

The Rules

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When the rules change, there is both opportunity and danger. Opportunity to those businesses that capitalize on the changes quickly, and danger to those that lag behind. Opportunity to those people who recognize the changes quickly, and danger to those who deny, resist, or ignore.

Of course, that assumes that there are rules in the first place, and that they change.

There is controversy on the matter of changing rules. For instance, renowned management writer Carol Loomis maintained in *Fortune* magazine that the rules are changing, and in the same issue former GE CEO Jack Welch maintained they aren't.

In your persnickety author's opinion, the question isn't so much about whether "the rules" are changing. Rather, let us ask:

- What are the rules?
- Who decides what the rules are?
- What makes the rules change?
- How can you know when the rules are about to change?

The answers can make the difference between being surprised when enviably prescient people change the rules, and being able to anticipate or even cause rule changes yourself. We'll end this essay by discussing how you can change the rules in your favor.

What are the rules?

Being human, managers often behave as though rules are fixed in stone. In a sense, that's efficient behavior because we don't waste time questioning things that seem pretty much constant. However, rules aren't constant, at least not in the sense that some force

What makes the rules change?

Rules change in two ways. One is that our beliefs about a rule change, and the other is that our analysis of a rule changes.

- Our beliefs change when someone has a clever idea. At one point the compensation rule in a business might have been pay for time, and then someone said why not pay for results (sales, production output, on-time deliveries, customer satisfaction ratings, etc.). Today the concept of incentive compensation is *of course* to many managers. It is not universal, though, which is how we know it's not a principle. If it were a principle, a business could no more survive without incentive compensation than it could by assuming gravity doesn't apply to its products.
- Our analysis changes when something about the world changes, and we notice it. For instance, the rule about outsourcing customer support to call centers in other countries changed when long-distance telephony became sufficiently plentiful and inexpensive and when computers made access to information sufficiently rapid and comprehensive. The form of analysis – compare costs of different options – didn't change. The numbers that got fed into the analysis changed, and so did the result of the analysis.

This is crucial. We note that in both cases of rule-changing the underlying principles did not change. In the examples above, the underlying principles are “people respond to incentives” and “paying less for the same work can raise profits.” People didn't suddenly start responding to incentives, and raising productivity didn't suddenly become a way to improve profits, because someone “changed a rule.” And that gives us the key to work proactively with rules.

How to know when the rules will soon change

You have probably inferred from the above that rules don't change themselves. Rules change when people say they do, from new beliefs or new analysis. And because underlying principles do not change, you have the opportunity to predict rule changes, or *cause* rule changes, proactively, by focusing on those principles.

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There are three basic steps.

1. Notice a rule (an assumption, an assertion, a policy, a tribal practice, a habit).
2. Figure out the principle underlying the rule.
3. Ask if a different rule is possible from the same principle.

For instance, say you want to sell a mass-market product (a car, a financial service, or a political candidate). You want to build awareness. You know that the rule is that network TV reaches more people in less time than any other medium.

Next, you figure that the principle underlying the rule is that it is most efficient to use media that reach many people. In your case, network TV happens to be the way that reaches the most people in the least time at the lowest cost per person.

Or is it? You ask if a different rule is possible. Until recently the network-TV rule had been unchallenged for decades. Now, though, the Internet is competitive, partly because network TV touches a shrinking percentage of the population and partly because net-based services (email, blogs, streaming video, dedicated websites) touch a growing percentage. Old calculus (cost per impression), new answer. A rule in the process of changing.

How to identify and change rules

You can take action to identify rules that are running your business and to see if you can change those rules to your benefit.

- Teach yourself to hear the rules implicit in your and others' thinking. "We've got to introduce X new products to have even odds of getting a winner." Why? Is it an immutable law of physics, or is it based on traditional methods of developing and marketing new products? What are the underlying principles, and what would it take to get a different outcome?
- Put on your competitors' shoes, and surface hidden rules, with a business war game. Strategists in a Fortune 100 company discovered a hidden rule — "neither we nor

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competitors will price below X% margin” – when their own managers, role-playing competitors, followed a price cut that they “shouldn’t.” Identifying the principle underlying the role-players’ decisions helped them change a key rule and leapfrog their competition.

- Look at your analytic tools with new eyes. For instance, notice how they forecast sales, look for the principles underlying the forecasts, and ask if they make sense. Are those the principles on which you want to base such an important number?
- Use quantitative models (after looking at them with new eyes). At ACS we’ve often seen smart, experienced strategists get surprised at the results of analyses that obey the rules they’ve described versus those that follow the principles of competition we apply. The starkness of an analysis can help people challenge rules in an effort to achieve desired results.
- Search for reasons *why not*. Human beings tend to seek and listen to data that confirm what they want or believe. You can better identify unchallenged rules (and uncover new opportunities) by consciously looking for disconfirming evidence. What could make our plan not work? If we wanted to attack our business, what would we do? How would we do something that we’ve always thought was impossible?
- Spin scenarios in reverse. Imagine that you are five or ten years in the future, and improbable events have actually taken place. How? Flesh out the stories and make them vivid to reveal the rule-changing twists and turns in the future.

The principles of competition don’t change, but rules do. People change the rules. By thinking differently, you can be the one to direct those changes.

About the author

Mark Chussil is founder and CEO of Advanced Competitive Strategies, Inc., a pioneer in the field of business war gaming, and a veteran of 100 business war games for *Fortune* 500 companies around the world (www.whatifyourstrategy.com). He knows competitive strategy, having spent 30 years developing simulation technologies, designing and implementing business war games, advising senior managers, conducting research, and

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lecturing. Mark is also a founder of Crisis Simulations International, LLC (www.crisissimulations.com). He designed ACS's award-winning ValueWar® business simulator and CSI's patent-pending DXMA™ crisis simulator. Mark has published extensively, and he has lectured and consulted on six continents. He earned his B.A. from Yale and his M.B.A. from Harvard.

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