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Ambidextrous Management - Optimizing current business while preparing for the future

Examples on how plain vanilla IT tools, such as CRM, can help strengthen everyday operations and form a solid foundation for new businesses

Enterprises often find it difficult to develop and deploy strategic solutions that improve bottom line results. With Cambridge Technology Enterprises as a partner, Fortune 1000 companies are devising solutions that align business strategies and advanced technologies with corporate goals and market opportunities.

Every day senior executives face a schizophrenic set of challenges. On one hand, they constantly struggle to manage current business more efficiently from day to day and quarter to quarter. At the same time, they must prepare for the long-term success of the organization by pushing into new, unproven business areas.

In this paper, we describe a framework to manage these seemingly contradicting goals. We use the model and our observations to illustrate how selected organizations have successfully tackled these operational and strategic challenges with solutions that build on their plain vanilla IT and organizational capabilities.

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RIGHT hand to manage ongoing business

Typically, managing a company's current business involves finding ways to add incremental value to products and services. Who can avoid the diet, cherry, caffeine-free, lemon-laced, vanilla, 6-pack, 12-pack, 20-pack, fridge pack, 4 oz, 8 oz, 12 oz, 24 oz, big gulp and other variations of regular Coca-Cola? Similarly, Microsoft has masterfully morphed its Windows operating system product for PCs into an OS for handheld devices, set-top boxes, video games and even cars.

Reducing variability, and hence risk, in sales, manufacturing, and other processes is another key factor in the prudent management of the current business. Expanding geographically, acquiring competitors and similar strategies are variations of this theme at a higher level.

These strategies come more naturally to executives and therefore we call this focus on optimizing the current business "right-hand management", as most people are more dexterous with their right hand. Also, the right side of the brain is said to more in control of the practical, rather than creative, aspect of our daily lives. Indeed, a good right-hand manager is a dispenser of caution, as he listens to and acts upon what his customers are saying. He generally goes about meeting these incremental requirements through the use of current or risk-free technologies.

Every year we meet with thousands of executives struggling to add value to their organizations through right-hand strategies. Recently, we worked with a public utility on a project that illustrates the power of Customer Relationship Management (CRM) in addressing these operational right-hand situations. The utility decided to add an interactive billing statement feature onto their basic CRM solution to give customers self-service capability.

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➔ Today, large corporate customers of the utility receive a separate bill for each of their business locations. Some accounts receive fifty or more separate bills a month and hundreds of pages of documents that eventually end up together at the corporate headquarters. These customers wanted to see one consolidated and informative utility bill for all of their geographic locations.

➔ The utility decided to build a Web-based interactive billing statement first for its corporate customers and later for its 600,000 residential customers. This interactive statement is delivered by email and gives customers an overview of their usage and allows them to interactively drill into any level of detail, e.g., historical consumption patterns, usage by location, and even daily or hourly usage.

The customers can tailor the statement to their requirements, set alerts based on various triggers, request new services, and communicate with the utility. Also, the interactive statement includes a self-contained help function that allows the customer to better understand details, definitions, or policies and avoid calling the utility. All in all, the utility added value to its commodity product by providing access to relevant information in a user-friendly format.

➔ To get the most out of the interactive statement, the utility assigned a small team to create several prototypes, develop related business cases and set quantitative performance objectives for the effort. In the span of one month, the team developed a solution that they felt would meet the needs of their large customers.

After participating in demonstrations of the statement, customers demanded the application! The customers' excitement and the strong business cases compelled the key stakeholders to move rapidly to implement the initiative.

➔ Although the utility has not yet deployed the interactive statement to all of its customers, the impact of the effort has been significant, both for the utility and its customers. The customers are now able to optimize their usage, detect problems immediately (e.g., a broken air conditioning that leaked electricity in one location), negotiate better contracts, etc. In addition, their increased opportunity for self-service has significantly reduced the number of calls they place with the utility.

This CRM solution has successfully improved the level of service and customer satisfaction has improved significantly, meaning that customers are less likely to resort to other providers once deregulation opens the market. Additionally, the utility has significantly lowered costs by reducing the number of billing issues, administrative burden, and call center staffing. They estimate that the solution will pay for itself in less than 12 months.

LEFT hand to prepare for the future

The further into the future organizations look, the more uncertain the world appears. The definition of "future" depends on the nature of the organization. For the Office of Naval Research, the future is 30 years from now. For the dot-coms, the future came and went in just a few short years.

Regardless of their specific time frames, successful organizations must plant the seeds today for new opportunities in the future. Think of Admiral Rickover, who established the United States nuclear Navy by pushing ahead with future technologies despite the protests of the Congress and other senior Naval officers. Similarly, Sun and Apollo focused on Unix, a technology that their customers deemed non-missioncritical "snake oil". Amazon is a more recent example of a successful business created by moving ahead of the curve with novel technology.

We call these customer-leading strategies "left-hand" ideas, as they are diametrically opposite to the safe, "right-hand" operational objectives of meeting existing customer demands through standard technologies.

The left-hand ideas are not born out of customer surveys, as customers typically don't know what they don't know. Instead, they have to be led. These ideas are usually catalyzed by radical new technology that has not yet gained widespread acceptance.

Think of a nuclear reactor in a submersible steel tube with 150 men onboard! Naturally, there are various brainstorming and other yellow-sticky methods to come up with left-hand ideas. We have noticed, however, that organizations come up with these ideas best by meticulously thinking about ways to utilize their existing "lazy" or latent assets to benefit their customers and their customers' customers.

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While successful left-hand leaders are eternal optimists and dispensers of hope, they are also realists and pragmatists. It is essential that they create a strong business model to ensure the success of the new idea and migrate the left-hand idea into the right-hand operational space. To be successful, the left-hand idea must not just be implemented but generate profits and other benefits as well.

Remember funeral.com, pets.com and the dozens of other fabulously innovative dot-com ideas? Like all left-hand ideas, customers did not really ask for them and they required innovative new technology to work. Yet most of them failed because the companies did not have a fact-based, feasible way to make money with the idea. In short, they did not have a business model.

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Don't blame only the dot-coms for the lack of a business model; Xerox is the most spectacular and often told example of a company with a solid right hand and an enviable portfolio of left hand initiatives. In its PARC research lab in Palo Alto, CA, Xerox developed the mouse, Ethernet, graphical user interface, laser printers and variety of other cutting-edge technologies.

For years Xerox failed to commercialize these innovations because the cash-generating copier business regarded them as threatening or distracting. In the meantime, the world and technology continued to evolve while Xerox stood still. The low-end copier business became a commodity as email and electronic document management eroded the high-volume copier market. The stock of this once high-flying market leader now trades for about five dollars a share amid persistent bankruptcy rumors.

Recently while working with a motorized wheelchair and scooter distributor on a right-hand problem, we discovered an intriguing left-hand opportunity. Often, solid right-hand tools and solutions enable these left-hand ideas. The left-hand strategy allowed the company to fundamentally change its revenue model by empowering wheel chair delivery persons to also act as sales persons – essentially combining field force automation with CRM tools for targeted sales.

- ➔ A leading motorized wheelchair and scooter distributor realized that it was serving an important but limited set of needs for its thousands of elderly mobility-challenged customers. In addition to wheelchairs, these customers needed supplies (e.g., medications, incontinency products) and a spectrum of services (e.g., cleaning, transportation). Today, these customers rely on visiting nurses, relatives, mail order or similar alternatives to procure their supplies and services, causing inconvenience and embarrassment, and typically resulting in higher purchase prices.
- ➔ The distributor decided to train their field delivery persons so that instead of merely delivering and setting up the wheelchair or scooter they would be able to provide a wide variety of relevant products and services to their customers. The distributor equipped the field personnel with a tablet PC that displays large pictures and descriptions of the additional products. On the back-end, the company leveraged its CRM system to suggest a targeted set of products and services for each customer using its knowledge of the customer's current medical situation and the likely prognosis over time. The company does not distribute the hundreds of additional products itself, but it relies on a web of partners to fulfill the orders.
- ➔ This left-hand effort has yielded significant benefits for the customer. She can now conveniently order products and services she needs from a knowledgeable and trusted person visiting her home. The distributor has fundamentally switched its revenue model from a one-time sale to an annuity base while enhancing its image with the customer. With more revenue per customer, the distributor can send the field person more often to the customer's home, further enhancing the image of being the trusted source. The core operations of delivering wheelchairs and scooters has also benefited from the solution – using the connected hand-held device, the customer's signature can now be captured electronically and paperwork can be filled out once electronically and routed to various constituencies (e.g., Medicaid) without error or delay.

Ambidextrous approach – Managing with both hands

The world does not stand still. Competitors catch up, customers change, what was state of the art yesterday is standard faire today. Who still books a flight with a travel agent when the best fares are available instantaneously on the Internet? As technology evolves, smaller, more dynamic competitions leapfrog established giants that refuse to innovate – remember Digital Equipment Corporation, the second largest computer company on the planet?

The company listened to its customers and added value to its VMS operating systems by creating Network-VMS, Open-VMS and other variations of the same. However, it missed the big picture and failed to evolve towards PCs and compatibility. Five years after being positioned near the top, it was acquired by Compaq in a last minute move to save it from bankruptcy. The story of Polaroid, an American icon that refused to move into digital photography, is very similar.

Why did these and many other well run companies with professional management fail to optimize their current operations and prepare for the future? Why were they blind-sided by their competition? These companies were surely not dumb or trying to fail. Instead, their internal resistance to change grew insurmountable, in part due to their very own success on the right-hand. We call this resistance to move into the left hand an organizational “black hole”.

You have heard all of the reasons for the gravitational pull: “My business brings in the money so don't tell me what to do”, “We have tried it but it failed”, “Our incentive compensation rewards quarterly earnings and only quarterly earnings”, “This the corporate process, just follow it”. These naysayers are analogous to the crabs caught here in New England. If one tries to climb out of the trap, the other crabs are sure to pull the endeavoring one back.

The most successful companies manage with both hands simultaneously – not an easy task. People and organizations are naturally either right-handed or left-handed, very few are ambidextrous. We have identified a few characteristics or enablers that help maintain a focus on both the right hand and the left hand:

- ➔ Experiment. Very few people can visualize an idea or a solution based on something they have heard or read. However, seeing is believing. By quickly building thin demonstrations and creating a use scenario, companies are able to identify and test several useful initiatives and immediately discard unproductive ones. In many of the companies we observed, a good idea was conceived, demonstrated with mock-up screens complemented with role-plays and business cases, and acted upon in a matter of weeks.
- ➔ Create heroes. Once they decide on an idea, the most successful “ambidextrous” companies move quickly to implement it in phases. Oftentimes releasing the first version of a solution quickly is more important than satisfying every demand or including all functions. The momentum to implement solutions will quickly die without demonstrable incremental progress. Also, these companies make the team leaders heroes, even legends – by widely publicizing the effort, even if it was not 100 percent successful.
- ➔ Establish environment for success. The most successful companies establish an infrastructure and atmosphere that creates and fosters new ideas. For example, at the top, good senior leaders with strength in one area complement their skills and focus with co-pilots with complementary characteristics. Dreamers need doers! These companies also allow new ideas to be nurtured outside of daily operations by relieving the idea team members from their daily routines. Their performance measurement and compensation are tied to the contribution and success of the idea. Often, the team is assigned to a location away from the daily hurly-burly.

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- ➔ Eliminate the crabs. Why did many well run companies – Xerox and Digital, for example – with professional management failed to optimize their current operations and prepare for the future? Why were they blind-sided? Mind you, these companies were not dumb or trying to fail. Their internal resistance to any change grew insurmountable, in part due to their very own success. It is a type of an organizational “black hole”. You have heard all of the reasons for the gravitational pull: “My business brings in the money so don’t tell me what to do”, “We have tried it but it failed”, “Our incentive compensation rewards quarterly earnings and only quarterly earnings”, “This the corporate process, just follow it”. These naysayers are analogous to the crabs caught here in New England. If one tries to climb out of the trap, the other crabs are sure to pull the endeavoring one back. Containing these crabs is particularly important to enable experimentation with left-hand ideas.

We can illustrate successful ambidextrous management with an example from the music distribution world. Our client was a distributor of music CDs and cassettes. Operationally, the company faced the challenge of constantly keeping its operations more efficient than those of WalMart, JC Penney and other world-class retailers who would prefer to manage the sourcing, inventory, merchandizing, etc., by themselves. Strategically, our client faced a marketplace with only a handful of customers and revolutionary technological change (digital distribution of music) that is likely to render its core business of CD distribution obsolete in a few years’ time.

- ➔ Right-hand. The company has approximately 500 field-based employees who maintain the music departments (thousands of high-value SKUs determined by local tastes, seasonal variation, etc.) at mass retailers. Typical issues included higher than necessary and unbalanced inventory, out-of-stocks for “hot” titles and overstocking for “cold” ones. During the prototyping sessions we developed a solution to enable broad fact-based decision-making for the field employee based upon the existing CRM system. For example, the prototype suggests specific inventory additions and in-store advertising to manage local sales spikes (e.g., when Rolling Stones comes to town). Similarly, it enables inventory minimization by recording (through scanning) and tracking (through the store’s point-of-sales system) every transaction. Strategically, the solution enables the field employee to become a well-informed partner to the store manager. Further, it allows the company to expand its inventory management and merchandizing capability to other comparable products (e.g., cosmetics). So far, the results have been significant in lowering average inventory, capturing sales peaks, and improving the field force’s efficiency. The company has created fact-based tools to provide optimal and tailored services to its customers.
- ➔ Left-hand. The largest component of a CD’s price is comprised of various royalty payments. In fact, it costs less than \$1.50 to physically produce a CD and jewel case that sells for around \$15.00. The royalty is added when the CD is manufactured and accordingly each player in the supply chain carries the royalty value on its books. In aggregate, the royalty value in the supply chain exceeds \$1 billion at any given moment. Because of the royalty value, the unsold CDs also reverse the value chain; ultimately being destroyed or sold at discount outlets. Naturally, this return logistics creates significant costs to manipulate the product and manage the administrative process. One of the company’s left-hand ideas is to eliminate the royalty component from the entire value chain by adding it to the price only when the end-customer buys the CD. As a result, retailers can carry more inventory at a lower average cost, worry less about stolen CDs and eliminate return logistics. Similarly, royalty payments could be collected and disbursed almost in real time – a significant change to the current approach of quarterly disbursements.

The company plans to enable this elimination of the royalty component in the retail value chain by creating a royalty clearing house to obtain information on actual CD sales from the stores’ POS system, match the information with specific royalty agreements covering different titles, and coordinate disbursements among the clearing-house participants. Strategically, the company has envisioned a new business that will solidify its position in the value-chain and create a new revenue stream.

- ➔ Enabling factors. The ambidextrous team consisted of a CEO with a strategic vision and a COO with a strong focus on operations meticulous attention to details. The company also organized a series of four idea-generation and demonstration workshops to identify opportunities in various areas of the business (field-based operations, customer-facing, supplier-facing, and left-hand business opportunities). The leaders of each session were made an internal “heroes” by giving them significant latitude with their efforts and broadcasting their efforts through the company.

Based on our client experience, IT tools, such as CRM, can be much more than a narrow tool to improve the customer contact and revenue. It is an important enabler for ongoing incremental operational right-hand improvements, even beyond the immediate customer interface. CRM also forms a foundation of fact for organizations to come up with and, even more importantly, build business models and execute new left-hand ideas to ensure their long-term success.

Note: We have changed some details and descriptions to protect the confidentiality of our clients and their ideas