



Global survey results show that the customer is in the driver's seat—and that innovation is the next big challenge

Management Tools 2005

By Darrell Rigby

BAIN & COMPANY

The Management Tools survey

The past dozen years in business have witnessed an explosion in the use of management tools and techniques. The tools range from broad processes such as strategic planning and benchmarking to highly focused initiatives such as the use of radio frequency identification (RFID) tags. Keeping up with the tools and deciding which ones to use have become an essential part of every executive's responsibilities.

But it's a tough job. New tools appear every year, while others seem to drop off the radar screen. Many offer conflicting advice. There is no *Consumer Reports* to help executives sort through what works best in any given situation. Without data, choosing and using tools becomes a risky and potentially expensive gamble.

In 1993, Bain & Company launched a multiyear research project to get the facts about management tools. Our objective is to provide managers with the information they need to identify, select, implement and integrate tools that will improve bottom-line results. Our surveys ask about companies' use of tools, about executives' satisfaction with the tools they use, and about their attitudes toward some of the day's pressing business issues. Over 12 years we have assembled a global database of more than 7,000 respondents, including 960 this year. (See figure 1.) As in the past, we supplemented the 2005 survey with follow-up interviews to probe the specifics of tool use in individual companies.

This report focuses on 25 of the most popular tools and techniques. To qualify for inclusion a tool had to be:

- relevant to senior management;
- topical, as evidenced by coverage in the business press;
- measurable.

For full definitions of the 25 tools, along with a guide to resources on each one, please see the Bain & Company booklet *Management Tools 2005: An Executive's Guide*.

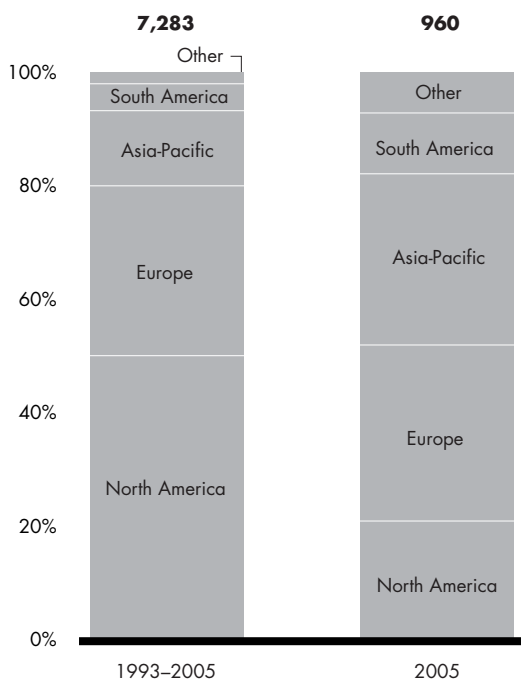
**Darrell Rigby is a director of Bain & Company in Boston.
He founded Bain's Management Tools survey in 1993.**

Global survey results

Where do executives' strategic priorities lie? One way to answer this question is to look at how they run their businesses and, in particular, at the management tools they use to help them. Bain & Company's 2005 Management Tools survey, the 10th in a series conducted since 1993, thus offers a window into what companies around the globe believe is important right now.

This year, the news is that executives are thinking about customers—acquiring them, keeping them, learning more about what they want, and then satisfying and delighting them. They know they must innovate to keep customers happy, 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 run their businesses more efficiently.

Figure 1: Twelve years of data and more than 7,000 respondents



Those conclusions come directly from the survey data reviewed and summarized in this report. They also reflect the words of executives we contacted after the survey to understand their thinking in more detail. “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 from this year's data.

Theme 1: Customer focus

One problem keeping executives awake at night is the gnawing feeling 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. Slightly more than half agree that their companies “focus on new customers when we should retain and grow our existing ones.”

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—burst upon the business scene several years ago and was first included in the Bain 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.

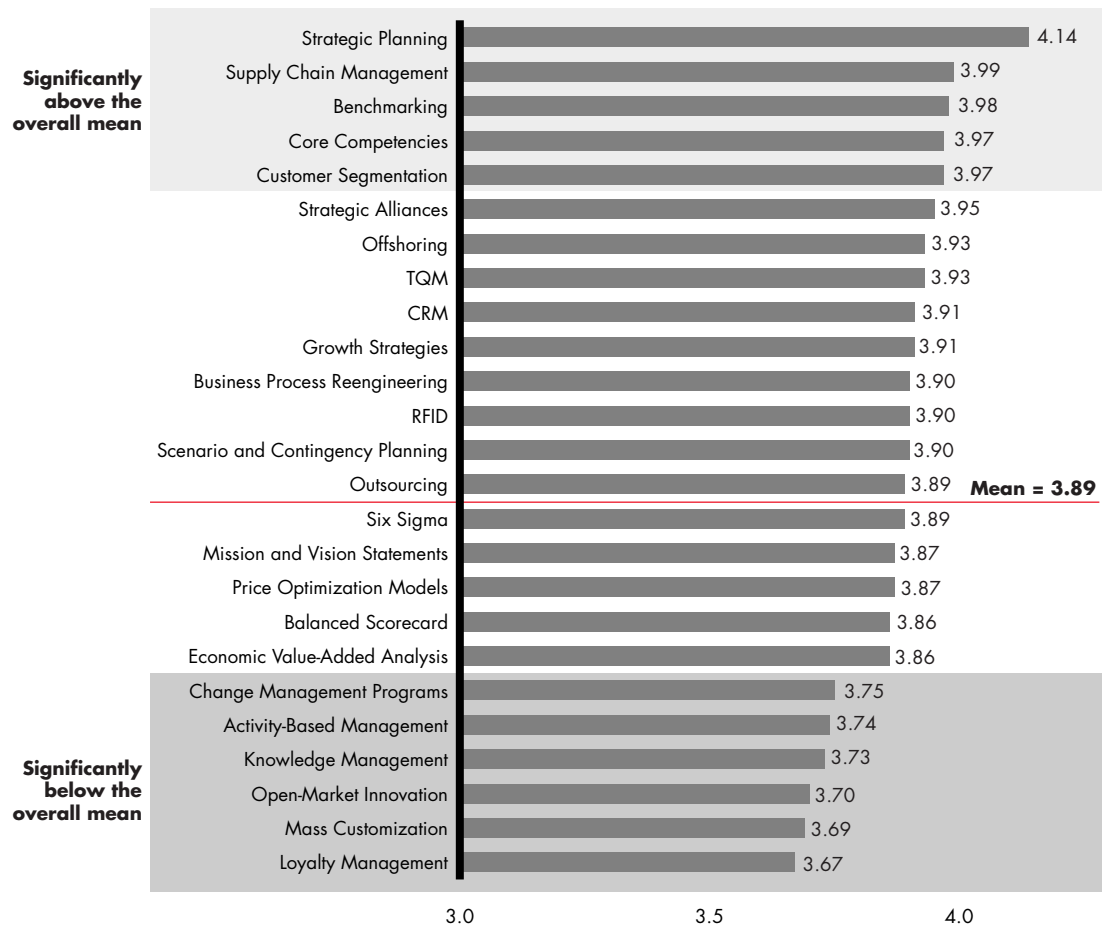
Management Tools 2005

Since then CRM has virtually 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 the survey, just behind the perennial leader, strategic planning. Moreover, companies are increasingly pleased with their CRM efforts. As part of the survey, Bain asks executives how satisfied they are with a particular tool, then ranks the tools on a “satisfaction scale.” (See figures 2 and 3.) 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.

One company that has learned to use CRM effectively by focusing the tool on specific points of pain in its customer processes is Canada’s Husky Injection Molding. “We are learning from our past experiences—where it makes sense to focus our CRM efforts and where it doesn’t make sense—which has provided increased value to our customers,” says business practices manager Ian Crookston.

Another indication of the heightened focus on customers is the continuing widespread use of customer segmentation, which divides existing and prospective customers into discrete groups that share certain characteristics

Figure 2: Satisfaction with most tools is relatively high (scale of 1 to 5)



for the purposes of developing targeted products and services. Some 72% of companies relied on segmentation in 2004, tying it for fifth in popularity; its satisfaction score, at 3.97, is tied for fourth highest.

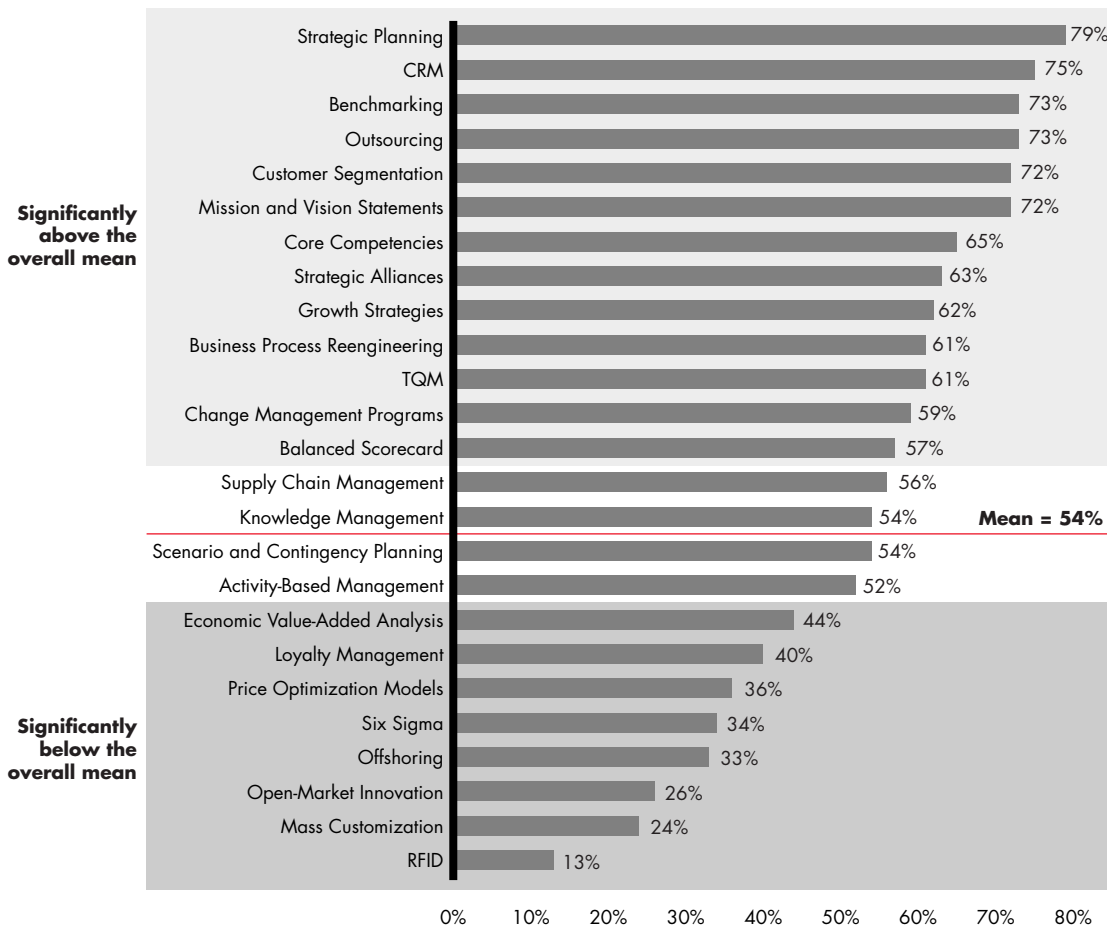
Theme 2: The innovation gap

Another gnawing concern for executives is the increasing commoditization of goods and services all over the world. More than three-quarters—76%—believe that a growing percentage of the goods and services they offer “behave like commodities,” while 56% say they should focus more on revenue growth and less on cost reduction. The solution to both concerns? Innovation. 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

Figure 3: Strategic planning is #1 in usage, with CRM right behind it



Most successful, least successful in 2004

Four tools in this year’s survey ranked well above average in both usage and satisfaction:

- Strategic planning
- Benchmarking
- Customer segmentation
- Core competencies

Three others registered both low usage and low satisfaction ratings:

- Loyalty management
- Open-market innovation
- Mass customization

But don’t write the low scorers off—they may be tomorrow’s up-and-comers. A few years ago, CRM wasn’t widely used and had low satisfaction scores. Today it is #2 in usage and tied for #9 in satisfaction.

generally require less up-front investment,” remarks the vice president of corporate planning for a US financial services firm.

One tool that may be promising in the future is *open-market innovation*, in which companies partner with customers, vendors and others to find and develop the best innovative ideas. Executives seem to be hungering for something like this: Nearly three-quarters of respondents agree with the statement “We could dramatically boost innovation by collaborating with outsiders, even competitors.” Right now only 26% of companies are experimenting with open-market innovation, and the tool ranks near the bottom of the satisfaction ratings. Given the perceived need, though, open-market innovation may, like CRM, start slow but grow rapidly once companies learn how to use it effectively.

Theme 3: Finding the money

Of course, no company is ignoring the need to cut costs. Global competition continues to be fierce, and the imperative of growth through customer satisfaction and innovation somehow must be financed. 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. Meanwhile, 56% use the related tool of supply chain management, up from only 32% five years ago. Supply chain

management has risen sharply in the satisfaction rankings and now registers the second-highest satisfaction score of any tool (3.99).

Dig a little deeper into the numbers, however, and you find both some surprises and some uncertainty about outsourcing. For example:

- Offshoring—sending work once done at home to India, China and 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 among large companies, only 51% rely on offshoring, as compared with the 85% that rely on outsourcing. Surprisingly, only 47% of executives agree with the statement “Offshoring may be politically unpopular, but everyone benefits in the end.”
- 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. Perhaps reflecting that uncertainty, executives’ satisfaction with outsourcing is right about at the mean for all tools.

The conclusion may be that outsourcing is critical but more difficult to implement effectively than is widely supposed. That's borne out by the experience of Welch's, the American grape-products company. "We haven't been fully satisfied with our outsourcing to date because we have had such mixed results," says Trey Wright, the company's CFO and senior vice president of finance. "Outsourcing can be a challenging endeavor."

Theme 4: IT comes of age

For as long as Bain has been conducting this survey, tools based on extensive use of information technology (IT) 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. Another IT-based tool is knowledge management (KM), which can be defined as the development of systems to acquire and share intellectual assets. KM so far has had a checkered career. Long heralded as an essential management tool in the information age, it has grown in popularity. Still, it is used by only a little more than half of companies even now. And its satisfaction scores rank fourth from the bottom of the list, at 3.73. The subset of large companies with over a billion dollars in sales ranked it even lower in satisfaction.

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. Business process reengineering, which turned from fad to flop a few years ago, has rebounded, and is now utilized by some 61% of companies. (See figure 4.)

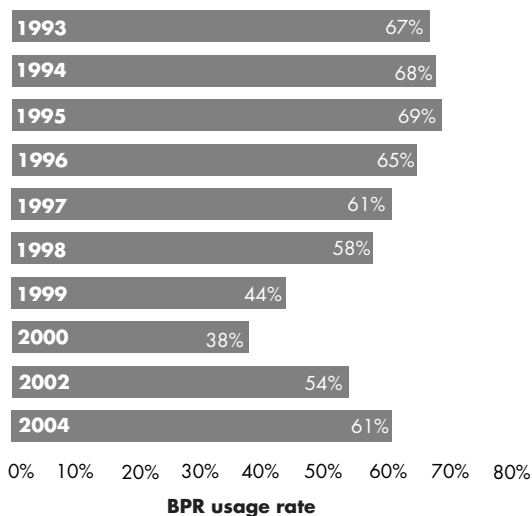
That tool also relies on sophisticated use of IT. "Technology is the common ingredient in customer tools," says Alfred K. Potter II, senior vice president of sales and marketing for Gilbane Construction. "We are generally more satisfied with our customer tools than historically, but there's a steep learning curve." 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.

Here, too, the time dimension is critical. Consider the use of radio frequency identification (RFID), a newly developed technology used to identify objects and track data. Though potentially useful in a wide variety of applications, RFID is clearly still in its infancy; only 13% of responding companies are employing it. But the companies that do use it are remarkably satisfied with it. In cases where it has been implemented as part of a major organizational effort—seemingly a precondition for such a significant innovation—it scores a whopping 4.43, ahead of every other tool.

"We used business process reengineering in the past, and we are also using it today.... The way we use the tool is the same, but the opportunities are different because of how we have evolved as a company."

—Rudolph L. Wynter, vice president of strategic planning, Keyspan Energy

Figure 4: Fad, flop or phoenix? The mercurial career of business process reengineering



“We have only scratched the surface of mining the end-customer data that we have. There is so much room to learn more and use our data to build revenue.”

—Ken Sobaski,
vice president of sales,
service and marketing,
Polaris Industries

Tool use: The big picture

Every year certain trends and new developments emerge from our survey, such as the four just described. But there is also continuity—plus a good deal of minor variation—from one year to another. Over time, the data paint a compelling portrait of how management tools and techniques have become an integral part of today’s business world. 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. In general, larger companies tend to use more tools than smaller ones. And companies in Europe and North America tend to use more than companies in Asia and South America.

The top 10

Strategic planning is a perennial leader in tool use, with near-universal use among companies in every region except Asia. In fact, 7 of the top 10 tools in 2004 were longtime favorites, having been used by more than half of companies in every survey that has captured data on them. The only exceptions are CRM, which has grown rapidly in usage over the last few years; business process reengineering, which has fluctuated dramatically over time; and core competencies, which was used by slightly fewer than 50% of companies in 2000. “Top 10” lists vary by region. In Asia, for example, CRM is #1, while in North America it is #9. Conversely, benchmarking is #2 in North America and doesn’t even make the top 10 in Asia.

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 relatively little used, such as RFID, also enjoy high satisfaction ratings among the companies that do use them. A handful of tools—problem children of a sort—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.

Defection rates

We analyzed respondents’ loyalty to each tool by calculating the percentage that stopped using the tool in 2004 after using it at least once in the past five years. The three tools with the highest defection rates were

- Business process reengineering
- Economic value-added analysis
- Core competencies

Of course, managers may have stopped using a tool for many reasons. The tool may have served its purpose. The company’s needs may have changed. Executives may be dissatisfied with the tool’s results.

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.

What executives think

A sampling of attitudes from respondents all around the globe:

	Agree	Disagree
Economic cooperation can do more than military battles to reduce terrorism	73%	10%
Excessive complexity is raising our costs and hindering our growth	68%	17%
Our stated values drive frontline actions, even when no one is looking	64%	16%
Acquisitions will be critical to achieving our growth objectives in the next 5 years	55%	22%
Our international sales will grow faster than domestic revenue over the next 5 years	55%	21%
The job of the CEO is less attractive than it was 10 years ago	39%	36%

Note: Neutral/don't know responses were not included.

Over time: Winners and losers

The marketplace changes. Businesses learn which tools work best for them. So tool use changes over time as well. Here are the sharpest increases and decreases between the year we first gathered data on a tool and how much it was used in 2004:

	First year usage	2004 usage	Change (Percentage points)
Increases			
Customer relationship management	35% (2000)	75%	+40
Knowledge management	28% (1996)	54%	+26
Supply chain management	31% (1999)	56%	+25
Balanced scorecard	39% (1996)	57%	+18
Decreases			
Mission and vision statements	88% (1993)	72%	-16
Total quality management	72% (1993)	61%	-11
Business process reengineering	67% (1993)	61%	-6
Change management programs	64% (2002)	59%	-5

Drilling down: Patterns of tool use by region and company size

Any global survey is bound to include a great deal of variation from one region to another and between large and small companies, and this one is no exception. Where tool use is concerned, for instance, we find that European companies are heavier users of *all* tools, with only two exceptions: Six Sigma and RFID. North American firms were the most frequent users of strategic alliances, growth strategies and offshoring, while South American companies are particularly fond of economic value-added analysis.

At first glance, Asian firms seem to use far fewer tools than companies in the rest of the world, by a considerable amount. Strategic planning, which is used by more than 85% of companies everywhere else, is employed by only 55% of Asian firms. Even CRM, the leading tool in Asia, is used by only 69% of Asian companies. But the reality here is more complex than the aggregate numbers reveal. The chief reason for the low average tool use in Asia is the fact that Chinese companies are especially light users of tools. Thus 96% of non-Chinese Asian firms use strategic planning, while only 39% of Chinese firms do. The gap between non-Chinese and Chinese usage is substantial for nearly every tool, with the exception of total quality management and Six Sigma.

The aggregate numbers also conceal a good deal of variation by company size. As noted, large companies tend to use more tools overall than smaller ones do. This is true at the micro level as well: virtually every individual tool is used by more large companies than smaller ones. To take strategic planning as an example, again, 89% of large companies use this tool, while only 74% of small companies do.

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—or a combination of all three.

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. 

Bain's business is helping make companies more valuable.

Founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results, Bain works with top management teams to beat their competitors and generate substantial, lasting financial impact. Our clients have historically outperformed the stock market by 3:1.

Who we work with

Our clients are typically bold, ambitious business leaders. They have the talent, the will, and the open-mindedness required to succeed. They are not satisfied with the status quo.

What we do

We help companies find where to make their money, make more of it faster, and sustain its growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions, and organization. Where appropriate, we work with them to make it happen.

How we do it

We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients' shoes and focus on practical actions.



BAIN & COMPANY

Bain & Company, Inc.
131 Dartmouth Street
Boston, Massachusetts 02116
USA

Tel: 1 617 572 2000
Fax: 1 617 572 2427

For more information, please visit www.bain.com

AMSTERDAM • ATLANTA • BEIJING • BOSTON • BRUSSELS • CHICAGO • DALLAS • DÜSSELDORF • HONG KONG • JOHANNESBURG • LONDON
LOS ANGELES • MADRID • MELBOURNE • MEXICO CITY • MILAN • MUNICH • NEW YORK • PALO ALTO • PARIS • ROME • SAN FRANCISCO
SÃO PAULO • SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY • TOKYO • TORONTO • ZÜRICH