Getting a handle on
the tools executives use
to grow their business

Management Tools and Trends 2007

By Darrell Rigby and Barbara Bilodeau

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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 the managers are with the results, we've been able to help them make better choices in selecting, implementing and integrating the tools to improve their performance.

With this, our 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.

For a full definition of the 25 tools, along with a bibliographical guide to resources on each one, please see the Bain & Company booklet: *Management Tools 2007: An Executive's Guide.*

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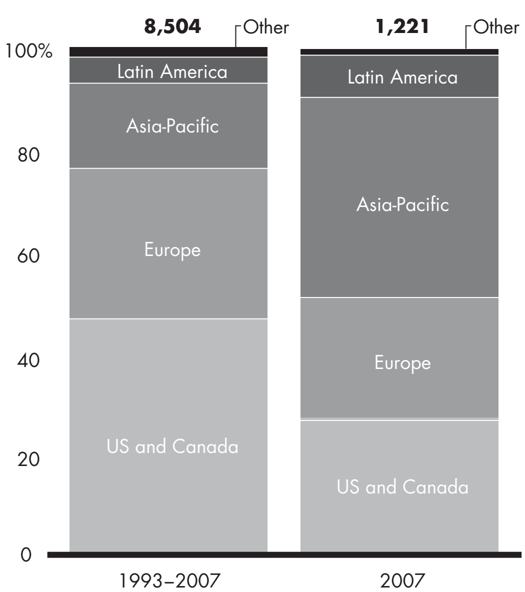
Global survey results

Results are in for Bain's global Management Tools and Trends survey. This year's survey of 1,221 global executives found four strong themes:

Theme 1: Sharpened customer focus

With two customer tools—Customer Relationship Management (CRM) and Customer Segmentation—among the top three, companies understand the value of managing their customers and acting on their 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% say they know customer loyalty is important but don't know how to improve it profitably. 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 19th. (See Figures 2, 5 and 6.)

Figure 1: 14 years of data and more than 8,500 respondents



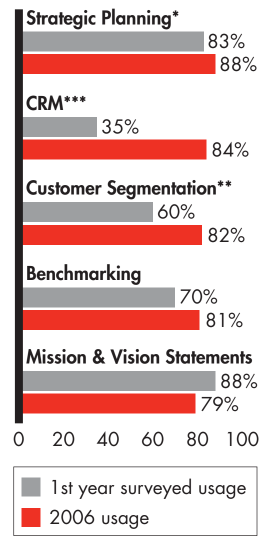
Theme 2: Outward bound

Our survey of management priorities shows that companies increasingly are looking outside their own organizations to innovate and grow. More than 6 out of 10 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, 4 in 10 say cross-border acquisitions will be critical to achieving their growth objectives in the same time period.

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 and Acquisitions remains one of the top 10 tools for user satisfaction, perhaps because companies are perfecting their ability to use M&As the more they do them. 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*

Figure 2: Tool usage reflects how objectives and priorities shift over time



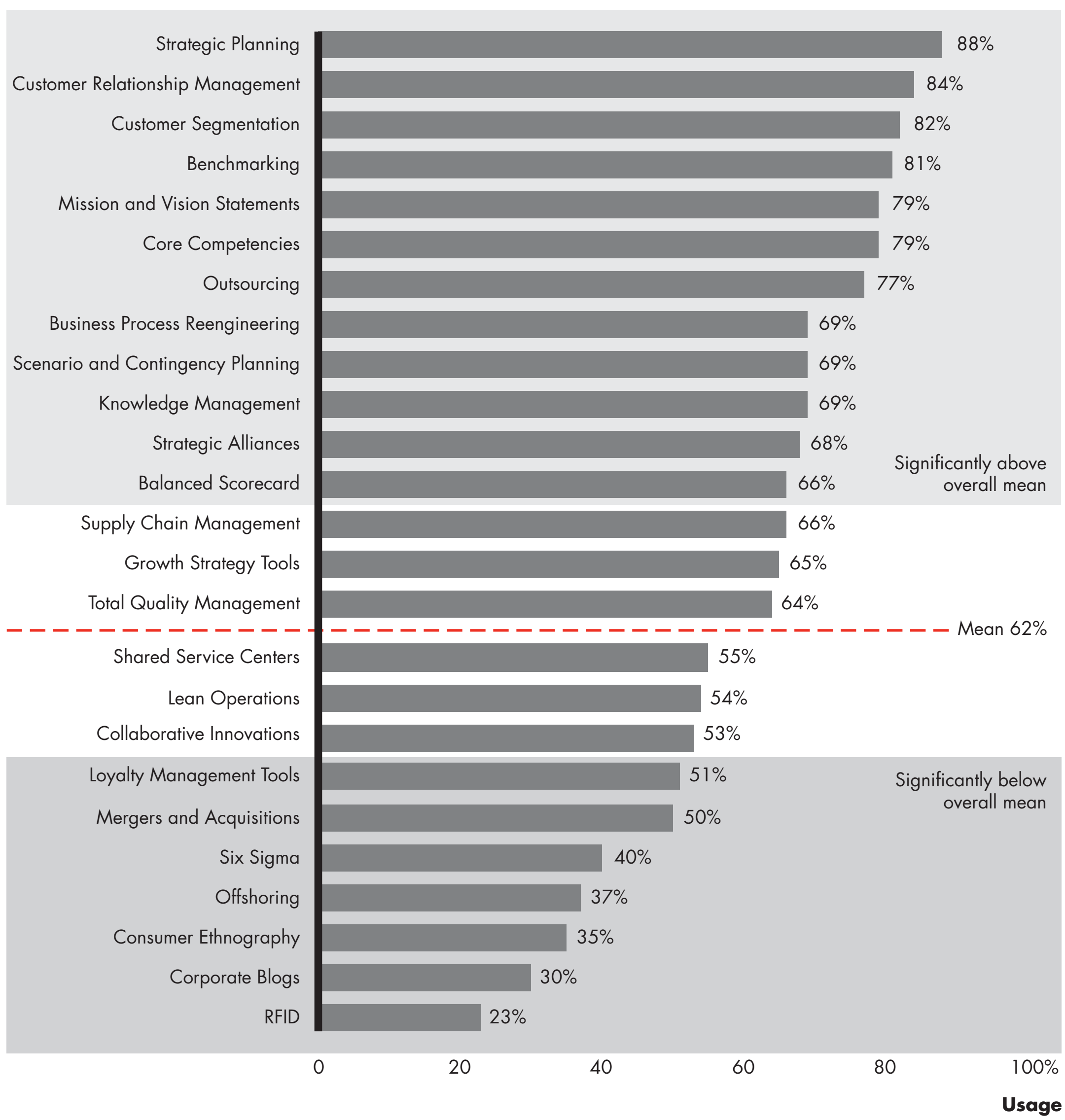
*Tool added in 1996
**Tool added in 1998
***Tool added in 2000

(Harvard Business School Press, May 2007), smart companies are acquiring capabilities that help them renew their core businesses. (See Figure 7.)

Theme 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 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 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,

Figure 3: Tool usage



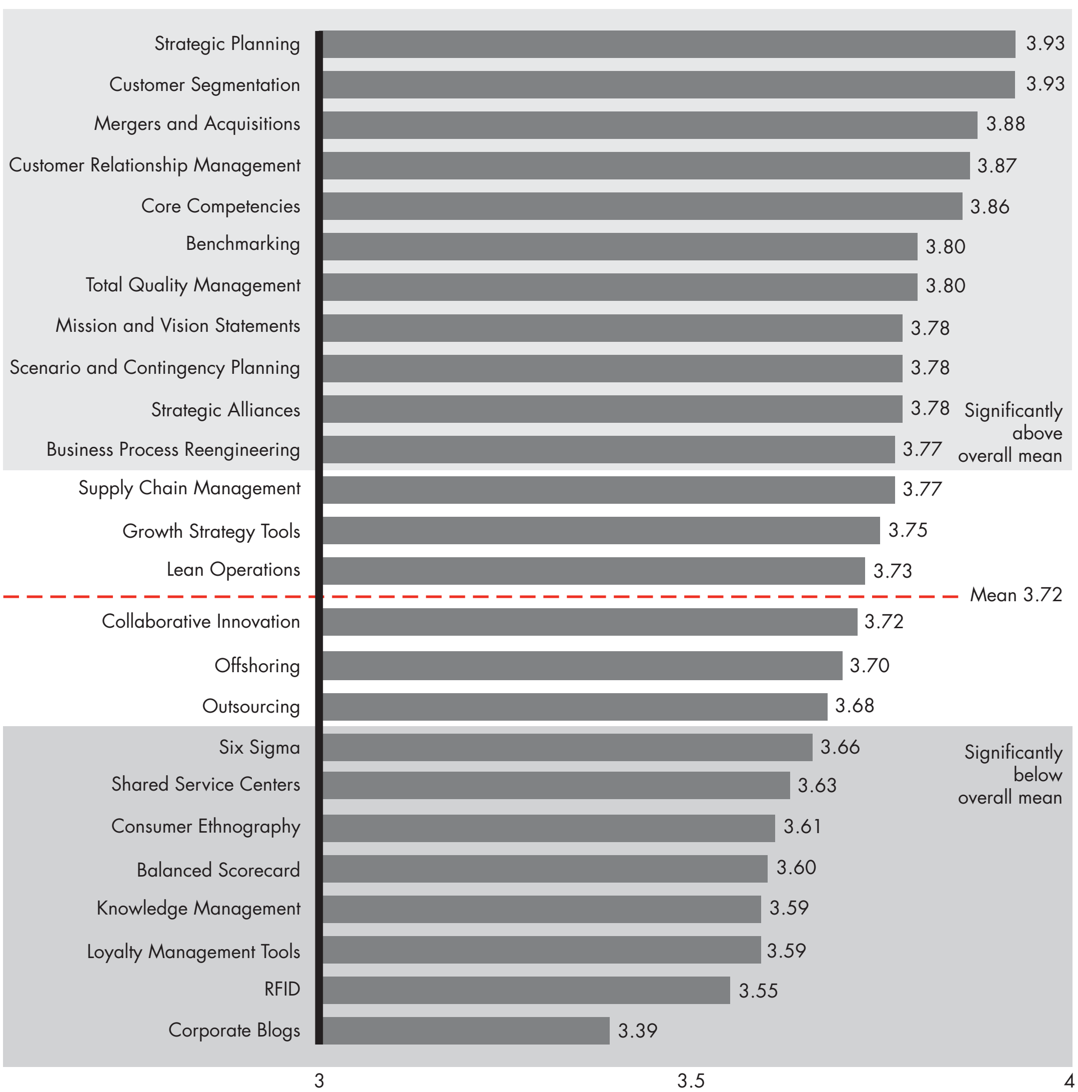
we've found that corporate culture has a significant impact on process improvements and decision making.

Theme 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," a group comprising Strategic Planning, Customer Relationship Management and Customer Segmentation. These techniques are likely to be valuable components of almost any company's tool kit, especially as more firms seek growth via strategies to reach new customers in emerging markets. Asked whether they adequately customize offerings to local markets, almost half of this year's respondents said no.

More than **6 out of 10** executives say they could dramatically boost innovation by collaborating with outsiders, even competitors.

Figure 4: Tool satisfaction



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 rate 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.

Tool usage has doubled in China since 2004

Innovation is more important than cost reduction for our long-term success	88%
Consolidating and sharing back office operations improves both cost and quality	86%
Environmentally friendly products/practices are an important part of our mission	78%
Unclear decision-making authority is hurting our performance	65%
Working with China and India will be vital to our success over the next five years	45%
Our current capabilities are not sufficient to achieve our financial objectives	38%
Our company would deliver better long-term results as a privately owned firm	67%
Cross-border acquisitions are critical to achieving growth objectives in next five years	34%
We are planning for an economic slowdown over the next 12 months	45%

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% to 60% 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% of respondents in China agreed. That compares with 27% of North American executives, 18% of executives elsewhere in Asia-Pacific, 15% of Europeans and 10% of Latin Americans.

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 (on a one-to-five satisfaction scale). (See Figure 8.)

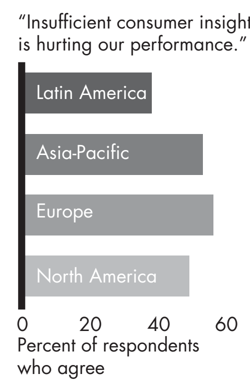
A consistent survey finding is that companies get the best results when they use tools as part of a major effort rather than in limited initiatives. For certain tools, the differences are enormous. For example, RFID (radio frequency identification) ties for the highest satisfaction score when it is implemented as part of a major organizational effort. But its satisfaction ranking when used as a part of a limited effort is only 17th.

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 serve them better. 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 add tools only if management truly has the time to focus on them.

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." (See Figures 3 and 4.)

Figure 6: Companies worldwide see the need to understand their customers better and to boost customer loyalty



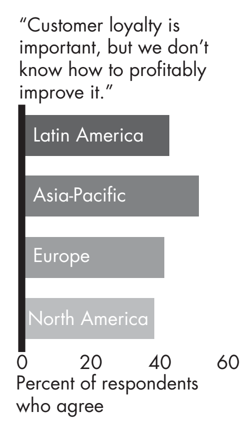


Figure 5: Strategic Planning is valued as the No. 1 tool everywhere in the world except for the Asia-Pacific region.

Top 10 most used tools	Global	North America	Europe	Asia-Pacific	Latin America
Strategic Planning*	1	1	1	2	1
Customer Relationship Management	2	3	4	1	9
Customer Segmentation	3	6	2(t)	3	3(t)
Benchmarking	4	2	2(t)	9(t)	2
Core Competencies	5(t)	5	5(t)	4	10
Mission and Vision Statements	5(t)	4	7	5(t)	5
Outsourcing	7	8	5(t)	7(t)	3(t)
Business Process Reengineering	8(t)	10(t)	10(t)	5(t)	14(t)
Knowledge Management	8(t)	12	10(t)	7(t)	14(t)
Scenario and Contingency Planning	8(t)	9	8	14	7

Note: (t)=tied

How tools evolve over time

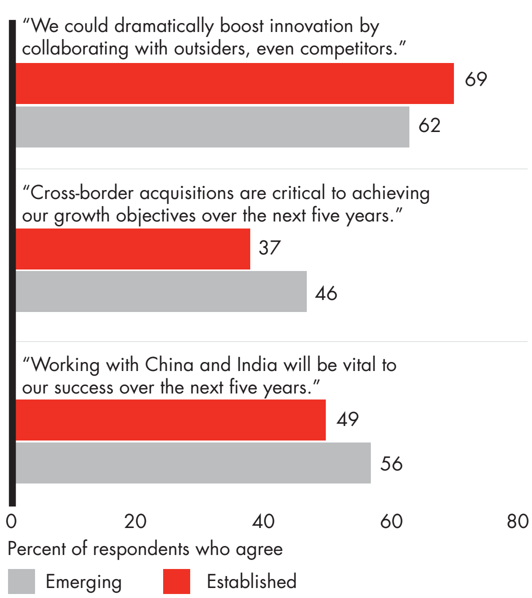
When we looked at how tools' usage and satisfaction change over time, we identified four categories of tools:

- *Rudimentary tools* are low in usage and low in satisfaction;
- *Blunt instruments* are high in usage but low in satisfaction;
- *Specialty tools* are low in usage but high in satisfaction;
- *Power tools* are high in usage and high in 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 relatively new on the corporate scene and scoring 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 and 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, or;
- They'll adapt, hone effectiveness, trigger even broader use and become "Power Tools." They have evolved to the point that they are standards for most companies and include Strategic Planning, Customer Relationship Management and Customer Segmentation.

Figure 7: Companies in emerging markets are more likely to say collaboration can help them boost innovation



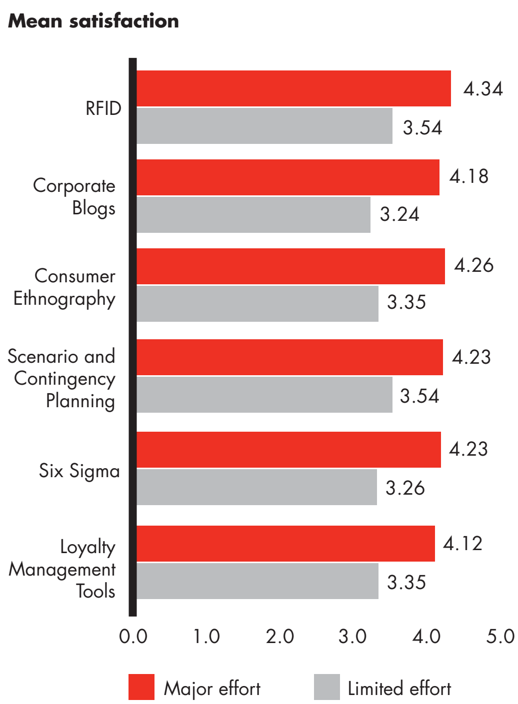
How management trends vary by region

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, 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 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 eco-

Figure 8: Even unpopular tools are far more effective when part of a major effort



nomic 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 are cheap by world standards and executives are strongly focused on innovation.

Looking to the future, our respondents told us the new tool they're most likely to try is Corporate Blogs, even though it chalked up the lowest satisfaction score of all tools. Such 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 naively accept hyperbole and simplistic solutions.

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.

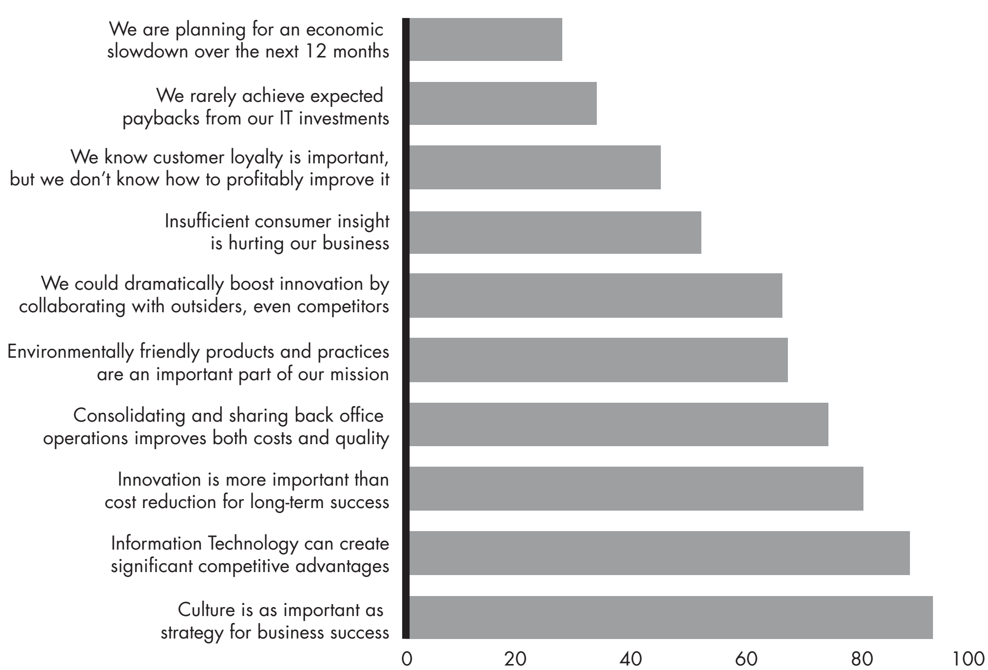
Top 10 tools by usage

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

Top 10 Tools by satisfaction

1. *(tie)*
   Customer Segmentation
   Strategic Planning
3. Mergers and Acquisitions
4. Customer Relationship Management
5. Core Competencies
6. *(tie)*
   Total Quality Management
   Benchmarking
8. *(three-way tie)*
   Mission and Vision Statements
   Scenario and Contingency Planning
   Strategic Alliances

A sample of attitudes from respondents around the world



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