



Book Re-think

A Business Manifesto for Cutting Costs and Boosting Innovation

Ric Merrifield
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Recommendation

Business architect Ric Merrifield says many executives get hung up on the “hows” of running a firm: the techniques, tactics and technologies their companies use to operate. In the process, they fail to focus on the all-important “whats” of their enterprises, that is, central functions like manufacturing quality products, fulfilling orders, satisfying customers and so on. Lost in superfluous details, these leaders can’t see their real priorities. Merrifield says that for many such executives, basic rethinking is in order. In this book, he explains how to take a fresh look at your business to identify and prioritize your core activities. Although the metaphorical overload of “whats” and “hows” might make you want to ask, “Who’s on first?” this is a solid take on leading innovation. *BooksInShort* recommends it to any executives who suspect they may need to refocus or broaden their perspectives about their organizations.

Take-Aways

- Executives often focus too much on tactics, the “hows” of their operations.
- Such thinking deflects attention from core business functions, and results in bad decisions and faulty priorities.
- Concentrate instead on the “whats” of your business, its vital outcomes, such as effectively manufacturing, selling and delivering products.
- The most important outcomes provide maximum value and predictability.
- They closely correlate with your organization’s goals.
- Identify “high-value ‘whats’” that have superior performance. Avoid risky changes.
- High-value “whats” with substandard performance are top candidates for change, but first you must understand how they create value.
- Be careful that your modifications do not lead to problems down the road.
- Consider outsourcing, automating or eliminating low-value “whats,” even if they perform well.
- Do not redesign functions that are tightly linked to factors you do not want to upset or that are pivotal to your regulatory compliance.

Summary

First, Do No Harm

Home Depot built its reputation on having friendly, knowledgeable salespeople who could give customers immediate expert advice on repair and improvement projects. In 2000, Robert L. Nardelli joined Home Depot as its new chairman and CEO. He immediately cut costs, reduced employees’ hours and curtailed store managers’ independence. Numerous people quit. As he built more stores, revenues increased, but customer satisfaction dropped. Home Depot was no longer differentiating itself from other big-box competitors. Its rival, Lowe’s, stepped in with service-oriented staffers. Soon, customer surveys said people liked Lowe’s but not Home Depot.

Lowe's revenues soared. Home Depot's stock price stagnated. In 2007, its board fired Nardelli.

"We focus on process: 'how' we're doing the job. And we forget about the bigger issue: 'what' we're doing and 'why' we're doing it."

Nardelli's moves to cut costs and improve operations seemed sensible. His mistake was focusing solely on making Home Depot more efficient by reducing costs. In so doing, he became a victim of the "how" trap." He forgot the importance of Home Depot's "what": supplying a satisfying shopping experience for do-it-yourselfers. Nardelli made a common mistake and Home Depot suffered as a result. Many executives worry so much about processes and details that they fail to see the "big picture" – what their businesses really do. They need to elevate their thinking and rise above the pesky "hows" so they can focus on the outcomes that matter. This will enable them to develop sensible processes that form a direct path to attaining their firms' primary goals.

Finding the Right Unit of Analysis

Businesspeople give new technology the credit for productivity gains. They forget the importance of operational design theory. In recent decades, companies have increased productivity with total quality management programs and "reengineering initiatives." Firms need another approach that maximizes the worth of their work.

"Management theory in recent years has pointed us toward a focus on process, on how efficiently a job is done as opposed to what the job is supposed to accomplish."

In his 1776 book, *The Wealth of Nations*, economist Adam Smith explained how the division of labor could make workers more productive. His unit of analysis was the individual task. In the 19th century, Frederick Winslow Taylor made the worker, not the task, the unit of analysis. In the 1960s, as a result of automation, the unit of analysis shifted to "the department." In the 1990s, as computers became more powerful and cheaper, and telecommunication prices fell, the unit of analysis became the cross-functional process, in which managers reorganize work "across departments."

Which "Whats" Come First?

Today, the unit of analysis is the "what" – that is, the company's "desired outcomes": merchandise manufactured, orders filled and products delivered. Focusing on results can help companies adopt a "plug-and-play" approach to their activities and operations. However, identifying the outcomes that are most vital is not easy, particularly for executives who have always dwelt on "hows," such as processes and procedures. To prioritize your "whats," choose the ones that provide the greatest value in performance and competitiveness. Making these choices is the beginning of your "rethinking process." Your typical "whats" might include making, selling and delivering goods, designing new products, overseeing suppliers and ensuring "product quality."

"Today, the key to increased productivity is the rethinking of the 'whats'."

Prioritizing your outcomes will give you the information to determine which "hows" to focus on in order to increase the efficiency of your "whats." Never alter a "high-value 'what'" without fully understanding why it performs so well. "Hows" may be at the root of its excellence, perhaps in the form of the "people, the process, the technology or some blend of these [factors]."

"Leaders tend to devote their energies to thinking about the details, thereby missing the big picture."

To select priority outcomes, look closely at performance. Is a long-running "what" still performing well and consistently? Do you know why? Can you make it better? Can you cut its costs? Automate it? Outsource it? Answer three questions to identify your most important "whats":

1. **Does the "what" relate directly to your firm's primary business goals?** – To prioritize, grade it on a one-to-five scale, with one being low.
2. **Does the "what" tie closely to your corporate image and brand?** – Does it make your customers, employees or business partners feel good about your company?
3. **If you make the "what" perform better, will this add to its value?**

"Learn the activities most critical to success, as well as those that are borderline, redundant or even counterproductive."

To improve your "whats," look at their value and performance. Be sure you understand the nature of each element's performance and how to develop it. The top rank is "high value [and] high performance." However, your primary targets for change are "whats" that are "high value [and] low performance." Consider how to make them perform better. If an item's performance level on the one-to-five scale is below three and you are not sure how to fix it, then just move on to higher value "whats." A low value "what," whether it performs well or not, may be a candidate for outsourcing, automation or elimination.

"In the course of rethinking, you have learned how to identify your 'whats,' determine their value and performance level, and figure out their connections to one another."

When you rethink your business, don't assume that because it is good at one thing it will be good at something else. Basketball superstar Michael Jordan made this mistake in 1994 when he left professional basketball to become a baseball player. In basketball, Jordan was a towering force, but on a minor-league baseball team, he was unimpressive. Jordan's error: He thought "play sports" was his high-performance "what," when, in fact, it was "play basketball."

Be Careful of Connections

Before you begin redoing things, make sure your changes won't displace anything important. Dell made this mistake in the early 2000s when it outsourced its "Resolve Customer Questions [and] Problems" function to India. This saved money, but it angered customers. Dell did not understand this function's vital connection to responsive customer service. The company had originally been a big hit with customers because of its superior service. In downgrading the service, Dell inadvertently changed a high-value, high-performance "what" to a high-value, low-performance one. Often, when firms reorganize, they mistakenly sever key connections, as Dell did. When you try to change a high-value "what," take care not to create a new problem. If a "what" has many connections, don't change it, or do so slowly and

Carefully.

How Will Changes Now Affect the Future?

Changing a major “what” can represent a bold step forward. Before making this change, do your best to predict the effects on your consumers, vendors and stakeholders. Chrysler discovered the importance of this a few years ago when it analyzed various parts suppliers for its Jeep Cherokee. This review of the Jeep Cherokee “Manufacture Product” function began with the V-8 engine. Chrysler first looked at the roller-lifter valve, manufactured by Eaton, which bought its unfinished metal castings from a neighboring factory. Another supplier sold the factory a specific form of clay that it used to make the castings.

“Starbucks started out being about the coffee, but it quickly became about the customer experience in its stores. By prioritizing the ‘whats’ that contribute to customer experience...Starbucks added numerous products and services that contributed to the overall experience.”

In its review, Chrysler learned that the clay supplier was planning to stop selling clay to the castings maker because the sales were unprofitable. Instead, it was going to become a kitty litter manufacturer. Chrysler also learned that the clay supplier had not yet told the castings maker of its plans. Chrysler’s supplier survey turned out to be pivotal. Without it, the result might have been “no clay, no castings, no roller-lifter valve, no V-8 engine, no Jeep Cherokee.”

“Price is what you pay. Value is what you get.” (Warren Buffett)

Before you make a change, forecast the outcome. If you cannot project results, find out why. Is the unpredictability due to factors you can influence? If it’s not, don’t make the change – or at least wait until you have better control. Focus on “whats” with superior value, substandard performance and lots of predictability. Fixing their performance is your best formula for increasing your firm’s benefits while limiting its risks. Consider these case histories:

- **ING Direct** – Banking was a conventional, conservative and staid business that emphasized great retail locations until Arkadi Kuhlmann came along. This chairman, president and CEO of ING Direct was well aware that his new online company would change standardized banking “whats.” ING Direct had no branches and, at first, featured just one product: saving accounts with high interest rates. Customers loved ING Direct’s approach and its lack of fees. It is now the biggest U.S. Internet-banking company, with \$80 billion in assets. Each month, it picks up another 100,000 clients. To attain its goals, it focused exclusively on bank customers’ basic “whats” – high-interest savings and no fees – and not on the “hows” of locations, hours or designer checks.
- **Eclipse Aviation Corporation** – With a background in application software at Microsoft and a lifelong love of flying, Vern Raburn formed Eclipse Aviation Corporation to sell a newly designed twin-engine, six-seat Very Light Jet (VLJ). He hoped to revolutionize private aviation with an affordable small jet that could be an air taxi and that affluent people could buy for private use. Initially, he hoped to manufacture and sell his Eclipse 500 jet for \$900,000, a low price compared to a Learjet (minimum \$6 million) or a Gulfstream jet (minimum \$25 million). Though the sticker price of Raburn’s model climbed to \$2.15 million during production, he radically changed private jet design and manufacturing standards. His innovations focused on the “whats” of flying, but were backed by “state-of-the-art ‘hows’.” Raburn developed unique manufacturing techniques to save money and time. However, when Eclipse Aviation lost millions and failed to meet production or cost goals, the board replaced Raburn. Still, this visionary deserves great credit for rethinking the “whats” of jet aviation and making the VLJ a reality.
- **Cranium** – Is it possible to design a board game every player can win? Richard Tait and Whit Alexander did just that. Their game, Cranium, lets players show off their abilities with “word puzzles and fact-based questions” plus “sculpting, sketching, acting and even humming.” After a decade, Tait and Alexander have sold tens of millions of games by rethinking high-value “whats” and avoiding diversionary “hows.”
- **Amazon** – This giant online retailer routinely “reinvents itself” by redoing its vital “whats.” The company, which began as an unprofitable online bookseller, is now a vast enterprise that handles a large “percentage of all online retail transactions.” Its high-profile founder, Jeff Bezos, was working on Wall Street in 1994 when he learned that Internet traffic was “growing at 2,300% per year.” He figured all those Internet users would want to buy products online. When he formed his firm, he learned that the only way to make money was to develop warehousing and distributing operations, so he focused on the “what” of filling customers’ orders. Amazon set out to provide a positive online shopping experience, and it now markets a wide range of products. By rethinking his original business plan and reconfiguring his company’s activities into new areas, Bezos transformed Amazon into an online sales colossus.

Rules and Regulations

The more you can control your company’s operational variables, the more predictable your processes will become. One such variable concerns government rules and regulations. Intrade, an “online prediction” company in Dublin, learned this the hard way. Its members purchased and sold futures probability contracts on every conceivable event or result, including the capture of Osama bin Laden. By 2006, it was highly profitable, with 75,000 members, 66% of whom were Americans. Then, in October, the U.S. enacted the Unlawful Internet Gambling Enforcement Act. A central provision prohibited U.S. bank and credit card companies from transferring funds to Internet sites conducting online gambling. As far as the U.S. government was concerned, that included Intrade. Its U.S. revenues fell 70% within a month.

“If you don’t know where you are going, you might wind up someplace else.” (Yogi Berra)

Government regulations affect every business. Understand all aspects of your firm’s regulatory compliance before you restructure any “whats.” You don’t want to run afoul of some rule, and you may be in compliance with one set of regulations and not another. To sort out this situation, separate your “whats” into three categories: “those that have compliance issues, those that don’t and those that you’re uncertain about.” Do not redo “whats” with “existing or potential compliance problems.” Noncompliance can be a major issue with low- or high-value activities.

About the Author

Ric Merrifield is a business architect for a large software company, where he has filed many applications for patents of companies’ operating models. He was a consultant for 15 years.