



Trout Creek Consulting, LLC

Creating Value Through Improved Decision Making(SM)

September 2009

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At this time, the talk is of **recovery**. What a welcome change from *freefall* and *bottoming!*

Over the summer, I've spoken with people across a spectrum of industries. Like a receding tide uncovering a beach, the tough economy has exposed gaps in business practices that were hidden by the prior economic expansion. Based on my discussions, it seems that a number of companies have misplaced or never fully developed important functional skills in marketing and sales.

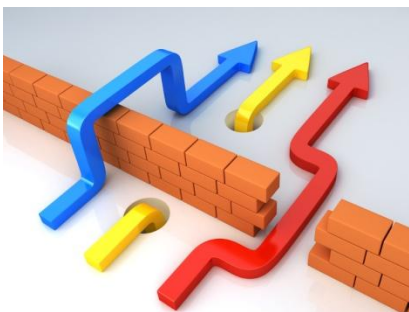


The goals for this edition of the newsletter are twofold: first, to help companies enhance their marketing and sales skills. Please visit the links for **Customer Segmentation Article** and **Sales Force Design & Effectiveness** to find some tips. Second, the commentary "What would the new management do?" is respectively submitted to help readers progress their organizations and careers.

With best wishes for the rest of 2009!

What would the new management do?

"If we fired ourselves, what would the new management do?" is a great question that Intel President Andrew Grove asked in the 1980s when profitability in DRAM (memory) chips, then Intel's core business, was collapsing. For Intel, the answer to this question was to essentially exit DRAM chips and focus on microprocessors (e.g., 386, 486, Pentium, etc.).



"What would the new management do?" is a great question for three reasons. First, because it drives current management to step "outside the box" and think objectively about the business, where it is today, what issues and opportunities are facing it, and where the business needs to be going forward. Second, the question stimulates good managers to find ways to go through or around barriers. With a "new management" approach, everything can be considered. Finally, the question evokes confidence that it is possible, as in the case of Intel and DRAMs, to change direction and succeed.

Current management is usually intelligent, experienced, and capable of generating both followership below and support above; that's how they became current management. So, a fair question to ask is "Why doesn't current management always act with the objectivity and freedom that new management has?" Let's look for insights into this question by first describing some of the problems that new management might discover when it takes over:

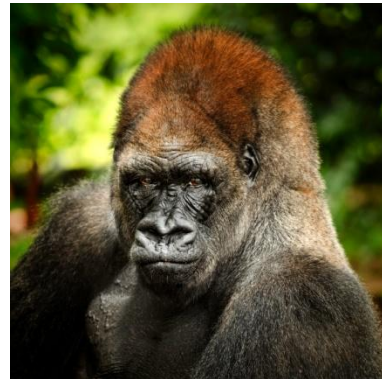
- **Flawed Strategy.** The organization is just plain on the wrong path. Sometimes it gets worse – there has been a single-minded focus on the wrong path regardless of data, results, and changes in the external environment.
- **Poor Execution.** The various parts of the organization don't work well together and/or are missing important functional skills. There is a lack of both "basic blocking and tackling" skills and best practices.
- **Lack of External Focus.** Important trends, growth opportunities, and risks have been missed; customer turnover has risen; and the outright disappearance of some customer segments has occurred. There is limited organizational knowledge of the customer and the overall business environment. Technology and competitors have overtaken some of the company's offerings; some of the company's prior longstanding customers have left the market.
- **Unjustified and/or Unconnected Investments.** Investments, both expense and capital, in R&D, SG&A, and Supply Chain/Manufacturing are neither linked by a common strategy nor justified by an objective view of opportunities. R&D investments do not reflect an appropriate balance between near, mid, and long term opportunities; nor do they reflect a suitable diversification across customer segments. Marketing and Sales resources are allocated based on tradition and "gut feel" rather than a sound understanding of current and future opportunities. Advertising/Promotion investments support a mix of traditional and social media initiatives without a clear understanding of the compelling message, target audience, and how to effectively reach the target audience. Supply Chain/Manufacturing investments and capabilities reflect ease of internal implementation and returns on incremental capital rather than overall business value creation. In general, resources, both human and PPE, are misaligned and the cost structure is inappropriate.
- **Problematic Organizational Culture and Management Style.** One correct organizational culture and management style does not exist. Even some of the problematic ones may have their uses. However, problematic organizational cultures and management styles include (a) a rigid, centralized, command-and-control culture that inhibits idea generation and responsiveness; (b) an overly diffuse, decentralized authority culture that inhibits accountability, responsibility, and responsiveness for initiatives beyond the immediate work unit; and (c), an excessive team building and consensus decision making culture that inhibits responsiveness and prudent risk taking by becoming a veto system.
- **800 Pound Gorilla in the Living Room.** This situation occurs when "Big Picture" changes or problems have been dismissed as anomalies vs. fundamental challenges to be dealt with.
- **Talent Gap.** The organization lacks mission-critical talent.



Does your organization have some of these problems? If so, think about what new management would do to turn things around.

Answers to “Why doesn’t current management always act with the objectivity and freedom that new management has?” typically include one or more of the following:

- **Talent Gap.** It is beyond the capability of current management to appropriately address the challenges facing the business. Capability refers to both the quantity and quality of management and supporting resources. A word about quantity...the two recessions since 2000 have reduced the resources that many firms have to address challenges and exploit opportunities. A word about quality...as President Lincoln discovered during the first half of his presidency, the skills required to become a general in peacetime do not always match the skills required to be a general in wartime.
- **Talent Desire.** Related to Talent Gap but in this case, current management does not have the will to tackle the challenges. Current management may be too close to the people, too close to how the organization has been built, too close to the problem, too close to their next career move, or too overwhelmed to embrace a change effort.
- **Concern about Repercussions.** It is tough to bring up the 800 Pound Gorilla, whether that gorilla is a declining core customer segment, a manufacturing grid in need of significant new investment, or that the new market opportunity that you have personally championed for the past two years is a dud. Your management, board of directors, creditors, and/or investors may not react kindly.
- **External Environment.** Current management may recognize and readily embrace the need for change. However, the credit crunch, disappearance of the IPO/M&A market, difficulties in a sister division, and/or other external factors constrain current management’s ability to act.
- **Compensation Structure.** The compensation structure may create a conflict of interest between what is best for the individual and what is best for the company. The various functions and units may be compensated to achieve conflicting priorities. For example, consider the situation where purchasing and R&D are compensated on reducing raw material costs and will not consider an expensive, efficiency-producing pixie dust. Manufacturing, which is compensated on operating and capital efficiencies, would like the pixie dust because it will greatly increase capacity, leverage fixed costs, and reduce capital expenditures. Who is compensated to make the best overall decision for the company while also making the losing function “whole” at bonus time?



Hopefully, this commentary has stimulated a few thoughts. Perhaps you now recognize some current or emerging challenges facing your own organization? Hopefully, too, this newsletter has arrived in time for you to **do something about these challenges to progress both your organization and your career.** I encourage all readers to ask “What would the new management do?” Your management, board, and/or investors ask themselves a similar question every time they assess the performance of you and your organization.

Sincerely yours,

Hal Craig

To learn more about how Trout Creek Consulting combines "real world" experience, judgment, and industry knowledge with sophisticated strategy and valuation tools to **help clients create value through improved decision making**, please visit www.troutcreekconsulting.com or contact me at hcraig@troutcreekconsulting.com or (US) 610-296-2370.

