

ROI FOR STRATEGIC INFORMATION

The Lords of Strategy by Walter Kiechel was published in April, 2010. It covers the history of “strategic consulting” from the birth of the Boston Consulting Group (BCG) in 1963 to the present. I devoured it. The book is well-reviewed and highly rated at Amazon.com.

POOR ROI ON STRATEGIC CONSULTING SERVICES?

What intrigued me, between the lines, was and still is the horrendous ROI most global-2000, strategy clients continue to get for the millions they spend on consulting. Since the late ‘60’s, less than 5% have been able to do the following three-step, circular process:

- 1) Measure and renew their core businesses while either positively transforming or exiting their chronic losing business activities. (“Cash-trap, Dog” divisions.)
- 2) Sustain and extend the premium profits enjoyed within their core businesses. (Remember how many of the 43 companies lionized in “In Search of Excellence” hit the skids? Circuit City was the first star of the 11 stars in “Good to Great” published in 2000. Circuit City then dived into eventual bankruptcy on 10-11-08.)
- 3) And, then continue to adapt and proactively innovate at any level to surf environmental change rather than be wiped out by it. (Then, back to #1)

For \$3 million+ in fees per “project engagement” what do strategy clients get? They get an analysis which includes revelations of the substantial profit/loss cross-subsidies that exist amongst their customers and products. Financial reporting and management don’t tell companies what their costs to serve are, so most firms don’t know the true profits and losses at the item and customer level.

WHY NOT MEASURE STRATEGIC CAUSES EVERYDAY FOR LESS?

Financial information is a byproduct of complying with generations of accounting principles, in order to: pay the right taxes on time; manage cash; and do asset-backed borrowing from banks. These numbers are, however, lagging, averaged-out symptoms of underlying strategic, profit-power causes that need to be proactively managed today. To avoid Circuit City’s story, companies need a financial reporting system AND a parallel one for strategic, profit-power management (SPPM) to have:

1. Net-profit ranking reports for customers, customer-niches, items/suppliers and sales territories.
2. Tracking and incentive reports (on net profit improvement) for typically doubling core profits and transforming losers substantially into winners.
3. Easy daily tracking of service value equation/metrics per niche across all locations to see who is improving continuously and who’s not.

Thanks to a confluence of technology and business innovation factors, distributors of all sizes can have strategy management reporting for \$1k per month subscription cost for one

distribution location. The cost for additional branches drops exponentially with the costs of remote storage and computing costs.¹ But, if we knew much better what to do strategically, could we then execute? History says not.

INTRAPRENEURIAL TALENT TO EXECUTE STRATEGIC PLANS?

According to Kiechel, strategy firm partners – off the record – lament that less than 10% of their clients implement recommendations. In the early '80s, Bain attempted to address the execution gap with two services:

1. Retain us and embed some of our, impact-junkie people (“Bainies”) into your organization to implement the strategy. (Like overbearing personal trainers, this solution often rubbed client executives the wrong way.)
2. And/or, why not spin out some of your incorrigible “dogs”? Sell the units to select managers and our private equity, spin-out firm, Bain Capital. (Started in '83 with partner funding and Mitt Romney in charge.) Many of the dogs did excel when freed of corporate bureaucracy/complacency and coupled with huge-debt, risk/reward incentives for both managers and Bain Capital board-members as investors.

But, the strategic consultants were selling a one-time analysis. Distributors can, today, subscribe to an everyday, turnkey strategic profit information reporting service with built-in, follow-through tactical plays with tracking reports and more. If you could specifically measure your company dogs – customers, suppliers, branches – then, what in-house intrapreneurial talent might you turn on to pursue these transformational opportunities? The profit-improvement opportunities and incentives for all outside sales reps and branch managers would leap!

ENGAGE EVERY EMPLOYEE WITH STRATEGIC LINE-OF-SIGHT INFORMATION?

How can we awaken and harness intrapreneurial, bottom-up employee energy by linking everyone to strategic profit power information? This is the intent of the “Balanced Scorecard” (BSC) reporting movement branded by Kaplan and Norton in '92. “Lords of Strategy” did not mention this dynamic duo who have written 5 books on the subject through 2008. But, you can pay Palladium Group (for which Kaplan and Norton are “fellows”) \$3MM+ to create a custom BSC solution for your firm and to help staff an “office of strategy” with three MBAs to run it.

This level of BSC “solution” is huge over-kill for distributors who have quite simple and similar business models. All distributors exist for the same underlying “hub economics” reasons and do substantially the same core, operational processes.² And, distribution chains are like plastic polymers, simple, highly standard “monomers” (branches) strung together. The good news is that the same information service solution that works for strategic profit information works for BSC reporting for no additional charge.³

¹ For more on this service go to www.quantumprofitmanagement.com

² See Exhibit 29 at <http://merrifield.com/exhibits/EX29.pdf>

³ See slideshow #21 at on BSC for distributors. <http://merrifield.com/articles/ABalancedScorecard.pdf>

Do you have shortfall opportunities for strategic information and scorecard reporting that are keeping you from achieving premium economics for all of your stakeholders'? Let me know if I can help.

bruce@merrifield.com