SOLVING *news*

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DON'T GET THE DIAGNOSTIC WRONG

One of the challenges of the present era, with its deep changes and uncertainties on the world scale, is to diagnose correctly the company's current situation and its market plan. The job is not a simple one, even for a company that is used to bringing established ideas into question. How to go about it?

Getting the diagnostic wrong is a matter of seeing the glass as half full rather than half empty, or vice versa (which is less common but just as harmful). It is considering, for example, that the reforms in progress are an adequate path of progress while they might not be enough. Jaguar, taken over by Ford, went through a veritable molting process, with a downward extension of the line, pooling of components with Ford, drastic cost reductions and dynamizing the network, among other things. It could have felt that the diagnostic of a recovery situation was justified. But competitive pressure on the top of the line segment, by relativizing these improvements, kept the company at a loss and invalidated the chosen approach.

This stresses that an evaluation has to be achieved relative to the advances of the competitors, and the company's margin of progress with respect to the best. It is also a matter of questioning the rate of progress under way.

Is it enough? The conventional wisdom that suggests proceeding calmly in order to clearly institute each advance may unfortunately make the company into the tailender of its industry, or at least degrade its position.

The diagnostic can do nothing other than evaluate the general dynamic of the market segments occupied, to consider the chances of success on the chosen path.

What priorities?

A connected subject is the priorities the company adopts in its market plan. Are they adequate? Are they realizable or desirable? What subjects do we leave aside, and why? Are these priorities shared by the whole Board of Directors? If not, what are the reserves and how can they be explained? What are the reasons for the priorities mentioned and not retained? What would a new and demanding stockholder do?

All this aims only to avoid the comfort of soft consensus.

Reviewing the diagnostic is also asking the question once again on the key success factors and their order of importance, because competitive universes change quickly.

Three complementary viewpoints may together lead to a pertinent diagnostic: the internal viewpoint, the perspective of the competitive universe, and the external standpoint.

The multitude of subjects and their interpenetration may easily convince a management team that its work program covers an adequate part of the key subjects. But sometimes, the most active or new competitors concentrate sharply on certain efficiency factors and then seem to have a more suitable business model. But you cannot imitate them and maintain the actions in progress at the same time, either from the organizational viewpoint or the financial viewpoint.

The questioning concerns the type but also the extent of reforms such as those concerning reengineering programs, general company organization and the balance between decentralization and common structures, the structure of the activities portfolio. The difficulty of certain reforms, which may be put off for too long, does not mean they are optional. Making the diagnostic objective means taking a close look at justifications such as respecting the company's historic model, adopting the most acceptable compromise, etc. A clear look must be taken of the (negative) impact of actions left aside, and imagine original paths of reform. Management teams are quite often excited by this type of challenge, while they might be thought to be squeamish.

All this aims only to avoid the comfort of soft consensus when the situation deserves more vigor. At the least, it may be useful to formulate the regions of uncertainty in the priorities adopted, and admit that certain fields should be reconsidered, in a year for example.

On the whole, three complementary viewpoints may together lead to a pertinent diagnostic: the internal viewpoint, the perspective of the competitive universe, and the external standpoint, as a new and demanding stockholder would have it.

Maintain or evolve

Another throbbing question in a fast-changing competitive universe is that of the sliding to be done from the historic activity to other segments, other product lines, other technologies. The success achieved for decades, the mastery of process perfected at length, are powerful, at times dissuasive reasons for not going along with new lines of force. It is true that the grass may wrongfully be considered greener on the other side. But it is just as true that historic assets should not become a weight to carry. After all, a great many companies over these last ten years – in telecommunications with the move toward the Internet, but also in more conventional fields like Bic and Zodiac in light industry, Bombardier or Schneider in equipment – have successfully repositioned themselves on new fields, found growth relays, and adapted the company's economic model. Dogged maintenance on segments or countries where the Group created its prosperity may be a source of decline for the future. The arguments brought up deserve to be re-analyzed.

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Threats and opportunities

One common reason for a deformed evaluation of the company's situation stays in under-estimating threats. Recent events have shown how confidence in the safety of business strategy reduces vigilance on the stockholder strategy (Arcelor, Scania and Suez), how investment funds make or prompt unexpected movements, or how the pressure of generic products has weakened the largest pharmaceutical firms.

The strategic spectrum has become broader. The old analysis forms need to be enriched with stockholder, political, social and environmental considerations.

Symmetrically, it quite often happens that visible opportunities that are considered as such are left aside for dubious reasons: poorly known market segments, for example, as if the clock of knowledge could come to a stop.

So, when one of the largest European auto makers endeavors to saturate its plants better than its competitors, successfully outsources part of production to low-cost countries, installs the high-level design function in the structure and gets renewed efficiency of the new products on the bottom of the line, and margins improve year after year, it could be felt that the company is doing what it should. Yet when we judge in the framework of its competitive universe, where Toyota maintains its lead in methods, where the feeble presence both at the top of the line, on the dynamic 4x4 segment, and on the segment of two-door sedans erodes market shares, where the absence of the make in the United States limits the production volumes, we can rightfully take another look at the optimistic diagnostic.

It is a good thing always to strengthen one's historic position, but one cannot under-estimate the mobility of the market segments that permanently remake the geography of clientele demand.

Strengthening the pertinence of the company diagnostic is, before anything else, a question of openness: Compare with the leaders and not with the pack. Project the current dynamic to three years without under-estimating the competitors. It may be unpleasant, but beneficial, to consider the glass as half empty.

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