STRATEGY: THE KEY TO FINANCIAL PAYBACK FROM REENGINEERING

Michael J. Stickler, President
Empowered Performance LLC

This article will enable you to understand the differences between restructuring, re-engineering, and reinventing. You will learn how to identify a process for developing a leadership position that is difficult or impossible to duplicate, and to develop a business strategy that leads to correctly identifying the core value-added processes of your business: the right ones to re-engineer.

Re-engineering is a fundamental program of massive, significant, holistic, multi-dimensional business change. A change of this magnitude in any organization must be accompanied by a coordinated change in all aspects of the organization, including the business strategy. Re-engineering is about operations. Strategy tells you which operations matter. The goal of re-engineering is to attain leadership, in a unique, difficult or impossible-to-duplicate Customer Value Proposition. Re-engineering without the right strategy leads to market-blind cost cutting, sometimes referred to as restructuring. The right strategy allows re-engineering to position the business to reinvent the industry and redefine the markets. This presentation will discuss the difference between restructuring, re-engineering, and reinventing, along with a method to rationalize your customer base to position your core value adding processes to best suit the adopted business strategy.

RESTRUCTURING

Restructuring is not re-engineering. Restructuring is focused primarily on the short-term. The goal is to cut cost at all cost. Other common terms for restructuring include layoff, re-focusing, de-layering, de-cluttering, reorganization, downsizing, and right sizing (why is right-sizing always smaller?) Granted many businesses are well over-staffed and as a result not competitive. They have become slow, non-responsive, inflexible, fat, and consider customers to be the bane of their existence. As falling market share, declining margins, and stagnant growth finally become inescapable, management, those who have the stomach for it, then begins the brutal work of restructuring. The goal is to remove the layers of FAT that have led to under-performance and try to raise asset productivity. The focus is to improve ROI - the return on investment. Any chief executive who fails to make effective use of the company's assets is fully aware that someone else will be given a chance. Thus a tough new program to improve the ROI is launched with much fanfare, many speeches and enormous excitement. Then reality sets in.

ROI has two components: a numerator - net income - and a denominator - investment, net assets, or capital employed. Experience has taught us that raising net income is considerably harder than cutting assets and head count. To increase the numerator, management must have a vision for where new opportunities lie; they must anticipate changing customer requirements and needs, and they also must have invested pro-actively in building new competencies. This all takes time. Under extreme pressure for quick ROI improvement, they reach for the surest, quickest improvement in ROI - the denominator. To cut the denominator they need no more than a red pen. Granted, denominator management is a short cut to asset productivity; however, there is more than one route to productivity improvement.

Any business that cuts the denominator and holds up revenue will reap productivity gains (provided they can hold up the revenue with fewer people), as will any business that succeeds in growing its revenue stream while maintaining a slower growing or constant capital and employment base. Although denominator management may be necessary in the short run (to stop the bleeding), I believe that numerator management along with denominator management usually will bring about more desirable results in the long run. Regrettably, there are several problems with a restructuring approach: the social costs are high, employee moral plummets; they are confronted with a lose-lose proposition, and it seldom results in fundamental improvement in the business. At best it buys some time.

Restructuring belatedly attempts to correct the mistakes of the past. It is not about creating new markets or growing the business. A business that is better at denominator management, a business that does not have a track record of ambitious, profitable growth should not expect any slack from their customers, competition, or the marketplace. Restructuring is no more than corporate anorexia. It does make the business thinner; it does not necessarily make it healthier.

RE-ENGINEERING

With the understanding that restructuring is ultimately a dead-end, many businesses have moved on to re-engineer their core value-adding processes. The primary aim of re-engineering is to root out needless waste or non-value-added activities in the core value-adding processes of the business. This is accomplished best by asking the employees, the real experts, to redesign the processes along with the information and workflows. This is best accomplished by focusing the effort on improved customer satisfaction rather than cost reduction.

Re-engineering is the fundamental rethinking and radical redesign of a core, value-adding business process. It takes into account everything from the business processes themselves to people's jobs and skills, organizational structure, management systems and measurements, values and beliefs.

Re-engineering is a creative process with an uncertain outcome. It requires the ability to use insight and imagination, and a willingness to challenge the rules and the assumptions behind them. When practiced correctly, re-engineering challenges the rules of an entire business, not just those of a functional department. Re-engineering is process oriented, not functionally oriented.

Most businesses organize around vertically functioning groups or departments: accounting, engineering, materials, sales, and manufacturing, etc. - "the classic approach." This grouping of "experts" provides a pool of knowledge and skills and a capability hopefully to complete any task in that discipline efficiently. Much of how we arrange work today is a by-product of work that was done 200 years ago by Adam Smith and is documented in his book *The Wealth Of Nations*. Smith demonstrated how productivity in manufacturing could be increased greatly if the process to produce straight pins was divided into a number of discrete operations. He then showed the effect of dividing up the work among several workers versus having one worker perform all of the tasks. On the surface, the results seemed remarkable. Smith's investigations showed that one person alone could make from ten to twenty pins a day. But when the 18 steps were divided among 10 people the results was an increase to 48,000 pins a day. This represented an incredible increase in productivity. Word of Smith's discovery spread rapidly throughout industry, and people began to apply these principles to all kinds of activities. In fact, we still do today.

This management philosophy to support the idea of work being fragmented into discrete tasks was reinforced by Frederick Taylor and Frank and Lillian Gilbreth. Since then, management thinkers have been consumed with identifying and fine-tuning tasks, with few ever stopping to ask if this is the best way. Or an even more profound question, should this work even be done at all? This is where Re-engineering fits in.

Unfortunately, most processes do not flow vertically. They flow cross-functionally or horizontally. A horizontal workflow (process flow) with a vertical organization structure normally results in many voids, overlaps, and black holes and encourages sub-optimization, which negatively impacts the effectiveness of the process and the business while at the same time increases costs. Probably the single biggest complaint heard from management is *"We have spent millions on computer systems and automation and there has been little or no pay back?"*

Is it any wonder? Paving over the cow paths gains you little or nothing. And it shouldn't!

BUSINESS STRATEGY AND RE-ENGINEERING

Business today is complex and business strategies have followed in their complexity. High performance businesses, however, do a much better job of focusing their value delivery core processes to better support a much more highly focused business strategy. The market place has identified three dominant strategic positions: superior product, lowest price/cost, and best total value. The core value delivery processes to support a "superior product" dominated strategy is different from the core value delivery processes to support a dominant strategy for lowest price/cost, and different still from a best total value strategy. Without agreement to a dominant business strategy, it becomes very easy for a company to try to be all things to all customers and to attempt to have their business processes support all three. This proves to be virtually impossible and ultimately results in poor customer satisfaction and loss of market share.

History and experience have shown that no company can succeed in the long run trying to be all things to all customers. The most successful companies find a unique value that it alone can deliver to a specific market or customer base. Choosing one strategy to master does not mean that the company ignores or abandons the other two, only that it focuses on a specific strategy to create a unique value for its chosen customers and to establish its market reputation. Today, market leaders understand the battle that rages for customers. They realize that they must constantly redefine value by continuously raising customer expectations toward their chosen value strategy.

The characteristics of a "lowest price/cost" dominated strategy include: low price, high reliability, hassle-free basic service, superior service error recovery, lots of advertising, limited product variety, and products without the latest features.

The characteristics of a "superior product" dominated strategy includes: breakthrough product capabilities, product features with major benefits, big bang product launches and events, high price - but worth it - could have lots of basic service snags, sometimes limited help in selecting and applying the product, typically an engineering-driven company.

The characteristics of a "best total value" dominated strategy include: a superior understanding of the customer's business, your advice is valued. Because of your expertise in areas of customer need, service is tailored or customized for each customer, typically, never the product innovator but a quick follower, products without the latest features, very relationship-oriented, normally more expensive but the customer believes it is worth it.

While all businesses are made up of a network of processes, the dominant strategy should drive a focus on superior "core process" performance, unique to that dominant strategy.

If the business elects to focus on a dominant strategy of "lowest price/cost" then the obvious core value delivery process would be "end-to-end supply chain management." By that I mean a committed focus to minimizing overhead costs, elimination of production steps, reduced transactions, and optimization of the business processes across functional and organizational boundaries, internally as well as externally. The focus is on delivering products or services to the customers at very competitive prices with minimal inconvenience at the lowest possible cost. These types of businesses are built in a very standardized, centralized, and directed way.

If a business elects to focus on a dominant strategy of "superior product" then the obvious core value delivery process would be "new product development/ introduction," with special emphasis on time-to-market and market exploitation. This strategy requires the business to challenge itself three ways: (1) it must be incredibly creative - this means recognizing and embracing ideas, even if they come from the outside; (2) it must be able to commercialize these ideas very quickly; and (3) it must pursue new solutions to problems their products have already solved. Their mind set is that if anyone is going to render them obsolete they want to do it to themselves. Their core value delivery process focus is engineered for speed and they have a fluid infrastructure and management system to manage risk well.

If a business elects to focus on a dominant strategy of "best total value" then the obvious core value delivery process would be, "sensing and servicing customer requirements/needs," with special emphasis on mass customization, service recovery and customer retention. In addition, they must be very good at targeting the "right" customers and then acquire them. They continually tailor and shape products and services to fit an increasingly refined definition of their customer. While this is expensive, they are willing to spend now to develop a long-term relationship, always stressing customer loyalty. They look at the customer's lifetime value to the business, not the value of any single transaction.

Sustained success requires the core business process to possess certain assets that continually enhance performance and value and cannot be duplicated easily by the competition. To provide an unmatched value to your customer, you must have an unmatched way of operating your business. If your core value delivery processes do not have a coherent design, if you don't have a control system, a reward and recognition system, and a culture all working together to support the selected business strategy, it virtually can become impossible to be the best. To re-engineer your business to excel in one business strategy doesn't mean you should ignore the other two strategies. Your new design also must strive to maintain a minimum level of performance (competitive) in the other two.

The selection of the correct strategy is dependent on the answers to the following questions: (1) what type of customers do we want to have? (Can you define an ideal customer profile?) (2) What do these customers require/need? (Can you uncover the un-stated needs and turn them into requirements for leverage?) (3) What are my competitors' capabilities? (Can you clearly and honestly determine where you match? Have an advantage? Have a disadvantage?) (4) What strengths or capabilities do you possess that can be exploited as a natural advantage?

The goal of this research is to determine what percentage of customers would value which strategy and which market to dominate. Letting a customer go is a hard decision that all market leaders make. Your strategy must fit your culture. On the face of it, selecting a single strategy seems costly; however, it is quite the opposite. The only way you can afford to treat your customers, your employees, and your shareholders right is to have a superior operating model to create greater value.

To truly take advantage of re-engineering as a customer value proposition driver the following rules must be embraced: (1) offer the very best, unsurpassed deal in your marketplace! (2) Strive to make the deal better every day, every week, every month, and every year! (3) There are no other rules!!!!!!!!

REINVENTING

Reinventing is not re-engineering. For many companies process re-engineering is more about catching up than getting ahead. Today we still come across to many companies where the top management agenda is focused on an advantage building agenda still dominated by quality, time-to -market, and customer responsiveness. While we don't question that such advantages are prerequisites for survival to still be working on the advantages of the 1980's in the 1990's is hardly a testimony to management's foresight. Granted, catching up is essential, howsoever, it will not turn a follower into a leader. The competition today faced by so many companies is not a problem of foreign competition; rather it is a problem of nontraditional competition.

The competition is between Challengers and Slackers. Slackers follow the path of least resistance, while challengers follow the path of greatest opportunity. Challengers typical are innovators; they create solutions to problems that their customers don't even know they have. Challengers are unorthodox; they discover new solutions because they are willing to look far beyond old ones. Challengers question and then shift the paradigms of conventional thinking creating new markets and redefining their industries. Sadly, the challenges facing many companies today are a direct result of their failure to reinvent their industries and regenerate their core strategies a decade ago. To reinvent an industry and insure its future a company must challenge the fundamental rules of business in its industry. It must find a way to redraw the boundaries between industries and by doing so create an entirely new industry or segment. The capability to reinvent or create new industries is a prerequisite for carving out a future and essential for staying out in front.

Restructuring, Reengineering and Reinventing all have a place in business today. The question for you is:

Which is the right one for your business today and more importantly for tomorrow?