

E-CHAPTER 1

How the "How" Trap Is Trapping You

RIC MERRIFIELD

A BUSINESS
MANIFESTO FOR CUTTING
COSTS AND BOOSTING
INNOVATION

what do you need to do today?

(Chapter 1—Rethink)

How the “How” Trap Is Trapping You

Ric Merrifield

Ric Merrifield spent nearly 15 years in various consulting roles helping organizations define and achieve their goals. Since joining Microsoft, Merrifield has spent more than 10,000 hours as a business architect and has filed twelve patent applications all with the goal of helping companies rethink their operating models and get out of the “how” trap described in the pages of this book.

Merrifield recently coauthored “The Next Revolution in Productivity,” a June 2008 *Harvard Business Review* article focused on case studies that highlight needs of the organization and the opportunity to rethink business operating models before making major technology changes. Merrifield is an alumnus of Lakeside School in Seattle and Georgetown University in Washington, D.C.

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Before you can begin to *rethink*, you need to understand what has made this so difficult to do until now. This chapter explains the “how” trap that affects us all, with clear and simple examples, preparing you to rethink.

THE HOME-IMPROVEMENT colossus had been the fastest-growing retailer in U.S. history, its revenues doubling every two or three years for more than a decade. But by 2000, Home Depot was showing signs of wear. So the board of directors filled the top job with a high-powered fixer-upper, Robert L. Nardelli, who had proven his mettle as a senior executive at General Electric.

The new chairman and CEO thought he knew just what Home Depot needed, a jolt of new-found efficiency. He simplified processes, slashed costs, and invested \$1 billion in new technology while doubling the number of stores. He promised investors that the company would reach new heights of sales and profitability, and he delivered: Between 2000 and his departure in 2006, annual revenues soared from \$45 billion to nearly \$80 billion, and profits doubled. But amid that success, Nardelli also came close to destroying the single, most-important advantage the company possessed.

Since its founding in 1978, Home Depot had triumphed over its competitors because of the friendly, helpful environment in its stores. Salespeople, backed by innovative, hands-off managers, eagerly answered customers' questions and shared their home-improvement knowledge and experience. As a result, weekend novices learned a new vocabulary (a Phillips screwdriver, for example, is not a cocktail) and became skilled do-it-yourselfers and steadfast Home Depot customers.

In pursuit of savings, Nardelli slashed employees' hours to the point that many seasoned people quit; they were replaced by less-knowledgeable and less-committed part-timers. He also stripped store managers of their traditional autonomy. Before long, Home Depot had devolved into a generic big-box outlet run by nervous functionaries micromanaging unhelpful, uninterested salespeople. Meanwhile, Home Depot's chief rival, Lowe's, was staffing its stores with just the kind of outgoing, caring men and women who had originally given Home Depot its edge.

In 2001, Home Depot and Lowe's held identical rankings among specialty retailers on the University of Michigan's American Customer Satisfaction Index (ACSI). By 2005, Lowe's was second only to Costco, and Home Depot was at the bottom of the list. Although revenues increased during Nardelli's reign (largely because of store expansion), customer satisfaction took a nosedive. From 2000 to 2006, Home Depot's ACSI score was a mere 1.7 out of a possible 100. Meanwhile, Lowe's same-store sales growth averaged nearly three times that of Home Depot, and investors paid heed: Home Depot's stock price was flat between 2000 and 2007, while Lowe's shares jumped more than 200 percent.

In January 2007, the board of directors handed Nardelli his walking papers. By conventional standards, he had done everything right—cutting costs,

improving processes, and increasing efficiency and productivity. His mistake? Falling victim to the “how” trap. Nardelli had focused almost entirely on improving the efficiency (read: cost) of the work being done rather than on the purpose of that work. In other words, he trained his sights on the “how” of any given activity rather than on the “what,” the outcome it sought to achieve. In Home Depot’s case, the crucial “what” was helping customers to find the right product, that being the capability that drove sales.

Nardelli’s error is all too common. Leaders tend to devote their energies to thinking about the details, thereby missing the big picture. We invest our time in improving job efficiency without stopping to rethink the value of the job itself. And that means we fail to ask, and answer, some essential questions: How important is a particular activity to the company’s goals? How well is it performing in that context? Should it be given greater attention and resources? Should it be automated? Outsourced? Or completely eliminated because its work is being duplicated elsewhere in the organization?

Our mistakes accumulate—and not without good reason. For one thing, we spend our days in the office coping with immediate concerns. In today’s perilous economic environment, there’s precious little time for anything else. Moreover, management theory in recent years has pointed us toward a focus on

process, on how efficiently a job is done as opposed to what the job is supposed to accomplish.

Yet most of us haven't rethought which of our activities are most important to our companies, which are succeeding, which are borderline or even redundant. Indeed, until now, there has been no way to accurately and efficiently rethink and measure all these “whats” because we have been caught in the “how” trap, a pervasive and perverse human condition that allows us to sidestep blame for failing to reach our organization's potential.

Consider this mundane but illuminating example: Back in the summer of 2008, with the price of gasoline soaring to obscene heights, a friend of mine had a kind of epiphany. Once each day, she drove to her favorite park to walk her golden retriever. She never really thought about the route she was taking; it was just how she got to the park. Then one August day, after an eye-popping visit to a gas station, she decided it was time to cut back on her driving. It had become just too expensive.

The daily trip to the park was her first target. She spent an hour or two poring over a map looking for a better route, and, eventually, she found one. It was shorter, skirted traffic, and was burdened by only a few lights. My friend tried the new route over the next week, and it did save her a few minutes of driving and a few cents worth of gasoline. Nevertheless, she was disappointed with the results.

Then she had a brainstorm. Instead of struggling to improve the “how” of getting to her favorite park, she drastically rethought the situation at hand—the “what” that she hoped to accomplish. She spread out her map and began looking for other suitable parks much closer to her house. Sure enough, she found one. Her new destination wasn’t as big or as woodsy as her favorite, but the dog was happy—and over a week’s time, she could calculate her fuel savings in dollars.

A particularly memorable example of someone putting on his rethinking cap to escape the “how” trap was Oregon high-jumper Dick Fosbury. Until Fosbury came along, athletes attempted to clear the high bar by running face forward toward it and using an open scissor-style jumping motion, a technique not unlike the way hurdlers run and jump over their barriers. Faced with the “what” of **Jump-Over-the-Bar** and needing to achieve the best possible height to win, Fosbury introduced a method that was almost the opposite of the then-standard technique: He would run toward the bar at great speed and then, just prior to jumping, he would twist his body to put his back to the bar so he could “flop” over head first. By rethinking his approach, Fosbury won a gold medal in the 1968 Summer Olympics in Mexico City, setting a new standard “how” for accomplishing the “what” of **Jump-Over-the-Bar**.

My work has shown that our world is a treasure trove of Fosbury Flops waiting to be discovered, and the only thing holding people back is the rethinking required to get out of the “how” trap.

Business leaders’ final destinations may differ, but all face similar problems on the road to finding a better way of accomplishing a task. And if they seek advice from the people who actually do the work of their companies, the answers will tend to be more confusing than helpful. That’s because employees and managers typically respond as my dog-walking friend did at first; they think of their jobs in terms of how they do them rather than what they are intended to accomplish. So they may recount the work-flow process steps and any technology used, relying on descriptions that are chock full of company-specific terminology and that vary according to the person being asked. Ask five different people, and you’ll get five different explanations—all accurate in their way but a product of the subjective, limited views of each spokesperson.

Where, then, do managers or leaders turn if they want to intelligently and efficiently boost productivity? They have a raft of subjective perspectives about the work but lack the clear and stable view of their organizations that they need to accurately assess the cost, value, risk, or impact of acting (or not acting) on a problem or opportunity. And with multiple perspectives to sort through, they

inevitably find themselves stuck in a long, arduous, and argumentative process before they can arrive at organizational consensus on priorities and actions that might or might not be the best answer.

The approach presented in these pages enables business leaders to rethink—rise above that clutter of “hows” and consider the “whats,” the desired outcomes of an organization’s thousands of activities. The key is to just stop wasting time and effort thinking about the “hows.” After all, as we know, they are subjective, unreliable, and diversionary—they blind you to big-picture realities. And when you ditch the “hows” to concentrate on the “whats,” you are rethinking, and rethinking is what can allow you to reach precise, reasoned decisions about the resources you should invest in any given aspect of your operations.

Some people believe that the practice of business is a blend of art and science, and that any attempt to deconstruct a company into its elemental constituents is misguided if not impossible. My research has led me to a different conclusion: The activities of every business can and should be reduced to a fundamental, objective view of the totality of the work the company does. And in my research, I have identified the “whats” that comprise 80 percent of every company’s outcomes, no matter the industry.

When you rethink—forgetting about the “hows” to concentrate on the “whats”—you are creating an

easily understood table of your company’s essential components. And when you see them laid out in their logical sequence, you can determine the organizational value of each “what.”

The process and its outcome reminds me of a problem I run into when I go trout fishing under a bright, azure sky. The sun’s reflections make it almost impossible to see the fish swimming below the surface. When I put on polarized sunglasses, though, I can look deeper into the water, spotting what I hope to catch.

Just so, your rethought list of “whats” opens your eyes to the deep-down workings of your company presented in orderly fashion. It makes you indifferent to how these elements have been traditionally arranged within the organization, freeing you to concentrate on what really matters—outcomes. After your “whats” have been defined, you can step back and determine whether and to what degree each of them contributes to your enterprise’s success. Then, depending upon your findings, you can eliminate some, outsource others, and reorder the ones that remain, just like those plug-and-play monitors and printers that arrive ready to use. You have escaped from the “how” trap. That’s the beauty of rethinking.

Consider what happens when an insurance agent phones headquarters to assess a new customer’s

policy application and get a premium quote. A manager at the home office, using some sort of actuarial algorithm in a spreadsheet, comes up with a quote and sends it to the agent via e-mail. Ask that insurance agent “what” he does, and chances are he’ll say he makes a phone call, waits, and receives an e-mail. He’s caught in the “how” trap. But if that agent were to rethink and focus on his “whats,” he’d see that the transaction in question breaks down into these desired outcomes:

- **Request-Customer-Premium**
- **Calculate-Customer-Premium**
- **Prepare-Customer-Quote**
- **Customer-Quote-Communication**

If the insurance firm’s rivals are stealing market share, and if its managers cannot rethink what they do—that is, if they are caught in the “how” trap—they typically search for an explanation and a solution in such minutiae as the length of time an agent spends calling the home office or the efficiency of the company’s e-mail system. Their tunnel vision can lead their organization to undertake expensive, disruptive process “improvements”—changing telephone providers, let’s say, or implementing new e-mail systems—that might or might not succeed.

If, however, the company’s leaders can rethink and examine the “whats,” they can have the advantage

of seeing the operation in its entirety, thus illuminating a pathway for getting to the root issues. They might ask: Should the agent be empowered to come up with the premium quote himself? Or should the task be turned over to a vendor?

Here's another example that points up the value of rethinking. Remember what it used to be like to check in for a flight? You had to wait in long lines, inching your way toward a counter where a harried airline employee presided. He was responsible for a host of steps; among them

- Examining identifications
- Checking reservations
- Processing payments
- Assigning seats
- Issuing boarding passes
- Issuing luggage tickets

That process might still be the norm today if someone hadn't rethought check-in procedures. That sainted someone realized that flight check-in consists of just four distinct desired outcomes:

- A completed security check
- A confirmed reservation

- An issued boarding pass
- A completed luggage check-in

When the desired outcomes were understood, there was the realization that even though there was still a need for the original “how” (gate agent) because of some of the “what” exceptions, when it comes to the core “whats” it really doesn’t matter

- Who does the work (passenger, even)
- How many steps there are (about four in the case of the airport kiosk and roughly the same on the Web, but more when talking to the airline employee)
- What technology is used (Internet, kiosk, whatever is used by the airline employee)
- Even where it happens (hotel, airport kiosk, home, and so on)

Each of those is a “how” and checking in at the airport is a good example of how the airline industry got out of a “how” trap.

Technology has given business leaders new abilities and options, and it is at the heart of the approach set forth in this book. Rethinking and focusing on “whats” allows you to choose the most cost-effective ways to achieve core goals and increase efficiency and productivity, free of the “how” trap.

THE CASES OF THE ZIP CODE BANDIT AND THE LAGGARD LAPTOP

Not long ago, the chief information officer of a large, well-known manufacturing company asked my colleagues and me to help him with a problem. Having gone through scores of mergers and acquisitions, his company had piled redundancy upon redundancy over the years until some operations were nearly sclerotic—and this despite having been reengineered. Eager to save money, the CIO wanted to rethink his organization, so we started with the data system that enabled the company to verify its customers’ shipping and billing addresses using their ZIP Codes. He said he knew for a fact that two separate parts of the company were each paying the same supplier for the same ZIP Code information. Fired up by the prospect of saving \$2.5 million, he was eager to unplug the redundant ZIP Code data.

At our suggestion, the CIO sent out a mass e-mail to every corner of his company to see if there might be any other redundant ZIP Code purchases. Sure enough, one turned up, and the annual charge for the same data was almost identical to the other two. Quite a coincidence, we thought, if not suspiciously odd. So we asked to see the invoices. Guess what? The same provider had sold the same data to our client three times.

Now we were really curious, so we asked the CIO to find out how many of the company's various controllers had remitted payments to this particular provider of ZIP Code data. The answer that came back was 12.

The annual cost for each of these ranged from \$1.8 million to more than \$3 million—for the exact same data. By this time, of course, the CIO was furious with this unscrupulous supplier, but, as happens with many large organizations where “what” elements go undefined and their intersections remain unrecognized, our client had made it all too easy for his company to be taken advantage of. Minor variations in usage across different divisions were used to justify some of the purchases, creating classic “how” traps that often mask opportunities to leverage a best practice or consolidate people, process, and technology “hows.”

It took us nearly four months to eliminate the 11 redundant systems and get a new one up and running that met our specifications. When we were finished, the CIO found himself with an extra \$40 million, more than 15 times the savings he had initially been hoping for. It worked out to an average \$2.7 million for each redundant system, plus the capital expenditures for the no-longer-needed supporting hardware, and an estimated savings of \$100,000 a year for each of 63 technology staffers who could be otherwise deployed.

In another example, Toshiba’s customers were boiling about the pace of laptop repairs. It typically took two weeks from the time a customer dropped off a machine until it came back. By rethinking and focusing on the “whats,” the company discovered that the actual repair time averaged less than an hour; most of the remaining time was eaten up in transporting the computer from the store to the technician and back to the store. When Toshiba deconstructed the problem, which turned out to be external and logistical rather than internal and knowledge-based, it eliminated the **Repair-Product** “what” and turned it over to the logistics unit, because the majority of the “whats” were related to logistics anyway. Among those “whats” were the following:

- **Collect-Product**
- **Transport-Product-to-Warehouse**
- **Deliver-Parts-to-Warehouse**
- **Return-Product-to-Customer**

The result? Laptop repair time was shortened to a few days and customer satisfaction improved.

IF NOT NOW, WHEN?

Never has there been a more important time to continually improve your company’s efficiency and

productivity. The current economic downturn has forced us all to be more conscious of the need to husband our resources and leverage to our greatest advantage those in which we invest. For companies to survive in this harrowing new environment, they must, as noted earlier, be constantly improving their efficiency and productivity. And for that to happen, they are going to have to avoid the “how” trap, rethink and focus on their “whats,” and become a collection of plug-and-play operations. This book is a primer on that new and necessary strategy. Chapters 3 through 7, in particular, guide you in rethinking and managing your organization’s “whats” and reaching informed decisions about which of them should be enhanced and which should be eliminated.

- Chapter 2, “The Thinking Behind Rethinking”: The groundbreaking operational improvements of the last century have been driven by advances in process management and technology—and by historic changes in the unit of analysis. These changes, as this chapter describes, have paved the way for a revolutionary new operations design technique.
- Chapter 3, “First—Identify the ‘Whats’ That Are Truly Valuable”: Step one in rethinking is to identify and analyze

them to determine what contribution each makes to your company’s progress. The greatest value often comes from an unexpected quarter, and this chapter shows you how to spot it.

- Chapter 4, “Second—Know What You Are (and Aren’t) Good At”: After you identify your most valuable “whats,” you must determine how well they perform. Some useful and easily applied approaches to measuring performance are presented and amplified in this chapter, using company examples that include Target, Hon Hai, and Burgerville. I also get an assist from Michael Jordan.
- Chapter 5, “Third—Make (and Break) Connections”: After you identify the “whats” that generate value and how they perform, you need to pause. Before you can start rethinking and making changes to your “whats,” you need to understand how the “whats” relate to one another. Otherwise, you might jettison a nonperformer only to set off a destructive chain reaction among its high-performing but dependent neighbors. This chapter shows you how to make those decisions.

- Chapter 6, “Fourth—Understand What Can (and Can’t) Be Predicted”: When you identify the “whats” that create value, and determine their performance and interconnections, you need to figure out how your company and its customers, suppliers, and partners are likely to react to the plug-and-play changes you have in mind. This chapter gives you practical advice on mapping this territory.
- Chapter 7, “Fifth—Unravel (and Follow) The Rules”: You have reached the final level of decision making before you can begin plugging and playing. In this chapter, you learn how to align your key “whats” with the complex maze of federal, state, and even foreign regulations.
- In Chapters 8, “Revolutionary Rethinking at ING DIRECT,” 9, “Rethinking at Eclipse,” and 10, “Rethinking at Cranium,” I paint three full-scale portraits of plug-and-play management: ING DIRECT, Eclipse, and Cranium. Particularly in the current economic climate, the stories of ING DIRECT and Eclipse are vivid illustrations of organizations breaking free of traditional “how” traps and

successfully cutting costs, while, at the same time, introducing breakthrough innovations.

- Chapter 11, “Morph Again and Again”: Winning companies, this chapter argues, know how to rethink and reconfigure their “whats” to adapt to the unending changes of the marketplace. My exemplars are Amazon.com and Proctor & Gamble, two organizations that have plugged and played their way out of “how” traps through one dramatic change after another.
- Key Concepts: I’ve included this section as a useful quick reference to the basic ideas in this book to help you in your rethinking journey.

In the chapters ahead, you find familiar problems and unfamiliar, impressively successful solutions. They reflect a powerful new approach to the management of your enterprise—a way you can escape the “how” trap. The chapters are, in effect, a guide to an important, field-tested technique for achieving major improvements in your company’s efficiency and productivity. I think you will agree that my method is tailor-made for this age of escalating competition and extreme economic uncertainty.

OTHER *RETHINK* ELECTRONIC CHAPTERS AVAILABLE

If you enjoyed this chapter, check out the other chapters available:

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