Alignment: The Killer of Strategic Initiatives

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GSP & Associates
Achieving Growth Sustained Profitability

Why Do Strategic Initiatives Fail?

Do the words of this title strike an uneasy feeling in your being? **Killer**….., **strategic initiatives**…., this is the stuff of executive nightmares and yet the prevalence of failure is all too common. What does alignment have to do with all this? The answer to this question begs another question, what are you aligning with? Let me explain…….

The track record for the successful implementation of major change initiatives has consistently been south of fifty percent. Consider the checkered history of the total quality movement, reengineering, enterprise resource planning (ERP), and customer relationship management (CRM). In addition to sharing similar levels of success, each of these initiatives reference the same critical success factors such as:

- Senior management support
- Linkage to corporate goals
- Stakeholder representation
- Adequate funding
- Change management
- Technology issues

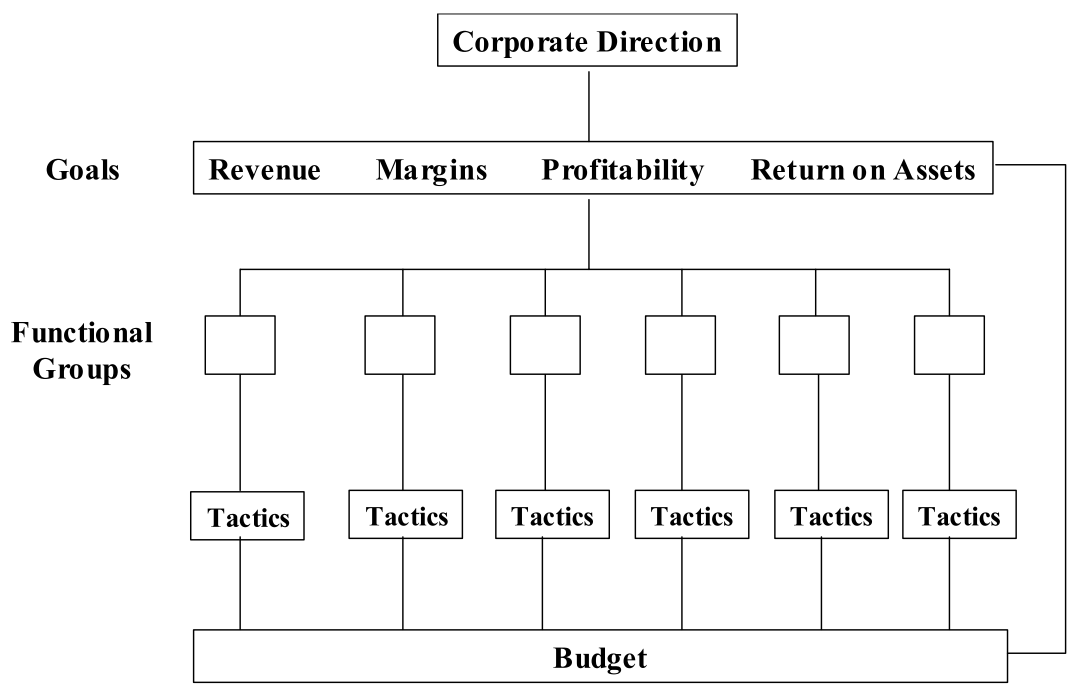
Although it is fair to say that these factors are indeed crucial, it is remarkable that missing from this list is the issue of the proper focus and accountability. If the project fails, is it the project manager who has failed? Perhaps, but in most cases there are other root causes that go beyond the control of any project manager. Many projects start out with great fanfare and then wither or they take on a life of their own and fail to contribute to the health of the organization. Often, the issue can be linked to never establishing a cause-effect relationship between the initiative and the issue(s) it is going to address. A complete lack of consideration of this linkage is what is referred to as a "silver-bullet" approach because there is blind faith that the initiative is going to automatically fix that which is broken. Even when objectives are quantified, a lack of clear linkage leaves the project open to the influence of circumstances that could impact direction, priorities, resources, or funding. Reengineering started out as a mechanism to make organizations more process oriented and agile; but it wound up being a vehicle for reducing costs and generating short term benefits. ERP was going to provide a cohesive infrastructure and tie back end processes together. Indeed, ERP had that capability but at what cost? Many organizations expended massive resources and time only to abandon their efforts.

Consider Total Quality Management as another example. These initiatives start off with the right direction and intent but often wind up in a quagmire where management is wondering about "the return on quality," which is another way of asking are all improvements in quality useful? At what point does quality improvement interfere with profitability? Sounds like an oxymoron, but consider the Baldrige Award which is a national award presented to companies that epitomize the use of quality practices. The award was conceived to encourage improved quality in American made products. This award received unwelcome notoriety when several winners of the award went bankrupt shortly thereafter. Although there are many causes for this situation, a lack of attention to quality was not amongst them. Rather, it is the issue of losing focus on cause and effect and the real objective of the initiative. Quality must be recognized by customer and the customer has to value that quality attribute such that they are willing to make purchase decisions based on it. For example, a company using a component this is ultimately buried in the middle of its product may not care about a surface scratch but may have great concerns regarding the reliability of that component. When the objective of quality is disassociated with profitability and customer behavior, the organization becomes vulnerable to ineffectiveness.

Contributing to the tendency to disconnect cause and effect is the silo structure of most organizations. Functional accountability is often tied to budget and productivity goals. The theory is that optimizing the productivity of the functions maximizes the productivity of the corporation. This **might** be true if demand exceeded supply but in today's market where customers have knowledge and choices, this assumption of cause and effect is a dubious one at best.

Planning In A Functional Structure

The functional mindset really starts with the way most organizations approach strategic or even annual planning. The process usually starts with some statement regarding organizational direction and this is followed by a set of goals that are described in terms of revenue growth, margins, profitability, and return on assets. Each silo creates or links its strategy to the corporate direction then establishes a set of tactics to support that direction. Budgets are created to support the tactics but these typically are "negotiated" until the proper numbers are derived and the organization is set to meet the competition……or are they? This process takes the form of the following graphical flow:



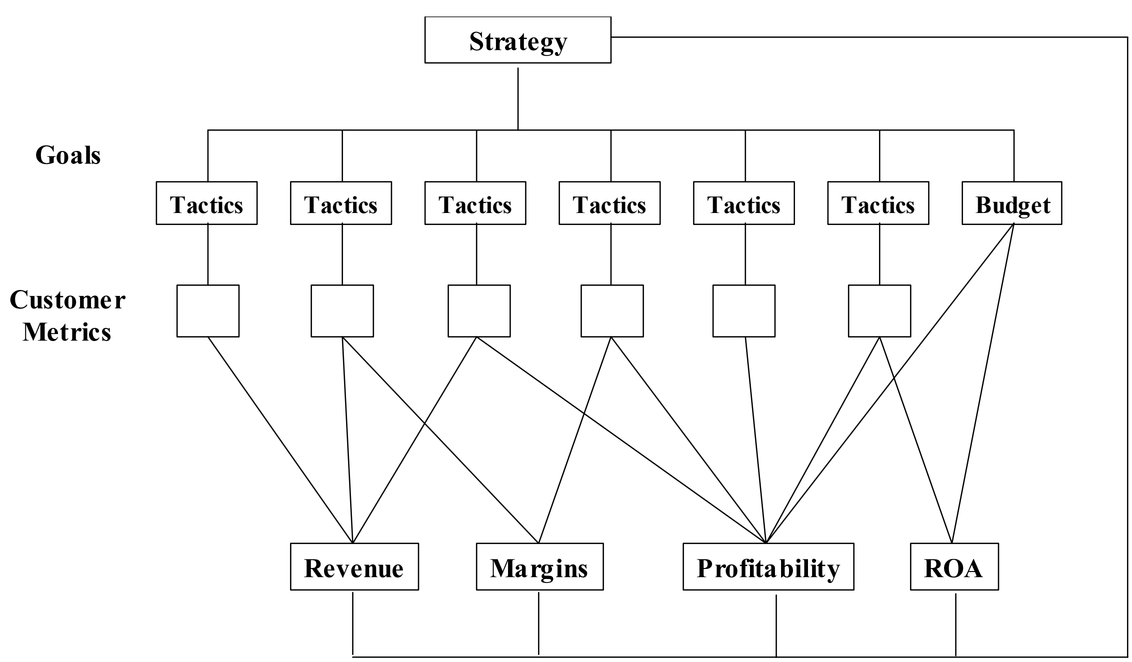
The starting position for this process is based on history. Essentially, one follows a relationship between cost and revenue. Negotiation takes place that essentially pits function versus function related to changes in the status quo. The customer or customer value seldom enters the discussion is a meaningful manner.

To be sure, the marketplace is factored into the plan, but what if the results are significantly better or worse that expected; what do you change? If things are better, what are we doing right? Is it sustainable? If things are worse what needs to be corrected? Lacking effective tools for decision making, the organization often lapses into *management by anecdote*; in this format management is either having a good day or a bad day based on who they talked to last.

Strategic assumptions are intended to embrace and articulate cause and effect relationships. The void in the above process is the lack of metrics that would help the organization to set goals and manage results from a **market** perspective. Though the assumptions may be there, the lack of metrics leaves one in the world without meaningful signposts. If the organization is operating without a specific set of customer centric metrics, then what evidence is there that the assumptions regarding cause and effect are accurate? To demonstrate this point, consider the following set of customer behavior metrics:

- Revenue from new customers
- Cost of acquiring new customers
- Customer satisfaction
- Customer retention
- Share of wallet
- Customer profitability
- Breadth of product/service
- Revenue per customer
- Revenue per order
- Frequency of purchase
- No. of users
- Revenue by segment
- New product penetration

Although this list is by no means exhaustive, it should be apparent that it is unlikely that any change in revenue or margins is going to occur unless there is a corresponding change in one of these metrics. Although it is certainly possible to impact profitabity and return on assets without impacting these metrics, the existence of these metrics should serve as a reminder that internal changes are only valid to the point where they negatively impact customer behavior. Using this concept, the strategy process would take on the following format:

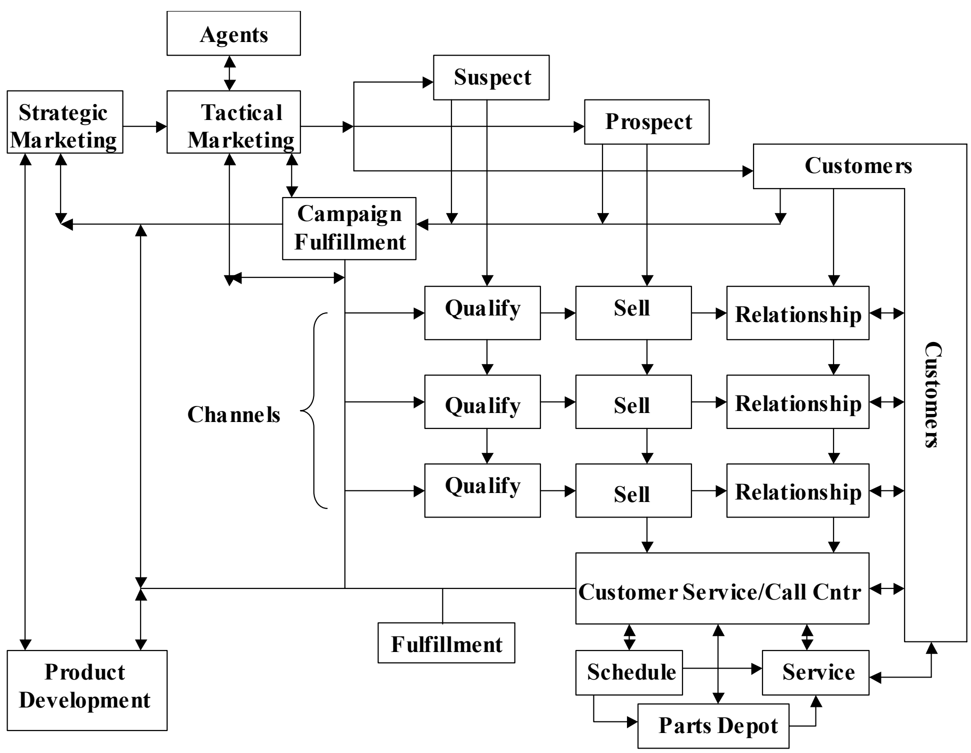


This type of framework forces a new perspective on accountability and customer focus on the process. Financial impact is clearly tied to a result associated with the changing of customer behavior as evidenced by the one or more of the customer metrics. Financial results and decision making can be elevated using this approach. Let's say that the marketing indicated that they were going to improve the quality of leads. This would imply that revenue from new customers and the number of new customers should increase. If this does happen, then it should be possible to associate how much growth is coming from this source and factor this into projections for revenue growth. This benefit however only occurs if the sales function diligently reports the disposition of all leads (how does this impact their productivity?).

Although the linkage of tactics, customer metrics, and the financial drivers establishes a more realistic cause and effect relationship, it does not necessarily drive behavior. Note that based on the first diagram, tactics were driven at the functional level and are subject to performance measures that are operational at this level. Recognizing that the customer metrics drive the financial metrics, alignment logically should be linked to the customer metrics. How does an organization reconcile this issue short of restructuring?

The Go To Market Process As An Organizational Rallying Point

One approach for dealing with this dilemma is to realize that the customer metrics are basically driven by your ***Go To Market*** process as described below:



The Go To Market process embraces the following:

- Marketing
- External agents that marketing uses to create copy etc.
- Fulfillment mechanisms associated with marketing campaigns
- All channels including the web site

- Customer service
- Field service, if applicable
- Order fulfillment
- Product development as a resource to customer and field service

Achievement of customer metric goals is obviously linked directly to the performance of this process. Further, if customer behavior is based on the satisfaction of their value needs, then the ability of the Go To Market process to address these needs will largely drive performance. In today's market where growth is key to achieving shareholder wealth, one cannot cost reduce themself to long-term profitability.

All functions that have a direct customer interface must tie their performance directly to customer metrics. Support functions likewise must tie their performance to the service they provide to the functions that are a part of the Go To Market Process. The message here is that most functions impact the Go To Market Process either directly or indirectly. Interfaces between customers and the organization occur through processes that cross functional lines; therefore the alignment of effort across the organization is key to creating customer value in a profitable manner.

Creating Customer Alignment

As has been established, the alignment of functional effort has historically been linked directly to financial results. The underlying assumption is that maximizing the productivity of the functions maximizes the performance of the organization (see below):

Functional Performance → Financial Metrics

This approach ignores the interdependencies as identified in the Go To Market Process. The customer is touched by many processes that cross the organization horizontally; therefore, these hand-offs and coordinated effort will be reflected in the character of the customer experience. Even in a well run organizations, hand-offs can has a *throw it over the transom* character, so the answer to this issue must be tied to creating performance metrics that reflect the impact of the total effort.

A reasonable response to this challenge would be to say, "we have customer satisfaction metrics as our guide." In theory, this is a valid challenge; however, one must ask the following questions:

1. Who owns the results of customer satisfaction?
2. Are the customer satisfaction statistics gathered throughout the year so that one can measure trends and manage toward results?
3. Are customer satisfaction results correlated with actual customer behavior? For example do improvements in customer satisfaction result in changes in buying behavior?
4. Are customer satisfaction metrics used in decision making? Are they actionable?

For most organizations, the answer to these questions would be no. Under these conditions, customer satisfaction is like a security blanket that makes the organization feel good but offers little real assurance.

A customer focused approach to the alignment issue is as follows:

Functional Performance → Processes → Customer Behavior → Financial Metrics

This concept is deceptively simple yet profound in its impact on the mindset of the organization. It places processes at the center of performance and therefore functions are evaluated (aligned) on the basis of how well they manage the performance of the process. To achieve this orientation, a senior executive must be responsible for the performance of each major process and the organization must create and act upon key customer behavior metrics. This mechanism forces a focus on processes and seeks cause and effect relationships with customer behavior. This is quite different from reengineering in that the focus of reengineering was on cost and cycle time reduction. The benefits of reengineering led to short term benefits of improved profitability but did not lead to competitive advantage.

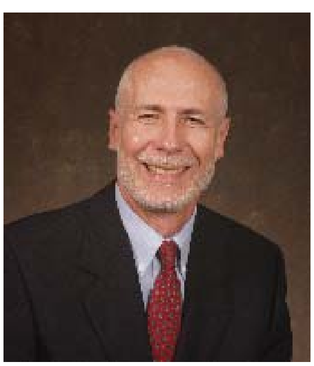
Summary

Functional alignment, by its very nature, seeks to maintain the status quo because change is disruptive. In today's fast moving markets, can an organization afford to operate by looking through the rear view mirror of past performance? It is likely that the functional structure will continue on into the foreseeable future. Team structures have had success, but issues of scale create limits on its applicability at present. An interim solution is to keep the functional structure but change the performance metrics to focus on process improvement in the context of customer behavior and profitability. This will create a true market focus that will drive the organization toward flexibility and agility.

About GSP & Associates

GSP & Associates, Inc. is a consultancy that is dedicated to helping user organizations to leverage their investment in CRM related tools. The company provides expertise in the strategic and operational application of CRM tools, sales tools, sales process modeling, and business case development and ROI analysis.

About The Author



Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations. As a visionary and early adopter of Sales Force Automation (SFA), in 1986 Mr. Petersen led one of the first successful national implementations of SFA in the United States. Realizing the tremendous future of this new technology, Mr. Petersen joined a SFA software start-up company in 1988 and had the pleasure of working with many of the pioneering organizations that deployed sales force automation at a time when most organizations were unaware of its existence. In 1991, Mr. Petersen left the vendor community to do consulting. This experience combined with his background in operational and strategic planning places Mr. Petersen in a unique position to advise and assist clients in this challenging area of change management and technology integration. During this period, Mr. Petersen has developed a number of proprietary facilitation techniques, which help organizations to better understand the potential of these technologies, and how to rally the organization around a single threaded, phased implementation approach. Prior to founding GSP & Associates, Mr. Petersen was Senior Vice President at ONE, Inc. and Ameridata, a $1.3B provider of hardware, software, and services. In these positions, Mr. Petersen sold and directed operational strategy engagements and helped major corporations articulate and justify their CRM and e-Business initiatives.

Mr. Petersen is the author of six books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *CRMS: ROI & Results Measurement*
- *CRM Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- *Making CRM An Operational Reality*

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