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Driving Strategy into Results

Spring 2001

People - providing a bridge over troubled waters?

Having reached the end of the longest economic upswing on record, uncertainty continues as to whether we are on the edge of an equally significant economic downturn, or merely struggling to come to terms with a short stretch of more troubled waters.

Troubled not least of all by the 'technology and telecommunications' bubble, which inflated so far that it inevitably burst, creating the shock waves that the corporate world is now struggling to navigate.

Downsizing has become the inevitable reaction to business downturn.

As the public announcements of the last few weeks demonstrate (GE, Daimler-Chrysler, Lucent, Motorola, Philips, Worldcom, Cisco, Intel, Ericsson...) downsizing has become an essential part of the corporate response to business downturn. Even if these numbers have been enhanced partly to maintain the trust and confidence of the investment world, the requirement to reduce human resource levels in line with business needs is a very real and understandable necessity.

But don't panic and lose the skills essential for future recovery.

Human resources are often the most valuable assets that a business has and insensitive cutting can have a disastrous effect. History has shown that the way in which a business deals with a downturn is not

only an indication of the company's ability to weather the troubled waters, but is also a good indication of how it will fair once the good times return.

Furthermore two important factors make the current climate rather different from that which prevailed in previous downturns.

Firstly, at least for those in Western Europe and North America, the last 5-10 years have shown an underlying increase in skill shortage.

balance sheet receive as much attention as the liabilities and costs that they represent.

Secondly, many of today's senior executives were mere middle managers, if managers at all, the last time around. Many of the high-profile names of today have been spawned and grown up within the time frame of the good years that are now coming to an end. Experience is thus limited, and there is a serious risk of panic and over-reaction, which could easily result in the loss of skills essential for future recovery.

Learning from others

PSM have recently introduced a new service.

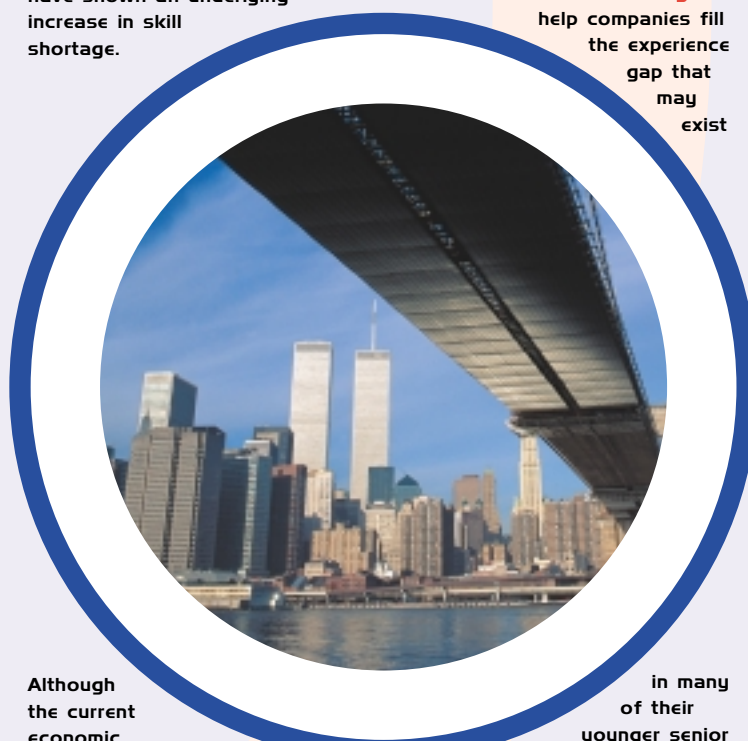
Executive Benchmarking, to help companies fill the experience gap that may exist

Executive Benchmarking provides a unique opportunity for executives to quickly and effectively apply the experience of others to address current business issues.

In addition, through this service, PSM is providing senior executives with the opportunity to benchmark their way of working at a very personal level and to observe and appraise their performance with reference to comparable 'personal partners' either within their own extended organisation or with external companies.

Relatively short but intensive exposure in a confidential environment can enable each party to observe, appraise and learn from different experiences and operating styles. PSM can help to maximise the benefits achieved from **Executive Benchmarking** by careful guidance in the selection of an appropriate partner, by providing a clear definition for the terms of engagement and by providing support in the feedback and review process.

For more information on **Executive Benchmarking** please telephone us or send an e-mail to: ExecutiveBenchmarking@PSMconsulting.co.uk



Although the current economic downturn will allay some of the immediate effects of this shortage, the underlying problem will not go away. It is therefore essential that the value of the human resources that lie hidden within a business'

in many of their younger senior executives.

By filling this gap the company reduces greatly the risk of panic and overreaction and will be more successful in retaining the critical skills to bridge this period of business turbulence.



Stephen Perry

Customer Relationship Management

On average businesses lose around half their customers every five years ...

Why?

The answer is simple. They don't look after them.

Does your company work hard enough to keep its customers?

Customer satisfaction and retention have never been more important. As customer expectations increase and the marketplace becomes more competitive, businesses are looking for new ways to differentiate themselves.

To enable companies to anticipate and meet their customer's demands a large number of IT companies have swamped the desks of managers with Customer Relationship Management (CRM) solutions. There are a huge number of vendors with tools and techniques that purport to help companies achieve their strategies for customer loyalty, satisfaction and profitability. The variation of products is vast and the cost of implementation can range from a few thousand dollars up to millions of dollars. Does this mean that if a company makes a significant investment in a CRM solution that all their customer retention issues will be solved? Will spending \$1m on a front office CRM solution ensure customers come back next month or next year?

There is no doubt that well-planned CRM technologies can provide excellent interface systems and significant customer data management support, but CRM is a business philosophy not a technology 'quick-fix'.

Without a clearly defined customer strategy any software system will be built on weak foundations.

Through the evolution from front office CRM, to eCRM and now e-business the technology providers have been able to extend the scope and technology of their support to CRM. However, unless the company strategy has also changed, these significant

technology advances will provide only limited benefit to the customer. Recent research that we have completed with major businesses in the electronics sector has demonstrated little enthusiasm for the systems employed by their suppliers. Although they value the speed and accuracy of supplier information that advanced technologies can deliver, the real competitive advantage that their suppliers provide lies in the clarity and effectiveness of their competitive strategy and their ability to deliver against this commitment.

This fact should come as no surprise to any of us! Whether we walk into a store to do our shopping, order by phone or shop on the Internet, being told that an item is out of stock or being informed that a delivery will be delayed is always frustrating. Using clever systems to say this in an efficient way may soften the message, but it does not solve the customer's problem!

So before looking to a new or upgraded CRM system to improve customer retention, you should ask yourself a few basic questions.

- Does your organisation have a clearly defined customer service strategy?
- How do you know if the strategy is working?
- Is it fully integrated with your business strategy?
- Does everyone in your organisation demonstrate, every day, your customer service strategy?



Meet the team who will be pro



Julian Gray is a chartered engineer with master's degrees from Cambridge and Aston. He had fifteen years

in technical and works management in engineering industries before going into consultancy in 1974. Julian works with businesses or public sector organisations that are ambitious to transform the performance of their whole organisation. He specialises in guiding companies through a structured process for planning and implementing strategic change. This approach has been used successfully by over a hundred large and small organisations worldwide. Julian also specialises in providing support to plan and facilitate high-performance one-off management conferences and workshops.



Matthew Holmes is a graduate Mechanical Engineer who majored in Manufacturing Systems Engineering to obtain his

Masters degree. Matthew has worked with companies in a wide range of sectors to develop, manage and deliver business improvement programmes in manufacturing, supply chain and design



Claire Davies

DRIVE

Delivering Results in Value and Excellence



After removing local issues and those due to the cyclical nature of markets, the survey results confirmed clearly that the most significant area of concern to executives was:

How to ensure that the strategic aims of their business were firmly linked to the day-to-day activities and priorities of people in their workplace.

One Chief Executive compared his concerns with trying to drive his car on ice. *"When you brake, accelerate or turn the steering wheel it feels as if nothing much happens to the car. Running this business feels very much the same. In our current market the response needs to be immediate".*

This simple driving analogy inspired us to consider carefully how PSM could use our skills and experience to help business leaders to reconnect the strategic aims with the day-to-day activities of individuals in the business.

The result is **DRIVE** - Delivering Results In Value and Excellence.

We recognise that no two organizations are ever the same and in creating **DRIVE** we have combined tried and tested techniques with innovative business improvement methods. The result is that **DRIVE** is a modular approach that can be tailored to match the improvement needs of your business. It can be applied business-wide or be focused on a specific process or function.

In all **DRIVE** programmes we place strong emphasis on evaluating business performance against both internal and external benchmarks. Using these benchmarks we are able to develop a simple management dashboard which enables the management team to **DRIVE** the business in a visible, informed and coordinated way. As the driver you need to be able to see the key business performance indicators at a glance.

DRIVE will provide your business with:

- clear objectives and performance measures captured in a management dashboard
- a process to cascade the objectives down through the business and align the activities of individuals with these objectives
- external benchmarks to test and maintain your competitive performance
- the skills and a set of tools to diagnose areas of weak performance
- the framework for organising systematic improvement
- comprehensive training to develop the capability to ensure ongoing success

The analogy with motor racing is a strong theme throughout **DRIVE**. Steering businesses through change is critical to ensure success, just as in motor racing skillful cornering is a key element of winning. **DRIVE** helps executives to anticipate and prepare for the business corners by learning how to synchronise the use of their business accelerator and brake at the right time.

DRIVE also provides a stimulating and exciting brand that can be used by executives to provide a strong identity for their major improvement programmes. Employees will relate closely to the analogy and will find working in their own **DRIVE** programme highly motivating.

If you would like to know more about **DRIVE** and how you may be able to use this approach to create a secure and lasting connection between the strategic plans and the operational activities then please telephone us or send an e-mail to DRIVE@PSMconsulting.co.uk



Andrew Mansell

Providing insight in future issues

processes. Projects have ranged from performance improvement initiatives for single processes and the delivery of training to support business needs to full scale review, development and implementation of business strategy.



David Rose
David has worked as a senior manager, consultant and non-executive director with engineering

and IT businesses in Europe and North America. His speciality is innovation, marketing and business development in technology companies - 'from insight to implementation'. David has helped bring many new business ventures to market and grow, and particularly enjoys the people side of innovation and change, especially the interface between technology and commercial operations.



Could your photograph be here?

Do you have the skills and experience to...

'Make a difference'

If so, please eMail your CV to:

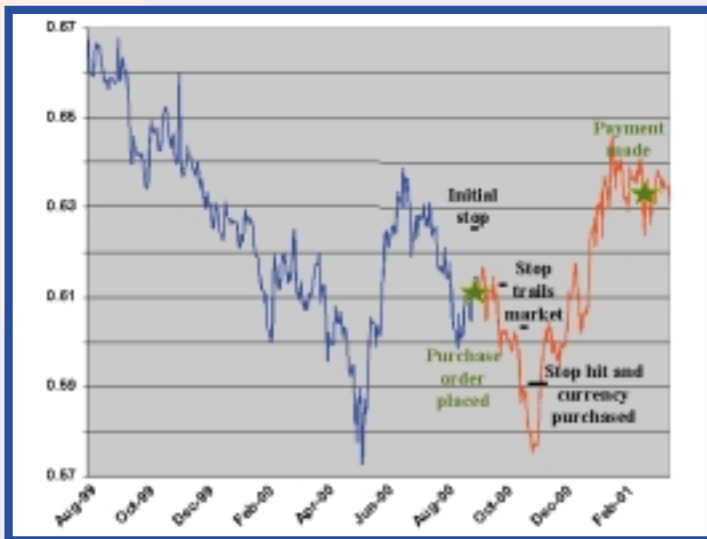
Caroline.McVey@PSMconsulting.co.uk

Damned if you do, damned if you don't

A common practice in the UK is to purchase new cars on the Continent to make significant cost savings. Having placed my order with the German manufacturer last summer, for delivery this Easter, I had to decide when to buy the Deutsch Marks that would be required for payment then.

- limits the downside risk
- leaves the upside potential unlimited
- automatically initiates the transaction at the appropriate time.

The graph shows the British Pound / Euro exchange rate. At the time the purchasing commitment was made a Euro was costing approximately 61p. An order was placed to purchase Euros if the price moved up to



This is a question faced when order placement, payment and delivery are not simultaneous events. The two main options are to buy the currency at the time of order placement thereby creating certainty over the price, or to wait until closer to the time of payment. The latter carries with it both opportunity and risk. If the exchange rate moves favourably an additional discount will be achieved. If it moves unfavourably the savings will be reduced or even eliminated.

This situation is always a dilemma:

- "If the exchange rate improves, I'll grab it" - but who says it won't improve further?
- "If it moves against me, I'll grab it before losing too much of my discount" - but then you will kick yourself for not taking the rate on offer initially.
- "I'll take the rate available at the time I need the currency" - the Russian roulette option!

In reality you will never be right; you cannot buy at the bottom of a market, as no one knows where that will be. The solution I employed in this case was a simple technique called a "trailing stop" which:

62.5p. This allowed sufficient room for the downtrend to continue (if it was going to) and also to limit the risk of a worse price to 1.5p. Fortunately the downtrend resumed and each time a new low was made this "stop" order was moved down, locking in increasingly better prices. At the end of October the Euro reversed sharply from 57.5p through 59p where the stop was sitting, thereby initiating the transaction.

By the time the payment was made the Euro had risen to over 63p. The use of the trailing stop had therefore saved 4p per Euro over waiting until then.

Although not dramatic, this is a worthwhile example of the power of this simple technique. It should be noted however that it is only successful in markets that exhibit strong tendencies to trend up and down, of which currencies are good examples.



● Simon Townshend

Easy as ABC?



The next step for this organisation is customer profitability...

Activity Based Costing is rather like a UFO: most people have heard of them, lots of books have been written about them, but few people have seen one in action!

In PSM we have been using ABC for some years now as an effective tool to do two things:

- to provide a fresh perspective on the profitability of products and customers as part of a fundamental review of business performance
- to assist in changing behaviour within organisations by providing a more relevant performance measure to guide their work

Product profitability:

a wholesaler in the food distribution sector carries over 7000 products in the range. These products were traditionally evaluated on the basis of the percentage gross margin between selling price and buying cost. All operating costs were then treated as an overhead and allocated equally. By using ABC, the specific costs of each product could be estimated, based on such factors as how many units were sold, weight, stockholding etc. This showed a dramatically different picture to the gross margin information. When these activity costs were fully allocated to products, almost half the range contributed negligible or negative profit! This information is now being used by the buyers in the organisation to gradually improve the true product profitability.

Changing behaviour:

product managers and designers are often given a very simplified cost target for a new product - sometimes only the bill of material cost. When this happens they work very hard to minimise that aspect of cost but often at the expense of the true total cost of the product to the organisation. ABC can provide a useful set of cost parameters to help here; for example what is the cost of adding a new component to a product design? Often it is only the item's purchase cost that is considered, but there are many activity costs to support that new component from the design office, through stores, to finance paying the supplier.

Rather than relying on 'gut-feel' for factors like variety reduction and business simplification, ABC can provide quantitative information to guide important decisions early on in the product life cycle and to influence the behaviour of those involved in those decisions.

ABC is a very powerful tool to improve business profitability; like all tools, it needs to be chosen and used carefully - in the right circumstances and with the right objective; then, it really can be as easy as.... ABC



● Peter Lightwood