

# Tools of the Trade

## – Conventional vs New Economy

According to Bain & Company's latest worldwide annual survey of management tools, six of every 10 senior executives say the Internet has been fully exploited, and in Asia, conventional methods outweigh new economy tools 1.5:1

By Darrell Rigby & Ravi Vijayaraghavan

If soft sales following a year of frenzied growth has your company whipsawing from diversification to focus, or from expansion to layoffs, you'll appreciate the insights of over 60 senior Asian executives out of over 400 international respondents who participated in Bain & Company's 8<sup>th</sup> annual Management Tools Survey.

The survey examined the usage, satisfaction and effectiveness of 25 widely used management tools among senior executives across more than 30 industries in 2000.

This year's results revealed that Asian executives are opting for classic, "tried-and-true" management tools to address fundamentals of cost and corporate direction over "new economy" tools by a margin of 1.5:1. The trend is accelerating as executives have defected at up to three times the mean from new economy tools like market disruption analysis

and supply chain integration—tools once thought to provide quick and easy paths to growth.

Defections from the six new economy tools in the survey averaged 26%, more than 60% the rate of abandonment from remaining tools, which have long been part of the managers' toolkits. However, Asia is still slower in defecting from new economy tools compared to its North American counterparts, who are defecting at up to five times the mean back to the classic, "tried-and-true" management tools by better than a 2:1 margin. This may be because Asian companies are more open to accumulating and using a wider range of tools to increase their chances of success, since the aver-

age Asian company used about 15% more tools than the average of 10.4 tools used by their North American counterparts.

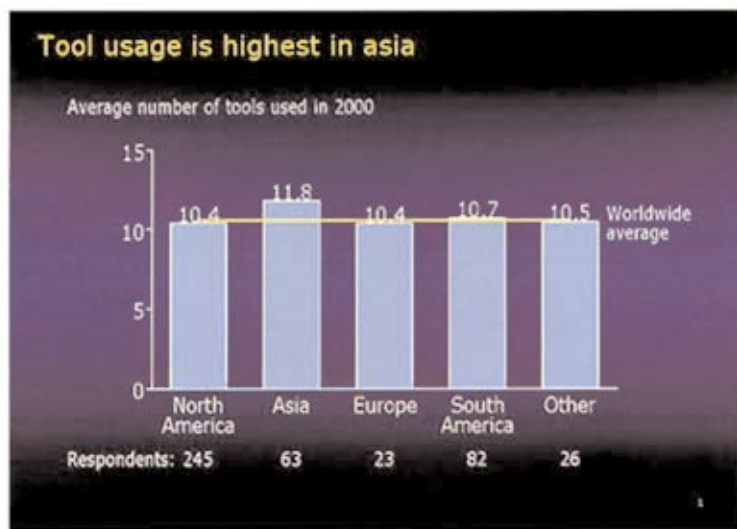
During the year when executives jumped on the Internet bandwagon to seek quick and easy growth, they found no new tool that paved the road to riches. The most widely used tools cited by Asian senior managers in 2000 are also the top three most used tools in the past 5 years:

- Outsourcing (70%)
- Benchmarking (68%)
- Mission and vision statements (64%).

Among the top 10 tools, cost management techniques like outsourcing moved up in usage.

However, all of the top 10 tools have extensive endorsements – they have been used by, at minimum, nearly 60% of the Asian corporate population in the 5 years Bain has captured data on their usage.

Such data shows that



when times gets tough, we trust the familiar: Managers fall back on widely understood tools that have been successful for them in the past. Senior managers recognise that tools are just tools, but they do have an impact when they are used as part of a major corporate effort.

## Hunger for e-commerce satiated

The survey finds that the Web has been well-utilised in the corporate world. Only four out of 10 Asian executives said that their companies have yet to fully exploit the Internet — but only 9% thought their companies had overspent on e-commerce, while 65% disagreed. Less than half said they were aggressively expanding their e-commerce offerings.

And as a sign of the seriousness with which they viewed the Internet opportunity, only a fifth of respondents agreed it was "fun to watch the dotcoms fail", while 60% agreed that "almost all young entrepreneurs lack the expertise necessary to build great companies", versus 27% who disagreed.

Even so, less than a third of respondents adopted the new economy tools most frequently cited in the press, including:

- Market disruption analysis, used to identify changes in the competitive landscape, such as a new technology, that can rapidly shift customer preferences and threaten core businesses
- Corporate venturing, used to build new businesses with venture capital disciplines, often in hopes



- of creating public spin-offs
- Supply chain integration, used to synchronise the efforts of multiple parties in the supply chain to enable the seamless exchange of information, goods and services across organisational boundaries.

These three also posted the lowest satisfaction ratings and are among the highest in defections. For example, 57% of users abandoned market disruption analysis in 2000 versus 18% for tools on average. Twenty-eight per cent dropped supply chain integration and 25% of users defected from corporate venturing. Other new economy tools surveyed included knowledge management, one-to-one marketing and customer relationship management.

Asian companies are still hooked on growth, but some of the tools and techniques that companies thought were going to supply

easy solutions are not panning out, and they are saying, "I think this is a lesson I've learned before: diversification is dangerous."

## Most tools face unrealistic expectations

Despite dissatisfaction with some tools, 75% of Asian respondents said they wanted to stay on the cutting edge of tools (the average company used 12 of the top 25 tools in 2000 alone), even though 70% feel that most management tools promise more than they deliver. The biggest problem with tools is most executives have unrealistic expectations of their performance, so they shift efforts from one new tool to another.

## The right tool can net results

Meanwhile, executives said satisfaction with tools varied with the

job. Much as hammers are effective tools for driving nails but poor at trimming hedges, different management tools proved both more and less useful at achieving different goals.

Tools generating the most satisfaction for achieving financial results (the number one priority of 60% of respondents) included market disruption analysis, shareholder value analysis and pay-for-performance. Tools best at growing customer equity included customer satisfaction measurement, customer segmentation and total quality management. To improve competitive positioning, those surveyed vouched for corporate venturing, market disruption analysis and scenario planning.

To grow long-term performance capabilities, respondents expressed highest satisfaction with scenario planning, corporate venturing and growth strategies. And to bolster integration efforts across an organisation, executives voted for market disruption analysis, activity-based management and balanced scorecard.

And finally, only 35% of respondents thought today's market leaders will still be leaders 5 years from now. By this score, turbulence is poised to become the steady state of business, and executives will need all the sound, navigational equipment they can muster. ●

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## Survey Background

*Bain & Company launched a research project to gather facts about management tools, and to track their use over a few years. The objective was and continues*

*to be to provide managers with the information they need to identify, select, implement and integrate the tools that will improve bottom line results.*

*For the recent survey, Bain received 451 completed surveys from executives in 22 countries. The respondents represent a full range of industries, company sizes and financial returns. Bain also conducted personal follow-up interviews to further probe the circumstances under which tools are most likely to produce desired results.*

*For the survey, Bain focused on 25 of the most popular tools and techniques:*

- Activity-based management*
- Balanced scorecard*
- Benchmarking*
- Core competencies*
- Corporate venturing*
- Customer relationship management*
- Customer satisfaction measurement*
- Customer segmentation*
- Cycle time reduction*
- Growth strategies*
- Knowledge management*
- Market disruption*
- Merger integration teams*
- Mission and vision statements*
- One-to-one marketing*
- Outsourcing*
- Pay-for-performance*
- Real options analysis*
- Reengineering*
- Scenario planning*
- Shareholder value analysis*
- Strategic alliances*
- Strategic planning*
- Supply chain integration*
- Total quality management*

