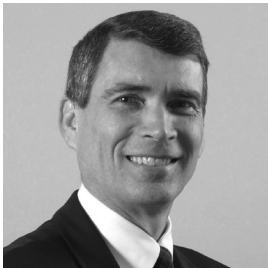


# Management tools:

## Management feature



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Darell Rigby  
Partner  
Bain & Company



*“This year the #1 cost-related tool is outsourcing. But offshoring—sending work once done at home to other countries—isn’t nearly as popular as outsourcing in general.”*

François Goffinet  
Manager  
Bain & Company

Where do executives’ strategic priorities lie? One way to answer that question is to look at the management tools they use to help run their businesses. Bain & Company’s 2005 Management Tools survey of 960 global executives offers a window into what companies around the world believe is important.

This year, executives are thinking about customers—acquiring them, keeping them, learning more about what they want and then satisfying them. They know they must innovate, but they’re not entirely sure how to go about it. To free up cash, they’re outsourcing like crazy—but not necessarily sending the work offshore. And they are relying on information technology to do business more efficiently.

Those conclusions come from our survey data, but they also reflect the thinking of executives we contacted after the survey. “Customers are much more active in their purchasing decisions and have much more information at their fingertips to aid the decision-making process,” a vice-president for planning and development at a US consumer-appliances company told us. “Historically, the market has been a price/cost game—and we are trying to break out of that cycle and obtain brand-loyal customers.”

More specifically, the following four themes emerge:

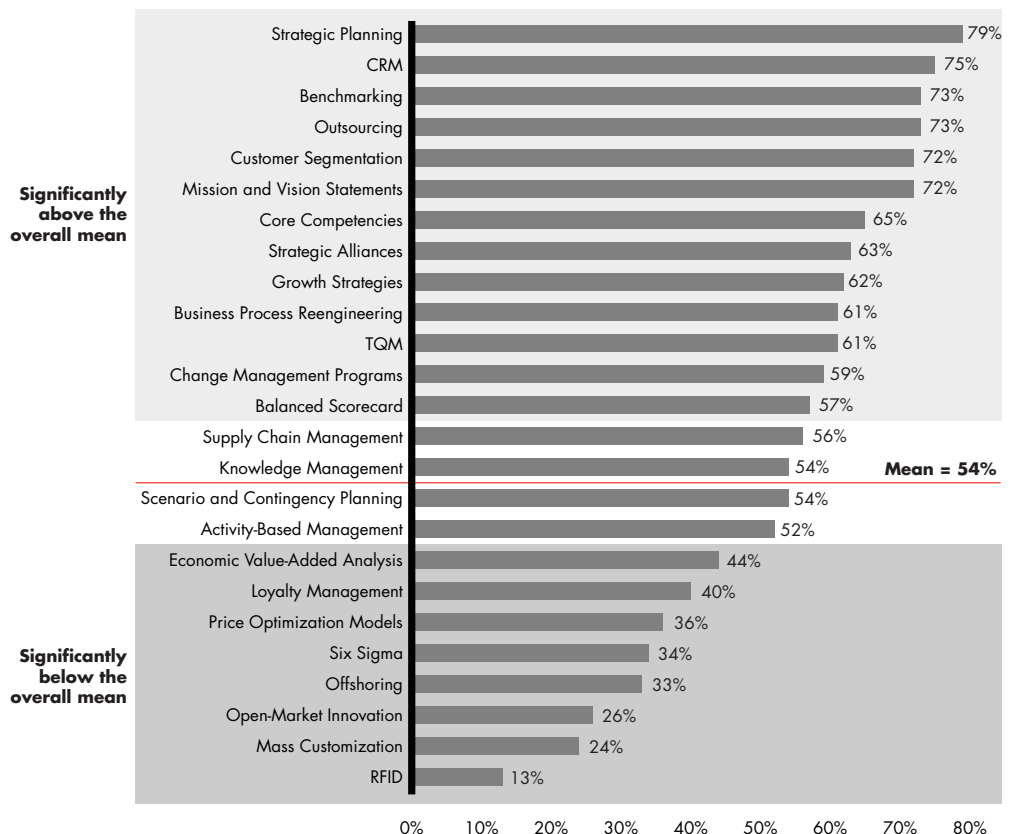
### Theme 1: Customer focus

Executives worry that they don’t know enough about their customers. Nearly two-thirds of survey respondents agree with the statement “Insufficient customer insight is hurting our performance.” Respondents also feel they aren’t doing a good-enough job of satisfying the customers they have.

So what are they doing about it? Use of the tool known as customer relationship management, or CRM, tells part of the story. CRM—which involves collecting and managing large amounts of data about customers, then developing strategies based on that information—was first included in Bain’s tools survey in 2000. But it’s a complex tool, requiring sophisticated mining of millions of customer records. That year, only 35% of companies were using it, and few were pleased with its results.

Since then CRM has exploded: Three out of every four companies were using it in 2004, one of the largest and fastest usage increases ever recorded. It now ranks #2 in usage in the survey, just behind the perennial leader, strategic planning.

Moreover, companies are increasingly pleased with their CRM efforts. As part of



**Figure 1:**

Strategic planning is #1 in usage, with CRM right behind it

# Global survey results

the survey, Bain asks executives how satisfied they are with a particular tool, then ranks the tools on a “satisfaction scale.” CRM scored 3.91 on a one-to-five scale; that tied it for ninth on the overall satisfaction ranking, up from #22 in 2000.

## Theme 2: The innovation gap

A whopping 86% of respondents believe that “innovation is more important than cost reduction for long-term success.” But so far, no innovation-related tool has proved it can truly satisfy this need. Growth strategies, or systematic efforts to identify and enter new market opportunities, were used by 62% of responding companies in 2004. But half of the executives in the survey confess that “when we need to increase profits, we usually cut costs”—which suggests that there’s a broad gap between the perceived need to innovate and companies’ ability to do so.

“Innovation is challenging, whereas cost control and efficiency improvements are more tangible and generally require less up-front investment,” remarks the vice president of corporate planning for a US financial services firm.

## Theme 3: Finding the money

Of course, no company is ignoring the need to cut costs. This year the #1 cost-related tool is outsourcing. Nearly three-quarters of companies use it, tying it for third place in the tool-use rankings.

Dig a little deeper, however, and you find some uncertainty about outsourcing. For example:

- Offshoring—sending work once done at home to other countries—isn’t nearly as popular as outsourcing in general. Overall, it’s used by only 33% of companies, or fewer than half as many as rely on outsourcing.
- Even though many companies use outsourcing, some worry about their management capacity. Only 42% of respondents—and only 60% of those from large companies—believe they have the capability to manage a global supply chain effectively.

## Theme 4: IT comes of age

For as long as Bain has been conducting this survey, tools based on information technology have shown mixed results. CRM, of course, is one example. It requires powerful hardware and sophisticated software to be effective, so companies naturally

took a while to acquire the appropriate resources and develop the necessary skills.

Look more closely at the use of other tools, however, and you can see the fundamental role played by IT in management today. Total quality management, supply chain management, and scenario and contingency planning are all popular tools, and all rely heavily on computers.

All told, 9 out of 10 executives believe that IT can help create competitive advantage. Still, they seem to wonder if they are using IT effectively. For instance, only 6 of 10 agree that their companies’ spending on IT is aligned with their business strategies.

## The big picture

Certain key trends emerge from the survey. For example:

### *Overall tool use*

Companies worldwide have decreased the number of tools they use since our last survey, two years ago. Still, the decline is only from 16 to 13 per company. Over the dozen years this survey has been conducted, the mean number of tools used per company is 12.5, and usage has never fallen below 10.4.

### *Satisfaction and dissatisfaction*

Not surprisingly, the most popular tools also enjoy high satisfaction ratings. Strategic planning, for instance, ranks #1 on both lists. But some tools that are little used, such as Radio Frequency Identification (RFID), also enjoy high satisfaction ratings.

A handful of tools seem to generate relatively low “extremely satisfied” ratings and relatively high “dissatisfied” ratings. This group includes change management programs, loyalty management, and activity-based management.

### *Importance of major effort*

When companies back use of a given tool with a major organizational effort, satisfaction rates are considerably higher than when tools are implemented with only a limited effort. The mean for major-effort implementation is 4.23 on a one-to-five scale, while the mean for limited-effort implementation is 3.62.

## Recommendations

On the basis of our research to date, we offer four suggestions for the use of tools:

### 1. *Get the facts*

Every tool has its own strengths and weaknesses. To succeed, you must understand the effects (and side effects) of each tool, then combine the right tools in the right ways at the right times. Use the research. Talk to other tool users. Don’t naively accept hyperbole and simplistic solutions.

### 2. *Champion enduring strategies, not fleeting fads*

Managers who promote fads undermine employees’ confidence that they can create the change that is needed. Executives are better served by championing realistic strategic directions—and viewing the specific tools they use to get there as subordinate to the strategy.

### 3. *Choose the best tools for the job*

Managers need a rational system for selecting, implementing and integrating the tools that are appropriate for their companies. A tool will improve results only to the extent that it helps discover unmet customer needs, helps build distinctive capabilities and helps exploit the vulnerabilities of competitors.

### 4. *Adapt tools to your business system (not vice versa)*

No tool comes with prepackaged instructions and a guarantee. All must be adapted to a company’s particular circumstance.