

# Good to Great

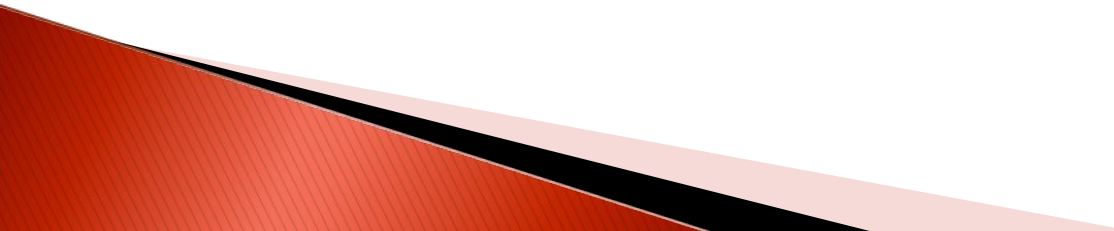
## Ch. 5 The Hedgehog

### Concept

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# Overview

- ▶ The Three Circles
  - ▶ Understanding What You Can (and cannot) Be The Best At
  - ▶ The Good-To-Great Companies and The “Best In The World At” Circle of The Hedgehog Concept
  - ▶ Insight Into Your Economic Engine-What Is Your Denominator?
  - ▶ Understanding Your Passion
  - ▶ The Triumph Of Understanding Over Bravado
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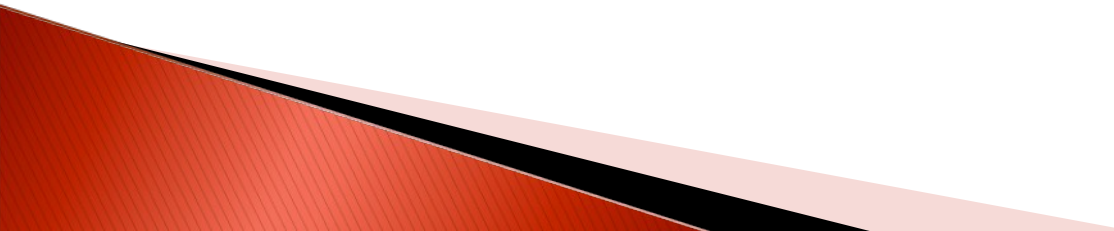
# The Three Circles

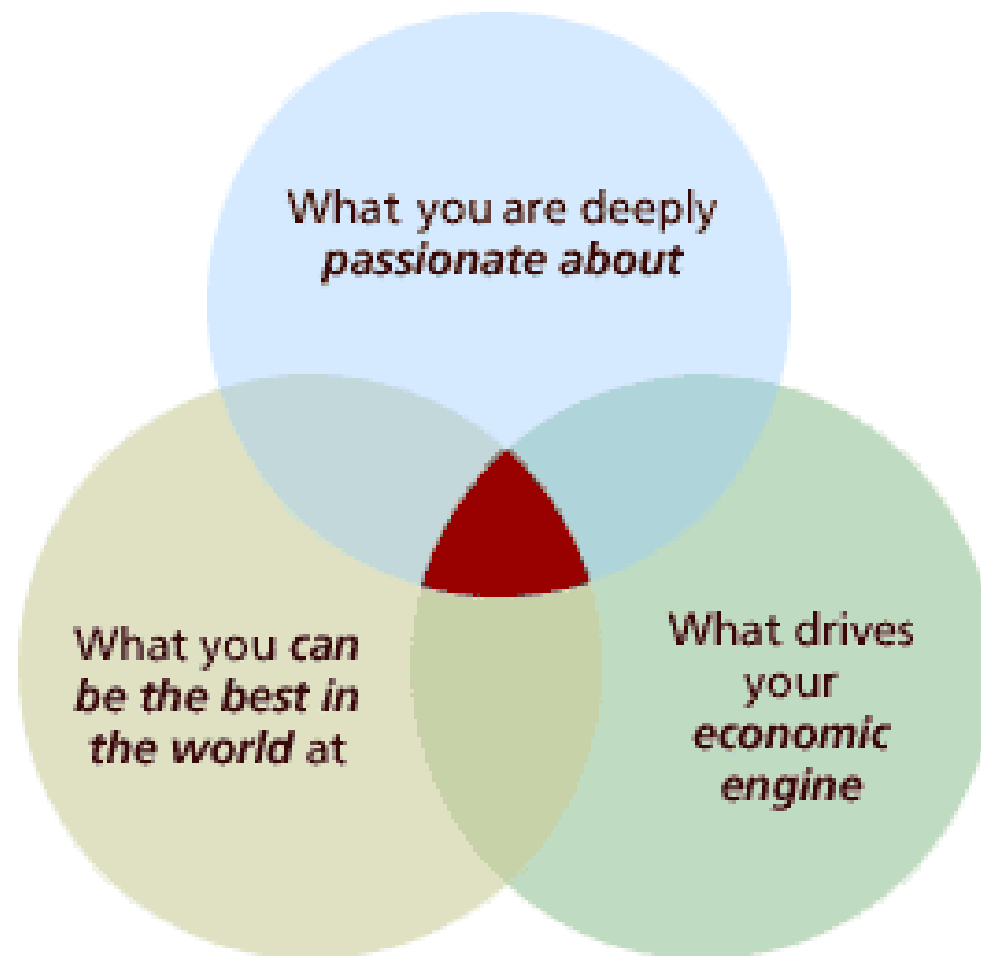


# The Three Circles

- ▶ Walgreens VS. Eckerd
  - They both had strategies, but Walgreens outperformed Eckerd greatly
- ▶ What is the strategic difference between good-to-great companies and others?
  - They founded their strategies on deep understanding along three key dimensions
  - They translated that understanding into a simple *Hedgehog Concept* that guided all their efforts

# The Three Circles

- ▶ A *Hedgehog Concept* is a simple concept that flows from deep understanding about the intersection of the three circles:
    1. What you can be the best in the world at (and what you cannot be the best at).
    2. What drives your economic engine.
    3. What you are deeply passionate about.
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Three circles of the Hedgehog Concept

# Understanding What You Can (and Cannot) Be The Best At






# Understanding What You Can (and Cannot) Be The Best At

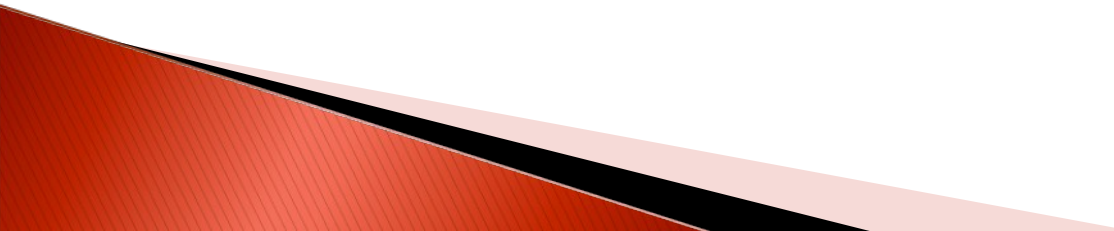
- ▶ A Hedgehog Concept is not a goal to be the best, a strategy to be the best, an intention to be the best. It is an *understanding* of what you *can* be the best at.
- Wells Fargo was trying to be a global bank by proposing to be like a Citicorp, but could not stand up to the challenge of global banking
- Wells Fargo made a transition using the belief of a hedgehog concept



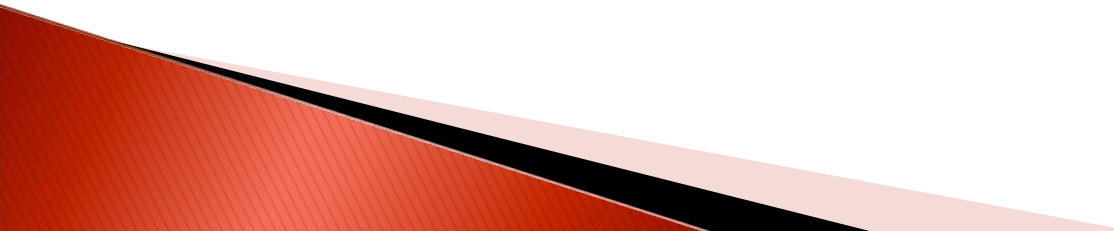
# Cont.

- ▶ Bank of America goes into panic mode from the deregulation and hires change gurus
  - ▶ Wells Fargo took the opposite approach and went as simple as they possibly could
  - ▶ Wells Fargo employee quote on how the CEO used its hedgehog concept, “If he were an Olympic diver he would not do a five-flip twisting thing. He would do the best swan dive in the world and do it perfectly over and over again.”
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# Two Identical Companies

- ▶ Abbott Laboratories and Upjohn both with identical stats and both at the back of the pack in the pharmaceuticals industry
  - ▶ Then in '74 Abbott developed their hedgehog concept and destroyed the competition
  - ▶ Abbott realizing they couldn't be the best in the industry with pharmaceuticals went into the two ways they could be the best at and that was through nutritional products and diagnostic devices
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# Hedgehog is not the same as Core Competencies

- ▶ Because a kid in high school gets straight A's in math, does not mean that they should be a mathematician when they grow up
  - ▶ Say the student goes to college and faces other brilliant math students who finish the same tests in 30 minutes rather than 3 hours like this kid and still makes an A+
  - ▶ The kid might be good, but its not set for his future and by not realizing he cannot be the best at it in that competition shows the lack to apply a hedgehog concept and finding an alternative
- 

# Cont.

- ▶ Every good-to-great company eventually gained deep understanding of this principal and pinned their futures on allocating resources to those few arenas where they could potentially be the best at in the world!

# The Good-To-Great Companies and The “Best In The World At” Circle of The Hedgehog Concept



# Good To Great Companies & “Best In The World At”

- These companies show the understanding of what it takes to become “good to great”
- These companies weren’t the best in the world, rather they showed what they came to understand they could become best in the world at

# Good To Great Companies & “Best In The World At”

**Abbott Laboratories:** could become the best at creating a product portfolio that lowers the cost of health care

- They shifted focus to creating products that contribute to lower-cost health care, such as diagnostics and hospital supplies



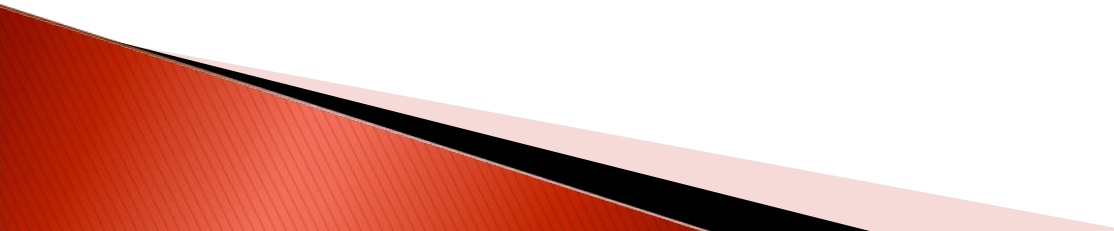


# Good To Great Companies & “Best In The World At”

- ▶ **Kroger** : Could become the best at innovative super-combo stores
- Kroger always had a strength in grocery store innovation
- Took the skill of creating an “ all in one” combination store with many innovative, high-margin “mini-stores” under one roof

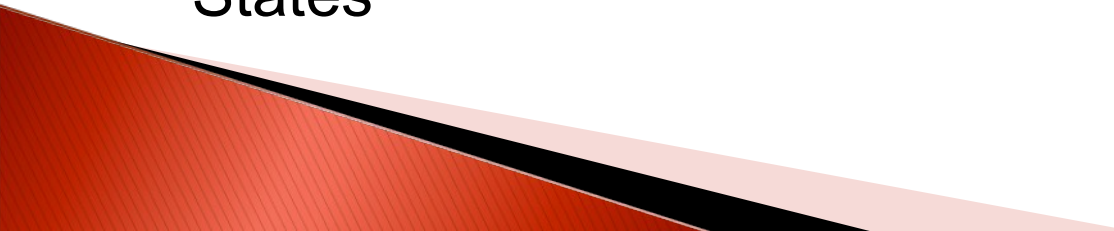
# Good To Great Companies & “Best In The World At”

**Gillette:** Could become the best at building premier global brands of daily necessities that require sophisticated manufacturing technology

- Created the ability to manufacture billions of low-cost, super-high tolerance products(razors,etc.)
  - Had the ability to build global consumer brands- the “coke” of blades and toothbrushes
- 

# Good To Great Companies & “Best In The World At”

**Wellsfargo:** Could become the best at running a bank like a business, with a focus on the western United States

- Wellsfargo saw itself as a business that happened to be in banking. “Run it like a business” and “run it like you own it” became mantras
  - Wellsfargo recognized that it could not be the best in world, but that it could be the best in the western United States
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# Good To Great Companies & “Best In The World At”

Mother of all Examples.....



# WAL-MART

# Good To Great Companies & “Best In The World At”

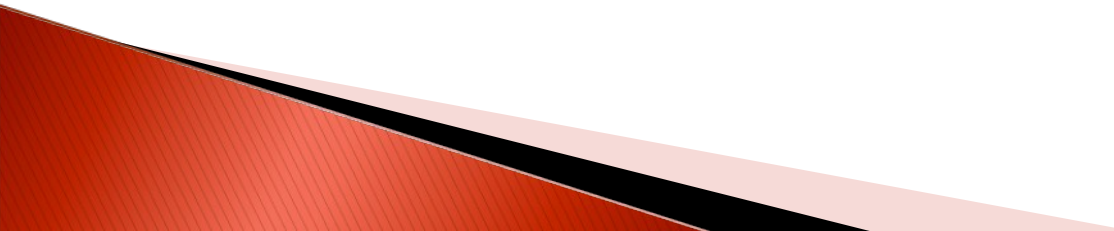
**Wal-mart:** Could become the best at creating a store that offers nearly any type of item one would need, able to purchase at any time of the day, with unbeatably low prices

- Wal-mart is essentially in a category of its own, in terms of having everything a person would need under one roof

Insight into your economic  
engine—what is your  
denominator?

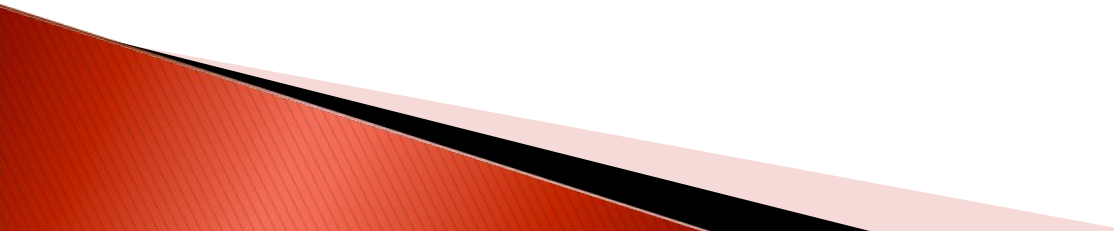


# Insight into your economic engine—what is your denominator?

- ▶ Companies do not need to be in a great industry to become a great company
  - ▶ Each good-to-great company built a great economic engine, regardless of the industry
  - ▶ They were able to do this because they attained profound insights into their economies
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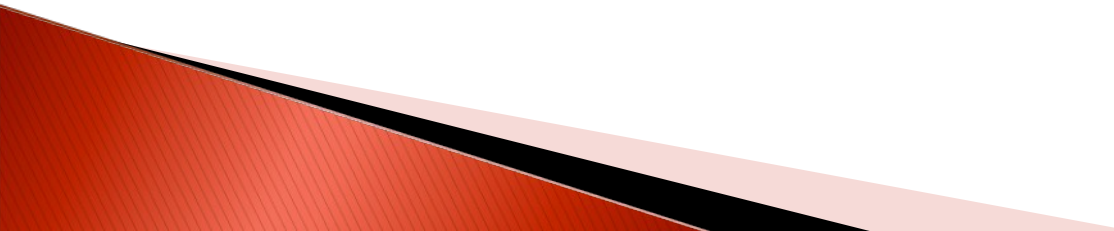
# Economic Denominator

- ▶ *If you could pick one and only one ration—profit per  $x$ —to systematically increase over time, what  $x$  would have the greatest and most sustainable impact on your economic engine?*
  - ▶ This question leads to profound insight into the inner workings of an organization's economics.
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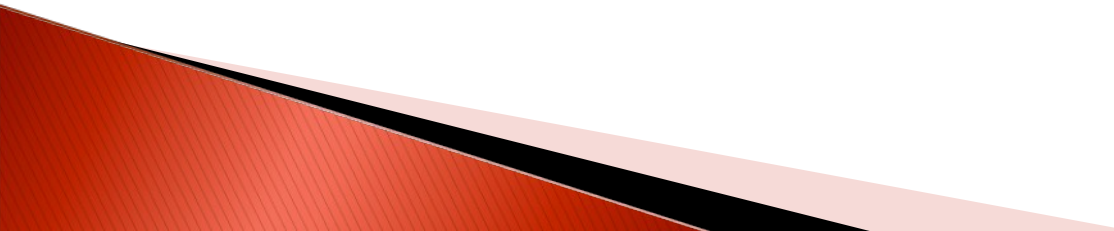
# Walgreens

- ▶ Switched its focus from profit per store to profit per customer visit
- ▶ By increasing profit per visit, Walgreens was able to increase convenience and increase profitability across its entire system while doing so

# Wells Fargo

- ▶ Learned that with deregulation, profit per loan and profit per deposit would no longer be key drivers
  - ▶ New denominator for them = profit per employee
  - ▶ Now rely primarily on stripped-down branches and ATMs
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# Denominator Question

- ▶ Serves as a mechanism to force deeper understanding of the key drivers in your economic engine
  - ▶ When tested, it always stimulated intense dialogue and debate
  - ▶ The point of having the denominator is not just for the sake of having it, but to gain insight which will ultimately lead to more robust and sustainable economics
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# Economic Denominator Concluded

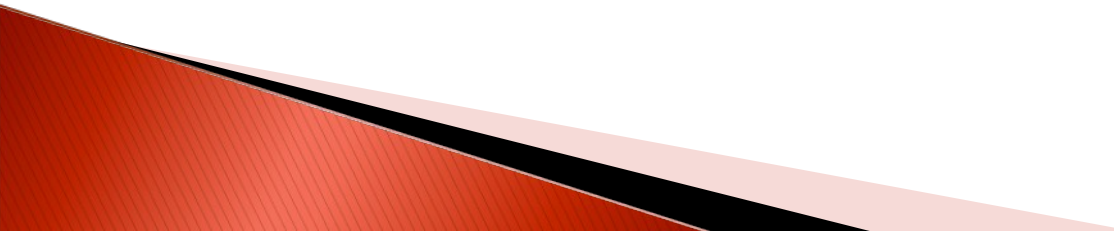
- ▶ All the great companies discovered a key economic denominator, while comparison companies usually did not
- ▶ Lesson from Hasbro: *If you successfully apply these ideas, but then stop doing them, you will slide from great to good, or worse. The only way to remain great is to keep applying the fundamental principles that made you great.*

# Understanding Your Passion

One of the Three Circles in the Hedgehog  
Concept

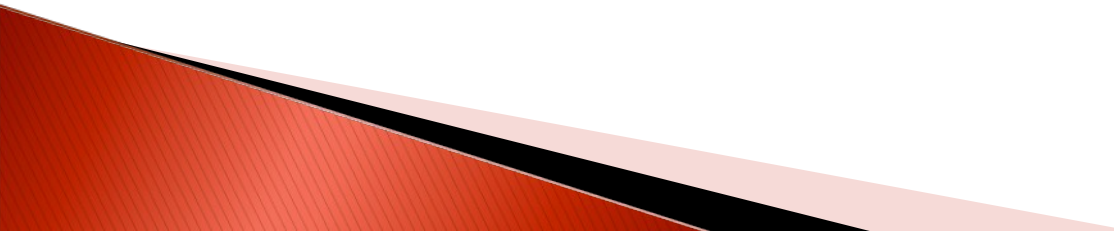


# Passion

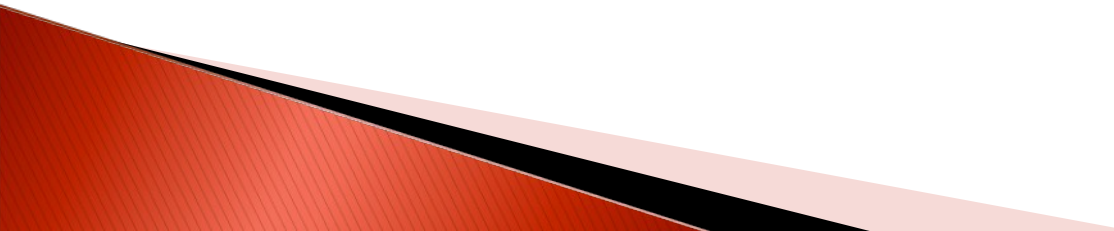
- ▶ Energy of the Company
  - ▶ If a company has passion, then it could be a real powerhouse
  - ▶ If not, it will never succeed
  - ▶ If you don't believe, how will the customers?
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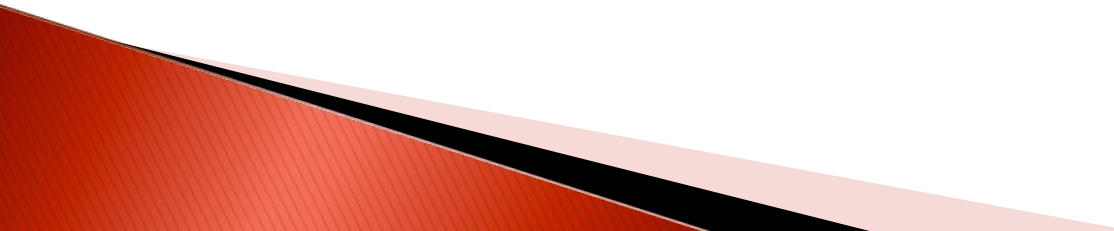
# Philip Morris

- ▶ One of the largest tobacco companies in the world
  - ▶ Produces many of the world's best selling cigarette brands
  - ▶ True passion throughout the company
  - ▶ Under siege from society
  - ▶ Stuck with tobacco because they loved it
- 

# Discover Your Passion

- ▶ It's impossible to try to teach someone passion about a product or try to motivate them to feel passionate
  - ▶ You can only discover what triggers your passion and those around you
  - ▶ You can't just decide to be passionate about what you do, you have to do those things that you are passionate about
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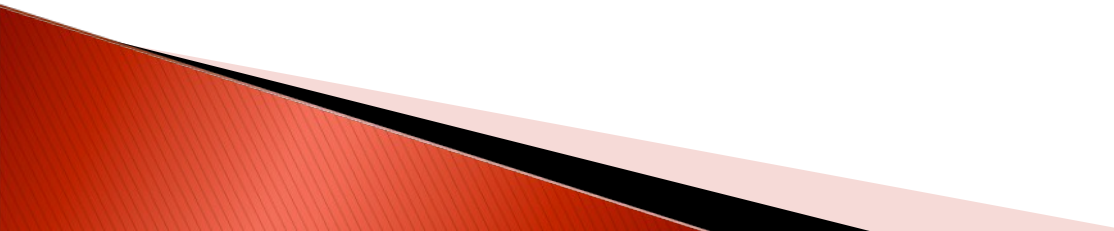
# Gillette

- ▶ Sophisticated, expensive shaving systems
  - ▶ Couldn't get excited about disposable razors
  - ▶ “Zeien talks about shaving systems with the sort of technical gusto one expects from a Boeing or Hughes engineer.”
- 

# Genuine Passion

- ▶ Top business school grad wasn't hired because she didn't show enough passion for deoderant
- ▶ Hard to imagine someone getting excited over many things, but all that matters is that they felt passionate about what they were doing

# Fannie Mae

- ▶ Driven by the idea of helping people purchase their own home
  - ▶ Executive stated that Fannie Mae's goals were far more than just making money, and that's what motivated them to preserve and protect the company
  - ▶ Another executive said that whenever he drives through a rough neighborhood that is coming back, he returns to work reenergized
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# Hedgehog vs. Fox

- ▶ “A hedgehog leader is like a strong consistent fire whereas the fox is more like a flash fire. Short term the fox looks better, but long term the burning fire still burns with the passionate hedgehog.”

# The Triumph of Understanding Over Bravado





# Fog Metaphor

- ▶ The book uses a fog metaphor to show the difference between “pre-hedgehog” and “post-hedgehog” states.
  - Pre-hedgehog is like groping through the fog, making progress on a long march but you can't see too well.
  - Post-hedgehog is with the Hedgehog Concept you break into a clearing, the fog lifts, and you can see for miles.

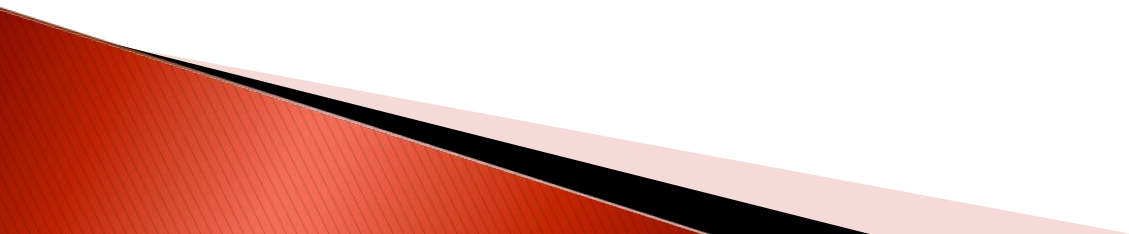
# Fog Metaphor (cont.)

- ▶ The book used this metaphor to describe all the good to great companies and the steps they took before and after the Hedgehog concept.
- ▶ For the comparison companies what had become clear for good-to-great companies remained complex and shrouded in mist.

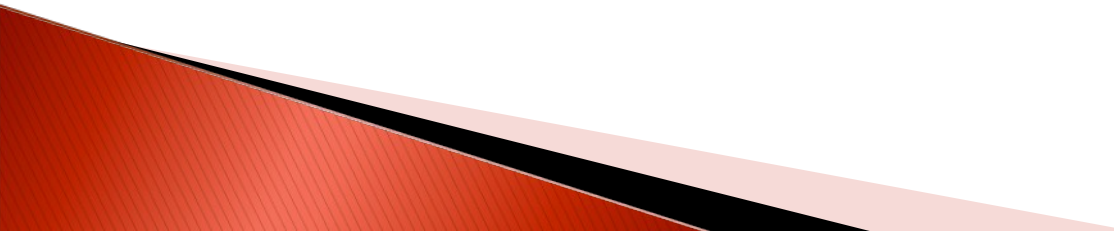
# Fog Metaphor (cont.)

- ▶ Two reasons why:

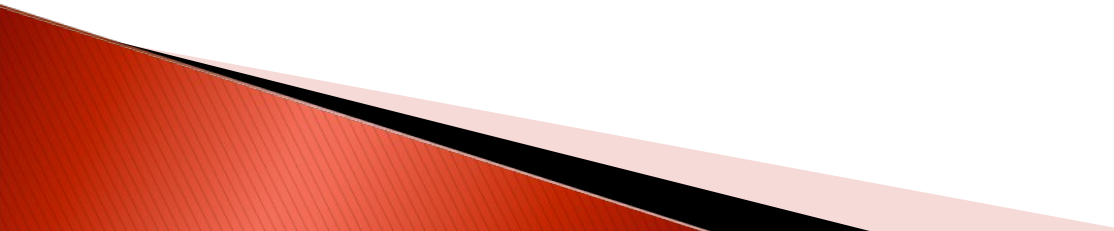
- First, the comparison companies never asked the right questions.
- Second, they set their goals and strategies more from bravado than from understanding.



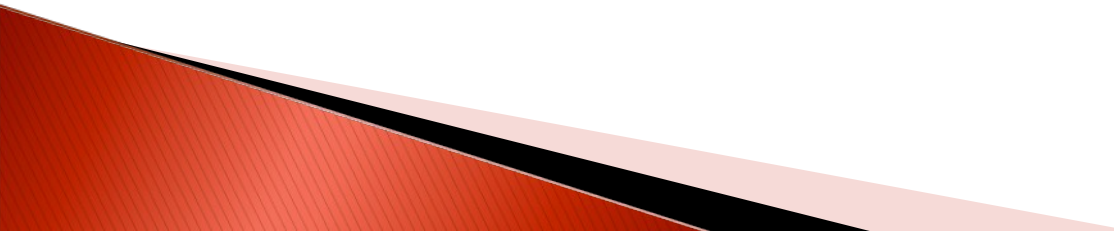
# Pursuit of Growth

- ▶ Growth is **not** a Hedgehog Concept.
  - ▶ Over two thirds of the comparison companies displayed an obsession with growth without the benefit of a Hedgehog Concept. Not one of the good to great companies focused obsessively on growth.
  - ▶ If you have the right Hedgehog Concept you will create such momentum that your main problem will not be how to grow, but how not to grow to fast.
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# Hedgehog Timeline

- ▶ The Hedgehog Concept is a turning point in the journey from good-to-great.
  - ▶ The transition date follows within a few years of the Hedgehog Concept.
  - ▶ It took about four years on average for the good-to-great companies to clarify theirs.
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# Understanding the Hedgehog Concept

- ▶ The concept simplifies a complex world and makes decisions much easier.
  - ▶ Getting the Hedgehog Concept is *an inherently iterative process*, not an event.
  - ▶ The essence of the process is to get the right people engaged in vigorous dialogue and debate, infused with the brutal facts and guided by questions formed by the three circles.
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# Understanding the Hedgehog Concept (An Iterative Process)

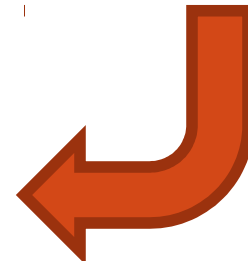
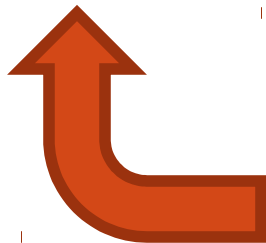
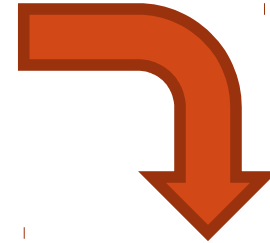
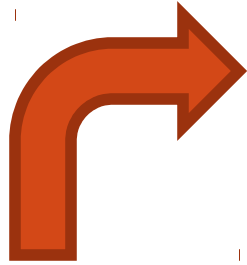
Ask Questions,  
Guided by the three circles

Autopsies and Analysis,  
Guided by  
the three circles

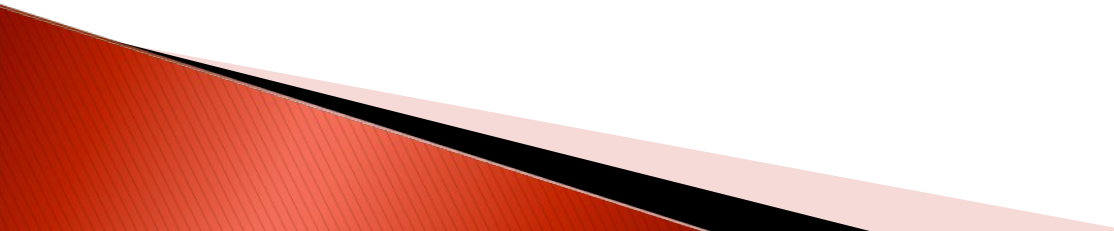
**The  
Council**

Dialogue and debate,  
Guided by  
the three circles

Executive Decisions,  
Guided by the three circles



# Understanding the Hedgehog Concept

- ▶ One special mechanism for moving the process along is what the book refers to as a “device” is the Council.
  - ▶ The Council consist of a group of the right people who participate in dialogue and debate guided by the three circles, about vital issues and decisions facing the organization.
- 



# Understanding the Hedgehog Concept

- ▶ How do we accelerate the process of getting a Hedgehog Concept?
  - Increase the number of time you go around that full cycle in a given period of time.
- ▶ Does every organization have a Hedgehog Concept to discover?
  - None of the good-to-great companies were not the best in world at anything and showed no prospects of becoming so. Infused with the Stockdale Paradox, every good-to-great company, no matter how awful at the start, prevailed in its search for a Hedgehog Concept.

# Conclusion

- ▶ The key is to understand what your organization *can* be the best in the world at, and equally important what is *cannot* be the best at-not what it “wants” to be the best at.
  - ▶ The Hedgehog Concept is not a goal, strategy, or intention; it is an *understanding*.
  - ▶ To get insight into the drivers of your economic engine, search for the one denominator (profit per  $x$  or, in the social sector, cash flow per  $x$ ) that has the single greatest impact.
  - ▶ Good-to-great companies set their goals and strategies based on understanding; comparison companies set their goals and strategies based on bravado.
  - ▶ Getting the Hedgehog Concept is an iterative process. The Council can be a useful device.
- 