Bain's global 2007 management tools and trends survey

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A history of Bain's Management Tools and Trends Survey

Starting in 1993, Bain & Company has surveyed executives around the world about the management tools they use and how effectively those tools have performed.

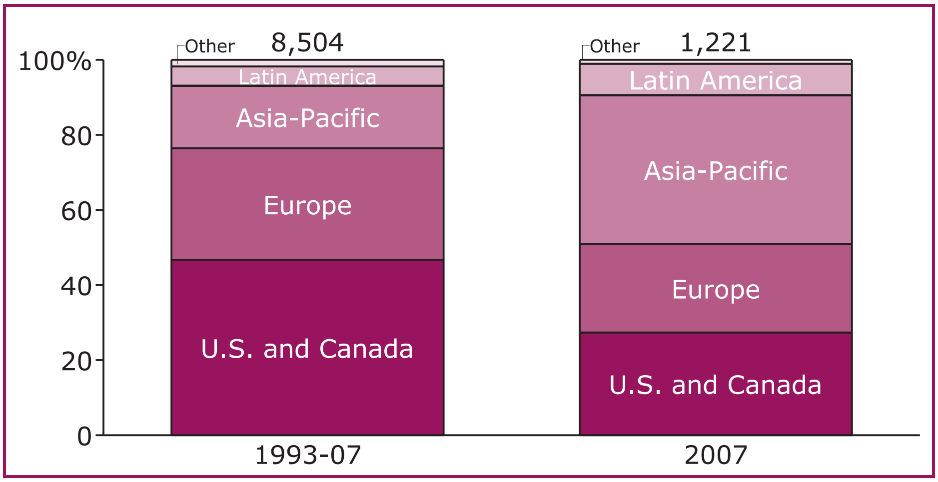
We focus on 25 tools, honing the list each year. To be included in our survey, the tools need to be relevant to senior management, topical and measurable.

By tracking which tools companies are using, under what circumstances and how satisfied they are with the results, we've been able to help managers make better choices in selecting, implementing and integrating the tools to improve their performance.

With this 11th survey we now have built a database of more than 8,500 respondents and can systematically trace the effectiveness of management tools over the years. As part of our survey, we also ask executives for their opinions on a range of important business issues. That way, we can track and report on changing management priorities as well.

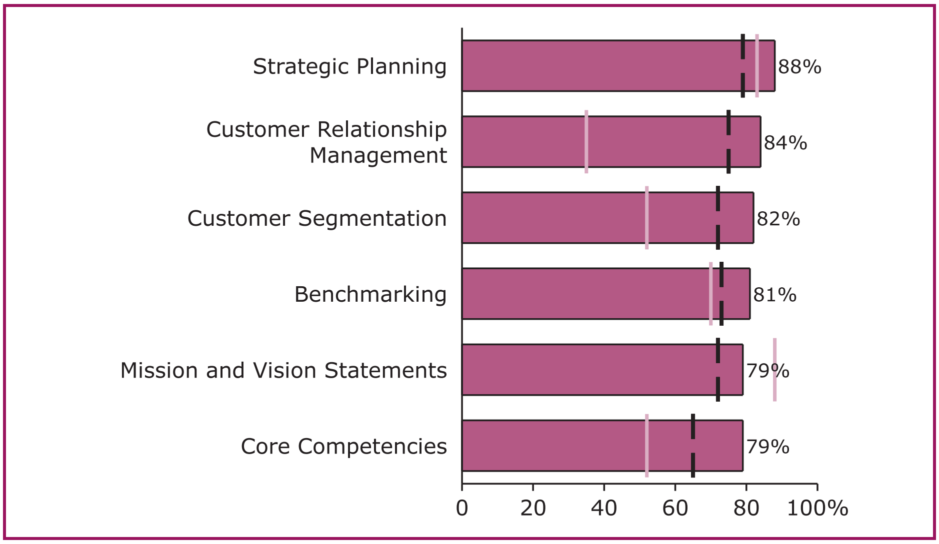
A full definition of the 25 tools, along with a bibliographical guide to resources on each one, is listed the Bain & Company booklet: *Management Tools 2007: An Executive's Guide (*see Exhibits 1 and 2).

Exhibit 1 14 years of data and 8,504 respondents



DOI 10.1108/10878570710819161 VOL. 35 NO. 5 2007, pp. 9-16, © Emerald Group Publishing Limited, ISSN 1087-8572

Exhibit 2 Top five tools over time



The 2007 Bain Management Tools and Trends Survey of 1,221 global executives found four strong themes:

1. **Sharpened customer focus**. With two customer tools – Customer Relationship Management and Customer Segmentation – among the top three, companies understand the value of managing their customers and acting on customer insights. However, even with the widespread success of these two tools, more than half of the respondents say insufficient consumer insight is hurting their performance, and 44 percent say they know customer loyalty is important but don't know how to profitably improve it. Ironically, they aren't turning to Loyalty Management Tools in any great number. When we first tracked that class of tools in 2004, they ranked 19th on our usage list. Two years later, they're still only the 19th most-popular tools (Exhibit 3).

2. **Outward bound**. Our survey of management priorities shows that companies increasingly are looking outside their own organizations to innovate and grow. More than six out of ten executives say they could dramatically boost innovation by collaborating with outsiders, even competitors. Half the executives say working with China and India will be vital to their success over the next five years. Also, four in ten say cross-border acquisitions will be critical to achieving their growth objectives in the same time period (Exhibit 4).

   By and large, executives are satisfied with the tools they use to help them expand their reach. Strategic Alliances ranked high on the satisfaction list. And despite continued findings that the majority of mergers fail to deliver anticipated shareholder value, Mergers & Acquisitions remain one of the Top 10 tools for user satisfaction. Bain research finds that companies that institutionalize merger teams and develop a repeatable approach to due diligence, acquisition and integration consistently beat the odds of merger failure.

   Satisfaction with mergers and acquisitions may be tied to high usage and satisfaction with another tool, Core Competencies. As our colleague Chris Zook wrote in his recent book, *Unstoppable: Finding Hidden Assets to Renew the Core and Fuel Profitable Growth* (Harvard Business School Press), smart companies are acquiring capabilities that help them renew their core businesses.

Exhibit 3 Companies worldwide see the need to better understand their customers and to boost customer loyalty

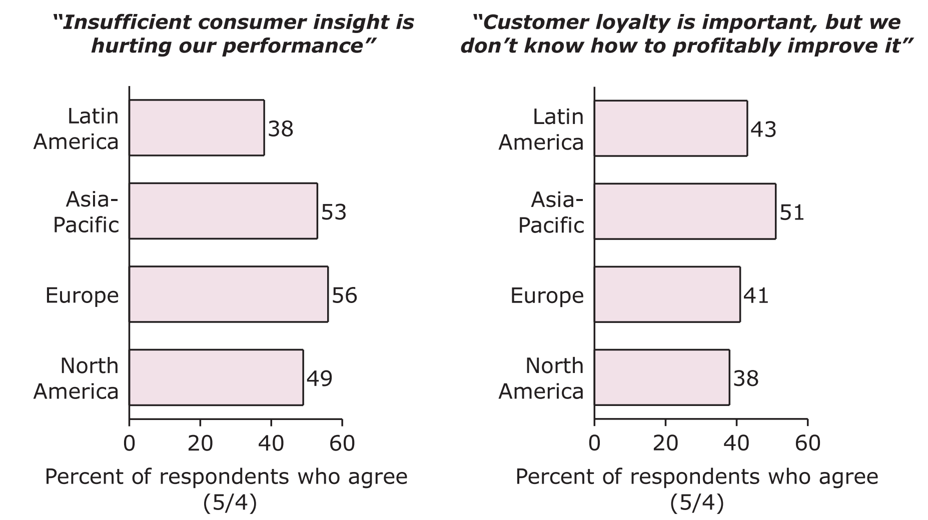
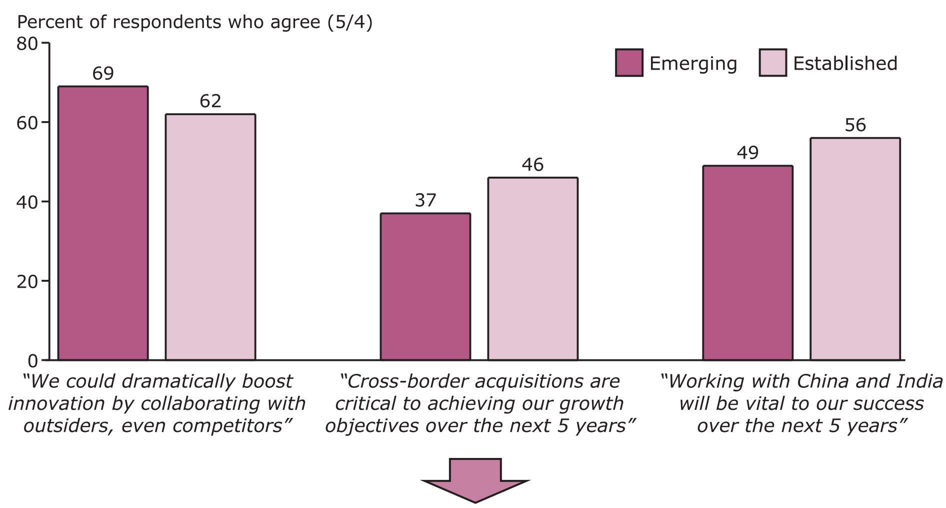


Exhibit 4 Emerging vs established markets



Companies in emerging markets more likely to say collaboration can help them boost innovation. Companies in established markets are more likely to pursue cross-border acquisitions and work with China and India over the next five years

3. Beyond cost cutting. The rising popularity of tools such as Knowledge Management and Scenario and Contingency Planning tells us that companies are eager to complement cost-cutting tools like Shared Service Centers and Offshoring with tools that are designed to help them manage global businesses – as opposed to reducing costs. These tools also help companies prepare for both the opportunities and risks of globalization. Scenario and Contingency Planning, for example, rose abruptly in popularity in the years following the September 11, 2001, terrorist attacks. The tools also help bolster an organization's corporate culture. In our work with clients, we've found that corporate culture has a significant impact on process improvements and decision making.

4. **Establishment of power tools**. By tracing tools over 14 years, we've been able to identify those that consistently rate above average in both usage and satisfaction across industries. We classify them as ''Power Tools.'' They are Strategic Planning, Customer Relationship Management, Core Competencies and Customer Segmentation. These techniques are likely to be valuable components of almost any company's toolkit, especially as more firms seek growth via strategies to reach new customers in emerging markets. Asked whether their firms adequately customize offerings to local markets, almost half of this year's respondents disagreed.

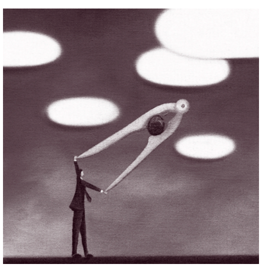
Management tools: the big picture

Overall tool use and satisfaction

Today, executives around the world are using more tools than when last surveyed in 2004. They averaged 15 tools in 2006, up from 13 in 2004. This increase was especially prevalent among small and midsize companies, both of which had significantly reduced tool usage in 2004. But while companies are employing more tools, they appear to be finding them less effective. Usage increased, yet the average overall satisfaction rating dropped to 3.75 from 3.89 in 2004, as measured on a one-to-five satisfaction scale.

A consistent survey finding is that companies get the best results when they use tools as part of a major effort rather than in limited initiatives. For certain tools, the differences are enormous. For example, RFID ties for the highest satisfaction score when it is implemented as part of a major organizational effort. But its satisfaction ranking when used as a part of a limited effort is only No. 17.

One reason Customer Segmentation may be scoring so high is that it typically is used as part of a broader commitment to customers – understanding their needs in order to better serve them. When used as part of a major effort, Customer Segmentation has the highest satisfaction score (4.34) of all tools. Our recommendation is that companies should only add tools if management truly has the time to focus on them (Exhibits 5 and 6).



The Top 10 tools

Strategic Planning, along with Customer Relationship Management, Core Competencies and Customer Segmentation all rated above average in both usage and satisfaction. We've found that successful use of tools – and executives' willingness to use them – is influenced by the ability to measure and communicate resulting benefits. Said one respondent from a US pharmaceuticals company: ''If the tool does not allow the user to understand the cost and benefit, it is unlikely to be embraced. Furthermore, there is some career exposure in working with tools that don't clearly demonstrate benefit.''

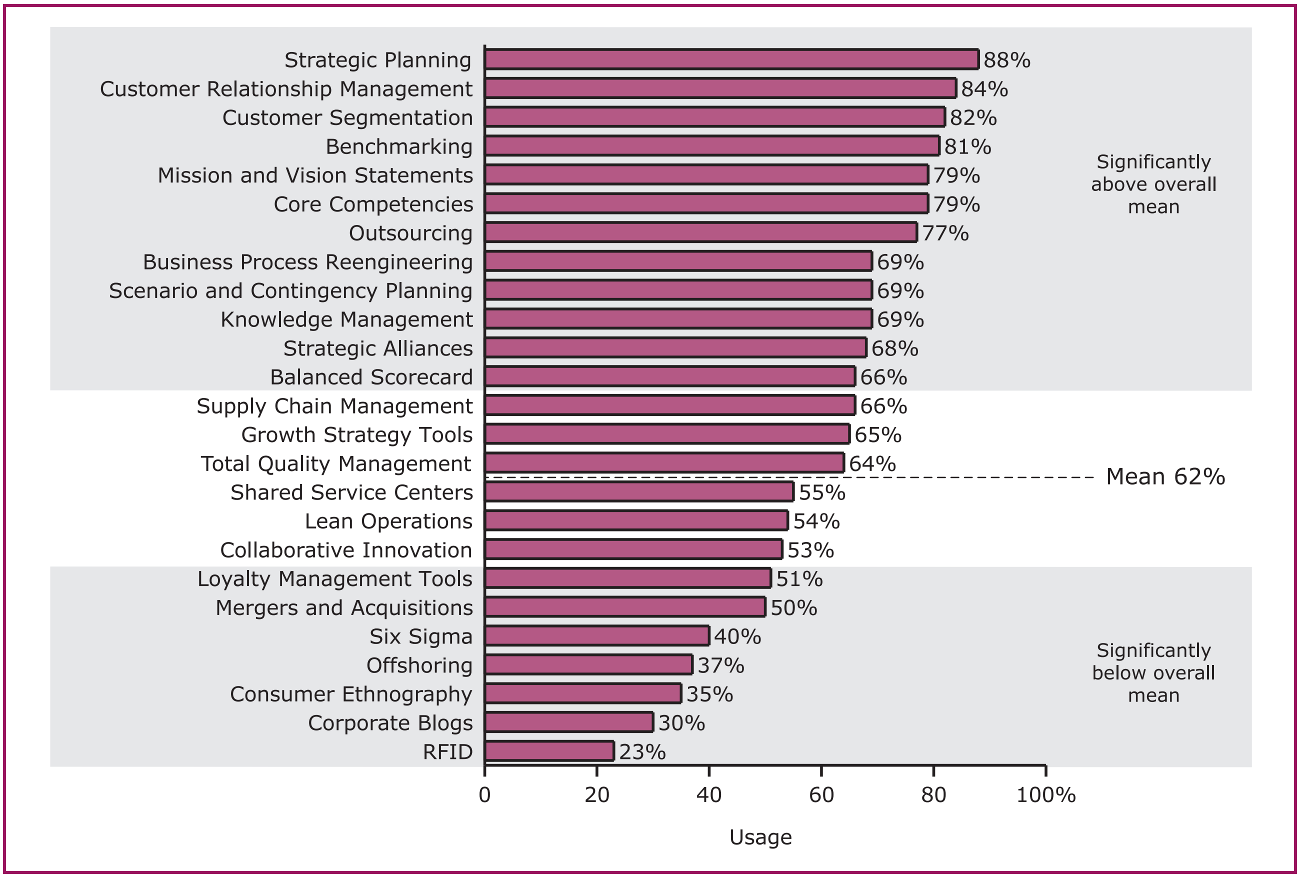
Top 10 tools by usage

1. Strategic Planning;
2. Customer Relationship Management;
3. Customer Segmentation;
4. Benchmarking;
5. (tie) Mission and Vision Statements, Core Competencies;
7. Outsourcing; and
8. (tie) Business Process Reengineering, Scenario and Contingency Planning, Knowledge Management.

Top 10 tools by satisfaction

1. (tie) Customer Segmentation, Strategic Planning;
3. Mergers & Acquisitions;
4. Customer Relationship Management;

Exhibit 5 Tool usage is strong in 2006



5. Core Competencies;
6. (tie) Total Quality Management, Benchmarking; and
8. (tie × 3) Mission and Vision Statements, Scenario and Contingency Planning, Strategic Alliances

How tools evolve over time

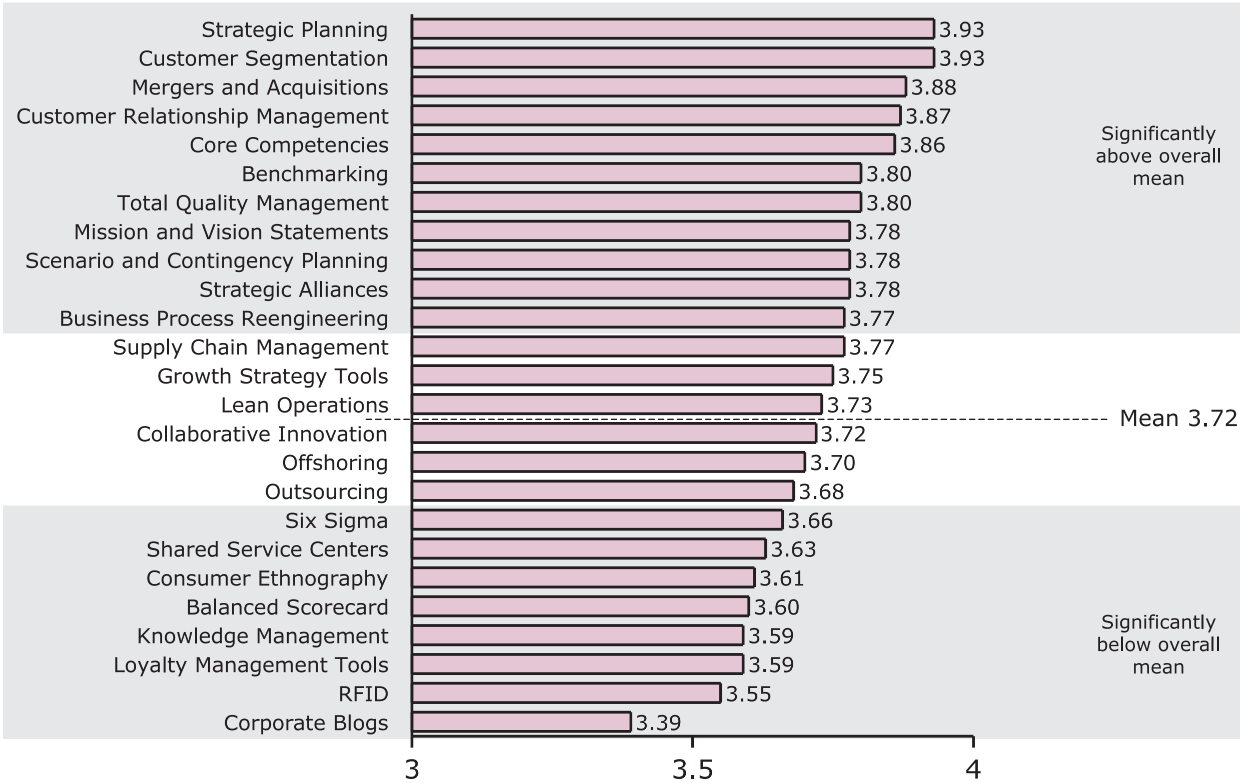
When we looked at how tools usage and satisfaction change over time, we identified four categories of tools:

- Rudimentary Tools (low usage and low satisfaction).
- Specialty Tools (low usage and high satisfaction).
- Blunt Instruments (high usage and low satisfaction).
- Power Tools (high usage and high satisfaction).

Typically, tools start out in the ''Rudimentary'' category, which in this year's survey included RFID, Corporate Blogs, Consumer Ethnography, Loyalty Management Tools and Shared Service Centers – all tools relatively new on the corporate scene, which scored below average in both usage and satisfaction. From our research, such fledgling tools will follow four possible paths:

- They'll continue to perform badly and prove to be passing fads.
- They'll be refined and work more effectively but ultimately serve a functional niche, becoming ''Specialty Tools'' like Mergers & Acquisitions.
- They'll increase in usage due to a real need but fail to refine their effectiveness, becoming ''Blunt Instruments'' with continuing low satisfaction rates, like Knowledge Management.

Exhibit 6 Satisfaction rates in 2006



- They'll adapt, hone effectiveness, trigger even broader use and become ''Power Tools'' like Customer Relationship Management.

See exhibit 7.

How management trends vary by region

In addition to tool usage and satisfaction, we asked respondents for their views on 20 management trends. We found that *North American* executives are more confident managers, with fewer worrying that unclear decision making is hurting their performance. In terms of tools, they are more likely to look outward, using Strategic Alliances and Collaborative Innovation than companies in other regions.

European executives are more concerned than others with their level of consumer insight. They are big users of Customer Segmentation. They also are more likely than others to be planning to make cross-border acquisitions in the next five years.

Latin American executives use the fewest number of tools. They are less likely to plan to work with China or India in the next five years and are least concerned about an economic slowdown. They are more concerned than their counterparts in any other region that their products and services are behaving like commodities.

Asia-Pacific has the largest number of early adopters, with much higher use of newer tools like Consumer Ethnography and Corporate Blogs. Cost cutting is less of a concern in Asia, where products already are cheap by world standards and executives are strongly focused on innovation (Exhibit 8).

Looking to the future, our respondents told us the new tool they're most likely to try will be Corporate Blogs, even though it chalked up the lowest satisfaction score of all tools. Such

Exhibit 7 Even unpopular tools are far more effective when part of a major effort

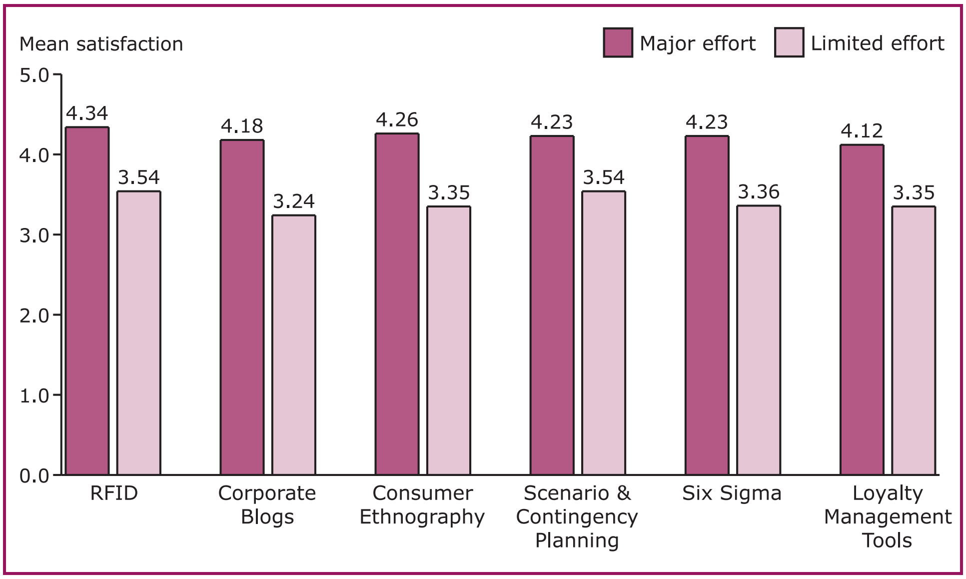
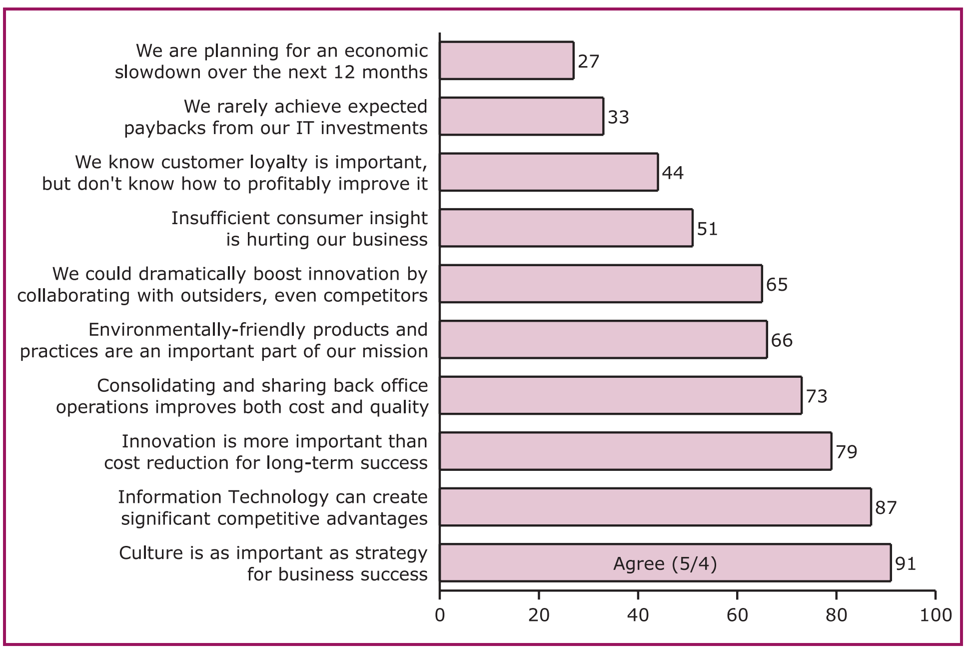


Exhibit 8 A sample of attitudes from respondents around the world



findings are reminiscent of today's second-most-popular tool, Customer Relationship Management, which in 2000 had one of the lowest satisfaction scores but the highest projected growth rates of any on the survey.

Recommendations

On the basis of our research to date, we offer four suggestions for the use of tools:

1. *Get the facts*. Every tool has its own strengths and weaknesses. To succeed, you must understand the effects (and side effects) of each tool, then combine the right tools in the right ways at the right times. Use the research. Talk to other tool users. Don't naïvely accept hyperbole and simplistic solutions.

> “Today, executives around the world are using more tools than when last surveyed in 2004.”

2. *Champion enduring strategies, not fleeting fads*. Managers who promote fads undermine employees’ confidence that they can create the change that is needed. Executives are better served by championing realistic strategic directions – and viewing the specific tools they use to get there as subordinate to the strategy.
3. *Choose the best tools for the job*. Managers need a rational system for selecting, implementing and integrating the tools that are appropriate for their companies. A tool will improve results only to the extent that it helps discover unmet customer needs, helps build distinctive capabilities and helps exploit the vulnerabilities of competitors – or a combination of all three.
4. *Adapt tools to your business system (not vice versa)*. No tool comes with prepackaged instructions and a guarantee. Every tool must be adapted to a company’s particular circumstance.

China management tools: boom or bust?

Our survey data suggest that, while multinationals in record numbers are looking to China for growth, companies within China are just as actively turning to management tools to help them manage growth. What’s unclear is whether it’s working: Chinese executives expressed the highest dissatisfaction with tool use of all global respondents.

We surveyed 348 China executives across a range of industries and company sizes, with approximately three-quarters in the ‘‘small’’ company category of less than $600 million in annual revenues – sometimes much less than $600 million, which is representative of Chinese companies as a whole. Management tool usage doubled in China from our last survey in 2004, to a level on par with Europe and North America.

Chinese managers appear to be turning to tools to help manage growth. Why, then, are they registering the lowest levels of satisfaction among executives in any region? While part of the trend can be explained as simply cultural response norms, we have several other theories:

- Companies are addressing operational issues before firming up their overall strategy. They’re using tools like Total Quality Management without first having fully applied broader tools like Strategic Planning that help companies set strategy and build a foundation for tools that address specific problems.
- Small companies lack sufficient executive manpower to apply tools successfully. Said one respondent: ‘‘Most of our people are not well qualified and do not have the training to do Strategic Planning well.’’
- Companies are trying to do too much too soon. China’s mean usage rate of management tools doubled from 30 percent to 60 percent in two years, but companies need to take a systematic approach to using those tools as part of a management course of action.
- Companies are not using tools as part of a major effort. A perennial finding in our management tools survey is that companies achieve far better satisfaction when they use tools as part of a major effort, as opposed to a limited effort. For some tools, the differences are enormous.

If Chinese executives doubt whether management tools can do the job, they also have a less rosy outlook on their business environment than counterparts elsewhere. When we asked executives if they predicted a global economic slowdown in the coming year, 45 percent of respondents in China agreed. That compares with 27 percent of North American executives, 18 percent of executives elsewhere in Asia-Pacific, 15 percent of Europeans and 10 percent of Latin Americans.