

Building a World Class Organization

By David Fields

The missing gaeta olives were the final straw; culinary evidence of why so many companies perform poorly and why organization transformation is so difficult. Yet, like many companies, utilizing the five-step process outlined below could have synchronized the entire workforce and made the difference between losing a customer on an unprofitable transaction and winning a high-margin patron.

The unintended microcosm of corporate challenges was a cozy Italian restaurant on the upper west side of Manhattan. Nothing major was amiss with my dinner—the food was flavorful, the ambience pleasing, the prices reasonable for the fare. However, the dining experience was plagued with

enough small problems to ruin any chance that I would be converted into a repeat customer.

Extrapolate the restaurant scene to companies and the players are in place: the earnest, handsome waiter is the salesman; the kitchen contains operations, QA and, during off hours, R&D. Communication processes connect the front personnel to those in the back while IT systems handle everything from order processing to billing. Likewise, marketing, purchasing, supply chain, and all the other standard functions are represented.

Unfortunately, the experience was also representative of many low-performance issues:

Dinner	Corporate challenge
Waiter didn't speak my language; unsatisfactory advice and answers to questions	Sales is out of synch with customers
Stale baguettes	Product defects
No oil or balsamic vinegar for dipping	Fulfillment issues
Slow service	Delivery time problems
Searched out pepper mill and got it myself	Customer finds alternate source for solution
Missing gaeta olives	Manufacturing's output does not match marketing's promise

Corporations commonly respond to such challenges with sales force reorganizations, skills training, and new IT systems. Some try to create "team spirit" and better communication through a team building program like a rafting trip for the key managers. Unfortunately, none of these deal with the underlying cause of the anemic performance: **Business complexity engenders poor alignment of functional areas which, in turn, negatively affects sales.**

Aligning all groups inside a company well enough to create a High Performance organization is challenging. There are so many interconnected, moving parts in a corporation that accurately analyzing all the permutations of spending and resource allocation is impossible.

Senior executives typically manage the internal complexity with three coping strategies:

- Executives make their best estimate of what will drive sales and profit;
- Functional areas pursue goals which make sense internally, but may not align optimally in the bigger business picture;
- Spot fixes are applied to obvious problems (hence, sales force reorganizations, skills training, and so on).

These three strategies aren't bad business; they're just not excellent—which is why 65% of companies barely meet their growth goals while only 20% exceed them.

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High Performance in a complex world requires a different approach. The six steps outlined below were developed using research among over 100 companies combined with twenty years of direct experience creating sales and profit growth. The approach has delivered excellent results in mid-sized suppliers and Fortune 50 giants. Chances are it would work in an Italian restaurant too.

Step #1: Start with Customers' Purchasing Process. Transformation to High Performance starts outside your company—with the customer. Unless you understand in depth the Hows and Whys of your market's buying decisions, your efforts in other areas will be sub-optimized. Interviews with buyers in industries from proteomics to paper and everything in between revealed that the purchase decision process is never simple and rarely well understood.

Even companies which have comprehensively catalogued the factors affecting buying decisions rarely divine how the factors interact. Fewer still look at their offering in the context of the buyer's broader needs.

For instance, if the temperature in the restaurant is a bit too warm, yet the food is good, is that okay? How warm can the dining area be (to save on air conditioning costs) before discomfort outweighs gustatory excellence? Your customers are consciously or subconsciously going through similar—but far more intricate—tradeoff analyses every time they make a purchase.

Action #1: Build a deeper, more comprehensive model of customers' purchase decision processes. There is no such thing as a commodity product—your customer isn't flipping a coin to choose you or your competitor. Which is better, 2-day service or a \$2 discount? Your model should answer questions like this—as well as every other combination of decision factors?

Step #2: Establish the ultimate metric. High Performance companies understand there is one, overarching business objective: create sustainable sales growth. A company with sustainable sales increases can always find ways to cut costs and boost profits. A company

showing profit increases with no corresponding top-line growth is going to hit a wall. Hard.

Many companies harbor the belief, either corporately or within certain departments, that their purpose is productivity or quality or profit or some other such measure. High Performance organizations don't make this mistake.

Action #2: Publish a single metric which ties sales to the customer's purchase decision process. If you built the model in Step #1, then you know how changes in your offering will affect sales. We call this the Customer Experience Index (CEI). Every workgroup, team, and individual should know the company's CEI because, as you will see, their work directly affects the ultimate metric.

Step #3: Trace the Purchase Process Through Your Organization. Every person, process, function, and activity in your organization affects the overarching corporate purpose of creating sustainable sales growth.

For example, the woman dining at the neighboring table provided many of the restaurant's supplies. She explained that the purchasing manager opted to buy one case of vinegar decanters because a full second case held too many and individual pieces were expensive. In isolation this purchasing decision made sense and was easy. But when traced back to customers' expectations that a decanter is available even during peak times, that minor cost savings had a disproportionately negative impact on customer experiences and, therefore, sales and profit.

High Performance organizations understand how every decision and action affects sales growth. Run-of-the-mill organizations don't.

Yet, complexity is once again the enemy. Your company is teeming with activities which interact in a web of interlinked relationships. Just as the purchasing manager's decanter decision affected waiters' ability to meet customer needs, an investment in R&D could fundamentally shift the

marketing team's work, the manufacturing cycle, and the skill sets needed by the sales force.

Fortunately, advances in computing power have made it possible to model how every activity affects your ability to meet your customers' needs. These "holistic business systems" maps work from the customer back, identifying the key factors in a business—down to the smallest items, like how many people there are on a certain team and take into account how they interact with every other factor.

Action #3: Develop a holistic business systems map for your business. With the map at your fingertips you can simulate the effect of any organization, process or resource change without risking man-hours, dollars and customer relationships.

Step #4: Identify the Optimal Opportunities and Changes. With the map in place, executives can confidently align functional areas and resources to drive the greatest increases in sales and profit.

Some needed changes are obvious; other opportunities are subtle and surprising. For instance, instructing the restaurant's floor manager to reduce dining-room temperatures two degrees at 6:00pm may drive up operating costs, but could pay out through increased sales of coffee, high-margin desserts and after-dinner liqueurs.

At a very large chemical company a holistic business systems map revealed the change needed to overcome a persistent, \$1.2 billion inventory problem. The unexpected solution involved changes in sales incentives and marketing practices—not operations restructuring or the production and warehousing corrections everyone had been assuming were necessary.

Action #4: Use your holistic business systems map to identify the changes throughout your organization which will generate the greatest leap in profitable sales.

Step #5: Competent Redesign. High Performance organization fine tune, replace and re-engineer after the big opportunities are identified. Major initiatives such as organization redesigns, new team processes, and restructuring incentive plans come late in the transformation process.

Far too many organizations start by fixing what appear to be obvious problems, only to enjoy mediocre returns or realize unintended consequences on sales. For example, executives at a high tech firm highlighted the mismatch between sales forecasts and operations estimates as a major problem. They invested millions of dollars on new systems promising to seamlessly connect the sales team's forecasts to operations estimates. Two years of frustration and wasted investment later they concluded a map would have shown that a new sales compensation plan would have had far greater effect on profits.

If the modeling suggests that a change in the number of wait staff will create an increase in sales, then this is when a wait staff organization redesign is in order. Importantly, if the affected groups have been included in the whole process they will understand exactly how the modifications are going to lead to a High Performance organization, which significantly lowers the natural resistance to change.

Action #5: The exact nature of your fifth action depends on the necessary changes indicated in step four. The key point is High Performance organizations can identify small changes that make big differences and they use this knowledge to maximum advantage.

Step #6: Implement Flexible Transitions. Some changes are easy to make, easy to implement, and stick from the start. Most, however, require an organizational adjustment period and some fine-tuning over time. A tell-tale difference

between High Performance organizations and the also-rans is their preparations and expectations with regards to change.

At our infamous restaurant, dressing waiters with a belt that holds a pepper mill requires little in the way of advance planning and flexibility in implementation. Conversely, teaching waiters how to make dessert sound too tantalizing to resist takes time and may demand staff changes. Any change which involves new personnel may require a couple of rounds of execution to achieve the desired intent.

Action #6: Build a detailed, flexible transition plan. For instance, clearly identify skill gaps throughout your organization which will affect implementation, but assume that you do not know the exact extent of training required and retain adjustability in scope. Your transition plan should outline the critical path, what communication will be needed, and how various functions or processes will be affected.

As mentioned earlier, make sure all parts of the organization understand how their efforts tie to the ultimate purpose of building sustainable sales growth. Show them the holistic business systems map and, better yet,

use the model to align compensation and incentives to drive the ultimate goal.

Finally, effective, flexible transitions include feedback mechanisms to separate fine-tuning opportunities from normal organizational resistance to change. Many companies assume a quick, rosy outcome and don't plan well for the long-term requirements of organizational transformation. If you assembled a redesign team for the previous step, plan on keeping them in place for at least a year after the new design is launched. Insist on a long tail in contracts with consultants, requiring them to stick around to make necessary adjustments until the changes are working as intended.

A major difference between companies which exceed their growth goals and those which miss them is superior delivery against customer expectations and total organizational alignment to create that superiority. The six steps above outline a process which uniquely manages the complexity underlying most companies' challenges, and which you can use to make your organization High Performance.

In the meantime, I'm looking for a new Italian restaurant on the upper west side.

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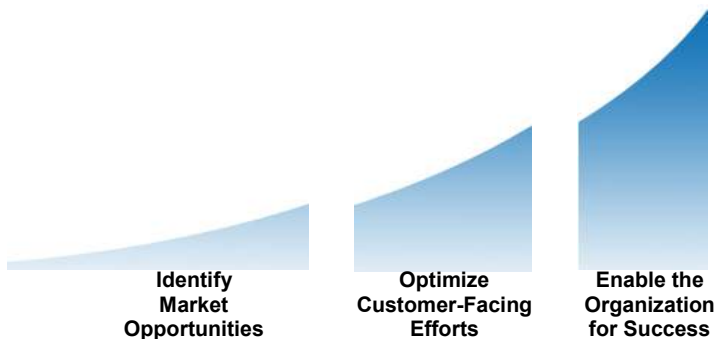
Overview

Ascendant Consulting, LLC assists companies that are trying to allocate their finite financial and human resources to maximize growth. Our clients include well-known corporate giants such as International Paper, Kodak and Lexmark, niche industry leaders such as MRI Network, Domino's Pizza, and Gojo, consumer products stalwarts such as GlaxoSmithKline, Church & Dwight, and Whirlpool, and high-growth firms such as Biometrics 2000, Symbol Technology, and United Industries.

Services

We apply a wide range of approaches and interventions based on our years of experience and broad access to subject matter experts.

One of the fundamentals of our success is our holistic, outside-in approach to business. The results we focus on are shown below:



Identify Market Opportunities—We have identified well in excess of \$1 Billion in new market opportunities for our clients. For instance, Kodak's only successful venture into a new vertical market was based on our work for them. That business area was later purchased by ITT for a substantial premium.*

Optimize Customer Facing Efforts— Our clients call upon us for:

- Strategy Optimization
- Business Planning
- Message Optimization
- Channel Optimization

For instance, we wrote Schering Plough Consumer Healthcare's selling presentations.*

Enable the Organization for Success — Our experience is extensive in:

- Organization structure optimization
- Process Optimization
- Production Optimization

For instance, we completely reorganized Ross Products' retail sales force.*

Where Building High Performance Organizations fits in

Our approach, based on the works of Eliyahu Goldratt and Laszlo Nemeth, marries the second and third focus areas: optimizing customer-facing efforts and enabling the organization for success.

Call us to discuss how we can help you create a High Performance organization.

* Many more examples are available on our website

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