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MANAGING FOR EXCELLENCE

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MS. NANCY K. AUSTIN: This may be one of the first chances I've had in the last couple of years to not be addressing a group of either start-up entrepreneurs or a group of operating officers from Fortune 500 companies. I have changed my remarks a little bit so that they might address more directly the kind of world you all live in each day in your employers' offices.

I want to give you a few highlights of what we discovered both before and after *A Passion for Excellence* was published last year. At that time people had begun to think in terms of rejuvenating, reorganizing, and finding new ways of managing. In some cases it was with old companies. In a lot of cases new companies were starting up. Some of these companies excelled where others failed, and some of the reasons were astonishing given that for many there were no protected markets, no captive customers, no proprietary technology, and no unique products. Now, that's four strikes against many of these companies. Yet, in spite of it all, they succeeded, and there are some very good reasons, I think, why they succeeded. I want to run through some of the reasons as well as introduce you to some of the companies that you probably don't run into every day.

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The most visited retail store in the world, which is a grocery and dairy store, has an impressive track record. It's called Stu Leonard, Norwalk, Connecticut. This company grossed eighty-five million dollars a year in one location, which isn't bad. It out-performs all the chain stores by a factor of 10 if you measure dollar volume on a square foot basis. And Stu operates with about 1/3 the product line that his competitors do. The secret to Stu's success is that he turns grocery shopping into something out of the ordinary. You walk in the door, and of course, you see two gigantic mechanical singing dogs. You then go by one of the aisles, and there is the world's fastest egg layer. It is a mechanical chicken. Once you make it to the check out line in this wonderful place, if there are more than two of you in line, do you know what they do? Out comes ice cream and cookies just so you're happy while you wait. This is my kind of store!

One of the most interesting things and one that you can't help but notice the first time you enter the store, is on the very back wall. There are some 6,000 photographs tacked up to that wall. And you have to wonder what they're doing there. It happened by accident, or so the story goes. A customer went on vacation, took that colorful Stu Leonard shopping bag with her, had her picture taken with palm trees and the ocean behind her, and sent it to Stu. He said to himself, "You know, this is a pretty good idea." Maybe if I say to everybody, "I will give anyone \$3 who will send me a picture like that, " I might get a couple of them. That is how you get 6,000 of them on your back wall. He has them from all around the world. He's got them from under water dives. He's got them on the Leaning Tower of Pisa. He has them from almost every conceivable place around the world. It's customer loyalty that he has created, and he's really written the book on it. It was such an interesting story that we couldn't resist putting it into our book.

There was a letter from a funeral director in Danberry, Connecticut, to Stu about something that happened. It said, "Dear Stu, an elderly woman passed away recently and among her last wishes was that some of her favorite personal belongings be buried with her inside her Stu Leonard shopping bag. She often stated that it was her favorite place to shop and being a patron myself, I thought you might be interested in this story." Now that is customer loyalty. That is what we really mean by customer loyalty. Fortunately, it doesn't only

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happen in grocery stores. We're finding it all over the place and particularly of interest is another example of an organization that has succeeded when it should not have succeeded.

If you're from California, there is one thing that you learn real quickly. All it takes is five minutes on any freeway in Southern or Northern California and you figure out immediately that Californians don't really like American cars. You just go out there and take a look, and you see all kinds of foreign cars. Yet in Dallas, Texas, there is a Cadillac dealership that we learned about and spent a little time with. It's succeeding in spite of all that. It apparently doesn't know that Americans in California don't care much for American cars. In fact, Cadillacs (cars that are getting bigger by the way) are selling quite well at this dealership which is number 2 when it comes to new car sales and number 1 when it comes to service revenue.

It is called Sewell Village Cadillac, and it is simply setting a standard for every car dealership in this country, if not around the world. You can see it is a little bit different when you walk into this one-hundred million dollar dealership. You take a look inside and you always find a fresh flower display. It looks lovely, because it is replaced every other day as soon as the little buds start to fade. Do they have to do this? No. Can they prove that it has any real effect on customer behavior? No. But they do it anyway, and they do other things.

They don't stop with the flowers, they put Persian rugs down on the floors. They put antiques in not only the showroom, but in each of the two waiting rooms for customers who are having their cars serviced (one for smokers and one for non-smokers). They give you coffee in porcelain cups which makes it much more difficult to spill (good for your shoes and their rugs). But, the real fun about Sewell Village Cadillac, I think, is that the service bay area floor looks like no other floor that I have ever seen, and I recently did some hard-nose personal research. It was borne out every time.

Now to put this in proper perspective, there are 112 service-bays at Sewell Village Cadillac. You get the idea of how you get to be the #1 dealer when it comes to service revenue. How do they do this? Well, they've got a big

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machine. They demonstrated it for me when I was there. They bring it out and it washes the floor. Then it waxes the floor. They say there is no mystery to that. The reason they do it is very simple. They encourage customers to come out here and just check out the service-bay area to see how well their car is being taken care of. But, they say they really do it for the mechanics, the people actually performing the work who may never see the customer. They reason as follows: It's very simple; if you want a mechanic to provide a professional job on somebody's car, then you have got to give them a professional place in which to do it. That's why they keep the floors clean. That's why there are little brass nameplates on each of the service-bay walls engraved with the mechanic's name. That's why when you bring your car in for service, you get a printed biography on your mechanic so you know who you are dealing with. That's why at the very bottom of that biography, if you look very carefully, you see a seven digit number that looks suspiciously like the mechanic's home telephone number, which is in fact what it is.

And you see once again, the thing that we discovered about the Stu Leonard's of the world and about the Sewell Village Cadillac's of the world is simply that there is never any one major distinguishing edge that sets these people apart from everybody else. It is rather a collection of literally thousands of tiny things. It is the execution of those thousands of tiny things that seems to make the difference between the winners and the losers. That is in fact what their strategy is. It is a thousand little things which make it impossible for the competition to succeed, because the competition simply cannot be in a thousand places at once. And it led us to the first and most important finding. We decided to devote five full chapters not to markets, marketing, nor strategic positioning, but to customers. That's the fact that probably we were the most proud of. There were five chapters that dealt simply with customers because we tend to forget that without customers, nobody would be here. And whether you ever get a chance to see that customer, whether that customer is an individual or a giant corporation, I think the rules we've discovered seem to operate nonetheless. We're all human beings at the end of the day.

When Don Peterson took over the Ford Motor Company and chose to say the words "Customer Driven Company," it was terrific. Notice it was not market driven. It was customer driven. Marketing is fine if it is based on a true devotion,

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now we would even say an obsession, with one's customers -- not being a little bit sensitive, not being a little bit close, but truly obsessed with one's customers.

Now what does this really mean? The first thing we discovered was that if you think about yourselves as individual customers of a variety of services, it might help to bring this down to a more practical perspective.

Satisfactory service according to Buck Rogers, formerly of the IBM Corporation, is an exception. It's actually a miracle. That, to me, in my experience is a little more accurate. It is a sad thing to have to say, but it's true and it's unfair. I know it's unfair to even think of it that way because it has to do with perception. It is the customer's or the client's perception of service that makes the difference. And if that perception is not one of superb service, then you're not providing it. And that's what makes it so hard and so unfair for anyone who does anything for anybody else. It turns out to be a matter of tiny little things, once again.

I am on planes a great deal of the time. I fly something like 300,000 miles a year which is a whole lot more than I would like to be doing. But, I have a personal relationship with the planes and with all the flight crews, and you would think that a little thing like a coffee stain on the flip-down tray wouldn't bother me. But, do you know what happens? I know it's unfair. I know it's a simple matter of perception, but I can't help it. The more I fly, the worse it gets. I pull down that flip-down tray and when I see that coffee stain, you know what I think? I think that if they can't pay attention to that little stain which might take three seconds to clean, who is worrying about those big engines out there? That's what I want to know. I know it's unfair and yet I can't help it. When Don Burr, the founder of Peoples Express airlines, said this, I said that's exactly right.

Now in case you think I'm alone in this, I'll tell you about a story that happened a couple of weeks ago about another jaded flyer. A gentleman decided he would go back to use the restrooms. He came right back up the aisle, right away, and said, "Well those two restrooms aren't working. I think I'll go up front and see if they're working." He went up front. He discovered that only

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one of the two front restrooms was working. He came back to his seat and said, "You know, only one in four restrooms seems to be in order." Then he thought for a minute and said, "How many engines are there on this plane?" So you see the problem.

It's unfair to make those kinds of connections, but we have terribly long memories for them. We never quite forget.

When you have a long memory, it helps to have every little thing working for you. I come from the Silicon Valley in Northern California, so I see an awful lot of advertising for the latest computer. And the advertisements generally all say the same thing. They say, our electrons go around faster than the other guy's electrons and that's why you ought to buy this machine. And then they use a whole bunch of words like bits, bytes, rams, rums, and more. It's all very interesting, but it's very hard for me to distinguish between one machine and another or one organization and another. Then here comes IBM with a very different ad, an ad that ran four or five years ago as a centerfold in all the business magazines. What's wonderful about it is the tag-line which reads: "What most people want from their computer company is a good night's sleep." Now I don't know about you, but that's exactly what I want from my computer company. I want a machine that's going to do what I want it to do. I might even be persuaded to pay a little bit more money for out of the ordinary, reliable services.

Now there are other industries that have picked up on this idea. There was a bank in California that for a while had a campaign about being the bank you didn't have to think about. Now the intentions were very good. The trouble is that once you make a statement like that, you've got to live up to it. That means that customer service cannot be something that you think about as an add-on to everything else. We'll have everyone who answers the phone be really nice to people. Yes, that's part of it, but that's a tiny part of it. It has to be factored in like any other factor of production, like any other technical factor of providing a highly sophisticated service.

That's where, I think, we start to get into a really interesting point -- one that I discovered sheerly by accident. I was, of course, one day on an

airplane that was on the ground for eight minutes in Salt Lake City getting ready to load the new Salt Lake passengers before we went on to California. The flight attendants were getting the plane ready, and they were about to open the doors to let the new passengers come in. I was sitting there quietly minding my own business, and I could overhear the conversations. I was astonished because I heard one flight attendant say to another flight attendant, "Here come the animals." Thinly disguised contempt for the customer is what we decided to call that. The sad thing is, it is the most persistent, most annoying barrier to long-term distinction that we could find; thinly disguised contempt. When I have to fly that airline, I know it's unfair, I know it's irrational, but I can't quite get the sentence out of my mind. It's like being in a flying cattle car, and that's what really bothers me. Thinly disguised contempt for one's customers is the one feature of most organizations that will kill them long before any technological obsolescence will.

There was one manager for a big company who had just purchased a gigantic, very expensive, very sophisticated computer system. About three months later he had about an \$8 sub-component problem. He reported the following story when he called the company about this little problem. He said, "I was amazed, but they dragged out every last engineer they could find and endeavored to prove to me beyond a shadow of a doubt that it was my wanton misuse of his glorious product that was the problem. That if I had only been a little more careful, a little more thoughtful of his sophisticated product, everything was going to be fine." He said, "I'll tell you what I did, I sent that system back." He said, "I know it was irrational. I know we're only talking about \$8; but even now, when somebody says I think we ought to buy such and such a machine from that company, I say, "Don't you dare say that. Don't you ever say that." I know it may be irrational, but it's my money and that's what it comes down to, and I'm not going to spend it with a company that makes me feel like that."

So what is the flip side to this? We all probably have stories similar to "here come the animals." Well there are some ways I think that you can distinguish yourself from the competition. Sometimes we even go so far as to say if you simply treat people with common courtesy, that will be the first and most distinguishing step you can take. But, I decided I wouldn't just offer conjecture, I would do personal research.

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I had to buy a new car recently and I lived through the process. I lived through taking it for its very first service and I noticed something interesting. I didn't just go to one dealership, I went to many different dealerships. I was not interested in looking at anything but one particular car. I had made up my mind about that, but I kept going from dealer to dealer. Why would I do such a thing?

Well, I've got some research that summarizes the reasons why car dealer customers go from one dealership to another. Some of us move away. Some of us prefer to buy from friends. Some of us are unhappy with the product itself once we've had a little bit of exposure to it. But, this is only 32% of the sample. What is going on with the remaining 68% of us? Why do we leave a dealer and go on to another one? Well, amazing as it seems, 68% leave because we don't feel that anybody at that dealership ever cared in the first place that we showed up.

I asked a question about gas mileage to the first dealer that I walked into. I said, "What is the gas mileage on this car?" He said, "You know, look lady, if you have to ask that question, you can't afford it." I said, "Well that's nice," and it took me all of 30 seconds to leave that dealer and go on to another one because of sheer contempt, if not indifference, displayed by that remark. And what's amazing in view of the computer advertising that I mentioned a few minutes ago, it's only 14% of us who have a problem with the product itself. That's all. But, 68% of us, better than 2/3's, simply feel that nobody noticed, nobody cared at all that we were about to write a check or get ourselves involved with payments over a number of years for a car, a major purchase. That seems to be the problem.

Although this example is about new car buyers, I would argue that whether the product is an audit or whether the product is a computer, anything you can name, those percentages would hold. That's been my experience over the last couple of years. And it leaves the door wide open for nothing more than some rather imaginative people who have managed to put together successful businesses against long odds because they have taken advantage of a very simple reality. They've decided that it would be nice if they would simply treat customers as though they really matter to the business. If we could do our

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book over again, right now, we would spend a great deal more time on this particular issue.

My favorite source of proof of this is actually coming from a number of rather strange market places. I would like you to imagine, for example, that it's a Saturday morning. It's a Saturday morning you've planned to spend by yourself and that new color television set. You call your local appliance dealer and you say, "I'm going to come down and take a look at that set." And they say, "Wonderful." But, you wake up Saturday morning and you don't feel very well. You've got the flu. You think you're going to be laid out in bed for a few days and boy you really want the TV now. So you call that local appliance store and you say, "Listen, I hate to tell you this, but I'm not feeling too well. I think I'm going to be laid up in bed for a few days. Would you mind loading those sets I was interested in onto a truck and driving them over to my house and then taking them off the truck? I'm upstairs, that's where the bedroom is. Would you unload them and take them upstairs and let me look at the relative benefits of each one and then you take the ones I don't want back to the store? Let me pay for the one that I want in the manner that I choose. What do you say?" Now what do you think would happen if you called your local appliance store? Usually the responses that people can imagine, we cannot repeat here.

I will tell you that a customer faced exactly that dilemma, except that the customer happened to call Curtis Mathis, which is a growing network of franchises dealing in one of the most commodity like products in a vicious market, TVs and VCRs. Things you can practically buy at the local gas station at deep discounts. They are charging you for the privilege of doing business with them, a 30% price premium. When that customer called them with that little complaint, do you know what they said to him? They said, "Sure, we can do that. What time is best for you?" You begin to get the idea of how customer loyalty really works.

Now, who do you think that customer is going to buy TVs and VCRs from until about the year 2437, if not longer? A very simple idea. First, there need be no such thing as a commodity, and second, price, as the only variable that it makes sense to manipulate or that we can manipulate, is highly overrated. For

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the privilege of buying from an outfit like Curtis Mathis, they will charge you about 30% above market. People actually pay it. They pay it for the service and among other things, for the reliability. That's what's amazing about it. The margins for the franchise that some of them have been leasing approach 300%. Now that's not too bad. In a market dealing in TVs and VCRs, it's a wonderful illustration of the Curtis Mathis creed. It's motto is, "find a little bit of a different way to do the ordinary." There need be no such thing as a commodity. It's more expensive, but we make it worth it.

On a recent plane flight, I was sitting next to a partner from Arthur Andersen, and we started talking somehow about commodities and commodity-like thinking. And he thought about it for a minute, and he turned to me and he said, "You know, that's actually right. The minute you start to think of an audit as a commodity, a strange thing happens, you turn into one." He said, "I've noticed that myself. Did you know you're absolutely right. I wouldn't have thought that there was a connection, but I actually believe there is a connection." And that's exactly what we continue to find. It is simply nothing but audacity and imagination that sets these people apart.

Now imagination and audacity sometimes combine to make kind of an interesting result. Duds and Suds is imagination. It is audacity. It is the brain child of a 23-year-old entrepreneur from the University of Iowa. He's got 40 laundry franchises in 16 states. He's a senior, he's only got a semester left to go, but he says, "I'm not going to be able to finish right away. I'm simply too busy with all of this." This place has beer, wine, and cookies that you can get at the bar. There are pool tables; there are wide screen TVs; there are current magazines and newspapers, which is my favorite part. But, for the more adventurous, there are also tanning booths. It is simply a matter of putting a little bit of imagination to an otherwise totally mundane, not even interesting business. Phil Akin, the 23-year-old founder of this chain, said, "I'm not going to let that stop me."

Why can't it be interesting? He's smart enough to realize that the beer and the wine might get the people in the first time, but that doesn't make customers out of them. He says what keeps them coming back is that this is a pleasant, well maintained, well run, clean laundry. And in the industry, according

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to some data I saw recently, at any given time at any given laundromat, some 20% of the machines are in use. You know why that number is low? Because most of them are broken. Well, at Duds and Suds, that figure at any given time is up to 60%. So it's paying off pretty well. If you ever wanted to have a job on the side, you might want to find out about one of those franchises.

What do some of these odd-ball situations illustrate? It's the whole idea of prospecting for new customers versus treating your existing customers as your very best asset and trying to find literally thousands of ways to enhance that relationship. This is simply the most powerful strategic edge that we could find. Of course, the logical extension from this is something that Les Wexner, Chairman of the Limited chain, said. He said, "It's very simple. When you start to think you're in a mature market, you die." In virtually every single corner of every single market that I can imagine, what Les said constitutes the ultimate wisdom. It is so easy to get bored with the existing that you can forget about it.

There is some interesting new research that I will tell you about. This confirms a lot of these ideas, and it is from the largest data base of its kind in the world. It is managed by people in Cambridge, Massachusetts, The Strategic Planning Institute. This is from the Profit Impact on Market Strategy data base (PIMS). Some of you probably are familiar with it. In case you're not, it is very extensive. The people there took a look at the top performing businesses by strict financial measures. Once they had this enormous data base together of the top performing businesses over the last five years, they began to dissect the data. They took a look at what went along with what to find out what kinds of determinants exist to long-term, sustained performance.

They discovered a few very interesting things. This is the second area that we would devote a lot more time to if we were to do the book again. They divided the data base into companies that are rated as providing high quality service versus low quality service. Remember that's in the eye of the beholder, the eye of the customer. Then you take a look at what happens to profitability, to market share, to sales growth, and also to the price index. There are some rather interesting trends.

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First of all, with respect to price, the companies perceived as high service are not generally the low cost provider. They charge a premium, and obviously get it, for that service. Low quality loses market share to the tune of 2% a year. High quality gains to the tune of 6% a year. Profitability is 1% versus 12% for the high service group of companies. Sales growth is 8% versus 17%. Now that is not a little bit. That is a substantial difference in performance. This is a trend that we continue to see.

It is wonderful to be able to cite a lot of data to support the things that you feel in your bones.

An interesting connection is the relationship between quality and market share. It is quality more than price that effects market share. Price has been the one variable that we always thought made all the difference. We thought that men and women customers being rational human beings would always go for the lower priced provider. This is not always true.

Now you might wonder, did the PIMs people come up with a single determinant of long-term, sustained profitability and growth? As a matter of fact, they did. There seems to be one determinant of long-term success and interestingly enough, it combines a number of things that we have already been through: relative perceived product quality. Of course, we never can escape that perception, and it is even more important than we thought, and we always thought it was kind of important. If you just think about it for a minute, you know from your own experience how true that is. It is a matter of quality, experienced over time. That is what seems to make the difference in the long run.

Now there is one practical implication I did want to cover. It is something that I think is important to do, and it concerns strategy and what is a good strategy. The place to start with customer service, believe it or not, is with strategy. Strategy is usually thought about in very arcane, abstract terms as a difficult topic. We usually say to people that basically strategy does not have to be exactly right. It does not have to be perfect or precise. It has to be non-dumb. This is very scientific research that we conducted here.

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Here is the acid test. In 25 words or less, can you articulate what your organization's or department's strategy is? Second, can that 25 words or less statement be agreed to by all of your peers in the organization? Third, can you go to a phone at the break and call the newest member of your organization and say quickly to that person, "What's our strategy?" and get an answer that is 25 words or less and in substantial agreement with what you think it is? If yes, you have got a strategy. If you can't, we would say that's the place to start. To start and move in that direction.

It is that gradual migration to special value added markets that we believe will mark the survivors in every corner of this country's economy in the years to come. That's true for insurance; that's true for Big 8 accounting firms; and it's certainly true in discount retailing. So you might think about that if you have the nerve for it. This is a very nerve-racking thing to do. Get on the phone at break, call the newest person, and find out if they agree with you as to what that strategy is.

There is one other major piece to this that I want to run through very quickly. It has a lot to do with how we believe organizations are going to be managed in the future in order to maintain a lead in their respective fields. That has a great deal to do with how innovative the organization is and, specifically, how and what your responsibility is for keeping an organization innovative. Now what I am about to say is not traditional thinking. It is radical thinking in some respects, so you might want to take a deep breath. Innovation, we discovered, happens more like this. Innovations come from the wrong person, from the wrong group, for the wrong organization, the wrong product line, at the wrong time, for the wrong customers. That's what we discovered about innovation.

It's a very messy world out there, and the companies have to work with it to encourage innovation, whether it's a new product, a new product enhancement, or whether it's a new line of services. How many people in banking, for example, would have guessed that they'd have Sears to contend with? Those kinds of ideas come from this whole idea that it is the wrong person at the wrong place at the wrong time for the wrong reason. Now that's very hard. First of all, just that by itself is kind of hard to get your teeth into.

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Here's something that will make it a little bit harder. We also discovered that there is something that is essential to innovation, and it will not happen without this. Not a single good idea will come without this. As Peter Drucker said, it's a mono-maniac with a mission or "skunks" as we call them. "Closet skunks" as some of you may be. A skunk is that individual who is erratic, rather unpredictable, and kind of a pain. He or she has one idea at a time that he or she is devoted to, thinks is a great idea, will persist and continue to persist. That's on his or her good days.

They are really tough to manage. So the most innovative organizations, the organizations that want to see new products, new services, new combinations, new ways to serve a client, figure out ways to encourage, to reward innovation from those "skunks." Those "mono-maniacs" are treated with care and are given some room in which to do what they do best, which is a little bit to drive you crazy. What they want to do is try things. They want to experiment. They want to test. And given that it's a messy world, that's the only way to deal with it.

Instead, what we usually try to do is get very organized. Once we live through an innovative or tumultuous period, what we do is look back and say, "Oh my goodness, thank goodness that's over. Now we can really get organized." And, therein, of course, lie the seeds of future destruction because we desperately need those "skunks," those "mono-maniacs," and those people who are willing to step out and make that kind of wave.

It is tough to deal with them, particularly in large organizations and bureaucratic organizations. But we so desperately need these people. Even if you only have four people in your organization, you are by definition a hopeless bureaucracy, and that is why even you need a "skunk" or two around just to keep things going.

Most of you may remember the marvelous quote from 1899 from the head of the U.S. Patent office, "Anything that will be invented has been invented." Everybody thinks that is a great quote. Or you may remember the head of Warner Brothers Studios saying at the very beginning of sound movies, "Well who the heck wants to hear an actor talk?" It's a messy world out there, and the only

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way to deal with it is through repeated tries and experimentation, and if you buy that, you know that not everyone is going to work out. That's the hard part for anybody who manages.

One chief executive officer deals with it by telling his people to make at least 10 mistakes a day and to learn to make the mistakes faster. The idea is that there are interesting mistakes that have originality, and that's the kind of thing that you want to see. Once again, smart mistakes are what I believe he's talking about, not shoddy or lazy performance, but the things you learn from. That's what makes the difference.

This is really aimed directly at any of you who lead any organization regardless of the size. Whether you are at the top of it or in the middle of it or toward the bottom of it, it still applies. The best illustration of leaders who are willing to see mistakes as learning experiences comes from, as far as I know, the IBM Corporation. Legend has it that a young executive got involved very early in his career with a venture that lost the company \$10 million. He was so upset about this that he wrote his letter of resignation and left it with Tom Watson, Jr., who was then the chairman. Watson, when he got this fellow's letter called him into the office and he said, "You know, you've got to be kidding about this resignation. I just can't believe it. We just spent \$10 million educating you." Now see, that is a true leader dedicated to experimentation.

It's a messy world. The only way to deal with a messy world is through repeated tries and experimentations. Coming with that territory is the need to make mistakes and to learn from them and to take the next little step, instead of thinking as many of us do, that the minute you step up to bat you're going to get a homerun.

In a \$10 million dollar organization or \$5 billion organization, the only new product ideas anybody will listen to are the ones that are going to end up with a \$2-\$3 million market share. It's amazing because big ends come from little, tiny beginnings. It is a very easy thing to forget. It's kind of a sub-point of all this.

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For example, post-it-notes, the things that no one can live without, had absolutely no market at the very beginning. It took Art Fry 10 years to develop those little things, and it is now a \$200 million winner for the 3M Company. But, every single piece of market research said there is no market for this. Every stationary store said, nobody wants to buy these stupid little things. What are we going to do with them? Art Fry had to be a "skunk," had to be a "mono-maniac."

If none of the foregoing is impressive, there is one remaining guerilla strategy that never fails to impress me. Especially for the newest members here, those of you who may just be starting your careers or haven't been in them too long, you're the ones that should remember this better than anybody. It is still one of the most effective guerilla strategies. It happens to be a very important guide to action at the Hewlett Packard Company where I spent four years. The people there would say it's much easier to get forgiveness than permission. Given a choice, what I'm going for is forgiveness. I'm going to try it anyway and if it doesn't work, I'm going to say, "Gee, I'm really sorry." It's much, much more important to do that, than to try to get permission ahead of time, which is almost impossible to get. Some of the best run companies simply believe that this guerilla strategy is what is going to really count.

There is one other kind of sad point. You know the ultimate party responsible for this is management, leadership. Mike Vance of the Disney Corporation had a very nice way of thinking about it. He said that if you get too moderate, creativity goes out the window. If what you want is excitement, and we argue that at some level it is, you want people to be committed. You either have to get them really angry or get them excited. Now, if you get them really angry, you will definitely get a reaction from people. The only trouble is, you never quite know what it's going to be. That's the only trouble with getting people mad in a big organization, which by definition is anything over four people. But, if you get them excited, even then the best you can hope for is to get the herd headed roughly west. Such is the nature of the real world.

So what does it mean? It means that you're going to have to try and do a little bit of this within the purview of your own responsibility.

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Let me tell you a story about a lady named Sara, who works in a company where the only formal titles are Associates with capital As. Everyone is an Associate at the W. L. Gordon Associates Company, a quarter-billion dollar outfit in Newark, Delaware. They make gortex, the breathing synthetic fabric for you outdoor people. It's used in jackets and tents. It's really an interesting company, and Sara was with them from the very beginning. After Bill Gore's 25 year stint with the DuPont Company where he was a number 3 researcher, he told Sara that they were going to do a whole new thing with this company and everyone was going to be an Associate. There was going to be no particular lines of authority, no formal organization. She said, "Great." When Sara was about to retire a year and a half ago, she was asked to give a speech to a local business group about her years with Gore and what it is that the company does that makes it so unusual, so successful. She said she would be delighted to do that. They said, "Wonderful. We're going to print a program. What's your title?" She said, "Associate." They said, "No, that's not good enough. We want a really good title." She said, "Well, that's it. That's the only one we ever use here." They said, "Well, why don't you give it some thought and call us back."

She was really upset about this and went to Bill Gore and explained the situation. He said, "Sara, what would you like to be?" So she had the cards printed with the title of Supreme Commander. But you see, Gore didn't say that just because he thought that would be kind of cute or current, he did it because he believes the stuff. He believes that it is commitment and not authority that produces results.

At this point in a seminar setting is where I have the biggest arguments, because business cards are a very important piece of organizational life. Think about the very first job in which you had your own personal, engraved business card with your name printed on it. Not just a space where you write it in, that's not the same. It may have been 20 years ago that you got that first card, it may have been longer; but if you're like other groups, somewhere at home, in the back drawer of an old desk or something, you have a few of those very first business cards tucked away. The reason you save those cards is exactly what Bill Gore had in mind. It's a little way to enhance our

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importance, our status, and who we think we are. Those things really do make a difference. They really do matter.

I don't have time right now to go into the detractors from those little things because there are so many tiny things that detract from one's sense of importance -- reserved parking spaces and things like that. This whole point about leadership is not particularly scientific or theoretical, but practical.

I was a supervisor at a Big-8 accounting firm. There are six major levels, and it used to make me think, because we'd all be there slaving away and I never did get to talk to a customer for the whole time I was there. It made me think a little bit. Getting in touch did seem to be the issue at hand. It was the most important thing that the partners, that the managers, that the supervisors needed to be able to do.

It is so terribly easy to get out of touch. Not because you are a bad person, not because you want to be out of touch, but because events yank you in that direction. The most important strategic secret of getting back in touch is managing by wandering around. It was coined at the Hewlett Packard Company and is used across this country and it means exactly what it sounds like it means. I discovered it first hand when I was at HP as a manager. HP really is serious about this. It is not saying this because the company thinks it will be cute or look nice in a book somewhere. It is absolutely dead serious.

If you are a manager there, your performance is evaluated in part on how well you wander. How much of the time are you out of your office and what are you doing when you are out of your office? Are you listening to customers? If you are in Accounting, are you listening to the other departments who depend on you for information? If you're in a front-line function, are you out listening to customers? Are you listening to the sales force? It is very hard on engineers to be asked to do something like that, but HP adds insult to injury because it bases your compensation in part on how well you do that. It is the only strategic edge that we could find as far as outstanding managers are concerned. And it doesn't really have to be a big deal. You can find lots of ways to wander.

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Here's just one little example. Most of us have cans of Campbell's soup in our kitchens. Gordon McGovern is Campbell's chairman. Every Saturday morning you can find him doing all of his family's grocery shopping. He insists that all of his senior managers spend their time on Saturday morning in the grocery store. He thinks there is only one way to find out what people really think about your product, and that is to get out there where it is actually being used. Spend the time with the people who depend on you for that product and listen to what they have to say. That's why he convenes board meetings in the back rooms of grocery stores, in part. That's why he insists that all his managers do their own shopping. They put themselves in the other guy's shoes for a little bit of time.

Now it doesn't sound like much or maybe it does. But, I'll tell you what American industry seems to be up against in Japan. Companies in Japan send their product development engineers, their accounting teams, their finance people, and their marketing people out into the field, which to them means around the world for six months out of the year. The only purpose is to listen. Can you imagine what you would learn if you were out in the field for six months listening, working with the people in your line of distribution? It's staggering to even contemplate.

Last Christmas when a friend of mine was at Macy's in the electronics area, he was astonished to be waited on by an older looking Japanese man. He came back over and said, "You know, I was waited on by someone I've never seen before, but there was something about him. He just didn't seem like he was a full-time salesperson." So, we went back and took a closer look. It was, of course, the chairman of the Sony Corporation as part of his six month stint in the United States working behind the retail counter. There is no better way to find out what your customers have to say on how your products look and feel and how they're selling. It is that visual way of getting in touch that seems to matter, and it may require rather dramatic action for most of you.

So here is a little bit of rather subversive advice from a fellow who wrote us a letter from Holiday Inns of America describing what his chairman finally had to do. He said he wanted everybody out of the office a certain amount of time every day to listen to customers, to get in touch with what the business really

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is, to even talk to each other for heaven's sake! And nothing happened, so he had to resort to rather dramatic means and just locked everybody out of their offices for about a day. They got the message rather quickly.

Now there is something to be said for doing something a little bit dramatic. I don't mean that you ought to go and take tap dance lessons. You can be very shy, you can be sort of isolated if you're that kind of an individual, and you can still be moderately successful at this. The point is that no one will take you seriously in your organization unless you get their attention somehow. Once you do that, it takes almost endless repetition. The sixty-third time you say whatever it is, then they begin to take you a little bit seriously. It's like a rule of thumb in most organizations. The first memo you get, ignore. And then, depending on the organizations, it is anywhere from the second to the fourth memo that you take seriously.

There are some leaders who are doing some interesting things in their respective organizations. Mayor Schafter from Baltimore is soon to be the governor, I think. This is a leader of a city of 900,000 people. He created, "Think Pink Day" to enhance city pride. Little girls in pink outfits ran around with pink balloons, the mayor was persuaded to wear pink socks and a sort of pink tie, and yellow median strips along the highways went from yellow to pink. All of this was to enhance city pride. When the mayor's beloved aquarium opened in time, he kept a promise he had made, he jumped in it. This is a fellow who does pretty well.

Does it work? Yes it works. He seems to be winning. In fact, his last election, I believe, he won with 94% of the vote. He's doing all right. He's got an interesting cabinet. Instead of strategic planning, it's the office of adventures and fun. Can you imagine that on your door? The dramatic sometimes has very important consequences.

The story goes that Lee Iacocca wanted to think in terms of building a convertible. He went to the head engineer at Chrysler and said, "I'm thinking of a convertible, when can you have one for me?" The head engineer said about nine months. Iacocca said, "No, you don't understand. Take a car, saw off the top and let me have it." He got such a car, a sawed off car and drove the streets

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of Detroit with it. You know what he did? He counted the number of waves he got every day from people when he drove this sawed off convertible. When the number of waves reached a certain point, he drove back to the plant and said, "Build it." That was his market research. Sometimes there is no substitute for that kind of imagery.

In closing, you know, I went to business school. I know business is very serious stuff. I learned it there. Fortunately, I overcame that part of my education. I also learned that nothing ever happens without commitment, without excitement, without enthusiasm. And yet, just the opposite is so often true. It is the danger of that commodity-like thinking.

A group of retailers was yelling and screaming about customer service or the lack of it in their industry. Finally, one of the vice presidents stood up and said, "Look, will you just shut up. We've had it listening to you. I'm here to tell you that we are no worse than anybody else!" I dare you to get yourself, or anybody else, up at 6:30 in the morning full of the enthusiasm and excitement to go to work for a company that's "no worse than anybody else."

Enthusiasm and pride absolutely do matter and for those of you who are senior people in your organization; that's an important thing. Pride and seriousness never fought with each other.

It's a messy world, and many experiments, rewarding active defiance of the rules that you may have helped to create, are necessary. That's another acid test of innovation, relying on the intelligence of each and every individual, all of those associates working in your organization who toil away those long, long hours. You are who counts. It is your pride, your enthusiasm, your dedication. It is, I believe, the daily triumph of integrity over skepticism. It's so much easier to be skeptical and cynical.

Well those are some of the reasons that the organizations we're noticing now are being able to succeed in sometimes hostile environments. They've learned one thing. The point is not to just survive, the point is to survive gallantly.

