by Darrell Rigby and Barbara Bilodeau

Building out of a downturn

Companies are now using more management techniques to rise above tough times, and many are focusing on growth tools.

Key messages

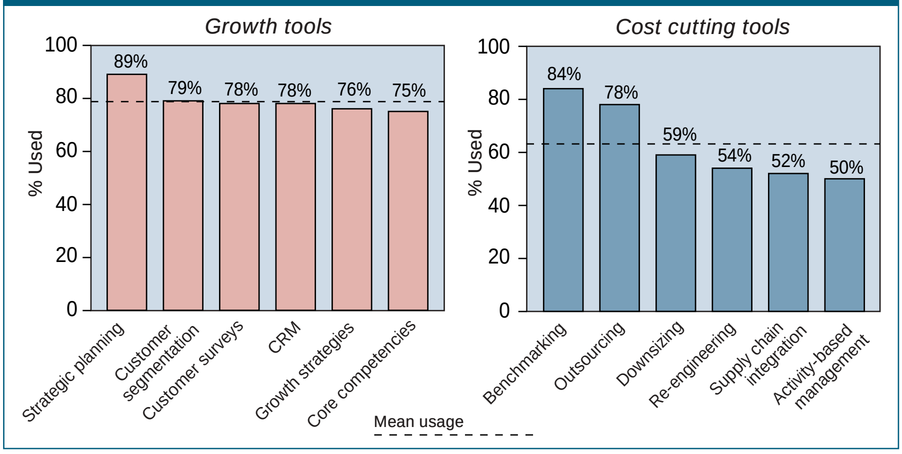
- Bain & Co.'s 2003 survey of Management Tools & Trends found a rapid increase in the use of management tools by companies over the past nine years.
- Cost-cutting tools – such as benchmarking, outsourcing, downsizing and re-engineering – remained popular as a response to recent recessions, but not as popular as in the early 1990s.
- Instead, companies have been relying much more heavily on growth tools such as strategic planning, customer segmentation, customer surveys and CRM to help them define new markets and sharpen their ability to innovate.
- This approach appears to pay dividends. Among the companies surveyed, stock prices for those focused on growth increased twice as much over the past two years as for those that said they had focused on cost cutting.

Like homeowners struggling to fix leaky roofs, shore up foundations, refinance loans and order new construction to improve their properties, companies are both economising and innovating to build their way out of today's slow-growth business environment. For Corporate Express, the office-products firm that accounts for two-thirds of the €9.9 revenues of Buhrmann, NV, that's meant an ongoing drive to cut costs without losing sight of the primary strategy – increasing organic growth. As customers in Europe, North America and Australia cut back their purchases of office supplies during the downturn, Corporate Express reduced headcounts (by 11 per cent in 2002) and rationalised IT assets and distribution facilities. The company continued, however, to improve customer satisfaction and grow revenue by building up its online procurement platforms and catalogues.

Corporate Express is just one example of a significant shift in management strategies to beat a downturn. Coming out of the 1990-91 recession, companies were more focused on cost-cutting; today a majority of executives worldwide plan to pump up growth even as they keep a lid on costs, according to Bain & Company's 2003 survey of Management Tools & Trends.

The survey found that companies overall are using more management tools. But while they have responded to recession in the usual manner by boosting their use of cost-reduction tools like outsourcing, they have begun to focus increasingly on growth tools, such as customer relationship management (CRM), an approach that harnesses technology to build customer loyalty. Respondents to the survey, which rates 25 popular management tools for use and satisfaction, say that growth tools work. And they are seeing the payoff in their firms' stock performance.

Figure 1: Growth tools are more popular



Choosing tools that work

For nine years, Bain & Co. has tracked the use of management tools (see Figure 2). The 2003 survey, which gathered data from 708 companies on five continents, found that tool use overall had increased. The average company employed 16 tools to navigate out of the 2001 recession and the sluggish recovery, up 36 per cent from the average of 12 tools used in 1993 when the G-7 economies were recovering from the 1990-91 recession.

Tools that help cut costs – such as benchmarking, outsourcing, supply chain integration, activity based management, reengineering and downsizing – were certainly popular. Some 63 per cent of companies surveyed used them in 2002, up one-fifth from 52 per cent in 1993. "In these tough times," said one research director in the health care industry, "people have to tighten up their business practices and become more efficient. To that end, they are looking for tools to help them accomplish that goal."

But tools used by companies to find new revenues increased much more markedly. An average of 79 per cent of the firms in 2002 used growth tools, versus 43 per cent in 1993 — an increase of 84 per cent. Growth tools include strategic planning, growth strategies, core competencies, customer segmentation, customer surveys and customer relationship management. At least three quarters of the respondents used each of these tools (see Figure 1). "You can't afford not to grow," said a vice president of corporate strategy. "You can't just wait for the economy to pick up before you begin introducing new products for customers."

'A majority of the executives surveyed say innovation is a primary focus, one reason for the increasing popularity of growth tools. More than two-thirds said innovation is more important than price for long-term success in their industry.'

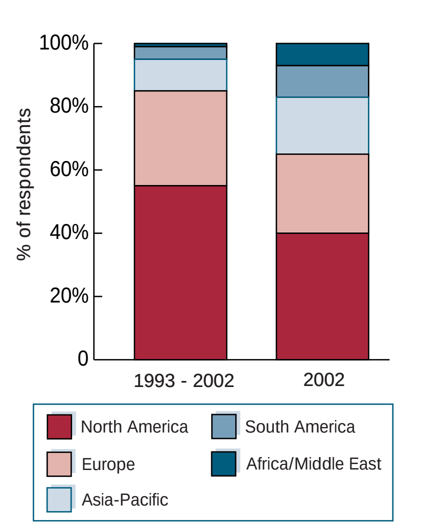
At Sodexho Alliance, the global food service provider headquartered in Paris, organic growth is the top priority in overall corporate strategy, and customer segmentation provides a key tool for locating growth opportunities. The firm's Sodexho Marriott subsidiary, which operates facilities on university campuses, combines data from student surveys with demographic data to determine the unique mix of student segments and food-service preferences at each facility. The information is used to redesign menus and food-court formats, resulting in double-digit increases in patronage and spending. Sodexho's total revenues grew six per cent for the fiscal year ending in August, 2002, and ten per cent for the six months through February, 2003.

Courting the customer

Companies are generally satisfied with the way management tools deliver; when they do shed tools, the discards tend to be cost-cutting tools before growth tools (See Figure 3). Re-engineering, downsizing, and activity-based management had defection rates greater than ten per cent. Indeed, executives seem to have discovered the downside of downsizing. Although 59 per cent of respondents said they were forced to make staff cuts in 2002, many seemed to be learning a secret about this widely used practice: Our research indicates that staff cuts often have a negative effect on stock prices, and layoffs sometimes cost more in the long run than they save in the short-term. Downsizing had the second lowest satisfaction rate of all tools in 2002, and in 2003, only 35 per cent believe they are likely to do layoffs. European executives indicated the greatest likelihood they would lay off employees in 2003; Asian companies were least likely.

Executives expressed higher satisfaction with proven growth disciplines like strategic planning and core competencies, which have consistently rated near the top since 1993 and once again drew top marks. This year, they were joined at the top of the satisfaction rankings by growth tools focused on defining markets and improving customer relationships. Companies rated customer surveys and customer segmentation as two of the most satisfying tools. Another tool that scored highly was

Figure 2: Nine years of data, 6,323 respondents



customer relationship management.

Interestingly, CRM was roundly chastised by survey respondents two years ago. Companies frustrated by the expensive, internet-based CRM software systems that seemed to require large ongoing investments for little or no returns placed this tool near the bottom of the satisfaction ratings. By 2002, however, executives had begun to figure out how to deploy these systems effectively and the satisfaction ratings rose sharply. This turnaround follows a pattern: new disciplines often require a ramp-up period - sometimes a long one - and only succeed if they are given full management attention. "The challenge with tools like CRM has always been integration," says the chief information officer of a large American manufacturer. "As technology matures, which we have observed this past year, integration becomes much easier."

A majority of the executives surveyed also said that innovation has been a primary focus as they seek new ways to grow (see Figure 4). More than two-thirds said innovation is more important than price for long-term success in their industry. And almost 75 per cent said that the ability to change is a crucial corporate advantage. "If you innovate, you can charge a premium," said one respondent. "Without innovations, you must rely on cost reductions, which can't ensure long term viability."

What's also clear from the data, however, is that despite their enthusiasm for ferreting out new products and technologies, senior executives have little appetite for blind spending or prospecting. Instead, they are showing increased interest in the concept of Open Market Innovation - an approach which seeks to use tools like licensing agreements, joint ventures or strategic alliances to bring the benefits of free trade to the flow of ideas. The idea is to defeat the cost and inefficiency of the 'not invented here' syndrome by opening a company's 'borders' to ideas from vendors, customers or even competitors. More than two thirds of the survey respondents agreed with the notion that they could significantly boost innovation by using such outside partnerships.

Winning with investors

Adding customers has proven to be one of the most resilient ways to boost share performance. Consider the case of Wells Fargo, one of the surveyed companies focusing on growth. Four years ago, following its 1998 merger with Norwest Financial, Wells Fargo launched a major effort in cross-selling – encouraging customers to buy more than one of its financial services products. Few banking companies do this well: The average financial-services provider has two products per customer. At the start of the program, Wells Fargo had three; today the average is four, with a third of customers using five or more products. The company's goal – one of its ten top strategic initiatives – is to provide eight financial products per customer. Wells Fargo's customer surveys show that this is achievable, and customer segmentation tools tell the bank where and when to offer specific segments of customers additional products. The average US household buys about 15 financial products, and 70 per cent of Wells Fargo's customers say they would like to place most of their financial products with one institution. Successful cross-selling is one reason organic revenue grew 13 per cent at Wells Fargo in 2002, versus declines for 31 of the other 40 banking companies in the Global 500 list. And Wells Fargo's total return to stockholders was 10.3 per cent – in a year when investors in half the other Global 500 banking companies lost money.

Wells Fargo's Wall Street rewards are not an isolated case. Overall, companies focused on growth have been outperforming their competitors in the equity markets: From 2001 to mid-2003, 44 per cent of the growth companies in the survey saw an increase in their stock price – double the percentage for those companies focused on cost cutting. Given that record, the increased use of growth tools seems likely to continue. For 2003, in fact, nearly 60 per cent of the executives surveyed say they will focus on growth more than cost-cutting. As any homeowner knows, no matter what you might think about the time and money spent on repairs or additions, there's nothing like seeing your property value increase to prove it was all worth the effort.

Figure 3: Tools satisfaction rates

Corporate Code of Ethics	4.05
Strategic Planning	4.04
Core Competencies	4.01
Customer Segmentation	4.01
Customer Surveys	3.99
Benchmarking	3.96
Pay-for-Performance	3.90
Balanced Scorecard	3.88
Mean=3.85	
Economic Value-Added Analysis	3.85
Outsourcing	3.84
Merger Integration Teams	3.83
Growth Strategies	3.82
Customer Relationship Mngmt	3.81
Contingency Planning	3.81
Change Mngmt Programmes	3.80
Supply Chain Integration	3.80
Total Quality management	3.80
Strategic Alliances	3.80
Activity-Based Management	3.76
Re-engineering	3.75
Mission and Vision Statements	3.74
Stock Buybacks	3.74
Knowledge Management	3.63
Downsizing	3.49
Corporate Venturing	3.45

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Figure 4: Companies want to innovate and grow out of recession

	Agree	*Disgree*
I am concerned about how we will meet our growth targets	65%	20%
Our ability to adapt to change is a significant corporate advantage	71%	15%
Innovation is more important than price for long-term success in our industry	68%	18%
We could significantly boost innovation by partnering with other companies	63%	17%
Countries should reduce trade barriers and increase free trade agreements	80%	5%