EPILOGUE

JIM CHAMPY

OUTSMART!

HOW TO DO WHAT YOUR COMPETITORS CAN'T

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Jim Champy is one of the leading management and business thinkers of our time. His first best seller, *Reengineering the Corporation*, remains the bible for executing process change. His second book, *Reengineering Management*, another best seller, was recognized by *BusinessWeek* as one of the most important books of its time. Champy is also an experienced manager and advisor. He is currently the Chairman of Consulting for Perot Systems. He speaks and writes with the authority of real business experience and brings pragmatism to the world of business.

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In *Outsmart!*, the legendary Jim Champy (*Reengineering the Corporation*) shows how you can achieve breakthrough growth by consistently outsmarting your competition. Champy reveals surprising, counterintuitive lessons learned by companies that have achieved super-high growth for at least three straight years. Drawing on the strategies of today's "high velocity" companies, he identifies powerful new ways to compete in even the toughest marketplace. Perhaps it will be helpful to you in your quest to outsmart your competition.

AS I WARNED IN CHAPTER 1, “IT’S A SMART, SMART, SMART, SMART WORLD,” THE ACTIONS OF THE COMPANIES PROFILED IN THIS BOOK DON’T LEND THEMSELVES TO ANY HARD-AND-FAST FORMULAS YOU CAN FOLLOW TO GUARANTEED SUCCESS. BUT THERE ARE CERTAINLY DIFFERENCES BETWEEN THE SMARTEST COMPANIES AND THE “INCUMBENTS” THAT OPERATE IN TRADITIONAL WAYS.

And those differences suggest some general lessons that smart leaders in every line of business can apply. Here are a few of them:

- *Ambition matters.* Companies that outsmart the competition look for dramatic growth, while incumbent businesses are content with incremental growth. And as with a winning baseball team, you can achieve dramatic growth by knocking the ball out of the park or by pecking away with a string of singles that drive runs in. The companies in this book look for both home runs and a constant string of base hits.

COMPANIES THAT OUTSMART THE COMPETITION LOOK FOR DRAMATIC GROWTH, WHILE INCUMBENT BUSINESSES ARE CONTENT WITH INCREMENTAL GROWTH.

A small-to-medium company with a great strategy and good execution skills can double or even triple in size every two to three years. That kind of growth would be difficult, if not impossible, for a big business simply because of scale. There's no denying that scale can be a real drag on percentage growth, but sometimes it becomes an excuse for not growing.

That said, there's more to growth than outsize percentage gains. Growth is about ambition. Smart large corporations like Procter & Gamble, for example, also outgrow their rivals, and all companies—both large and small—that outsmart their competitors exude excitement and a sense of purpose that feeds their appetite for growth and further reinforces their ambition.

Growth is about ambition.

The problem with incumbent companies is that their more precise, formal, risk-averse management styles can suck the oxygen and excitement out of the air employees breathe. They smother ambition rather than fuel it. At large incumbents, new products or services might initially have a small impact on the existing business, so they attract little attention, are starved for resources, or are rigidly controlled. Consequently, the proponents of new ideas lose their ambitious outlook. Ideas die.

- *Intuition reigns.* Companies that outsmart the competition make strategic choices based largely on intuition, whereas incumbent businesses often get bogged down in research and analysis.

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Incumbent organizations spend inordinate amounts of time looking at market data and the performance of competitors. Planning takes on a life of its own, management gets professionalized, and decisions get compromised by committees sure to include skeptical viewpoints. Intuition is frowned upon, and the courage of leadership is drowned in the soothing waters of safe harbor analysis. It becomes easier to decide to do nothing, to stagnate.

As noted in Chapter 1, the companies in this book follow Peter Drucker's strategic advice to figure out where you are today, where you want to be in the future, and how to get there. But they don't spend a lot of time analyzing the impact of their actions. They are guided by the intuition of their founders and leaders, most of whom have either substantial industry expertise or the right sensibilities and skills for the job ahead.

These companies continuously test ideas in the market and are adept at using the Internet to gauge customer response. For smart companies, the Internet is a boon that allows them to quickly and directly canvass customers to see what they think. In large incumbent companies, though, the sales force, the marketing department, and other structures can get in the way and prevent leaders from knowing what customers really think. And once fantasy replaces reality, even good intuition is useless.

- *Focus prevails.* Businesses that outsmart their competitors stay focused on what they do best, while incumbent companies are often searching for new ideas and end up losing their sense of purpose in the process.

BUSINESSES THAT OUTSMART THEIR COMPETITORS STAY FOCUSED ON WHAT THEY DO BEST, WHILE INCUMBENT COMPANIES ARE OFTEN SEARCHING FOR NEW IDEAS AND END UP LOSING THEIR SENSE OF PURPOSE IN THE PROCESS.

As smart companies grow, they have to find new ideas for products and services to feed growth just as incumbent companies do. But companies that outsmart the competition stay focused on the customers and markets they know. They build on their knowledge, testing variations and enhancements to existing products or services. Even if they have thousands of product offerings, they typically remain focused on a well-defined customer need.

That's not so with incumbent companies. Having lost touch with their original purpose, these businesses might be so desperate for growth that they will foolishly move to markets they don't really understand. Very successful incumbents might also become arrogant and, believing they can do anything, plunge into ventures they are neither suited for nor capable of carrying off. They soon lose their way.

- *Customers rule.* Companies that outsmart competitors focus on how they can better serve customers; incumbent companies focus on their competitors.

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I have been struck by just how attuned to customer needs these fast-growing businesses seem to be. Often they are built on a simple idea, perhaps to solve a problem shared by friends. Yet they never lose their connection to their customers. Their new products and services grow out of a continuing, almost fanatical focus on solving a customer problem. They are looking straight ahead at the customer and do not allow themselves to be led astray by peripheral market noise.

Incumbents, on the other hand, often become distracted in their search for growth opportunities by what competitors are doing. In working with such organizations, I have seen too many strategy documents that focus on the analysis of competitors rather than on the needs of customers. Maybe it's because incumbents fear their competitors or think their rivals have discovered a better way forward. What they don't understand is that meaningful strategic differentiation depends not on competitors, but on the needs of a company's customers.

- *Calm enables.* Companies that outsmart the competition accept risk as a normal part of doing business. For incumbents, risk drives decisions and hampers progress.

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Leaders of high-growth businesses might be facing life-and-death situations every day, but they don't even think about it. Their passion overrides their fear. Just the opposite is true at risk-wary incumbents, where leaders allow fear to override their passion.

In every one of my interviews with the executives featured in this book, I asked what mistakes they had made in growing their companies. With rare exception, they appeared flummoxed by the question or said they had never focused on their mistakes. All told me that they were always learning and saw mistakes as a natural process in the development of their companies. For them, accepting risk is the normal way to do business, and they don't fear making mistakes. Rather, they think about how to recover and learn from mistakes when they happen.

Incumbents, by contrast, are always aware of potential risk. If they are publicly held, they worry that their shareholders won't easily forgive their mistakes. And that worry might not be misplaced, even though risk-taking often proves to be in shareholders' best interest. I believe the shortsightedness of shareholders prevents many incumbent companies from doing what they need to do to grow. That's why so many publicly held companies are looking at going private, so that they can take necessary risks out of the public's sight.

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- *Innovation lives.* Companies that outsmart their competitors have a culture that values and freely promotes innovation. Incumbents subject innovation to a cumbersome process.

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In all the interviews for this book, no one used the word *innovation,* but everyone was searching for new ideas and getting the good ones into the market as soon as possible. Some of the smartest companies I know do have processes in place to vet new ideas, but they are highly supportive—acknowledging and thanking people for their creativity, even if the ideas are impractical. In fact, innovation is a cultural marker of the companies in this book.

Incumbents, however, throw up roadblocks to creativity by overintellectualizing and overdesigning innovation processes. Desperate to find the key to growth, they establish processes to search for new ideas inside and outside their companies. But unless they allow for true freedom of action, they can end up stymieing people with an innovative bent. I am not necessarily critical of innovation processes; they can yield good ideas. But innovation must be deeply embedded in a company's culture and encouraged at every turn. Otherwise, even good ideas will die. People commit themselves to innovation only when the actions of a company consistently acknowledge its importance.

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- *Culture drives.* Companies that outsmart their competitors depend on culture to manage behavior. Incumbents use rules and controls.

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In my conversations with people at the companies featured in this book, I noticed that everyone seems to know just what to do at key moments—a customer emergency, a transgression by an employee, or some other breakdown. Shared values and beliefs drive and control behavior. Sometimes these bedrock values are made explicit; sometimes they are undeclared and simply appear in time of need. In either case, they lead people to the right solution.

In incumbent businesses, especially big ones, rules and controls often dominate, and they sometimes seem to insult the intelligence and integrity of the organization's employees. The prevailing assumption is that, when given the chance, people will do the wrong thing—exactly the opposite view of companies in this book.

- *Everyone plays.* Companies that outsmart the competition engage all their people in constructing and executing strategy, whereas, at incumbent organizations, strategy is often an abstraction for most people.

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So often in incumbent companies, employees don't understand the corporate strategy. It's dictated from the top. The people who are excluded are left to wonder what this year's big idea will be and how it will affect them. So rather than pitch in to help shape the company's direction and performance, they grow passive and listless. Strategy becomes an abstraction—something to be feared, not embraced.

In talking with people at every level of the smartest companies I know, it's clear that they all believe they own a piece of the solution. Because these companies look for

⌕ **Jim Champy**

With a nod to Nike, whose slogan put it best, my advice is: Just do it. Good ideas are rare and precious.

distinctiveness in almost everything they do, opportunities abound for everyone to get involved, whether it be contributing ideas or executing them. The inclusiveness also nurtures a company's growth because everyone sees himself or herself as a partner in setting strategy, not a minion being imposed upon from on high.

The question all these comparisons raise is whether incumbent businesses can adapt and learn to behave as smart companies do. The answer is yes. Witness the amazing example of Smith & Wesson, described in Chapter 4, "Compete by Using All You Know: Basics Are Blazing at Smith & Wesson." Remember, though, that change begins with identifying where you want be in the future and changing your behavior accordingly.

Author Photo: Rodney Smith

And on another note, when you look at your own organization, you might well find other lessons from some of the companies portrayed in this book. They have a great deal to teach all of us, and I don't pretend to have mined every ounce of their collective wisdom.

I want to leave you with one final precept that every leader of these smart companies would endorse. With a nod to Nike, whose slogan put it best, my advice is: Just do it. Good ideas are rare and precious. When one turns up, grab it and go with it. Make sure it's really in your line of business and meets your customers' needs, but don't dwell too long on what could go wrong. Just do it. If it turns out to be a mistake, learn from it and do something else. The point is to always be inclined to action.

Now go out there and outsmart your competitors.

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