Beware of Bad Strategies

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Published in Spring 2010 issue of *Manufacturing Today*

The economic challenges continue. Success now, more than ever, depends on good strategies. In my previous articles, "Five Ways to Grow in a Tough Economy" and "Shift to Growth," I described how to shift to a good growth strategy. This article, focuses on mental traps than can prevent you from shifting to a better strategy, traps that can lead you make bad strategy decisions and think they are good ones.

I call these traps frame traps because they cause people to choose a bad frame for making a decision. Choose a bad frame and you are likely to make a bad decision, and not even know it. In this article, we look at five common and dangerous frame traps:

1. Pain avoidance
2. Denial
3. Recency
4. Under the lamppost
5. Flight to safety

Pain Avoidance

General Motors fell into this trap in the 1980's, once its management finally understood the magnitude of the Japanese threat. GM's leaders needed to shift strategy radically to maintain their position. But it seems GM's leaders framed their strategy decision along the lines of "What adjustments do we need to make to our strategy to counter the Japanese threat?" Implicit in this framing question were assumptions such as the following:

- Quality needs to be improved, but we can do this with the existing structure.
- We appeal to certain market segments, the Japanese auto makers to other segments.
- Our brands are strong and will remain so.
- The Japanese cost advantage is caused by their relationships with their suppliers and by the actions of the Japanese government to keep the yen low against the dollar.

Their decision frame was based on a belief that the GM business model was basically sound. It had, after all, produced great success for sixty years.

Sadly, for the next twenty years, GM only tinkered around the edges of its business model. And for the next twenty years, year after year GM's market share eroded, and year after year the company ate into its capital, until last year when GM declared bankruptcy.

This stunning failure of leadership shows what happens when the leaders are unwilling to face the pain of market realities and the pain of radical redesign when it is needed most. The company's leaders seemed more concerned with the inside bureaucratic game and the traditional battles with Ford and Chrysler than with doing the right thing. For the right thing, radical change, was scary, difficult, and uncomfortable. Delay was easy initially, for the Japanese advance was gradual, but relentless.

Contrast the actions of GM's leaders with the decision making in the 1980's of Gordon Moore and Andy Grove at Intel. Intel had traditionally been a memory chip company, but because of Japanese manufacturers the memory chip business was becoming commoditized. Moore and Grove asked themselves "If a new CEO came in, how would he change the company?" That frame shift led Moore and Grove to decide they should get out of memory chips and focus on microprocessors. They faced the pain of the radical change, crossed the bridge to a new beginning and enjoyed a period of legendary growth riding the PC wave.

Avoid the Pain Avoidance trap by first checking if you are in it. Are there hidden pain-avoidance assumptions lurking in the way you pose questions about strategy? If so, dig them out and confront them. Is there a nagging feeling that big actions are needed, but no one want to give voice to the concern? If so, plan how to change your company's culture so there are rewards instead of penalties for talking about what is needed.

<u>Denial</u>

The denial frame trap arises when assumptions are made that deny the existence of a key threat or opportunity. U.S. tire makers were caught in the Denial Trap in the 1970's. For decades, they had done well by selling replacement tires. The top four companies were a highly regarded and profitable de-facto oligopoly, with Goodyear its largest member. The bias-ply tires they made lasted only about 14,000 miles, so car owners always needed tire replacements, which could be sold at high margins.

The U.S. tire companies knew about the Michelin tire, the steel-belted radial, first made in 1948, that could last 40,000 miles. Here was a major threat, creating a gap between what the U.S. tire makers were doing versus what they needed to do to survive. Yet the companies denied the existence of the threat, denied the gap. The Michelin tire, they said, was all right for the Europeans, but not the U.S. market.

Today, of course, all cars have steel-belted radial tires that seem to last forever. The U.S. tire companies went into decline. Today, those that have survived are stagnant and make no money. This includes even Goodyear, which claims to be the largest tire company in the world, yet has not been consistently profitable for years.

To avoid the Denial Trap, be alert for hasty dismissals of possible threats or opportunities. Take a closer look at the reasons for dismissal and confirm that the assumptions behind the reasons are valid. If the reasons for dismissal are not valid, the threat or opportunity may be real. Recognizing the threat or opportunity is real leads to recognition of a gap. For the threat the gap is between the current, desired state and the less favorable future state if nothing is done about the threat. For the opportunity, the gap is between the current state and a potentially better state if the opportunity is used to improve one's situation.

<u>Recency</u>

This trap arises when decision makers are overly influenced by recent events. This happens with great frequency because we easily remember recent events and have difficulty remembering older events. Strong emotions can come into play, reinforcing beliefs about the permanence of recent events. Some home builders and some companies in the industries that supply them fell into this trap in 2006 by believing a high level of housing starts would continue. Strategic decisions based on this assumption were ruinous.

To offset the trap, just make older data more available and challenge anyone who overemphasizes the importance of recent events in defining future conditions.

<u>Under the Lamppost</u>

This trap gets its name after the old joke about the late night drunk found on his hands and knees searching for something under a lamppost. "What did you lose?" he is asked. "My car keys." " Where did you lose them?" "Over there," he replies, pointing to a dark alley. "Then why are you looking here?" "I can see better here," he replies.

Managers who look under the lamppost of what is familiar and easily obtainable make assumptions that are wrong, leading to bad decision frames. Companies are guilty of falling into this trap when they focus on internal operational data and neglect customer and market data, or when they focus on existing customers only, ignoring switchers, the competitors' customers, and nonusers, or when they focus on just a limited set of narrowly defined competitors. Kmart was guilty of the last reason in the 1980's when it defined its competitors as the big department stores and ignored Wal-Mart. Result: Kmart went bankrupt.

To avoid the Under the Lamppost threat, identify aspects of your business environment about which you know little or nothing. Probe for what you might be missing in dark areas that could reveal significant threat or opportunity. Sometimes redefining things can help. Jack Welch at GE insisted that business unit leaders be #1 or2 in their markets and have no more than a 10% market share. The second part of Welch's requirement forced the business unit leaders to expand their market definitions, exposing new threats and opportunities.

Flight to Safety

This trap arises when assumptions about future conditions are predominantly negative and lead to decision frames that focus on survival. Many companies are caught in this trap now and it can lead them to make decisions that can cost them customers and limit future growth. Consequences of the trap include excessive cost cutting, draconian treatment of suppliers, and neglect of customers.

The antidote to this trap is a shift to a more balanced perspective. Identify the opportunities that current conditions create. Competitors have been weakened, customer needs have changed, and critical resources are available at lower cost. Revise strategies to take advantage of these opportunities as described in my prior two articles.

Summary

Each of the five frame traps just described is dangerous. You have probably already realized that the traps are related. One can cause another. For example, the Recency trap can contribute to springing of the Flight to Safety and Denial traps. In addition, the presence of one trap, such as Recency, can strengthen the beliefs created by another trap, such as Avoidance of Pain or Denial.

So beware the tangled web of traps. Be vigilant in detecting and eliminating the traps. Your strategic decisions will be better and your business more prosperous.

About the Author:
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