The road ahead

Meenakshi Radhakrishnan-Swami / Mumbai January 2, 2007

Is there a single change in strategy that will put Indian companies firmly on the road to success in the coming years? the strategist asked some of the world's leading management thinkers to identify what they think is the most important change required in their areas of expertise. Excerpts:

STRATEGY
Vijay Govindarajan
Professor, Tuck School of Business Dartmouth College

In order to show impressive gains in the future, Indian companies must innovate. I studied dozens of corporations over five years where the main conclusion is that big corporations build management processes for promoting efficiency — processes that hurt innovation.

No doubt, Indian companies have created breakthrough innovations in the past. Witness, for instance: ITC's e-choupal project; the poverty alleviation scheme of Kudumbashree; Mumbai's dabbawallahs' supply chain revolution; and Tata Motors' Rs 1-lakh car.

Indian corporations must overcome two important management hurdles in order to promote large-scale breakthrough innovations. First, they must change internal performance measurement systems — hold managers accountable for learning, instead of for results.

Large companies have a strong focus on accountability. Their systems measure and reward efficiency in core businesses whereas innovation is about managing uncertainty. Results are rarely in the short-term.

Second, large companies suffer from "silo" mindset. There are thick walls between functions and between business units. In order to encourage breakthrough innovation, seamless collaboration across products, across functions, and across business units is needed.

India's true core competency is her talent base. With the right mindset, Indian corporations can unleash this huge force — and we can all benefit.

SERVICE MANAGEMENT
V S Mahesh
Programme director, service managment University of Buckingham

India is increasingly being seen as the service provider of the world, where China is the factory of the world. But although the country has moved quickly from outsourcing to knowledge services, it is still factory-centred.

The biggest challenge for Indian service providers will be to manage services differently from factories. Service-centric organisations need to invert the pyramid of organisation. In traditional organisations, the CEO is at the top, followed by the vice-presidents, then the senior managers and so on.

In services, on the other hand, business depends on what the frontline employee does or does not do. Therefore, the people in touch with customers should form the topline and the rest of the organisation should work towards supporting them.

This is difficult to achieve. The high-powered distance culture prevailing in most organisations – in India and across the world – means that the people at the lower levels don't communicate effectively on what they need to do their jobs better.

Organisations, therefore, need to learn to manage their employees better, empower them and support them. Unfortunately, the command-and-control mind-set is still predominant across most organisations. Few companies have cracked the code on how to manage people.

MARKETING

Jagdish Sheth
Charles H Kellstadt Professor of Marketing, Goizueta Business School, Emory University

As the balance of power shifts from the manufacturer to the retailer, an attitude shift in brand and marketing managers of consumer product companies is going to become increasingly important.

They will have to stop treating the retailer as a pain and start considering him a customer. Also, increasingly, market segments will have to be defined by the retailer.

Traditional methods of market segmentation, such as psychographics and demographics, will not be of as much utility as market segmentation on the basis of retailer patronage.

Such knowledge will also impact marketing strategies, which will have to become more pull-oriented, in terms of branding, advertising and sales promotion.

The second change in strategy is a consequence of the rise of the internet. As backoffice operations and the value chain becomes increasingly automated, the flow of operations will have to reverse — companies will have to drive manufacturing based on customer insights, rather than depend on capacity-driven manufacturing.

The nature of advertising, and this is especially true of India, will also change. As New Media becomes ubiquitous, you will see more and more ads on cellphones (as text messages) and online, which also means the capabilities of agencies in TV advertising will become less relevant — they will need to upgrade their abilities to match the requirements of New Media.

Then there is the rise of the services industry. Service providers will need to understand the difference in customer behaviour for services and products.

Each purchase is a separate transaction and customer loyalties can waver. With services, on the other hand, if a customer is satisfied the first time, he doesn't usually shop around. Marketers will now need to pay attention to the first interaction.

FINANCE

Bala Balachandran
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There is no such thing as the "average customer". Companies need to understand which customers are profitable to service, and which customers are a drain on resources. Often, organisations tend to become satisfied with what customers are adding to the topline.

But warranty, distribution and special handling costs, to name just a few, may add up to three to four times the gross profitability of a customer. If your support costs are greater than your gross profit, you will sink – fast.

Trouble is, not too many companies track these costs and attach them to specific customers – they are dismissed as general costs. Companies need to realise that the cost of goods sold is the same for every customer, but the cost to serve (CTS) varies widely.

While customer-centricity should be all organisations' long-term strategy shift, tracking CTS should be an immediate operating strategy. Organisations need to decide which customers to keep, and which to discard.

In fact, tracking CTS also has implications for capital investment decisions. Since customers have different value chains, tailoring channels of distribution and communication will work towards turning around some loss-making customers – for instance, some customers may prefer shopping online, while others will need brick-and-mortar structures serviced by real people.

Multiple distribution, supply and communication channels will help companies satisfy their customers' different needs and offer greater perceived value.

ORGANISATIONAL BEHAVIOUR

Rakesh Khurana
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There is a trend among organisations today towards lighter, less bureaucratic structures. This can be seen in the shift from integrated entities to porous boundaries in the context of outsourcing functions, alliances and allowing modifications based on customer demands.

But the biggest challenge in the future will be for firms to gain and retain their legitimacy in society, in the context of these open boundaries – organisations will need to be even more careful when considering their impact on the various people and societies they touch.

Most organisations are particularly susceptible to hubris – they begin to believe in their self-worth. The trouble begins when they start considering themselves autonomous of the society in which they are embedded. Executives who are not conscious of this interdependence will find themselves at a disadvantage.

If society feels there is a misalignment between its goals and those of business, business will suffer. And business executives will find themselves – as they do in the US today – among the least trusted in society.

Daily scandals in the US make it apparent that there has been created a subgroup of top executives whose interests have become unhinged not only from the interests of society, but also from the companies whose interests they were guarding as fiduciaries.

As we move towards an increasingly global economy, organisations will find themselves operating in a variety of environments and institutions, They will be judged by consumers and if they are found wanting, the default trust society rests in them will be summarily removed.

When Arthur Andersen's acts took it outside the parameters of operation set by society, society took away its legitimacy and, by default, its right to survive. Organisations should remember that institutions are never murdered; they commit suicide.

MARKETING

Nirmalya Kumar
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In the consumer packaged goods industry, the biggest challenge will continue to focus on a few brands where one can win against the retailers.

In the B2B world, the challenge will be to demonstrate value in the face of tremendous price pressure. In both cases, the push will be to sell solutions instead of simply selling products.

Selling solutions is about making the customer's life easier by taking on a greater part of the process. By cross-selling products and services as an integrated package, manufacturers can expand the value-added market.

Solutions include a large service component and so, they are not comparable. Over time, the seller develops a better understanding of the customer's business processes, and changing suppliers then becomes difficult and costly. Selling solutions requires taking responsibility for customer outcomes.

For instance, instead of selling gallons of paint, a seller of painting solutions has agreed to charge customers for every car it paints and manages paint shops at automobile plants.

Similarly, instead of selling animal feeds to farmers, a solution seller has promised them gains in livestock weight. Such commitments require solution sellers to manage customer processes and increase customer revenues or lower customer costs and risks.

Many companies see the idea of selling solutions as a strategy to sell more products at higher prices. They develop combinations of products and services that work more or less seamlessly, and call them solutions. Then they look for customers with problems that may fit their solutions.

That never works. A good solution provider starts by working with customers to understand their problems before designing customised solutions. In order for the solution strategy to succeed, the customer must gain real value from integration and enough customers must value this service.

MARKETING

Jagmohan S Raju
Joseph J Aresty Professor, Professor of Marketing, Executive Director, Wharton Co-Sponsorship of Indian School of Business

One of the biggest changes the Indian market will see in the next few years is the forceful advent of organised retailing. This will force fast-moving consumer goods companies to rethink their core strategies.

Now their buyers will be players who may be more powerful than the companies themselves. This likely shift/adjustment of power between the manufacturers and retailers will result in a scenario that will most likely require a major change in thinking in the FMCG sector.

MARKETING

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The coming battle is for the 86 per cent of the world's population who are citizens of countries with per capita gross national product of under $10,000. Finding the right products and the right strategies to appeal to this emerging consuming class is the challenge.

The Chinese are already ahead in this game, but they still don't have enough knowledge about emerging economies, especially in Africa.

Companies will have to come up with products and services that leapfrog over the lack of basic amenities in these countries – the absence of running water, electricity and hygiene, among others. To their credit, Indian companies are already coming up with products that would suit such markets.

The advantage Indian companies have is that none of these problems really surprises us – we are used to them, we are used to dealing with diverse cultures. We can work around them. Besides, if it can work in India, it can work anywhere. It is now upto Indian companies to seize the opportunities available in the 86 per cent markets.

KNOWLEDGE MANAGEMENT

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Future strategic advantage and competitive performance will not derive from simply adoption and use of new information and communication technologies. Rather, they will be determined by smart minds using smart technologies, with greater emphasis being on smart minds.

In the new knowledge management paradigm, smart minds hold the key to the success or failure of business systems based upon even the smartest technologies. Some studies have even found an inverse correlation between IT investments and business performance. Apparently, spending more on information technology in itself does not translate into productivity or performance.

Hence, a key responsibility and challenge for corporate executives lies in cultivating and nurturing such smart minds that provide perhaps the only sustainable competitive edge.

In a world characterised by continuous, radical and unpredictable change, there is hardly any competitive advantage or core competence that is sustainable. This applies as well to any competitive advantage based upon IT and information.

Therefore, a viable competitive strategy seems to be one that is based upon making your own knowledge obsolete before it is obsolesced by the competition or the environment.

As IT and information become more easily accessible and affordable global commodities, the real competitive advantage will rest with those who continuously devise and exploit knowledge-based advantages.

QUALITY

Subir Chowdhury

Chairman and CEO, ASI Consulting Group

Indian companies need to make sure that quality becomes everybody's business. Right now, the senior management in most companies – in India and globally – tend to believe that quality is the responsibility of the vice-president of quality and his department.

Granted, there are several companies that are ISO-9000 certified and that are practising Six Sigma, but in reality, it is just small groups in these companies that are actually conversant with the quality issue.

Ask the worker on the shopfloor or the marketing and finance executives and typically, they won't be able to tell you what their company's quality statement means.

This is the main reason why so many companies find, to their complete frustration, that the huge sums of money they spent on quality turn out to be such a dud after just a few years.

Three steps can help companies instil quality in the DNA of their employees. First, emphasise the need to listen to customers. By this I mean not just about the person who buys your company's goods, but internal customers as well – your colleagues and coworkers, and your family. At present, people tend to work in isolation without realising how their jobs impact others.

Then comes enrichment, continuous improvement. If you've succeeded in doing something, look around and see how you can help others achieve the same. The third step is optimisation – do it right the first time. Take the time to make the process and the product right.

TQM, TPM, kaizen, poka-yoke and the like are just tools – organisations need to watch out that they don't become so focused on the tools that they forget the actual goal.

MARKETING

K Sudhir

Professor of Marketing, Yale University

As companies seek to become more market driven, they shift focus from the product to the customer. Marketing departments are traditionally the closest to the customer pulse and, therefore, champion sweeping changes to execute a customer-focused strategy.

But often, the rest of the organisation is not ready to deal with those changes. Without buy-in from finance, IT, HR and other departments, customer-focused marketing activities do not succeed. Direction from the top management — especially the CEO — that all departments should realign, all at once, to execute the new strategy is critical. A piecemeal approach is a recipe for failure.

The HR department especially needs to change, both in terms of the type of employees it hires for the organisation and the incentive schemes it devises.

A customer-focused organisation should favour employees who innately care about customer needs, solutions and service; these employees need a different type of cultural and intellectual attitude, compared to employees in a product-focused organisation, who tend to be internally focused and care more about operational efficiency.

HR should also revise performance incentives for employees. Product-focused managers have little incentive to cross-sell consumers and offering total solutions that combine different products, because they are simply rewarded for maximising own product sales, profits and market share.

In contrast, customer-focused managers will try various ways of acquiring, retaining and cross-selling customers in their segment — by tailoring the right set of products through the right set of channels, through appropriate promotions in order to increase the customer's wallet share.

CUSTOMER SERVICE MANAGEMENT

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Professor and Holder of the James W McLamore Chair, University of Miami

Strategic success in the coming years will depend significantly on customer service. In an environment where all products and services are essentially similar and there are dozens of competing brands —whether for tangible products or intangible services — it is the interaction with customers that will set companies apart.

But here, companies need to be careful in their use of technology to interact with and serve customers. "Technology" in this context is a generic term used to represent whatever customers might consider to be a radically different way for them to interact with companies, and purchase/obtain products or services from them.

This is not about CRM software or technology that companies might use behind the scenes to segment, target, or "manage" customers. Still, a number of companies are jumping onto the technology bandwagon, primarily to reduce costs. But they forget that technology takes away the "high-touch" element that is still expected by sizeable segments of customers.

Another danger with the rapid espousal of technology is that companies fail to recognise that not all people are equally "technology-ready". There is a distinction between being technology-savvy and being mentally ready to embrace customer-interface technologies such as the Internet, self-service checkouts in retail stores, ATMs and so on.

There is a lot more to customer adoption of technology than merely having the technical competence to do so. One of the biggest strategic challenges for companies in the coming year, therefore, will be to determine what type of interface — high or low tech, or some combination thereof — will be more effective for which customer, in what transaction.