You Say You Want A Revolution

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Procter & Gamble's incoming CEO, Durk I. Jager, "preaches rebellion for P&G's 'cult'" according to the *Wall Street Journal**. His challenge is to break the grip of a corporate culture that disdains dissent.

Other executives want to encourage revolution too. "Tried and true" methods won't work in industries facing deregulation, rapid technological change, or new competitors. They aren't acceptable when they perpetuate a history of substandard performance. Even in "stable" markets, executives score competitive coups by having the prescience to revolutionize their businesses.

If you don't attack your own business, someone else will do it for you. Even if you eventually decide not to change anything, periodically challenging the assumptions underlying the status quo makes good strategic sense.

How should Mr. Jager — or any other executive who wants to incite a productive revolution in his or her organization — start a revolution? Drawing on ACS's experience in dozens of wargame engagements with major companies, involving both purposeful and accidental revolutions, I offer some suggestions.

Speed bumps in the path to revolution

Business evangelists claim (generally at high volume) that "leadership," "walking the talk," and "shaking things up" are part of revolution and that they must come from the top of the company. Whether or not they are correct, those actions certainly get attention and they communicate a desire that old ways give way to new. But there's more to revolution than elocution, and both revolution and elocution may come from below rather than above. After all, others teach

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that leadership can come from anywhere in the organization and that executives should "get out of the way."

But wherever it begins, executives have the unique ability to smooth the speed bumps that might otherwise knock their revolution off course. For instance, executives who want their revolutions to endure will ensure that their incentive systems reinforce their new paths. A compensation system that rewards individual performance, for instance, is a speed bump on the road to teamwork.

A more-subtle problem is that familiar management tools (financial models, budgets, memos, committees, policy manuals, etc.) can be speed bumps too. By their very nature they frame problems in terms of the status quo, consider few options, encourage premature consensus, and produce split-the-difference agreements. And thus these tools resist revolutionary thinking.

Think, for instance, of how many managers set performance goals. They typically begin with the status quo or recent history, then call for better results. This process implicitly (and undesirably) involves "anchoring": it assumes some starting point (the anchor) and then makes adjustments, up or down, relative to that point. Other common anchors include competitors' results, industry averages, and benchmarking studies. Even if the adjustments relative to the anchor are large (thereby giving the impression of being "aggressive"), the anchor is quite possibly not relevant and almost certainly not revolutionary.

It gets worse. For example, trying to manage a result (such as profits) instead of its causes (such as the quality of products and services), or "planning" for a single future instead of assessing a variety of future scenarios, or nurturing the idea that market dominance is a corporate birthright. What other reason could explain how Sears allowed itself to be overtaken by Wal-Mart, a process that took decades? By contrast, one reason for Microsoft's success is its paranoia; it takes new competition very seriously indeed.

Good revolutions

Executives don't want *any* revolutions. They want *good* revolutions, revolutions that lead to better performance. They don't want to say "our managers are revolting;" they want to say "our managers are thinking."

Thinking without rigor marks companies that blindly or even piously become "market driven" or "customer driven". You've probably seen the intelligence daisy chain: company A watches company B, which watches company C, which watches company A. You've probably also seen customer-satisfaction tailgating: surveying existing customers over and over to find out what they liked and what they want next, and letting the results determine product or marketing strategy.

However, knowing that a competitor has done something or that a customer wants something does not tell you what to do. Perhaps you shouldn't emulate your competitor: it may be making a mistake or doing something that will work for it but not for you. Perhaps you shouldn't listen only to your current customers: they can't tell you why your competitors' customers rejected you and they can't tell you what future customers will want.

For good revolutionary change, you need to bring the competitive nature of the marketplace into your strategy-development process. I can recommend several techniques, plus mind-shifts — new attitudes — that will help you make them work.

Techniques	Requisite mind-shifts
Commission shadow teams to "get inside competitors' heads"	Seek and accept imprecise data from unconventional sources
Role-play your competitors to anticipate their moves	Recognize that your competitors want to win as much as you do
Get future-oriented data about customers (and not just your own)	Remember that "your" customers don't belong to you…and ask why competitors' customers rejected you

Techniques	Requisite mind-shifts
Think in terms of scenarios and contingencies	Stop thinking about "the" future; stop thinking of plans as chiseled in stone
Assess strategy options with market-driven analytic tools, not accounting models	Build customers, competitors, uncertainty, and discontinuity into your strategy development

Revolutions don't need decimal points

One notion implicit in these techniques and mind-shifts troubles some managers, particularly those accustomed to working with numbers and statistics. If we use imprecise "data", they fear, don't we risk instigating an imprecise revolution? And what kind of a substandard revolution would that be?

We all prefer greater to lesser precision, though even the numerically enthusiastic among us make tradeoffs among precision, cost, and time. But many kinds of data are not available with precision at any cost. You cannot get precise data about future customers' preferences, about competitors' upcoming moves, and even about your own ability to implement a strategy as planned. Nonetheless, the executive eager (or forced) to start a revolution must choose a path. Such an executive is better served by imprecise but useful data than by precise but irrelevant data.

We can illustrate the value of the right-but-imprecise data over the wrong-but-precise data by distinguishing between customer loyalty and repeat purchases. Many managers measure repeat purchases: how many of this quarter's customers bought from us before? The problem with repeat-purchase data is that they commingle customers with two very different behaviors:

1. People who purchased because they didn't even *think* of buying from your competitors. This behavior indicates genuine loyalty (or inertia or switching costs).
2. People who purchased because they made a purchase *decision* but chose you again. These people could have defected to competitors.

Loyalty or purchase decision? It makes a difference for predicting demand and thus sales, profit, and market share. Imagine that you repeatedly fly Ready When You Are Airways. If you stick with Ready because of its lavish frequent-flyer program, then you will continue to fly on Ready even if Comfy Seats Airlines introduces a new flight at a more-convenient time. If you originally chose Ready because its schedule was the most convenient, then you will switch to Comfy because it now offers the greater convenience.

It is not possible to measure loyalty (or many other aspects of customer behavior) precisely. But to ignore it, as (for instance) accounting models do, is much worse. How many software companies have wasted start-up funds and precious years of life trying to compete directly with Microsoft? Yes, they might have a better spreadsheet or word processor, but ignoring the enormous loyalty (or, more likely, inertia and switching costs, which are forms of loyalty) that Microsoft enjoys, they thought they had a chance to succeed when in fact they were doomed from the start.

The executive who wants a high-quality revolution will insist on rigorously assessing the available options before selecting one. "Rigor" doesn't apply only to data. It must apply also to how managers use the data they have. Here are some examples, drawn from principles built into the ValueWar® simulator that my company has used in numerous competitive-strategy war games with major corporations:

- *Market shares in every market must total 100%.* Not exactly a startling insight, but keeping this rule in mind helps prevent you from simply asserting that your business will win because you have a good plan, good people, good products and services, and divine support. The rule reminds you that your competitors are just as determined to win as you are.
- *Truly undifferentiated competitors will eventually have undifferentiated (i.e., equal) market shares.* In other words, you have to be different in some way if you are to earn (or suffer) a different market share. This principle will help you avoid the trap of thinking that you somehow deserve the lion's share of a market if the customer can't tell you and your competitors apart.
- *Fixed costs and variable costs behave differently.* Many analyses straight-line costs as a percentage of sales, but that's not how costs behave. Among other problems, calculating costs as

percentages of sales understates the damage done to capital-intensive businesses if their sales decline and understates the benefits those businesses will enjoy if their sales rise. This rule will help you avoid a distorted understanding of your business.

- *Maximizing capacity utilization does not necessarily maximize profits.* It is true that profits will be higher when capacity utilization is higher, but only under all-else-equal conditions…which is a pretty heroic assumption. (In many cases, trading lower utilization for higher prices can yield better profits.) We have seen managers fall into this trap in real life. The all-else-equal proviso got lost, and higher capacity utilization became a goal *assumed* (erroneously) to lead (inexorably) to higher profits. This principle will help you focus on what truly makes a difference.

Of course, there are many other such principles. However, space limitations (and a fiduciary responsibility to my company) prevent me from revealing more.

Soldiers for the revolution

Rigorous and quantitative thinking can help you distinguish the worthwhile revolutions from the quixotic. But it does you no good to wave a flag and declare *¡viva la revolución!* if your troops won't follow you into battle.

When my company got into the business of running competitive-strategy war games and other virtual competitions, we thought that the goal was to develop superior strategy decisions. We were surprised when we noticed that a welcome by-product of the process was consensus and confidence within the management teams. Because they participated in the process and because they witnessed its analytic strengths, the managers understood the strategy decisions that resulted. They felt convinced, they felt ready, they no longer felt intimidated by competitors, they knew what to do.

Here are some examples of what we've seen.

- Managers in one company faced technological upheaval in their key market. Because the situation was new, no amount of money would have given them hard data about where they could be most profitable. Simulating their futures, and pummeling the analysis with rapid-fire what-if questions, gave them the confidence to place their bets.

- Managers in another company knew their traditional monopoly faced imminent attack. They would lose share, but should they fight over every percentage point or try to encourage rational competition? Debate was lively. When they quantified their dilemma — again, with estimates — they found that the answer was surprisingly unequivocal.

- Managers in a third company thoroughly analyzed a new product. As their last step before launch, they quantified various scenarios to assess their performance if competitors reacted vigorously. They discovered that stiff competitive response — which they had to admit was likely, when they viewed the market through their competitors' eyes — would transform their anticipated victory into a costly setback. It took them months to develop their strategy, and two days to abandon it. They quickly simulated and adopted a more-robust new strategy.

- Managers in yet another company planned to bring order to a tumultuous market. They assembled teams of colleagues who hadn't been part of their strategy development; these uncontaminated managers could role-play competitors who hadn't yet seen the new strategy. Simulated competition quickly revealed that the "competitors" saw the strategy as a threat, not as a step toward sanity, and so they reacted swiftly and harshly. The strategists decided to bury their original idea.

- Managers in the last company I'll mention had a well-developed sense of tradition, as in "this is how we do business in our industry." That is, until they saw a simulation — using their own strategies and despite every desperate move they could make — that demonstrated their business would suffer overwhelming losses for the next few years. They became quite willing to do business a different way…which they developed as the war game proceeded, and which they (profitably) implemented.

In all these (and other) cases, the common denominator was a process that used the best data and estimates available to develop a series of possible scenarios, then analyzed those scenarios with models that predicted bottom-line results. Managers could see the results, they could see what influenced the results, they could ask "what if?" and get an immediate response.

As a result, these managers built consensus around a path and they gained the confidence to act decisively. They didn't have to split-the-difference, they didn't have to wait-and-see, they didn't cede advantage to competitors while trying to hedge their bets. In other words, they got their revolutions.

Starting your own revolution

Executives need new behavior patterns, for themselves and for their colleagues, congruent with their revolutionized businesses. Because evolutionary management tools and strategic decision-making processes can thwart revolutionary thinking, executives also need strategy-development technologies that support and sustain their revolutions.

My advice to executives who want to start revolutions in their companies:

- Introduce customers' and competitors' points of view into your strategy-development process. Be sure that your analytic tools start with the customer purchase decision, not with an extrapolation of past sales trends. Have members of your management team role-play your competitors and try to beat you.
- Use the best data at hand and use estimates when you don't have data.
- Involve in your strategy development the managers who will implement your revolution. They will learn and they will be convinced; you will get decisive, coordinated action.
- Think in terms of multiple scenarios, not a single "most likely" future. Ask yourself what has to happen to make each scenario come true, and then monitor those indicators.
- Run a "sanity check" on your strategy by applying principles like those I mentioned earlier.
- Remember, you're going to make decisions no matter what. You don't need perfect analysis, which you can't have anyway.

You need more than revolutionaries to have a good revolution. Invest the time in thinking rigorously about your battle plans; it will pay off with stronger commitment to better decisions.

About the author

Mark Chussil is Founder and CEO of Advanced Competitive Strategies, Inc. (www.whatifyourstrategy.com), and lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of Fortune 500 companies around the world. He has published extensively and spoken at numerous conferences. Mark is also a Founder of Crisis Simulations International, LLC (www.crisissimulations.com). Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

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