

## **HOW TO LOSE: TEN COMPULSIONS GUARANTEED TO KEEP YOU MIRED IN THE PACK**

Before we get to what we can do to break from the pack, we need to confront the things that keep us stuck in it. Faced with the twin plagues of commoditization and imitation, business leaders reflexively resort to ten courses of action that create a false, seductive, and temporary illusion of security—and plunge their companies further into the spiral of Commodity Hell. In this chapter, we explore ten compulsions that keep businesses trapped in the pack. I call these courses of action compulsions because even though they are counter-productive and dysfunctional, we persist in clinging to them anyway, perhaps because they worked in the past or perhaps because they reflect conventional wisdom. Either way, they won't do the trick for us in a Copycat Economy. As you read this chapter, ask yourself—does this compulsion describe how we do things in our organization?

### **1. The Compulsion to Cut Costs**

Trying to stave off decline and beef up margins, many companies reflexively cut departmental budgets, sell off assets, lay off employees, and embrace any cheaper supplier. To be sure, cost-cutting

efforts are useful and necessary, but only when part of a well-executed growth strategy. By itself, the frenzy of cost cutting is often a self-defeating compulsion, for several reasons.

- You can't shrink your way to success. After your budgets are slashed and the plants are closed and the bodies are hauled away, what exactly are you going to do to grow the business?
- You're not alone in your compulsion: Your competitors are also cutting costs for their own survival, and your company remains undifferentiated from others in the pack.
- Compulsive cost cutting often degenerates into intramural combat and backbiting. People scurry to salvage scraps of budget regardless of whether their actions create value, or they do whatever it takes to protect themselves from further cuts.
- Because your company still has no disciplined vision to break from the pack, your cost-cutting decisions can be strategically counterproductive: Some cuts might be grossly inefficient, leaving lots of fat, and others saw away your company's muscle and bone.
- If cost cutting gives your financials a temporary reprieve, you can be seduced into believing you don't need to make radical and truly efficacious changes.
- The cost-cutting compulsion is intermittent and unpredictable, like a smoker's resolution to quit. After the company discovers that—surprise!—the first cost cut didn't yield salvation, it cuts more, then more, then more, until it becomes a Chinese water torture for employees and investors.
- Employees (especially your best ones) become demoralized, catching on to the reality that the company lacks a coherent or inspiring alternative to the steady chop-chop-chop.

In early 2006, Ford—mired in deteriorating market share and “junk bond” status—announced another big restructuring plan. This one would slash 30,000 jobs, close 14 plants in the U.S. and Canada, and reduce capacity by 26 percent. These moves would generate \$6 billion in savings through 2010. That's great. But will these steps unleash a fresh wave of capital, innovation, and employee commitment necessary to design, manufacture, and deliver sexy, high-quality, “gotta-have” cars with superb after-sale service? If the answer is yes,

Ford will rock. If the answer is no, the savings will be illusory. They'll be sucked up fast.

The ripple effects of a “cut-cost” compulsion are sad. I've spoken to disheartened employees of major airlines that are facing bankruptcy or are already in bankruptcy. They've got nothing to look forward to other than more slashes to assets, budgets, salaries, and pensions, with no exciting prospects for real growth. It reminds me of the story of the guy visiting a friend who lives on a farm and notices a pig with one wooden peg leg. He asks his friend about it.

“Oh, that pig is remarkable,” the farmer replies. “He's friendly and obedient, and once while we were sleeping, he saved our lives by tapping on the bedroom window when he saw a fire start outside.”

“But what about the peg leg?” asks the visitor.

“Come on now,” admonishes the farmer. “A pig that special you don't eat all at once.”

In 2005, Northwest Airlines mechanics went on strike and Delta pilots threatened to, even as the airlines continued their relentless southward slide. Perhaps even a peg-leg pig will eventually fight back. After all, what does he have to lose?

Of course, some argue that the solution is to cut costs rapidly and savagely. Forget the peg leg, they say—kill the pig right away. Use slash-and-burn tactics to eliminate as much cost and overhead debris as quickly as possible. Of course, the basic commodity product line, business model, and organization itself all remain intact: Everything is just “leaner.” But it's “leaner” in a way that guarantees that performance will drop because there is no vision, investment, or support for sustained, break-from-the-pack growth. It's like the guy who says, “I'm training for a marathon race and need to lose 30 pounds fast, so I cut off my right leg.”

A former MBA student of mine reported to me how this strategy worked with her employer, a public policy institute that responded to declining investment income with a sharp, across-the-board cost-cutting program. “Promising projects were cancelled in order to save money. Employee tasks were integrated, leading to overload. Fringe benefits such as Christmas parties, employee farewell parties, and annual company picnics were eliminated. In addition, employee raises were reduced substantially, and new hires got lower salaries than their predecessors. Within the first quarter of enacting the new ‘leaner’ policy, the number of research projects dropped, the scale and scope of the projects dropped, and 13 percent of the total staff

(many of whom were the top researchers and rainmakers) left within the first six months.”

As Frank Lorenzo showed in his emasculation of Eastern Airlines, and “Chainsaw Al” Dunlap demonstrated in his gutting of Scott Paper and Sunbeam, a “savage cuts” approach often leads to disaster—except for a very select group of top executives and investors. Most investors and employees lose. Eastern simply disappeared. Sunbeam wound up without the resources to build compelling new products and provide acceptable service quality—and its share price deteriorated accordingly. The result was a grotesque distortion of the idea of “creating shareholder value” because, in effect, certain shareholders were betting that Dunlap would eviscerate the companies he ran to carve up the carcass and sell them off at the most attractive prices. That’s no way to prepare a company for competitive advantage.

## 2. The Compulsion to Cut Prices

Desperately lowering prices to keep customers from bolting—as when GM, Ford, and Chrysler regularly slash prices with discounts, interest deals, and rebates to woo buyers, keep volume up, and maintain market share—decimates a company’s margins and trains customers to wait for another round of price cuts before buying. Moreover, when these companies offer zero percent financing, they’re gutting their most lucrative source of profit: consumer financing. (GMAC Financial Services has been the most profitable staple of GM for so long that one could argue that GM has become a bank that uses cars as sales incentives.<sup>1</sup>)

But the worst consequence is that by reflexively slashing prices while competitors like Toyota and BMW don’t, GM and Ford are really conceding defeat. They’re saying that the only way they can differentiate their products from those of their global competitors is not with higher quality, cooler design, better features, or great service, but with lower price. This step not only stamps “I’m a commodity” on every car they make, but it also slowly strangles their capacity to fund new product development and pay off a massive pension liability. It does nothing to address their enormous challenges: operational inefficiencies, legacy costs, unviable labor-management