Tony Manning's

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AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

Are you ready for the future?

*R*ecently, economic numbers were re-jigged to show that South Africa was not in recession. That should have been good news, but few business people bought it. And even now, as headlines assure us that "the recession that never was" is over, that the economy has bottomed, and that good times are just ahead, *executives across industries say that business conditions have never been worse*.

Profit warnings and reports of serious profit slumps appear daily. The impact of interest rate cuts and the Old Mutual's demutualisation are yet to be felt. Labour unrest will have a serious impact on investor confidence and job creation. *Chances are that growth for the foreseeable future will be slow and limited*.

Recent years have brought massive changes in the global industrial landscape. But what lies ahead is greater complexity and uncertainty, and increasingly hostile competition. What lies ahead are unprecedented opportunities … and huge problems.

In this final sprint to the millennium, many companies need a wake-up call. Otherwise smart executives have waited for events outside their organizations—or maybe luck—to change their fortunes. They bet on a faster economic upswing … and are disappointed because it didn't happen on cue. Now, they're changing too little too late and their complacency is lethal.

If there's one thing we all should have learned in the past two years, it's that surprises are likely—and they're unlikely to come from where you expect them.

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In this climate, it makes no sense to sit back and wait for sales and profits to roll in. Rewards are there for the taking, but they'll go to those who reach out and grab them. *What's needed is swifter decisions; fewer, bolder goals; and faster action.*

The article on the next page highlights six major challenges that are on the radar screen now. They demand immediate attention, so should be on every corporate agenda—*along with a well thought through action plan*.

Six challenges ahead

Predicting the future is always risky, but not thinking about it is even more dangerous.

The good news is, we know more about it than we imagine. Here are some key issues that will impact on almost every business in one way or another—if they're not doing so already:

1. **Increasingly hostile competition.** If you thought things were tough so far, fasten your seat belt! The business environment is about to heat up faster than ever for two reasons:

   First, *the global economy is far from settled*. For all the soothing sounds there are serious dangers ahead. At the moment the US economy is keeping everyone else happy, but just about every economist warns that sooner or later—and probably *sooner*—the bubble will burst. When it does, a lot of countries will be hurt.

   There is huge over-capacity in most industries. Frantic mergers and acquisitions are taking some of it out, but meanwhile, price wars are hurting almost everyone. And in their anxiety to attract customers, many firms are emphasising their low prices—thus commoditizing their own products!

   Price deflation is here to stay. It will get much worse as shoppers use the internet to scout the world for bargains. At the same time, quality and service are being driven up in an effort to stand out from the crowd.

2. **"Surgical shoppers."** This new breed is both price and quality conscious. They demand the best for the least. And when they don't get it, they quickly turn to consumer journalists who can cause mayhem in the marketplace.

   There was a time when companies held sway, when they could bully customers—yes, and even take them for a ride— and get away with it. But no more.

   Today's consumers know their rights. They have easy access to the media. So the "tyranny of the minority" that Peter Drucker warned about is now reality.

   It takes lots of customers to keep most companies alive. But it takes just one unhappy customer to kill its prospects in the market.

   Word-of-mouth is the most potent form of promotion. It's also the most damaging weapon in the hands of irritated customers!

3. **Post-Y2K technology spending spree.** For some time, companies have been concerned with fixing Y2K bugs. But chances are the hassle will be out of the system by about March 2000, after which technology budgets will be applied to opportunities rather than problems.

   Starting about now, expect to see rapid changes in the way companies operate. Leaner value chains, more disintermediation, fewer full-time resident staff, more tele-workers, etc.

   Expect, too, to see firms accelerate their efforts to go the e-commerce route. There will be a rash of new business models, and company/product life cycles will shrink dramatically.

4. **HIV/Aids vs. "visions of the future."** for more than a decade, this dread disease has been quietly working its way into the population. Now about 12% of adults are infected; in some hospitals in KwaZulu-Natal, the number rockets to more than 50%.

   Companies are worried about the impact on their employee benefits schemes. The cost of illness, death, and dependant support will be colossal. *But an even greater cost—that no one seems to see—will be the cost of fear and depression.*

   Right now—and for the foreseeable future—anyone contracting HIV is under sentence of death. And when an individual knows he or she will die, the chances of their busting a gut to support your grand business plans are about zero.

   South African workers are not known for their work ethic. *A tidal wave of demotivation is about to hit us*. Starting right now, you need to think about what you might do to counter this problem.

5. **New business models.** Everywhere you look today, companies are slashing costs in a frantic attempt to preserve their margins. And as prices continue to dive, the pressures will grow.

   In many cases, aggressive cost cuts are vital just to get an organization into reasonable health. But this is almost always just a first step. Cutting costs has limits. Top-line growth is the next challenge. Without it, no manager can claim success. No firm will last for long. And of course, shareholders will head for the hills.

   The only way to simultaneously cut costs and add value—the only path to lasting profitable growth—is by changing the business model. There simply is no alternative.

   By now, it's clear that yesterday's business models are either past their "sell by" date or getting there fast. Yet executives are slow to see this—and slower still to act on the facts.

   Reality will ensure that business model design becomes the #1 obsession of managers in the new century. So what are you waiting for?

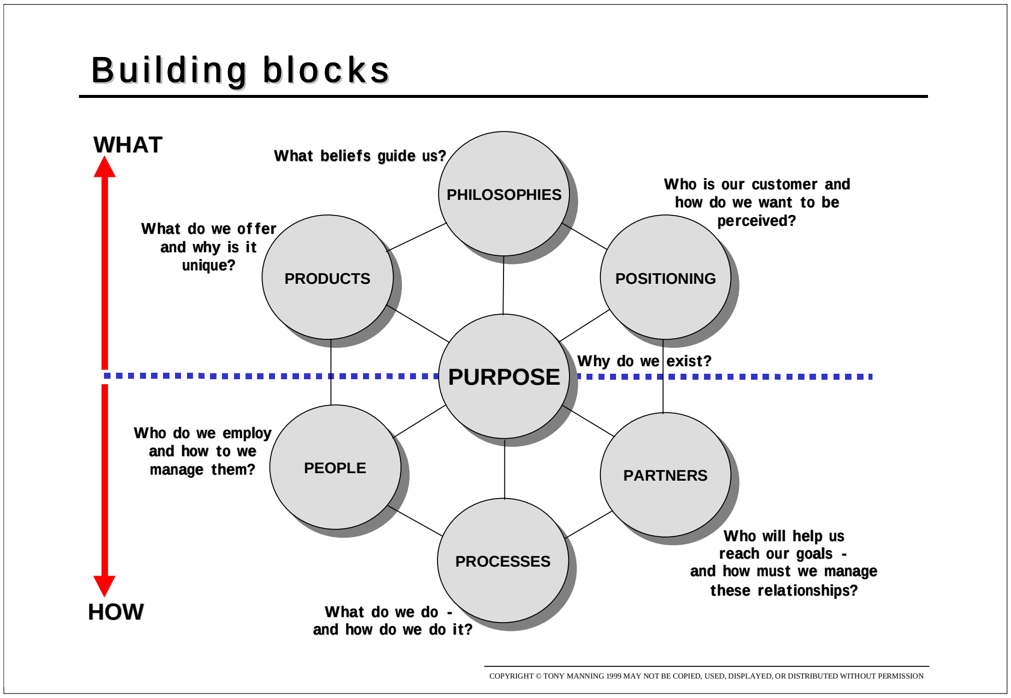
   The simple yet powerful "7Ps" model (below) gives you a way to think about—and *change*—your company for the future.

   For a free questionnaire that will help you use it, please contact me today.

6. **Brain drain = black hole in most firms.** Worldwide, there is a race for knowledge workers. Skills are at a premium. And their value will rise rapidly as smart companies embrace new

technologies and use information more creatively.

The problem is made worse by the fact that many of today's smartest youngsters aren't



interested in corporate jobs: they see vast wealth being created all around them—and they want instant gratification too. There's just no reason to wait for the Porsche, the Rolex, or the sexiest Bose stereo system.

Already, South Africa is lagging in the brain stakes. The education system is in crisis and will take time to fix. Bright people are emigrating.

Most companies spend far too little on developing their most important asset—their people.

Already, there is a serious skills gap in most organizations. In too many meetings, it's evident that a few capable people at the top are underpinned by weakness. In too many cases, even senior people are in over their heads. They just don't know how to think about the issues that face them; nor do they know how to turn ideas into action.

This will inevitably lead to upward pressure on salaries. The gap between top people and the rest will widen. Creative new reward schemes will be imperative. The debate about executive pay is about to take off!

Required reading

I constantly get questions about what business books are worth reading. So here's my top 10 selection (in no special order). It includes titles that have been around for some time plus hot-off-the-press stuff. These books may not all be available in South Africa.

1. *The Innovator's Dilemma*, Clayton M. Christenson (Harvard Business School Press, 1997)
2. *Leading Change*, James O'Toole (Jossey-Bass, 1995)
3. *Every Business is a Growth Business,* Ram Charan & Noel M. Tichy (Times Business, 1998)
4. *The Alchemy of Growth*, Mehrdad Baghai, Stephen Coley & David White (Orion Business, 1999)
5. *Competing on Internet Time*, Michael A. Cusumano & David B. Yoffie (The Free Press, 1998)
6. *The Individualized Corporation*, Sumantra Goshal & Chrisopher A. Bartlett (Harper Business, 1997)
7. *Strategy Safari*, Henry Minzberg, Bruce Ahlstrand & Joseph Lampel (The Free Press, 1998)
8. *Adaptive Enterprise*, Stephan H. Haeckel (Harvard Business School Press, 1999
9. *Wellsprings of Knowledge*, Dorothy Leonard-Barton (Harvard Business School Press, 1995)
10. *Defining Moments*, David L. Badaracco (Harvard Business School Press, 1997)

Of interest, too, though they're not management books, are these:

1. *The Wealth & Poverty of Nations*, David S. Landes (W.W. Norton & Company, 1998)
2. *The Return of Depression Economics*, Paul Krugman (W.W. Norton & Company, 1998)
3. *Leading Minds*, Howard Gardner (Harper Collins, 1996)
4. *Out of Control,* Kevin Kelly (Fourth Estate, 1994).

A word of advice: Before you get stuck into these, get as many of Peter Drucker's early books as you can find and work through those. Just about everything that's being said today was said by him 40 or 50 years ago!

How many "volunteers" on your team?

There's hardly a company today that doesn't boast, "Our people are our most important assets." The latest fad is to cobble together a bunch of businesses with absolutely nothing in common, then take it to market with the promise of great things from its "intellectual capital." The reality is that most firms fall pitifully short when it comes to inspiring their people and getting the best from them.

In fact, what needs to be done is incredibly simple:

1. Hire carefully. Be clear about your criteria. And be specific about your expectations and their responsibilities.
2. Provide thorough induction so newcomers know what you're about, how your organization works, and who does what. Give them the tools and support they need to perform.
3. Involve as many people as possible in creating your strategy.
4. Be frank about negative issues—but focus on the positive.
5. Reduce your strategy to a handful of words or concepts—your "strategic conversation"—and communicate it like crazy.
6. Set tough, stretch targets with short deadlines.
7. Give people fast feedback—don't keep them flying blind. Regular reviews are essential.
8. Praise in public, coach and criticize in private.
9. Make it easy for people to get things done. Cut the bureaucracy. Open doors. Be accessible.
10. Walk your talk. Set the example of what you mean by high performance.

Great brands begin with the basics

With brand valuation suddenly in vogue, there's a real danger that managers will put hype and hope ahead of common sense, and see market opportunities and profit growth slip away in the face of hostile competition.

No amount of drum beating can make up for weak business fundamentals. A brand is a perception in a customer's mind but it's what underpins that perception that makes or breaks it.

Coca-Cola's woes in Europe and the recent "expose" on television of impurities in South African bottled water showed just how frail brands can be. In both cases, loyal consumers headed for the hills when word spread that the products were contaminated.

Winning them back is only partly a communications challenge. Far more important is the need to ensure that the production and packaging processes are trouble-free. The clearest message in the world can't save a polluted product. And the slightest hint of another product problem would convince customers that their worst fears were justified.

It's tempting to think that virtually any product or service will be successful if it is promoted heavily enough. This is clearly nonsense.

Customers may be suckered into buying once, but if what they get doesn't match what they were promised they're unlikely to come back for more.

Bill Bernbach, one of the most famous advertising personalities of all time, once said, "The quickest way to kill a lousy product is to advertise it." All that happens is that more people try it faster. And when they shy away, they tell many others and turn them off too.

Paid publicity obviously does have clout, so it is the weapon of choice of almost every marketer. But word-of-mouth communication, which is free, is far more potent. The personal views of customers carry far more weight than any promotional campaign.

Marketing messages work best when they provoke people to draw attention to a product, to speak well of it, and to vouch for its value. The more customers a company can enlist to spread the word, the more leverage it will get from its other communications efforts.
Getting almost any product to market is a complicated process. Getting it there with the help of customers is the smart thing to do.

This only happens once people try the product and are convinced it's worth using. And it is only when there's a critical mass of these "missionaries" that sales really take off.

Obviously this requires initial publicity. But there is a bigger challenge that demands attention from many people throughout an organisation.

A brand does not spring from the brain of a copywriter or from the computer screen of a designer. It is not a product, neither is it a slogan, a symbol, or a catchy tune.

A brand is a perception born of experience. And if the company's promise and the customer's reality don't match, the tills won't ring for long.

If managers far from the marketing department don't get the basics right, they'll go out of business.

Those basics begin with the corporate purpose and include questions about its philosophies, processes, people, and partnerships. In other words, every aspect of the way a firm functions must be deliberately thought through, designed, and managed to support the brand image.

Brand boffins often don't say this. Since most of them operate in or around design consultancies, advertising or sales promotional agencies or public relations firms, they push their own services. They sell their clients advice about getting attention, when the real challenge is far deeper.

Bright ideas are essential to break through marketplace noise. Being boring is no way to win customers.

But in business, getting the basics right is worth 100 IQ points. It's the basics that separate great brands from also-rans, and that add up to shareholder value.

This article appeared in Business Day on August 9, 1999

SA must prove it works

*S*outh Africa can't solve its awful jobs crisis but it must fix the growing skills crisis. Until this happens, local investors will be reluctant to employ people and foreign investors will stay away.

Companies like to boast they're creating jobs whenever they announce new projects. But half a million jobs have been shed in the past five years.

A new study suggests that only one work-seeker in 30 will find employment. The latest World Competitiveness Report once again ranks SA last when it comes to people. Meanwhile, we export those who are educated, talented and competent.

It is unlikely that SA will draw manufacturing work away from other countries with lower wages, better skills, a proven productivity ethic or more flexible labour laws.

Nor can we match their tax and other financial incentives, proximity to customers, or market potential.

But the larger problem is that worldwide the industrial landscape is being transformed by technology and new work practices. This is a structural shift whose effects will be felt for decades. And in its wake comes a social upheaval of immense proportions.

Deregulation, privatisation, and over-capacity are changing what companies can do – and what they must do.

Companies are being squeezed to death between price-conscious buyers and competitors who are desperate to grow their sales and profits. So cost-cutting is high on every firm's agenda.

Reports appear daily of how one company plans to save a billion dollars in the next six or 12 months, while another will lay off thousands of people and shut factories around the world. The targets are extraordinary and the pain is awful.

What's more, managers seem consistently to misjudge how much they can save and still function. So it's not unusual for a firm to announce 10 000 job cuts in January and another 2 000 only a few months later.

Smart managers know that while they must slash costs to survive, they must at the same time improve all they do. If they don't add more value than their competitors, they will simply disappear.

The new "value up, costs down" mantra means that every activity must be reviewed, improved, scrapped or replaced. Without a top-to-bottom overhaul, there is little chance of survival.

A few minutes browsing the internet will show why this is so. There, new business models proliferate at light speed. As fast as one appears with novel appeal, hordes of others follow with better features and benefits.

Competing on internet time is about business design. It's all about imagination, inspiration, speed and an acute sense of what turns customers on or off.

But the challenge is not just one for cyber businesses. Conventional brick-and-mortar firms face exactly the same problems and possibilities. The war, quite simply, is between the quick and the dead.

This is part of an article that appeared in Business Day on August 19, 1999

What's the "E" in your strategy?

Not long ago, my wife and I arrived at a restaurant where we'd booked a table. We were the first people there, and the owner showed us to a table where there was no light. I asked to be moved, and he said, "Sorry, we allocate tables on a first-come-first served basis. The other tables are all taken."

His logic escaped me. Since we hadn't asked for a specific table, I assumed most other guest hadn't either. So I made a mental note that if—and I stress *if*—we ever went there again, I'd first ask where we ranked on the reservation list.

There were four lessons for every business in this silly episode:

1. Be careful about the rules you make. (And make as few as you can!)
2. Make sure your rules sound sensible. If they don't, expect trouble.
3. Be flexible—especially if *you* made the rules.
4. Remember that getting the upper hand in a struggle with a customer is never a good idea. You can't win; and you'll never know what you've lost.

Those are the basics. But there's one more, with huge implications:

5. Customers don't just buy a product or a service. They buy an *experience*. The way you deliver

you offering can make all the difference between profit and loss.

In the past, customers used a simple formula in their buying decisions:

$$\frac{P}{P} = V$$

The price/performance ratio is well-known. Companies typically fight to win by improving the intrinsic performance of their products, or by lowering prices. Often, though, this doesn't give them an edge. In fact, when competitors improve rapidly—and they do—on either or *both* of these dimensions, firms find themselves in a race to nowhere.

The First Principle of Business Competition is this: IF YOU DON'T MAKE A DIFFERENCE, YOU DON'T MATTER. So when competitors do much the same as you do for customers, how can you stand out?

The new formula for business success looks like this:

$$\frac{P}{P} \times E = V$$

The difference is the "E" —the *experience* or the *entertainment* you offer along with your basic price/performance package.

Famed Sales trainer Elmer Wheeler used to say, "Sell the sizzle, not the steak." The restaurant owner in my opening story didn't understand this. Judging by his behaviour, he thought he was selling me a meal. But I can make delicious pasta at home for much less (and also avoid being ripped off on the wine tab).

Like most people, I go out not just to eat, but more especially to have fun. The way I'm welcomed, where I sit, and how I'm served all add up to a worthwhile event … or a wasted outing.

Business is theatre. Whether you're selling food, petrol, computers, or car repairs, the principle is the same. It's not just the difference you make, but *the way you make the difference* that counts.

Strangely, internet marketers have grasped this ahead of most others. While stripping out costs through information technology, they have discovered that in today's cluttered world it's hard to attract customers—and harder still to hold them.

IT lets firms do wonderful things. But because the same hardware and software is available to everyone, it lets *all* firms do the *same* things. The first mover may gain an early lead, and proprietary systems may confer a temporary advantage, but staying out front is difficult. In cyberspace, catching up is not hard to do. Consider:

- Dell Computer has grown faster than the rest of the industry for many years, and now sells \$30 million worth of equipment *a day* via the internet. But most of its major competitors are now adopting the direct selling model, so the gap will close.

- Amazon.com pioneered on-line book selling, but now it has many competitors. There's a new threat, too, from shopping agents like Bookbrowse.com, which hunts for the books you want from a large number of on-line book stores. (Example: a management book listed at $28,90 from Amazon.com was recently available for $20,20 from A1 Books. Shipping charges were the same for all suppliers.)
- Banks have invested heavily in IT for many years. Now they all do similar things for customers. But they're threatened by "outsiders"—on-line startups, retailers— who are not burdened by legacy systems.

When all airlines use electronic ticketing, when all estate agents offer on-line listings, and when all car makers use the internet to show customers their new vehicles, the IT advantage becomes yet another taken-for-granted service. *That's when the human factor kicks in—again.*

For most companies now, state-of-the art technology is a must. But pinning customers down and selling to them more than once will become increasingly difficult.

The challenge is, how to use high-tech and high-touch to deliver extraordinary experiences and entertainment. The bar of excellence is being raised. *The new race will be to wrap basic products and services in layers of surprise, to make shopping fun, and to allow customers to co-design what they pay for.*

The extraordinary paradox of the Information Age is that for all the wonders of technology, the human touch is now coming into its own. The restaurant owner I complained probably does quite well right now. But there's lots of competition—and a lot of competitors he won't see coming.