



MAKING QUALITY DECISIONS IN AN ACCELERATED BUSINESS ENVIRONMENT

by John J. Lewis

On August 19, 2003, Hewlett-Packard Chairman and Chief Executive Officer Carly Fiorina announced that her firm's third-quarter financial results were significantly below expectations. In fact, the disappointing performance was primarily attributed to aggressive price competition in the personal computer market. Carly went on to say that HP's own aggressive pricing was partly to blame, but assured investors that the company planned to take corrective actions to improve price performance and restore margins in the fourth quarter.

What happened next won't be forgotten anytime soon in HP's hallways out in Palo Alto. Less than twenty-four hours later, Dell announced that it was lowering prices up to 22 percent across its entire line of personal computers. HP's stock plunged 11 percent on the news, at least temporarily wiping out \$6 billion in shareholder value. Welcome to the world of accelerated business decisions.

We now operate in a world where critical, multibillion-dollar business decisions to enter a new market or revamp customer service operations—decisions that used to take a year or more to ponder—are resolved in mere months. Meanwhile, deliberations that had routinely extended for several weeks are dispatched within days. And sometimes, as was the case with Dell and HP, cataclysmic market events can unfold in mere hours.

Dropping your price 22 percent is never a trivial decision for any company, even for a company as successful as Dell. Pulling that trigger with confidence requires that the company proactively create a high-quality understanding of the impact of pricing changes on market demand and profitability, and do this in advance of facing such a monumental decision. In today's world, the winners are companies that can predict plausible future moves in a volatile market and invest in creating the timely facts that will support these high-stakes decisions.

Is it any wonder how we got here? Escalating Wall Street growth aspirations, the pressing need for increased productivity, and an overwhelming range of instant communications devices have permanently accelerated the pace of business. Please don't stop to reflect on the existential questions as

to why we are doing this to ourselves and whether it is healthy. Life isn't going to wait until we catch up. There is just no turning back to simpler, slower times.

Want to change your advertising message? Extend your product line? Lower your prices? The clock is ticking, because your suppliers, competitors, and channel partners are already on the case. They are using every minute of every day to reshape your market and redefine your brand to their own economic

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advantage. Your customers are continuously shopping around for alternatives, and your loyal employees are searching for a better job because they wonder if you are moving aggressively enough to secure your company's future and their retirement. How do you thrive in an era when “What have you done for me lately?” becomes “What have you done for me this morning?” In fact, there is only one way to outrun your competition in this environment: Make better strategic decisions. Make them fast. Make them now. Here's how:

Commit to continuously shortening your “time to quality decisions.” You need no special skill to make a poor decision quickly. People do it every day. However, making extremely high-quality decisions within a restricted time frame requires nothing less

than the precision of a well-trained Delta Force team armed with the latest arsenal of high-tech weapons. There are many steps every organization can take to make better decisions faster.

Step one is achieving organizational clarity around who owns the real “decision rights.” CRM is a perfect example. How many times have we all run across an organization that is disappointed with a \$200 million investment in its CRM system, then proceeds to pass the blame back and forth between its marketing and IT departments. Meanwhile, smart competitors are targeting and attracting profitable customers away every day. In today's matrix organizations, it can be quite a challenge

tracking who is accountable for decisions. This is why leading corporations make it a priority to establish which individuals and teams will make the key decisions that will keep the company moving forward.

Step two is ruthlessly aligning the quality requirement to the business objective. Some decisions require tremendous rigor because an error could be absolutely disastrous. If you are selling a new shaving system, you want to make sure there is virtually no way a consumer is going to use your product and accidentally cut themselves while half asleep in the morning.

This obviously requires extensive and careful product testing, yet we consistently find numerous occasions when companies are making critical strategic decisions with anecdotal and often downright incorrect

data. On the other hand, our experience suggests that other decisions are sometimes “overengineered,” when in truth a lower quality threshold would be more than adequate to make a correct business decision (and wouldn’t waste scarce resources). We believe that matching the quality of your facts and insights to the risk and reward embodied in the decision at hand is an art worthy of cultivation.

Step three is capitalizing on leading-edge marketing information and marketing science technologies. Airlines recognize that they must deal with millions of updates to their route pricing, and so have invested in sophisticated software to help them navigate through these decisions. Television networks and major advertisers invest substantial sums to have their finger on the pulse of ratings. However, our experience suggests that few companies truly grasp the exploding set of new technologies, research, and analytic techniques that can give them quicker access to quality insights that can influence their most pressing business problems. For example, today’s advanced analytics can rapidly sort through complex data to make information more useful in a short period of time. In the process, these analytics create a clearer differentiation between expected outcomes for various strategic options.

Simulate enemy moves and your competitive market responses long before they happen. Perhaps it is time your organization applied the lessons of military warfare: invest to calculate what decisions you will need to make long before you need to make them. We could and will argue that HP should have anticipated Dell’s response

to their pricing announcement, even if the actual timing was more aggressive than ever imagined. After all, Dell certainly wasn’t going to sit still regardless of HP’s price movements—their prices only move in one direction, down.

As product development cycles shrink... as companies move to “real-time” pricing systems... and as advertising campaigns become ever more tailored to individual cable or satellite television subscribers, you can be certain of one thing: your competitors will respond faster to your next move than to your last move. Like chess grandmasters at work, the very best companies are constantly thinking five to six moves ahead and will increasingly plot their competitive strategy and marketing response for every major contingency.

Ask yourself this: how often when you test your advertising campaign do you also test the anticipated response from your competitors? What if, when you were evaluating how consumers view the brand, features, and price of your product, you simultaneously ran through a natural “escalation” scenario, where the next four to five product generations get successively more attractive on all dimensions? How do your market shares move around as these shifts take place, and what actions could you take that are fundamentally preemptive to the next set of competitive attacks? These are all steps you could take today to game out competitive response scenarios and more creatively and insightfully evaluate how the market might evolve.

Invest in creating the appropriate market insights you need before you need them. Most companies are simply drowning in data today. Market research studies, CRM systems that capture behavioral data, scanner data, Internet research, analyst reports, terabytes of data from ERP systems... the list seems endless. Nevertheless, we are never surprised that corporate executives tell us they have plenty of data to support prior decisions, yet routinely lack the data they need to make today's new decision. Anticipating your future decisions and competitors' actions is only useful if you subsequently invest in creating the information and insight systems

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that let you get a jump on your next series of strategic marketing decisions.

For instance, as soon as you sense a substantial escalation in product innovation in the industry, perhaps because an upstart has entered the fray, the first reaction should be to rapidly arm your company for a battle on product features and pricing, which in turn should drive an investment in understanding how consumers view competitive brands and products.

An excellent case in point is the recent attention that is being paid to the topic of obesity and low-carbohydrate diets in America. Long after this story had become a fixture on the evening news, most food companies were still moving very slowly to understand how this emerging story would affect the sales of their products.

Another hot topic is outsourcing and offshoring of jobs, which touches every company with employees and shareholders concerned about the competitiveness of the U.S. economy. Can the *Time* magazine cover story on America's top 100 "job exporters" be far away? Then it will soon be splashed all over CNN and NBC. Will your company be on the list? How will you react if it is on the list—or if you are lucky enough to be excluded? Add it to your research agenda.

Voices are speaking louder that it is time to "retire the concept of retirement." Wasn't it just

last month that this was the feature story in *Harvard Business Review*? As our population ages, retirement becomes less of a certainty. How do your employees feel about this? What are their intentions? How will your company offer products and services to help a generation of workers in their 60s, 70s, 80s, or even 90s? Why wait until next year to start figuring this out?

Don't waste time conducting research when it won't produce a valid answer. Not every question lends itself to a fact-based research answer, so it is important to

know in advance which questions are actually “researchable” and which ones are not.

We can still recall one client a few years ago that wanted to know how a change in advertising expenditures would shift the company’s stock price over the next several years. While we could



have built a very fancy-looking statistical model to correlate these variables, we instead declined the assignment because we instantly knew that there was no good way to measure this relationship. There were simply too many intervening variables to establish any causality. It is almost like someone asking you to predict how many fewer cheeseburgers you would have to eat to add five years to your expected life span. It just can’t be researched, certainly not today.

Yet we consistently find well-meaning executives wasting literally millions of dollars every year trying to research questions that won’t produce a valid research answer. In other cases, they are tracking static data that simply isn’t relevant to the problem at hand.

They are doing this work simply because some firm found it easier to take their money than push for a better design or argue that the issue could not be addressed. Not only does this redirect valuable money and time away from important projects that could make solid use of these scarce resources, but it also runs the risk of leading organizations to make fundamentally wrongheaded decisions. The next time you are about to

spend significant funds on a study or design that seems unclear, maybe you should follow your instinct and pass. Time is precious. Don’t waste it on the wrong project.

Effectively leverage your expert network to manage through truly impossible deadlines. Sometimes you simply need to respond tomorrow, and when this call arises, you must have at your instant disposal real marketing experts who have seen the situation twenty times before and can “cut to the chase” and offer you counsel that is right 80 percent of the time. Of course, you can’t build these relationships at the last minute, so we would suggest finding business partners who can not only meet your immediate needs, but who will also be on call to meet the future strategy needs that you can’t even imagine today.

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