relate to an organization that is:

- built on change, not stability;
- organized around networks, not a rigid hierarchy;
- based on interdependencies of partners, not self-sufficiency; and
- constructed on technological advantage, not old-fashioned bricks and mortar.

What personal and strategic value does the Cisco case hold for you?

If you reach further into Cisco's model, you will find an ongoing reliance on business intelligence to provide competitive and market information. Managers use such intelligence to calculate the potential impact of unfolding market events, competitors' moves, as well as to detect any ramifications on emerging technologies.

They can then factor market developments into their estimates and forge more reliable offensive and defensive strategies. Central to implementing strategies is the Internet, with its infinite potential to generate ongoing and reliable business growth.

Thus, the vast capabilities of the Internet – linked with fewer capital assets, a direct-to-customer connection and freedom from a formal management structure – offers a significant level of speed and operational efficiency that is unsurpassed in its ability to foster exceptional levels of customer relationship management (CRM).

The Cisco case also reveals measurable factors that influence managerial competence. These include *mental, morale, physical* and *circumstantial factors* that continually intermingle within a business climate to limit or expand one's ability to meet responsibilities.

Mental reflects on the human and intellectual assets that sustain the vibrancy of the firm; morale deals with the attitudes and capabilities of individuals functioning in a harmonious customer-driven environment; physical and circumstantial factors relate to the organizational, technological and functional domains that embody a firm.

Only if your broad estimates reveal superiority in those areas can you calculate with some reliability your level of managerial skills, relative organizational strengths, quality of personnel and, ultimately, your chances for success.

To make specific estimates of your internal condition and external circumstances, use the following five guidelines: creating cooperative relationships, leadership, seasonal forces, market selection and policy.

A 5-Step Process to Estimate Your Chances of Success

1. CREATING COOPERATIVE RELATIONSHIPS

This estimate relates to the harmony that exists among all levels of personnel with its leadership. The essential meaning behind this calculation is that people imbued with a sense of purpose can and will go the extra mile to achieve corporate objectives, regardless of fatigue and without fear of personal risks.

Cooperative relationships are anchored to the cardinal belief that when you treat your people with *civility, good will, fairness* and *honesty*; where you demonstrate straightforward belief in them, they will unite in mind, spirit, confidence and a sincere willingness to serve you in overcoming the inevitable competitive obstacles.

Consider **General Electric** and its much-celebrated former chairman and chief executive, Jack Welch. In 19 years, during which time many other company titans crumbled in an uncompromising global economy, Welch led GE to one revenue and earnings record after another. His exceptional leadership and belief in the potential of the individual resulted in the unparalleled performance of GE's value increasing from just $12 billion in 1981 to an extraordinary $300 billion in 2000.

No other company CEO could make such claims, not even Coca-Cola, Microsoft, Intel, or Walt Disney. Welch successfully grew the company through 600 acquisitions, while pushing abroad into newly emerging markets.

2. LEADERSHIP

This estimate refers to the manager's qualities of astuteness, straightforwardness, compassion, boldness and strictness.

- If *astute*, a manager can recognize from the onset the eventual impact of new competitive intrusions, customers' changing behaviors, industry transformations and environmental variations. Once noted, the sharp manager is able to act rapidly and boldly to create opportunities and diffuse threats.
- If *straightforward*, employees will have no doubt of how and when rewards and reprimands are meted out.
- If *compassionate*, the manager respects people, appreciates their industry and toil, and empathizes with them under adverse situations.
- If *bold*, the manager gains market advantage by seizing opportunities without hesitation.
- If *strict*, the manager is demanding and dedicated to the mission and objectives of the organization. In turn, personnel are disciplined because they are respectful of all those strong-minded attributes, yet fearful of reprimands – or worse.

Let's refer again to the legendary Jack Welch's tenure as GE's CEO. Through sheer tenacity, together with a passion for winning at business, he displayed a character trait of paying attention to the smallest details. Welch demanded frankness, honesty and openness at staff meetings.

All those deep-rooted personality qualities were wrapped around a firm belief in the power of individuals. To back up his convictions, Welch transformed GE into an informal learning organization with training directly linked to the strategic priorities of the company.

He also grasped the pragmatic truth that if managers (and all employees) are unaccustomed to the rigors of travel and long hours of work, often they will worry and hesitate at the moment when levelheaded decisions are needed to handle tough competitive conditions.

Welch devoted more than half of his time to people issues. With his folksy, hands-on and informal leadership approach, he gained the unwavering respect of his employees. Using the metaphor of a local grocery store, he acted as if each customer was a friend and each employee an associate.

Known as Jack to every employee from clerk to factory worker, it was not uncommon for Welch to casually wander down an aisle to check the stacked products on a shelf. A favorite practice was to bypass the corporate hierarchy and communicate directly up, down and across layers of management. His handwritten note, sent to everyone from direct reports to hourly workers, presented a lasting and, in some cases, an emotional impression.

All those actions were intended to lead, guide and influence the behavior of individuals throughout the complex organization. In contrast, many managers in various companies tried valiantly to improve their respective organizations. In the end they obtained just mediocre performance from operations the fraction of GE's size.

Accordingly, it is in your best interest to reinvent yourself and acquire the unique traits that characterize a successful manager. That means, hone your ability to shape a corporate or business unit's vision, think with clarity as you decide on a strategic direction, stay focused, act with dedication and passion, communicate with accuracy and, most importantly, inspire individuals to rally around the corporate cause.

The generally accepted managerial style has changed from the dictatorial and often less effective approach of pushing people, to the more proficient method of leading them. This means your aim is to inspire and empower people as part of a team effort to carry out the objectives of the business plan.

Embodied in this management style are integrity, fairness, honesty and trust to form the required team bonding. Those traits constitute the bedrock of everything a manager attempts to live by or accomplish. Concisely stated:

> *'Without integrity, sincerity, and honesty there is no trust. Without trust there is no leadership.'*

Effective management, then, is calculated by:

- ability to conceptualize and communicate far-reaching strategies;
- competence to deliver on financial goals;
- power to bring urgency to your organization; and
- leadership skills to convert your strategic vision into actions.

3. SEASONAL FORCES

This estimate focuses on the consequences of natural climate-related conditions. It influences how you manage your business within the variables of weather and logistics, such as the seasonal outcome of winter's cold and summer's heat.

For instance, what impact does weather have on such industries as home building and road construction; on transporting materials to meet critical delivery schedules; on installing communications systems; on supplying energy, as well as all the ancillary products and services associated with those industries? Further, what is the weather or seasonal impact on food supplies, fashion, entertainment and retailing?

4. MARKET SELECTION

This calculation considers the geographic selection of your markets. In turn, it impacts strategies related to your supply chain and, in particular, the channels of distribution and the physical movement of your products and placement of services over long distances.

Much anxiety about conducting transactions over extended distances has dissolved, however, with the global use of the Internet. In its place, attention has shifted to defining markets with as much accuracy as possible in closing cultural and behavioural distances.

For instance, consider the boom in Latin America during the late 1990s.

This vast region experienced explosive growth resulting from a variety of dramatic changes, such as lowering of trade barriers, declining inflation and steadier prices, economic recovery and rising incomes (in some countries), increasing democratic freedom, and the profusion of dazzling new communications technologies.

Influenced by those dynamic changes, enterprising managers discovered attractive opportunities by segmenting markets and then targeting the identified groups. For example:

- Demographic estimates and behavioural patterns revealed that of Latin America's nearly half-billion people, almost half the population is younger than 20. Hooked on new technology and yearning to follow the leading trends in world markets, these new consumers hungered for every enticement from fast foods to PC banking.
- With an estimated 35 per cent of women in the workforce, this emerging group created a strong demand for new products and services tailored to their individual needs.
- Upgraded telephone lines, the result of privatizing state-run telecom services, exposed large groups of individuals to the use of the Internet – with the corresponding skyrocketing sales in high-tech products and services.
- With working class Latinos grabbing the latest electronic products, and with telephone rates and cellular phone prices dropping dramatically, cell phones multiplied at triple digit levels, thereby exposing a dynamic and previously overlooked segment.
- Steadier currencies (in some countries) made it possible for banks to latch on to another emerging segment by offering consumer's home mortgages, life insurance and private pension funds.
- A new sensitivity emerged to otherwise poorly served groups, such as the millions of Afro-Latins whose buying power was also rising.

> Seeing the segment as an opportunity, beauty-product companies launched a line of makeup to reach this flourishing market. Some magazines even directed editorial attention to meeting their particular cultural characteristics and cosmetic cravings.

As for logistics, in many geographic markets there is still the brick-and-mortar consideration of warehousing products, shipping merchandise to destinations on time and in good order, and providing a dedicated location for customers to return unwanted or damaged merchandise. Consequently, it is a practical aspect of managing that you estimate beforehand the geographic and physical conditions of a territorial market.

Calculating such factors can help immeasurably in determining the ease or difficulty of serving various segments of the market that may be a city or a continent away. The following case illustrates this type of estimate, which led the company to refresh its strategies.

Case Example

Eddie Bauer Inc., a maker of casual-apparel and furniture, confidently followed one of the dominant marketing trends by establishing a brand identity over the Internet. Yet the leadership of this 85-year-old company saw the long-term geographic advantages for maintaining an infrastructure in brick-and-mortar stores to serve those customers attached to the touch-and-feel of a traditional retail experience.

At first, managers tried Internet banner ads to drive surfers to its Web site. But results indicated such advertising was expensive and conversions to sales were low. Then, learning that half the consumers who visited the Web site had never before shopped at Eddie Bauer stores, management had to be certain that the experience would go well beyond just duplicating a catalog page on the screen.

Eddie Bauer's Strategies

The solution came through the following creative applications:

- Develop an online virtual dressing room where shoppers can click on a sports jacket and drag a colorful sweater or striped pants to view the style effects.
- Offer online customers a reminder service that signals them by e-mail about forthcoming birthdays, anniversaries and holidays. The service also permits users to create an electronic shopping list of items they want relatives to buy for them.
- Identify groups and individuals by buying patterns. Then use tailored e-mails to communicate special savings on selected merchandise to match the buyers' fashion profile. Also, direct follow-up promotion to specific groups or special events, such as working women or back-to-school. The objective is 24/7 shopping, all anchored to brand name recognition.
- Apply a similar interactive experience for its furniture line. For instance, online shoppers can plug in the floor plans for their homes and see how Eddie Bauer furniture designs look room-by-room.

Taking the multi-faceted approach to building its brand and expanding into new market segments, Eddie Bauer managers integrated all forms of communications, such as its Web site, catalogs, advertising, sales promotion – as well as the geographic locations of its stores – to build a total brand strategy.

For instance, the Eddie Bauer catalog promotes its Web site with all the interactive online services. In turn, the online services inform visitors about returning products to its bricks-and-mortar stores, where ample cross-reference is also made to the Eddie Bauer Web address.

5. POLICY

This estimate covers the foundation operating guidelines for operating within an organization – or business unit. It forms an imprint of your company's values, ideas, outlook and history. It's what gives your organization consistency and a distinctive personality. Policy underscores and supports your ability to:

- Fulfill the mission or strategic direction of the business.
- Direct the internal controls and systems, as well as the firm's capability to innovate.
- Select and assign subordinates to various levels of authority, as well as attract new talent.
- Manage all parts of the supply chain, with particular attention to overseeing partnerships.
- Deploy financial and employee resources to exploit opportunities and sustain long-term growth and prosperity.

Policy, if used as part of a company's doctrine, also seeks to protect the natural growth of the market by avoiding hostile price wars and similar damaging activities, especially against competitors with little interest in developing the long-term prosperity of the marketplace. The following example illustrates policy – and superb managerial capabilities, as well.

case

Case Example

Prior to its turnaround in the 1980s, **IBM** projected a ponderous dinosaur image of an old economy, bricks-and-mortar company. Then, under the brilliant leadership of CEO Louis V. Gerstner Jr., IBM recast its culture and redefined itself as a key player in the Internet business.

By 1999, Gerstner was able to glory in the pronouncement that IBM generated more e-business revenues and more profits than all of the top

Internet companies combined – including Yahoo!, America Online, Amazon.com, eBay and E*Trade. About 75 per cent of IBM's e-business revenue resulted from sales of Net technology, software and services – and not from the old mainframe computers, which once made it famous.

With a revamped policy, IBM's direction took a monumental turn as it shifted internal functions to latch on to an emerging trend of providing solutions to customers' problems through a vast array of services.

Gerstner realized as early as 1994 that mainframes and other tech products were becoming commodities and that the real movement was away from the creation of technology to the application of technology. He redeployed 25 per cent of IBM's research and development budget into Net projects. He also ordered that every IBM product must be Internet-ready.

Thus, IBM was among the first to recognize the explosive growth in services. As a result, Gerstner established an Internet Global Services Division within IBM. Its mandate was to help companies design operations to take advantage of technology and the Internet, install and maintain complex software and hardware systems, and operate computer systems for large corporate customers.

Important as technology was in reinventing IBM, still another ingredient associated with policy required Gerstner's attention. He had to create a new IBM culture – an Internet culture. To begin with, that meant attracting and retaining Web-savvy employees. Gerstner began with an experimental, highly unstructured, 'anything goes' Web design office in Atlanta. That unorthodox approach led to setting up shop in 'cool' areas of the U.S., such as Los Angeles and close to the MTV and Sony studios.

His goals: Shape a new corporate doctrine and attract a breed of individuals who could work comfortably and creatively with a new set of values, procedures, mindsets and ideas that were 180-degrees opposite from the old-line IBM culture that existed in prior decades.

The intended outcome: Infuse IBM's employees with the inventive approaches that would result in a string of breakthrough products and services for the successive waves of changes underway for the Internet – and for a changing global economy.

Corporate Culture

Although the above reference to corporate culture is listed under policy, it is inextricably tied to all the previously discussed guidelines for making estimates. Culture is defined as 'the invisible web of behaviors, patterns and rules of a group that has contact with one another and shares a common language or cause.'[6] Table 2.1 indicates how various organizations changed their respective cultures.

Table 2.1: Changing Corporate Cultures

HEWLETT-PACKARD CO.

From: An old 'HP Way' emphasized teamwork that evolved into a bureaucratic, consensus-style culture, characterized by a general malaise.

To: A new Net Age mentality that accommodates to a Net-speed era and results in an infusion of new thinking, greater customer focus and innovative new products.

Intended Outcome: Create a new strategy that highlights integrated suites of products, with a focus on corporate-level branding to solve problems, rather than hawking stand-alone products.

MICROSOFT CORP.

From: An obsolete corporate mantra of a 'PC on every desk and in every home.'

To: A reinvigorated corporate vision with a clear mandate whereby employees have the power to do what they want, anywhere they want, and on any device. The process: Follow the customers. Listen closely to customers and make them happy.

6 Another useful definition of culture is the moral, social and behavioural norms of an organization based on the beliefs, attitudes and priorities of its members.

Intended Outcome: Create a radical departure from the former stringent product guidelines to a free and creative spirit to develop Internet-age products that do not have to revolve around Windows software.

ALBERTO-CULVER CO.

From: A 'patriarchal and secretive' culture driven with a top-down management style that resulted in its flagship brands losing market share.

To: A bottom-to-top friendly and upbeat work environment, expressed in highly personal ways where employees' business and individual achievements are recognized by such office trappings as balloons, gift baskets, mementos and food.

Intended Outcome: Re-energize the workforce, backed by high-flying marketing campaigns aimed at holding on to shelf space for its 40-year-old brands, such as Albert VO5 and TRESEmme shampoo, as well as establish its St. Ives skin-care products.

ROYAL DUTCH/SHELL GROUP

From: A moribund corporate environment that had not produced much innovation.

To: An energized atmosphere built around teams known as GameChangers to stimulate and manage innovation by putting the brightest new ideas into the hands of the people who can turn them into products rapidly.

Intended Outcome: Use the power of the Web among teams to trigger innovation at a rate unknown to the organization. In one year, GameChanger teams assembled 320 ideas from employees throughout the geographically dispersed firm with ideas ranging from reducing company paperwork to using laser sensors to discover oil.

DUPONT CO.

From: A company characterized as slow moving and insular, relying primarily on inside thinking.

To: A reformed structure to speed-up decision-making and introduce fresh thinking.

Intended Outcome: Bring in outsiders who can sort through strategic alternatives.

TABLE 2.1: CHANGING CORPORATE CULTURES

As shown in Table 2.1, cultures vary from one company to another. Often these variations derive from the backgrounds, experiences, adopted behaviors and values of the founders or current leaders. Consequently, each company – your company – can adopt a unique personality and display a set of behaviors that are dissimilar to others.

For instance, at online brokerage **E*Trade Group**, CEO Christos M. Cotsakos tries his hand at creating a corporate culture for the Internet age. For Cotsakos that translates into a blend of disciplines and inventive approaches that attempt to simulate Net speed.

> *Cotsakos designs way-out situations to make his particular brand of culture come alive, such as having executives race Formula One cars at upwards of 150 miles an hour. Or having other employees carry around rubber chickens or wear propeller beanies to foster creativity.*

In contrast, **Cisco Systems'** culture is characterized by a near-religious convergence on the customer, a total belief in employees as intellectual capital and an energetic willingness to team-up with outsiders to develop active partnership. This passion for molding such an outside-in focus is credited to the leadership of CEO John T. Chambers who saw from previous job experiences at the old IBM and Wang Laboratories the negatives associated with a culture of arrogance and reluctance for change.

In still another example, a relatively small chain of stores, **Bagel Works Inc.**, plays out its culture in the form of an annual ritual. At all nine outlets, employees review local charities and vote on the neediest of financial support and promotional help through Bagel Works. This seemingly mild-mannered ceremony has as its foundation a set of socially conscious values that its founders wish to retain as an enduring cultural design, beyond the bottom-line revenue tally that governs day-to-day operations.

What personal and strategic value do these diverse examples hold for you?

If culture is part of the dynamics associated with leadership and making estimates, how can you recast cultural changes within your organization or group? What follows are six approaches that have emerged from the collective experiences of successful companies challenged by the 21st century Internet age.

Select those that can help you initiate any cultural changes appropriate for your firm. Bear in mind, as noted in the above examples, culture can be highly personalized in keeping with the experiences and values of the owner, founder, or current unit leader.

Changing Corporate Culture

- Failure is permitted. A measure of risk is okay, depending on the availability of resources and the level of confidence senior management shows in its employees. If the risk succeeds, offer ample rewards; if failure results, avoid damaging repercussions.
- Try new ideas. Linked to the above is maintaining a cultural sensibility that retains an open mind and avoids the idea-killing verbiage, 'We've tried that'. It also means allowing sufficient time for ideas to incubate and hatch into new technologies, products and services.
- Learn to live with change. This is a cultural attribute that is often difficult to embed within an organization, but it needs the manager's full support. Support means maintaining an outward display of resolute calmness and unshakable confidence during the period of change.

For some employees, however, extreme change creates an unsettling situation where any perceived upheaval in working conditions is difficult to endure. Yet, it's a singular characteristic that must be addressed with extreme sensitivity. As such, it is an imperative for operating successfully in the Internet age.

- Act as your own aggressive competitor. This combative exercise helps you discover where your firm is most vulnerable. It exposes weaknesses in your products, services, logistics and overall organizational structure. It examines relationships with suppliers, intermediaries and customers along the entire supply chain.

  The process exposes strengths and weaknesses in technology, manufacturing, human resources, capital resources – and any other areas that might endanger your firm to competitive attacks. It also unmasks touchy information on employee behavior and suggests clues on how to undertake change.

  Such exposure also sheds light on those senior managers who cannot (or choose not to) make determined efforts to revamp the company's culture. In practical terms, few executives are effective for all seasons. Not all individuals are capable of performing optimally through successive stages of a corporate cycle – start-up, growth, maturity and decline – or even within different cultural environments.

- Build a solid market position. The aim is to create a unique market position from which you cannot easily be dislodged by competitors. To the extent you are able, try to create brand equity and brand recognition. Your managerial efforts should be directed toward mounting a long-term positive image for your firm.

  Research has indicated that high market share equals high return on investment. Some executives go so far as to advise building market share at any cost. The latter viewpoint, however, remains controversial. Others believe that chasing market share no longer guarantees profitability. One point that isn't controversial is that customer satisfaction and long-term customer relationships remain the enduring principles.

- Stay close to evolving technology. Tune-in to what's happening in those technologies that can help transform your business to the new economy models, (look again at the Cisco case.) Several choices exist: buying in technology, investing in start-ups, or partnering with a compatible company.

You can employ all or some of these steps to drive cultural change. How drastic those changes are depends on the severity of your company's problems. Therefore, you can react to problems as they arise or be proactive by anticipating changes. It's all part of leadership and managerial competence, which relies on estimating your internal and external environments, competitors, suppliers and, most of all, your customers.

Case Examples

The following successful examples illustrate the variety of actions used to initiate cultural change. Again, how those changes were implemented relates to the personalities and inventiveness of their leaders. This is especially so where the motivational memos to employees and the cajoling at various staff meetings have met with blank stares and general apathy.

At **Charles Schwab & Co.**, where employees initially resisted taking brokerage orders over the Net, senior management assembled nearly 100 managers at the base of San Francisco's Golden Gate Bridge, handed each a jacket imprinted with the slogan, 'Crossing the Chasm'. The group proceeded to march across the bridge – and, symbolically, walked into the Internet Age. That 1997 act also symbolized the cultural reinvention of the company and the burning of bridges behind them.

At **Intuit**, the finance-software developer, internal change was initiated through a terse press release from company management to the trade press stating emphatically that the company would deliver its new products as services over the Web, rather than in its traditional software format. Further, the changes would start immediately and without a phasing-in process. It was the shock value of the pronouncement that moved the company ahead rapidly – and resulted in a competitive advantage.

At **GE Aircraft Engineers division**, change took a physical approach. Management shifted its engineers into a renovated warehouse that had the look and feel of a high-energy start-up. The aim was to redefine an existing culture from a slow moving, tradition-based establishment to one that emphasized creativity and ingenuity.

At **Heineken Brewery** serious market challenges triggered change at the 400-year-old beer maker. Beer consumption was declining in Europe and the U.S., the source of two-thirds of Heineken's profits, because of tougher drink-driving laws and a growing appreciation for wine. At the same time, the beer marketplace was becoming more crowded, due to a flood of new brands.

To overcome these challenges, management pushed Heineken to break out of its play-it-safe corporate culture. For instance, the Amsterdam company made a dozen acquisitions, which is projected to make it the number one beer-maker in seven countries in Eastern Europe. Also in a bid to capture the sought-after twenty-something segment, advertising and packaging became more daring, with the introduction of Heineken's silver-and-green aluminum 'bottle', which sells at trendy clubs for three times the price of Heineken on tap.

Within the Heineken corporate structure, management slowly creates a sense of urgency that is seeping into its ranks. The aim is to stir employees out of their complacency. A video produced for staff viewing attempts to jolt viewers into a mindset to win-over consumers who have not yet developed a strong loyalty to a particular beverage. The mission is to reach out to younger customers without alienating the middle-aged beer drinkers who are the company's core market.

What personal and strategic value do these cases hold for you?

There are no successful managers who do not have some level of understanding of the five factors – cooperative relationships, leadership, seasonal forces, market selection and policy. Those who master them *win*;

those who do not *lose*. Consequently, you demonstrate your understanding when you exhibit an above level of competence to:

- Reach for and achieve harmonious relationships among your employees.
- Boast better trained and motivated employees than those of your competitors.
- Nurture those individuals who are anxious for the chance to outrun the competition and hesitant about holding back.
- Develop a vision for your company or business unit, and be able to translate that view into a tangible portfolio of products, services and markets.
- Utilize the advantages of technology, geography and logistics for competitive gain.
- Revitalize or change the corporate (or business unit) culture to match the objectives and strategies set forth in your strategic business plan.

THEN, based on finite comparisons with your rivals, you can calculate with a fair degree of success, who will be the likely winner.

The foundation for all your estimates, and the strategies described thus far, are incorporated in business intelligence. The following discussion covers that area as a prerequisite to managing wisely, effectively and responsibly.

Business Intelligence

Most business actions incorporate elements of secrecy, surprise and even some deliberate practices of spreading misinformation. For instance, a weak company may develop a facade that outwardly communicates strength to its customers, competitors, investors and the general public.

At times, even a strong manager may find it prudent to appear incapable, as a cover-up to entering a new market. Public relations and advertising campaigns at times can fashion an image to reinforce desired beliefs – whether accurate or not.

Being misleading means giving an impression opposite of your real intentions. For instance, when able, pretend inability so you won't show your true hand to vigorous competitors intent on paralyzing your efforts. When flexible, make it appear that you are sluggish and unresponsive. When entering a particular market, maintain secrecy for as long as possible. Or, issue rumors of your intention to move into different segments, thereby distracting competition from your real strategies. The aim is to confuse the opposing manager of your real goals.

Creating a level of discomfort could result in your opponents making hasty and incorrect decisions about sales force deployment, advertising expenditures, and even forcing the premature launch of a new product. Any form of cunning may seem disquieting with the fair-and-square attitudes with which many business owners and managers are raised.

Nevertheless, as long as there is no legal wrongdoing, the approach is part of a normal and historically accurate process in strategy development (see Chapters 3 and 6 on strategy.) In other endeavors such as sports, moves are based on doing the opposite of what the opposing team expects, e.g., driving against weak spots, avoiding strong points, making end-runs and winning by cunning strategy. It is all part of leading your people to a positive outcome, as well as managing your resources in a profitable manner.

Typically, a manager would scramble fast at the idea of reaching a new market, while it distracts competitors from making serious inroads into its segment. Further, a manager would relish the opportunity to send obscure messages that would confuse competitors into deploying resources away from the real action, or use any ingenious deception to fortify its competitive position.

From a manager's vantage point, the practical effect of using deceptions is to avoid costly head-on clashes that consume valuable physical, human and financial resources with little or nothing to show for those efforts. For it is the draining of resources that causes most businesses to fail. Whereas, developing a strength-conserving, indirect approach, delivered rapidly is purposeful, responsible, prudent and most often results in positive results; and without a debilitating and costly direct confrontation.

Such acts of deception can materialize only if you set up procedures for making accurate estimates of your strengths, weaknesses and overall capabilities. Then you can rank them against those of your competitors and expose areas of weakness through which to exploit your strengths.

How, then, do you use business intelligence?

Business intelligence consists of two parts:

First, you use intelligence primarily to make estimates and calculations of your internal company conditions as well as external market situations. Those estimates would help shape strategies to secure your corporate or product-line objectives. Putting them into action, however, requires that you gain the freedom of maneuver if you are to:

- maintain an effective market position;
- satisfy customer needs; and
- block competitive inroads.

Additionally, your purpose is to gain time as you figure out the best approach to deploy resources and obtain the optimum mix of product, price, promotion and distribution.

Second, you use intelligence to unravel behavioural, transactional and historical data about your markets and individual customers. These are accomplished through the increasing use of data mining software, particularly through the sophisticated systems available over the Internet.

Here's how sellers, customers and intermediaries can benefit from business intelligence.

Sellers can:

- Utilize market data to produce an economy of effort as it focuses on factual customer behavior, not on vague and costly suppositions.
- Obtain an orderly and more accurate product-planning program with improved chances for success.
- Maximize the efficiency of the supply chain as it shores-up weak links from supplier to ultimate user.
- Conserve resources and permit more accurate forecasting and production scheduling, with the potential for cutting costs and increasing profitability.

Customers can:

- Obtain accurate data to make timely and prudent decisions on purchases.
- Improve inventory control and identify usage patterns.
- Achieve greater flexibility to respond to changes in the competitive environment.

Intermediaries can:

- Obtain accurate and real-time information to monitor transaction performance and avoid possible confrontations that have historically muddied channel relationships. This is particularly valuable where middlemen are buyers as well as competitive sellers.

Data Mining

The significant breakthroughs in obtaining business intelligence in recent years have come from the vast improvement in analytical tools built around the Internet. Surfacing in the mid-1990s, data mining has evolved to become a vital component for most business strategies for 21st century operations.

Data mining is a computer-based process that uses a variety of analytics to discover patterns and relationships in data that may be used to make valid predictions. For instance, mining the data might determine that males with incomes between $35,000 and $65,000 who subscribe to certain magazines are likely purchasers of a product you want to sell.

Typically, the data to be mined is first extracted from a company's data warehouse into a data-mining database. This process generally is not a do-it-yourself project. Numerous vendors with the appropriate software are available to install the system in a company, or provide a capability for outsourcing.

The following case illustrates the scope of business intelligence and how leaders use it to drive business development, product innovation and overall marketing strategies.

Case Example

Procter & Gamble has taken the bold move of spinning off a totally independent company separated physically, organizationally and culturally from its vast 163-year-old corporate structure. The new start-up is known by an imaginative name, reflect.com.

The business model calls for selling cosmetics and hair products customized to the looks and preferences of each woman who shops on the Internet. Its specific goal is to introduce makeup and shampoos so personalized that no two individuals would get the same items.

P&G's Strategies

Pivotal to making its core strategy come alive, reflect.com managers moved forward with the following actions:

- Acquired finite intelligence about each woman's needs through an interactive question-and-answer process. To execute the strategy, reflect.com allied with Ask Jeeves Inc., which specializes in a technology that enables customers to pose questions on a Web site through a natural dialogue that easily obtains answers to key questions.
- Used P&G's research-and-development lab to formulate a truly personalized product and package to match each customer's specifications. Each product, in turn, contained the buyer's name. Reflect.com managers envisioned as many as 50,000 different hair, skin and makeup combinations from which to tailor unique products. The product is marketed at a cost no greater than high-end merchandise at a department store cosmetic counter.
- Maintained ongoing business intelligence to watch over competitors' product offerings and make certain that they would not throw up barriers to impede its progress.

The World Wide Web and the Information Revolution

As illustrated by reflect.com's strategy, the World Wide Web is now the trigger for the explosive level of activity designed to acquire finite intelligence not only about groups, but also about individual behavior. The technology is becoming so pervasive and eye-popping that individuals can conveniently surf the Web and do their shopping – while leaving useful information about their transactions.

As customers make inquiries or complete their transactions, hidden files or tags called 'cookies' are deposited on their computers. Software programs then use those files to track and analyze online behavior. Such data becomes the foundation to design a product or service offering, built around a one-on-one approach.

Another case illustrates the point and emphasizes the need, in fact the necessity, for using every valid piece of business intelligence that can be acquired. It is one of the infallible marks that will reinvent you as a highly effective manager.

Case Example

Britain's **ICL** illustrates the major innovations created by the new information technology. For instance, individuals can order groceries over the Net by scanning product bar codes on computers built into their refrigerators using ICL's technology.

Smart cards allow users to do everything from storing personal information to earning bonus points at retailers. In turn, such information provides vendors with valuable data on usage patterns, expenditures, time of purchase and numerous other pieces of information that, when assembled, provide an exacting customer profile.

The information-gathering activity is so mammoth that one Web portal, Yahoo!, collects some 400 billion bytes of information every day – the equivalent of a library crammed with 800,000 books – about where visitors click on a site. Armed with the information, it calculates which ads and products appeal most to visitors so it can garner more e-commerce sales.

Whether a company – your company – selects a top-down data warehouse strategy or uses a bottom-up data mart strategy, the output is intended to provide reliable and applicable information to enhance decision-making and improve a company's competitive advantage. In the evolution to its present state of business intelligence, reporting has moved from static reports on historical trends, product usage data and marketing campaign feedback to the present sphere of comprehensive, interactive intelligence.

The result is real-time intelligence, which provides additional insights about customer behavior and offers valuable feedback to multiple functions of the organization, from product development to marketing.

Strategically, the process serves to support all-out customer relationship management (CRM)[7]. Tactically, it provides individualized recommendations that extend the sales life of the customer.

Thus, the shift is away from merely accumulating raw information to generating explicit intelligence to feed the five-point estimate model described in this chapter. As the movement to total business intelligence continues to evolve, new applications emerge.

For instance, the customer profile is enhanced with psychographic, behavioural and competitive facts that attempt to dig into how a customer is likely to feel about a product, as opposed to a competitive offering. Thus, the focus is to leverage intelligence throughout the entire supply chain to secure a favorable market position and develop a sustainable competitive advantage.

The following case illustrates another practical application of business intelligence.

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7 CRM is the practice of building long-term satisfying relationships with key parties – customers, suppliers and distributors – in order to retain their long-term preference and business.

Case Example

During the late 1990s, **Ford Motor Co**. was plagued with the problems of costly 80-day inventories sitting on dealer lots and a 64-day average time from customer order to delivery. Also, there was the growing problem of some disgruntled suppliers complaining about having to manufacture and inventory parts based on last-minute changes in orders resulting from Ford's ever-changing sales forecasts.

At that time, there were conflicting opinions about the viability of the century-old 'push' business model, where the plant builds a pre-determined mix of cars and delivers them to dealers who rely on aggressive sales tactics or hefty rebates to move cars off the lot.

Recognizing the depth of those concerns, Ford leadership decided to seize the opportunity and utilize the latest Internet technology and e-business techniques to reinvent itself before competitors could respond. Central to the strategy was to change from the 'push' model to a 'pull' model, where customers decide what kind of vehicle they want built.

The Ford vision encompassed a far-reaching system that integrates business intelligence throughout the entire supply chain, its internal operations and the ancillary services offered to its customers. In practice, a customer could custom-configure a particular Ford model online. Then, the detailed information would be transmitted to the factory that builds the car to order. When completed, the dealer would deliver the car and instantly report any problems so that the plant could make appropriate adjustments.

Ford designers, watching closely from the sidelines, would then crank-in the customer-driven information into future models. Within the supply chain, vendors would continuously monitor inventories at Ford factories through electronic linkages. In a related Ford business, a finance unit could underwrite the purchase and handle the insurance.

The entire strategy is based on a magnificent blend of business intelligence, technology and the integration of every function inside the organization and throughout the entire supply chain. Further, all activities would link into an integrated Web to create customer satisfaction, company growth, as well as nurture the long-term prosperity of the market.

Executing the plan, however, was never conceived as a do-it-yourself activity. Ford began by assembling a high-powered, high-tech group of partners. Oracle would provide the software and databases needed to exchange information and conduct transactions seamlessly. Cisco would contribute the essential networking expertise. Microsoft would use its CarPoint Web site to offer a build-to-order service. And Yahoo! would monitor behavioural buying patterns.

What are the tangible advantages of the above plan? Factories build cars to order; manager's tune-in to the evolving needs of customers; and suppliers control expensive inventories. The savings alone from streamlining the suppliers' distribution system using the Internet are estimated at 25 per cent of the retail price of a car.

Such a system is not unlike the ongoing methods **Wal-Mart Stores** uses to give suppliers responsibility for stocking its store shelves, or the practices **Dell Computer** employs to fine-tune its ordering and manufacturing processes with the result that it is able to assemble more than 25,000 different computer configurations for customers.

Precise estimates, therefore, supported with ongoing business intelligence feed competitive strategy development, invigorate customer relationships and lead new market development initiatives. Overall, the process contributes to sound management of human, financial and physical resources.

In the everyday application of business intelligence, you can benefit by actively tuning-in to market conditions. It can help you interpret competitors' moves and provide meaningful options on how to maneuver resources.

To trigger your thinking in diverse areas, let's examine the following applications of business intelligence:

- **American Express** gathers existing customer information from its call centers and uses the data to make highly targeted cross-sell and up-sell offers to customers when they reconnect with the call centers.

- **Charles Schwab** compiles routine requests from its investor accounts to form a comprehensive profile of its customers. The in-depth data is then reconfigured and applied to such revenue and profitability goals as customer retention, cross-selling and up-selling. The aim is to maintain an advanced level of differentiation in an industry that has become intensely competitive.
- **Kodak** collects, analyzes and acts on precise data to constantly identify and differentiate customers and prospects, and then personalizes messages and offerings.
- **Hilton Hotels** probes guest information from its hotels and resorts and makes it available to its hotel managers over the Internet. Those managers can then develop new or improve existing services for their guests, manage corporate loyalty programs and manage marketing campaigns.
- **Verizon** leverages its data to develop profiles for each of its telecommunications customers. Then, based on each customer's history and preferences, it offers products and services that are likely to appeal to each individual.

Thus far, in line with the central theme of this chapter, if accurate estimates in the planning stages indicate success, it is because calculations show your strength to be superior to that of your competitor in key internal and external areas. Conversely, if estimates indicate defeat, it is because calculations show that your situation is inferior.

With many calculations, you have a superior chance of winning; with few you do not. Think about how much less chance of success you would have with no estimates at all. By this means, you can accurately examine the situation and the outcome will be clearly apparent before you make major commitments.

As already pointed out, making estimates and creating comparisons of relative strengths is a deliberate and rational process. You can make two separate calculations:

- The first is on a corporate or strategic level using the five estimates described earlier.
- The second is on a tactical level using the checklist in Table 2.2.

Table 2.2. Tactical Estimates

Part I: Market Environment

ESTIMATES OF CONSUMERS

1. What are the demographic and behavioural profiles of your end-use buyers?
2. What key factors influence buyers in making buying decisions?
3. How do prospective buyers perceive your products or services?
4. How are your consumers' cultural attitudes, values, or habits changing?

ESTIMATES OF CUSTOMERS

5. Who are your intermediary customers, e.g., distributors, wholesalers, retailers?
6. Who or what influences their buying decisions?
7. What is their size and what percentage of your total revenue does each group represent?
8. How much support do they give your product?
9. How can you motivate them to work harder on your behalf?
10. How do they function within the supply chain?
11. Would you be better off setting up your own distribution system?

ESTIMATES OF COMPETITORS

12. Who are your competitors by location, market segment and product lines?
13. Is their participation in this field growing or declining?

14. What new domestic and international competitors may be on the horizon?
15. Which competitive strategies and tactics appear particularly successful or unsuccessful?
16. What are the strengths and weaknesses of your major competitors, including the capabilities of their leadership?

ESTIMATES OF RELEVANT ENVIRONMENTAL COMPONENTS

17. What are the legal constraints affecting your marketing effort?
18. To what extent does government regulation restrict your flexibility in making marketing decisions?
19. What threats or opportunities do the new technologies hold for you?
20. What broad cultural shifts are occurring in your primary markets that may affect your business?
21. What consequences will demographic and geographic shifts have for your business?

Part II: Estimates of Management Practices and Policies

22. Do you conduct regular and systematic market analyses?
23. Do you subscribe to any regular market intelligence service?
24. Do you test and retest carefully before you introduce a new product?
25. What systems and procedures do you have to examine opportunities and threats to your business? And how aggressively can you cope with them?

ESTIMATES OF EFFECTIVE PLANNING

26. Do you have a well thought-out mission statement that is part of a formal strategic business plan? Is it clearly communicated and embraced by all personnel?
27. Are your objectives achievable and measurable?
28. What are your core strategies for achieving your objectives?
29. How effectively are you segmenting your target markets?
30. Are you allocating sufficient resources to take advantage of e-commerce breakthroughs?
31. How well does your strategic business plan coordinate with other functional plans?

ESTIMATES OF THE ORGANIZATION

32. Is there a need for more or upgraded employee training, incentives, supervision, or evaluation?
33. Are your managerial responsibilities structured to best serve the needs of different products, target markets and sales territories?
34. Does your entire organization embrace and practice a customer-centered orientation?

Part III: Estimates of Strategy

PRODUCT

35. What is the makeup of your product mix and how well are its components selling?
36. Do you carefully evaluate any negative ripple effects on the remaining product mix before you make a decision to phase-out a product?
37. Do you have a product audit program to assist in considering modification, repositioning and/or extension of sagging products?

38. What additions, if any, should be made to your product mix?
39. Which products are you best equipped to make yourself and which items should you buy and resell or private label?

PRICING

40. To what degree are your prices based on cost, demand and/or competitive considerations?
41. Do you use temporary price promotions and, if so, how effective are they?
42. How do your wholesale or retail margins and discounts compare with those of competitors?

COMMUNICATIONS

43. Do you have clearly stated advertising objectives?
44. Are your advertising themes effective?
45. Do you make aggressive use of sales promotion techniques?
46. How is the Internet integrated into your overall promotion strategy?

PERSONAL SELLING AND DISTRIBUTION

47. Is your sales force the right size to accomplish your marketing objectives?
48. What is the role of the sales force in an e-commerce environment?
49. Is the sales force adequately trained, motivated and provided with adequate incentives?
50. Are you taking advantage of opportunities in supply chain management for streamlining your distribution network?
51. Is your customer service at a high enough level to create a competitive advantage?

Knowledge Management

All the categories of estimates described in this chapter are part of a broader managerial and information framework that is fast becoming a central focus for managers: Knowledge Management (KM). You can view it as a more elevated form of information, so that when interpreted it provides new meaning, value and relevance to managing your organization or a business unit.

KM consists of two parts:

1. **Explicit knowledge** exists in your internal databases, records, manuals, documents, the raw numbers in spreadsheets and increasingly through Web sites. In particular, sophisticated analytics incorporate additional data from a variety of customer touch points, such as the call center, field service, prior marketing programs and external back office information. When organized into a useable format, there is greater reliability and accuracy for estimating a market situation.

2. **Tacit knowledge** generally resides in the minds of individuals who have accumulated it through discovery, experience, or through the numerous interactions with others. Since tacit knowledge tends to be less structured, it cannot always be put down on paper. Instead, it is transferred indirectly through conversation, observation, or other types of informal interchange.

   Tacit knowledge can originate in a variety of patterns, such as the impressions, feelings and insights of a sales rep returning from a visit with a key customer. Or it can start with an engineer making an offhand comment about a gestating idea with an associate in a casual setting over lunch. If taken with the seriousness and discipline given to any other business system, KM can operate as a balanced, multi-disciplinary framework for capturing, sharing and spewing forth immensely valuable knowledge.

Consequently, in keeping with your key managerial role of making a diverse range of estimates, actively involve yourself in developing an internal KM exchange network. Regardless of the size of your company, it should blend with the everyday life of your organization and feed the transfer of meaningful knowledge.

For many organizations explicit knowledge is tangible and is available on a widespread basis, or is at least accessible to specific personnel. On the other hand, as discussed above, tacit knowledge is somewhat unbounded and tends to be used by individuals who need to protect what they know as a personal defense or a power barrier.

To break through the barriers and add KM to the culture of the firm means establishing a level of trust up and down the organization and instilling a spirit of teamwork, to make knowledge management work to the full benefit of the organization.

By blending explicit and tacit knowledge, accurate estimates can evolve to justify the development and timely rollout of new products, the adoption of an evolving technology, or the choice of market segments to enter. And, perhaps most importantly, to shape those strategies and tactics that sustain a competitive edge.

The responsibility for KM can reside with any number of individuals, depending on the size of your company and the level of priority given to the project. The range of individuals includes company librarian, information technology (IT) manager, market research manager, or the new title of internal infomediary who creates or manages systems to connect employees with the knowledge they need. Regardless of title, the central responsibility is to tap into the immense fund of knowledge flowing around the organization.

Finally, information, intelligence and total knowledge management are only as valuable as your willingness to apply the mass of knowledge to make appropriate estimates and create a winning business advantage.