L O N E M O U N T A I N A S S O C I A T E S

Doing It Better Is Not Enough

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ABOUT LONE MOUNTAIN ASSOCIATES DOING IT BETTER IS NOT ENOUGH

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"Our goal for the coming year is to increase sales by 5%."

So intones the Vice President of Sales at the annual sales meeting. Whether in a ballroom at a Florida resort, a conference room at a motel, a meeting room at the office, or over a hollow core door astride two saw horses, this scene is repeated endlessly around the country. The statement is usually followed by presentations on fine-tuning the sales process: tips or tools on how to get just a bit more out of every sales minute or dollar.

In some businesses this might be a perfectly appropriate sales goal. But if the company competes in a market that is growing at 9% per annum, meeting the goal does not mean success.

And this sort of leadership is disastrous if the market or the world is changing rapidly, as is happening for so many businesses.

EXAMPLE 1: ENCYCLOPAEDIA BRITANNICA

Through the first half of the 1990s the highly structured, 4000 person strong, domestic and international sales forces of Encyclopaedia Britannica, Inc. worked extremely hard to extract ever increasing value from the "leads" for sales that they generated from a complex worldwide system. Yet, each year, sales declined. More extensive training of sales personnel occurred and demographic analyses were performed. New incentive structures were created and new sources of sales leads were developed. Yet still sales fell.

They fell because all of the finely honed sales processes ignored the fundamental fact that a new competitor—personal computers—had entered the market, requiring an entirely new approach to competition. For the same price, families—the essential Britannica customer—could choose between a set of books or a home computer complete with a digital encyclopedia. The fact that the digital encyclopedia was rudimentary meant little to the actual users—children—as it had multimedia and was fun to use. So the users began to influence the buyers—their parents—and sales of book sets plummeted.

What seems obvious now—ignore the competitive landscape at your peril—was only part of the

Britannica problem. Sales and executive leadership were not nitwits, in fact they had undertaken a series of initiatives into the digital world as early as the 1980s. The issue was the definition of the business: they conceived of the company as a direct sales organization which sold packaged knowledge. They were more than willing to sell additional products, as evidenced by *The Great Books of the Western World* or an early CD-ROM of Britannica, but only as long as the direct sales activity was the center of the business definition.

EXAMPLE 2: CHASE MANHATTAN BANK, N.A.

As the 1960s gave way to the 1970s Chase Manhattan Bank was America's largest bank, with worldwide operations and business with most major corporations. With David Rockefeller in the executive suite and a host of well trained, sophisticated bankers, it was the epitome of New York financial strength.

Every issue of the internal publication distributed to the thousands of officers dispersed around the globe extolled Chase's activities and chronicled the activities of the officer cadre. Early in the 1970s competitive data were added. By 1973, though, the tone changed, as First National City Bank—now Citigroup—relentlessly challenged and then exceeded Chase's efforts worldwide and became the nation's largest and most important bank. The Chase response was to assert that, though Citi would do things first, Chase would do them better. Thus, strategically, it ceded first initiative to its competitor, forgetting one of the cardinal rules of finance: because of rapid adoption, often only the first mover makes meaningful profits.

EXAMPLE 3: AMPEX CORPORATION

For decades, Ampex was one of the most innovative companies in America. A principal inventor of tape recorders, the audio cassette, and sound mixers, the company also invented a technology that would record video and sound images on tape. The engineer-managers saw little commercial application for this technology—videotape—and sold it to Sony and Matsushita, from which both VHS and Betamax derived.

In their quest for improvements, they perfected smaller and smaller tapes and the devices to record images. Yet they saw little value in the minicam, so sold that technology as well.

THE FOREST AND TREES PROBLEM

What went wrong at each of these companies and at hundreds like them? Management was capable, hardworking, and focused. Resources were, at least for a time, plentiful. The general economy was not working against them.

In each case the problem lay in management's definition of its business: it focused on tactical improvements in implementation of predefined strategies, without periodic reassessment of those strategies based upon a continually updated understanding of the world in which it operated. Stuck in the rut of defining its business as direct selling of book sets, Encyclopaedia Britannica missed the emergence of personal computers until it was almost too late. Chase Manhattan Bank pursued its organizing processes relentlessly and so was outclassed by a more nimble competitor. Ampex pushed the edge of recording technologies for their own sake and missed the enormous new markets for their devices.

In a world of accelerating change, where new markets and new competitors seem to emerge instantaneously, and where old business verities and business enterprises are thrown on the proverbial trash heap daily, management's embrace of its business model must not be too tight. Instead, management must be willing to test its model and its environmental understanding repeatedly, and from these analyses retool the model to meet the changing world. In new businesses as well as established enterprises, reassessment is necessary: products or services designed to serve one purpose may apply to others, and the new discovery may create unexpected paths to significant profitability and yet further development. Investors want to put money to work in evolving, growing businesses, not into those whose novelty quickly vanishes as new rivals for niche markets emerge.

Management must ask two questions:

- What business am I in?
- Are the business parameters that defined my competitive environment X time ago still valid today?

And, based upon the answers, take the actions necessary to meet the new world.

If management does not do this, be assured that someone else will.

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