

Business,  
Marketing,  
and Management  
Principles for IT  
and Engineering

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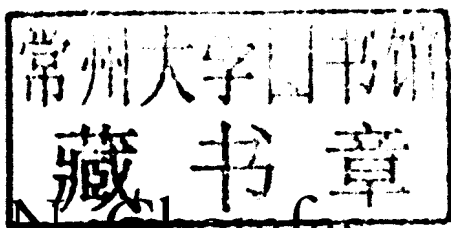
Dimitris N. Chorafas



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AN AUERBACH BOOK

# Business, Marketing, and Management Principles for IT and Engineering



Dimitris N. Chorafas



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# Preface

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In a globalized economy, the management of an enterprise requires depth, horizon, and skills beyond those commonly available. This is true of all companies, and most particularly of those at the edge of technology.

Corporate growth and survival call for the appreciation of strategic crossroads and application of knowledge to reach goals that in the past were often reserved for fiction. Challenges are associated with products, processes, and markets—as well as new business opportunities and risks that go along with them.

Written for business practitioners in engineering and technology as well as for graduate students in colleges and universities, this book presents the *principles, policies, and practices of management* by the best companies, as well as the way they develop and implement them. As a rule, these firms pay a great deal of attention to matters of efficiency, productivity, and rationality that are

- Distilled into management principles, and
- Demonstrated by means of daily activities, as documented by the case studies included in this text

Case studies are of prime importance because they identify the critical issues confronting people engaged in business. They also demonstrate in a matter-of-fact way how the leaders of industry select and set strategic criteria to guide their decisions toward success undertakings.

In the background of the management principles, policies, and practices—that the reader will find organized in 16 chapters—lies the fact that no organization can survive in the longer term without being ahead of the curve. Successful managers are imaginative and flexible, adaptable to developing circumstances. Practical decisions rather than theories hold the upper ground.

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The text divides into five parts. Part One concentrates on the important *strategic* issues guiding the mind and hand of decision makers who have the salt of the Earth. Chapter 1 discusses the components of a business strategy—from human resources to marketing, product innovation,

financial, and general management. A successful strategy positions the company against market forces in a way guaranteeing its profitability and survival.

Chapters 2 and 3 address themselves, respectively, to the *principles* and *functions* of management. Management is an art, not a science; but an art, too, has its rules. These are explained by way of six most important functions: forecasting, planning, organizing, staffing, directing, and controlling. The aim is to provide leadership, which—charisma aside—is a matter of conceptual skills, analytical detail, quality of decisions, and concentration in areas of strength.

Part Two elaborates in greater depth the management function, offering to the reader plenty of case studies to better explain what is being said. The subject of Chapter 4 is *forecasting*, which primarily focuses on the future impact of current decisions, and on future events in the sense of analyzing their aftermath. Because it makes projections, considers expectations, and evaluates likely adverse forces, forecasting is a prerequisite to sound planning.

*Planning* and forecasting are twins. “The plan is nothing,” Dwight Eisenhower once said, “Planning is everything.” Far-out planning aims to answer the queries: What will our company be in the next 10 to 15 years? From where will its earnings come? Under the time perspective come long-range planning (5 to 7 years), medium-range planning (2 to 4 years), and the next year’s plan—of which the budget is the financial framework.

*Organization* and *structure* are discussed in Chapter 5. Management’s ability to run the organization is based on its span of control, span of knowledge, span of support (including IT services), and span of attention to detail. Structural choices aim to promote those abilities by delineating the line of command—describing proper relationships, establishing positional qualifications, and making available measures of performance.

The theme of Chapter 6 is that a company’s most important assets are *people* and *people*—people its employees, and people its clients. Challenges include not only leading, but also recruiting qualified personnel, assigning competent people to each position, countering human obsolescence through lifelong training, and steadily improving productivity—which is a cornerstone issue in this chapter.

Chapter 7 provides the reader with the sense of *management control*—most particularly internal control. Management control ensures adherence to plans by watching over progress toward objectives commensurate with goals and time plans being established. Therefore, a basic prerequisite

is the existence of financial plans, market plans, product plans, and human resources plans. Successful management control always leads to corrective action.

*Marketing and sales* are the overriding subjects of Part Three. As Chapter 8 points out, the first decision in establishing a marketing strategy focuses on the specific market(s) to which the company wants to appeal. The next is the building of human resources able to be in charge. The third is the share of the market and market rank the company wishes to achieve. Should we aim to be No. 1 or No. 2? Such decisions condition innovation, product planning, sales network, and the ability of the firm's salespeople to channel its products to the market.

The market's conquest is decided through actions, not through words. The Bloomberg, ITT, Cisco, and Microsoft case studies in Chapter 9 provide irrefutable evidence to this fact. Imaginative ideas that have not yet been tried by competitors can give *our* company a head start, but the market's conquest must be approached through a coordinated program, and this is provided by the marketing plan.

Chapter 10 concentrates on sales tactics and on sales proper. The marketing functions must be detailed by means of practical steps promoting the sales effort. Sales efficiency and control of the sales network's deliverables are part of these steps. In addition, a properly trained sales force is a valuable asset.

Part Four centers on product development and innovation. Chapter 11 explains what is meant by *technology* as a generic term. No innovation nor no new process is anything if it does not create value to the company and to its customers. Quality, added value, and cost effectiveness are cornerstones all the way from product planning to marketing decisions. They are also highly dependent on how management links technology to markets.

Chapter 12 concentrates on *product planning* and *pricing*—which is never made in the abstract but reflects a pragmatic view of product features, customer drives, market dynamics, and competition. To a substantial extent, product pricing is conditioned by whether a company is a leader or follower in its market, as well as by the nature of this market: mass, unique product, or niche. Product pricing is also dependent on the cost structure decided at the time of product design and upheld during production, distribution, and maintenance.

*Price wars* in the computer industry, a wholesome case study, is the subject of Chapter 13. As far as computers, their makers, and their customers are concerned, the price wars of late 1970s have been a strategic inflection

point, akin to the break-up of AT&T by the decision of Judge Green in the 1980s. Until then, IBM was by far the dominant decider of computer design and of prices. Other computer companies read IBM's price list and tried to do a little better.

But the late 1970s computer industry price wars turned this comfortable price leadership on its head, unleashing a wave of competition. This has been followed by a forward leap in technology and by the switch to Vaxes, PCs, LANs, client-servers, database machines, supercomputers at affordable cost and, more recently, cloud computing.

The theme of Part Five is the financial aspects of enterprising. Chapter 14 concentrates on *financial management*, and most particularly on budgeting: the short-term financial plan. Contrary to what is generally thought, a budget is no authorization to spend money. It is a plan matching spending needs—including operational costs and investments—with financial resources. Budgets must be flexible and adaptable, alternative budgets being one option; and they should be carefully controlled.

A company's *cash flow*, the other subject of Chapter 14 comes from sale of its products and services, depreciation, amortization, retained earnings, and sale of assets. A sustainable cash flow commensurate to the company's assets and plans of operation underpins financial staying power. Cash flows are reduced by servicing debt that raises the argument of management's equity versus debt decisions.

*Costs matter.* Chapter 15 is dedicated to profit centers and cost control. Profit centers are income earners; cost centers survive through budgetary allocations. Therefore, organizational structure based on the former is the preferred solution. A neat profit center organization must be supported through standard costs, with plenty of attention paid to effective control over expenditures.

Chapter 16 concludes this book by bringing the reader's attention to longer-range financial planning, management accounting, and reliable financial reporting. The most advanced information technology should be used to promote management's ability to be in charge of financial matters. Virtual balance sheets are an example.

Successful management is never based on vagueness. The 16 themes treated in an equal number of chapters and their case studies provide evidence to this statement. Only profitable firms can survive in the longer run, but profitability can never be taken for granted. Even the best analysis of future income can be misleading because of inaccurate, delayed, or

outright false financial data, or by drift often beset by management whose time is almost up.

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In each of the themes to which it addresses itself, the text examines the principles of management and how they can be put into practice in a pragmatic way. It also brings to the reader's attention the positive and negative aspects of different policies and whether or not current practices related to forecasting, planning, organizing, staffing, directing, and controlling have been producing the required synergy.



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# Contents

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Preface .....xi  
Acknowledgments .....xvii

## Part One Business Strategy

**Chapter 1** Strategy ..... 3

    1.1 Business Strategy Defined .....3  
    1.2 Sun Tzu and Machiavelli .....7  
    1.3 Strategic Crossroads ..... 10  
    1.4 Examining Cause and Effect.....15  
    1.5 Salient Issues in Industrial Strategy.....18  
    1.6 Devising a Strategy for Growth .....23

**Chapter 2** Management ..... 29

    2.1 The First Syllable of “Management” is “MAN” .....29  
    2.2 Leadership.....32  
    2.3 The Manager of the Twenty-First Century.....36  
    2.4 Management Decisions..... 40  
    2.5 Hard Work..... 44  
    2.6 The Risk of Mismanagement.....47

**Chapter 3** Functions of Management ..... 53

    3.1 Six Basic Functions.....53  
    3.2 Corporate Policy .....57  
    3.3 The Management of Change .....61  
    3.4 Responsibilities Commensurate with Authority..... 64  
    3.5 Management by Objectives ..... 68  
    3.6 Management by Results .....71

## Part Two Management Principles

<b>Chapter 4</b>	Forecasting and Planning.....	79
4.1	Forecasting.....	79
4.2	Assumptions Made in Forecasts.....	81
4.3	Forecasts and Action Plans .....	85
4.4	Forecasting Methodologies .....	88
4.5	A Forecast That Was Not Heeded but That Proved Right.....	91
4.6	Planning.....	93
4.7	Planning Periods.....	98
4.8	Integrative Planning: A Practical Example.....	101
<b>Chapter 5</b>	Organization and Structure .....	105
5.1	Structure Must Follow Strategy.....	105
5.2	Radial, Spokelike Organizations .....	109
5.3	The Span of Management .....	113
5.4	Structural Prerequisites for Global Business .....	118
5.5	The Job of Downsizing.....	121
5.6	Reengineering the Enterprise .....	125
<b>Chapter 6</b>	Staffing and Directing .....	129
6.1	Human Resources Strategy .....	129
6.2	The Laws of Human Resources Are Asymmetrical.....	132
6.3	Managing the Human Resources.....	136
6.4	The Act of Directing.....	140
6.5	Conceptual and Directive Personality Traits .....	143
6.6	Managers Working under Stress .....	147
6.7	Productivity.....	150
<b>Chapter 7</b>	Management Control.....	155
7.1	Management Control Defined.....	155
7.2	Business Reputation .....	159
7.3	The Span of Internal Control .....	162
7.4	Promoting Dissent.....	166

7.5	Firing a Bad Executive and Swamping Malfeasance .....	170
7.6	Internal Control Assessment .....	174

## Part Three Marketing and Sales

<b>Chapter 8</b>	Marketing .....	181
8.1	Marketing Functions.....	181
8.2	A Marketing Organization's Best Efforts .....	185
8.3	The Longer-Term Marketing Perspective.....	190
8.4	The Marketing Mission: Case Study on Wrong- Way Market Research .....	193
8.5	Case Study on Global Marketing by a Multinational Company .....	197
8.6	Challenges of a Global Marketing Strategy .....	201
8.7	Apple, Google, and the Power of Regulators .....	204
<b>Chapter 9</b>	The Market's Conquest .....	207
9.1	The Annual Marketing Plan .....	207
9.2	Making the Marketing Plan.....	210
9.3	Bloomberg Financial Markets: A Case Study .....	214
9.4	Marketing the Use of Reverse Innovation .....	217
9.5	Conquering the Market through Empire Building: Geneen and Chambers .....	221
9.6	Gates and Microsoft's Hollywood Marketing Machine .....	224
9.7	Microsoft's Marketing Methods: The Empire Struck Back.....	227
<b>Chapter 10</b>	The Sales Force .....	233
10.1	Sales Tactics of the Masters .....	233
10.2	Results Expected from the Sales Force .....	236
10.3	Establishing Quantitative Objectives.....	240
10.4	To Be Ahead of the Curve, Use Knowledge Engineering, Not Arm-Twisting.....	244

10.5	Brand Recognition.....	247
10.6	Salesmanship and Entrepreneurship Correlate: Reichmann and the Canary Wharf .....	251
10.7	Deeper and Deeper in Debt Is Poor Financial Salesmanship.....	254

## **Part Four Innovation**

<b>Chapter 11</b>	Technology.....	261
11.1	Research and Development.....	261
11.2	Strategic and Tactical Products .....	264
11.3	Return on Investment Should Not Be Taken for Granted .....	269
11.4	Planning for Innovation .....	272
11.5	Don't Sell Quality to Buy Market Share: Toyota's Failure .....	275
11.6	Securum: Using Technology to Build up Defenses.....	279
11.7	The Right Feedback on Product Information.....	283
<b>Chapter 12</b>	Product Planning and Pricing.....	285
12.1	The Product Planner.....	285
12.2	Product Planning and Business Opportunity .....	290
12.3	New Product Planning Methodology: A Practical Example .....	293
12.4	Product Pricing through Reverse Engineering .....	298
12.5	Product Pricing Is Not a Scientific Discipline .....	302
12.6	The Need for Formal Profit Planning .....	306
<b>Chapter 13</b>	Computer Price Wars.....	311
13.1	An Inflection Point in the Computer Industry .....	311
13.2	Price Wars and the Stock Market.....	314
13.3	Tough Cost Control Is the Best Way to Field off Competitors.....	317
13.4	Warehousing, Inventories, Supply Chain, Channels of Distribution, and Maintenance.....	321

13.5	Half-Baked Solutions Have Short Legs.....	323
13.6	Users Don't Always Appreciate That They Are Getting Semitechnical Products.....	326
13.7	The Dark Age of Mainframe Mentality Enters Cloud Computing.....	330

## **Part Five Financial Staying Power**

<b>Chapter 14</b>	<b>Financial Administration and the Budget.....</b>	<b>337</b>
14.1	Financial Administration.....	337
14.2	A General Electric Case Study on Financial Management.....	341
14.3	Improving Financial Performance through Diversification: Amadeo Giannini.....	345
14.4	The Budget.....	348
14.5	The Interest and Noninterest Budget.....	351
14.6	Cash Flow.....	355
14.7	Cash Flow Management .....	358
<b>Chapter 15</b>	<b>Profit Centers, Cost Control, and Standard Costs.....</b>	<b>363</b>
15.1	Profit Centers and Cost Centers .....	363
15.2	Cost Control .....	367
15.3	Fixed, Semivariable, and Variable Costs .....	370
15.4	Costing Culture and Profitability.....	374
15.5	Standard Costs .....	378
<b>Chapter 16</b>	<b>Financial Planning and Control.....</b>	<b>383</b>
16.1	Longer-Range Financial Planning .....	383
16.2	Debt versus Equity.....	386
16.3	Overhead Costs.....	389
16.4	Something Can Go Wrong with Profit Planning....	392
16.5	A Profit Planning Methodology .....	394
16.6	The Planning, Programming, and Budgeting Method.....	397
16.7	Management Accounting and Virtual Financial Statements.....	400
<b>Index</b> .....		<b>405</b>

## **Part One**

# **Business Strategy**





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# Strategy

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## 1.1 BUSINESS STRATEGY DEFINED

By *strategy* we understand the art of conquest by means of a master plan. A strategy may be personal, corporate, or national, or it may be civilian, cultural, religious, or military. Buddha said, “Between him who conquered in war millions of men, and him who conquered himself, the greater victor is the latter.” The conquest of oneself is the supreme strategy.

Some strategies prove to be brilliant; others are dumb or outright disastrous. The error, however, is not always in the master plan. “The value of a strategy is that of the people who apply it,” said Jack Welch, the former chief executive officer (CEO) of General Electric (GE). His dictum applies in the dual sense of

- successes, and
- failures

“Once we have learned our lesson from a failure, we must again assume the risk commensurate to the job we are doing,” Walt Disney once suggested. In the opinion of Bernard Arnault, of LVMH and Christian Dior, “errors are inevitable—but properly used they can serve in forming one’s mind.” What should be avoided is falling into the abyss. Therefore the master plan should be dynamic, adaptable, with a “Plan B” for fallback.

Business strategy achieves its aims through a plan (Chapter 4) consisting of tactical moves that concern the execution of operations under the master plan. *Tactics* are a vital ingredient of strategy, but they