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What Every Business Must
Do to Dominate the Decade

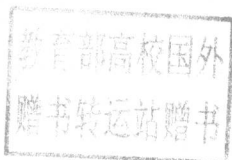
AGENDA

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MICHAEL
HAMMER

of *REENGINEERING THE CORPORATION*

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The Agenda

*What Every Business
Must Do to Dominate
the Decade*



**MICHAEL
HAMMER**



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First Paperback Edition

Praise for *The Agenda*

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Is Changing Our Work and Our Lives*

In memory of my mother

Helen Gartner Hammer

1919–1997

*A woman of extraordinary intelligence, great humor,
and unfathomable courage.*

She taught me more than I could ever learn.

Acknowledgments

Some books seem to write themselves; this one most assuredly did not. Fortunately, others lent their shoulders to the task of pushing this boulder up its hill. Jeff Goding and John Hughes made major contributions to the research and learning that underlie this book. Hannah Beal Will and Lindsay Field made sure that neither the book nor I fell between the cracks that kept opening beneath our feet. I owe a special debt to Donna Sammons Carpenter, who urged me to undertake this project in the first place and provided invaluable and insightful advice along the way. Bob Barnett did everything and more that one can expect from a literary agent. John Mahaney, my editor at Crown, has been a forceful and articulate champion for this book, and his critiques and suggestions have been flawless. Above all, my wife, Phyllis, with her wisdom and her optimism, kept me from falling off the rails more than once, and she and our four children tolerated with good humor the side effects of a seemingly infinite number of drafts. To all these and more, I offer my deepest appreciation.

Preface

To write a business book today takes confidence that verges on foolhardiness. The business world changes so quickly that a book is likely to be irrelevant by the time it appears: one extolling innovation and growth will at best be quaint in a time of retrenchment and cost-cutting. Even worse, the book's principles might have been proven invalid in the months between completion of its manuscript and its appearance in print, or the exemplars that the book cites may have fallen from grace. More than a few business books written during the New Economy frenzy are now principally of interest only for their nostalgic value. It is therefore with some considerable relief that I observe, while preparing for the publication of the paperback edition, that *The Agenda's* underlying premise—the emergence of a customer-dominated economy and the need for companies to employ a wide range of management innovations to cope with it—is even more relevant today than when the book was written or when the hard-cover edition appeared.

I began writing *The Agenda* in 1999, at the height of what was then described as a boom but is now recognized as a bubble. Difficult though it may be for the contemporary reader to credit, there was much rash talk at the time of the abolition of the business cycle, of the Dow reaching 36,000, and of the Internet “changing everything.” Every day (or at least every business magazine cover) seemed to bring yet another revolutionary development that would change the world beyond recognition. I was not persuaded. My thinking about business had been influenced by the French historian Fernand Braudel and his colleagues in the *Annales* school, who argued that to understand history one had to understand *la longue duree*, the long term, the fundamental socio-economic trends that manifest themselves in historical events. Braudel famously argued that those who conventionally see themselves as the great shapers of history,

the statesmen and generals and politicians, are “despite their illusions, more acted on than actors.” To him, “resounding events are often only momentary outbursts, surface manifestations of larger movements and explicable only in terms of them.” To me, Braudel’s view of statesmen applied as well to CEOs and other Wall Street moguls. Peter Drucker, the twentieth century’s most profound business thinker, was similarly inclined to take the long view; I recall hearing him answer a question many years ago about the Soviet Union by reviewing a hundred-year trend in Russian agricultural productivity.

I tried to see the late-twentieth-century world of business in the same way Braudel saw the sixteenth-century world of the Mediterranean. Rather than focusing on the short-term epiphenomena that dominated the business headlines, I looked for basic trends playing themselves out over decades rather than weeks, trends that would dictate the long-term agenda of enterprises. And although my own vision is far narrower than either Braudel’s or Drucker’s, I happened across such a theme: the ascent of the customer. The rise of the consumer movement, the growing importance of quality, the Japanese dominance of consumer electronics, the decline in the Big 3’s market share, the triumph of Wal-Mart—these and many others were symptoms of a fundamental shift of power from those who made and sold products and services to those who bought them. The underlying causes of this shift—globalization, productivity-induced overcapacity, and commoditization—were long-term secular trends with great momentum. The restructuring of the 1980s and the reengineering of the early 1990s were both attempts by companies to respond to customer power, as arrogant corporations, which had formerly spoken with assurance of their profit plans, began to tremble in fear of their customers. These initial efforts were partly successful, but they were sidetracked in the late 1990s by a swirl of phenomena loosely lumped under the New Economy umbrella: the Internet and electronic commerce, new business models and venture-based start-ups, an obsession with the constantly rising stock market. These distractions no longer litter our mental landscapes; the relentless growth in customer power continues. How

companies and countries respond to this epochal shift will determine their futures.

Headlines are less important than footnotes; this is as true today as it was in the 1990s. As I write, the business press concentrates on corporate ethics and CEOs in handcuffs, on insider trading and financial analyst independence, on accounting irregularities and stock market declines. All very interesting, and all relatively minor in *la longue duree*. These are not the questions that will determine the long-term health of a company or an economy. The real issues are there for all to see, if they would only look:

- The U.S. economy continues to sputter along, despite an unprecedented string of interest rate cuts by the Federal Reserve, to the point where real interest rates verge on the negative. Many are puzzled by the economy's seeming unresponsiveness to traditional macro-economic stimuli, but easy credit makes little difference to companies with no reason to expand.
- Overcapacity continues to stalk the land. Less than 5 percent of the optical telecommunications fiber installed in the 1990s is actually in use; the world is awash in excess chemical plants, semiconductor equipment, and airplanes.
- Even when demand increases, companies have no pricing power over their powerful customers; any attempt to raise prices is quickly beaten back. This issue is reputed to be of major concern to our most senior economic policymakers, because no pricing power means little profit means little capital investment means little job growth.
- Deflation, a term rarely heard since the 1930s, is being discussed in polite company. As increased productivity continues to outstrip demand growth, prices fall. While seemingly a boon for buyers, deflation can wreak havoc in an economy, as borrowers (i.e., almost everyone) must repay debt with more valuable dollars.
- China's increasing participation in the world economy is leveraging these trends. Those who first saw China as a country of a billion

consumers are now starting to realize that it is also a country of a billion producers. Low cost and increasingly high quality, China is quickly becoming the world's foundry, providing customers worldwide with more, better, and cheaper goods.

- Recent research has even shown that the happy days of the 1990s boom were less happy than was thought at the time. A McKinsey study determined that more of the benefits of the productivity gains of the 1990s flowed to customers in the form of lower prices than to shareholders—exactly what one would expect in a customer-dominated economy.

In short, we are playing a new ball game, and those who play by old rules and follow old strategies are doomed. But while the customer economy is a new game, it need not be a hopeless one. Some companies—many of whom are cited in this book—are learning how to succeed in this environment. They are writing new rules for the new game. These companies distinguish themselves by doing business the customer's way instead of their own, by designing out costs that others futilely try to cut out, by adding more value instead of more overhead. They operate and manage themselves in novel ways: they attend to their end-to-end processes, they measure themselves with purpose and discipline, they substitute teamwork for hierarchy. Most fundamentally, they place great emphasis on their operations, on the nuts and bolts of business, on how work is done and value is created. Wal-Mart and Dell, Progressive Insurance and Toyota, Harley-Davidson and Duke Power: these are not high-concept companies. They are in mature industries, beset by slow growth and cutthroat competition. They do not have exotic value propositions or “business models.” They do not succeed through financial engineering or government relations. Yet they do succeed and they do so on a sustained basis. The secret of their success is found in their operations. These companies operate at lower costs and with higher quality than their competitors; they are faster to market and provide better service; they grow not through acquisition but by taking share from competitors.

Very important, these companies succeed through imagination and finesse rather than brute force. They do not merely out-execute their peers; they out-innovate them. From cross-docking at Wal-Mart to just-in-time at Toyota, from immediate claims response at Progressive to supplier integration at Harley, the winners in the customer economy find new and powerful ways to do their work. They are masters of operational innovation and they never relent, constantly searching for new ways of working that will put them even further ahead of their competitors. If some of their competitors eventually manage to copy their innovations, others will not; and by the time competitors catch up, these companies will have moved even further on.

The purpose of *The Agenda* is to help all companies become such masters of operational innovation. The book offers a set of management precepts that I have learned by working with and studying companies that are succeeding in the customer economy. However, the themes of the book are not the particular industry- and situation-specific steps these companies have taken: cross-docking is of little relevance to a financial services company, while immediate claims response is directly applicable only to insurance. I focus instead on the underlying capabilities that enable companies to develop their own winning moves: customer focus, process management, disciplined measurement, and more.

I do not maintain that the companies cited in this book are paragons of perfection; they are not role models to be copied in all particulars. It is what they do, rather than who they are, that bears study. Nor does *The Agenda* make any grandiose assertions of transcendental timeliness; I do not claim to have discovered the secret of eternal business success. What this book offers instead is concrete guidance for companies struggling to cope with today's extraordinarily difficult environment.

While I am gratified that both the premise and the principles of *The Agenda* have held up with the passage of time, I am not entirely unsurprised by what has transpired since I wrote the book. When I originally set forth the principles in *The Agenda*, some of them were modest extensions of contemporary practice, while others were cutting-edge to

the point of speculative. I expected (or hoped) that many companies would adopt the more conservative practices while a few more innovative companies would take some cautious steps with the more radical notions. In fact, the uptake on the more adventurous principles has wildly exceeded my expectations. In particular, the concepts set forth in Chapters 8, 9, and 10—that companies need to break the walls that separate them from customers and suppliers, integrate their processes across corporate boundaries, and position themselves as parts of collaboratives rather than as stand-alone entities—are entering the business mainstream. The maturation of technologies that enable such inter-enterprise integration, from XML to web services, has given these concepts an enormous boost. Sometimes, I suppose, *la longue duree* does not take so *longue*.

The German edition of *The Agenda* was subtitled (in English, no less) *Back to Basics*. I am comfortable with the use of the term *basics*, because these sober times demand a renewed emphasis on the fundamentals; however, I prefer *Forward to Basics*, because the basics we now need are not of the past. New times demand new principles, and that is what *The Agenda* offers. I wish the reader success in their application.

Michael Hammer, 2003

The Agenda

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1

Get Serious About Business Again

Welcome to the Customer Economy

Suddenly, business is not so easy anymore.

For a very brief period in the late 1990s, it seemed that all the problems of business had been solved. Everywhere one turned, enterprises were booming. Established companies were racking up record sales and earnings. Start-ups were deluged with capital. Everyone was doing well, and everyone was making money. Growth and success were taken for granted. Confidence was high. Customers were spending. The stock market was moving in one direction only—up.

Anyone seemed to be able to win at business. Knowledge, technique, and experience were not needed, only energy, gumption, and attitude. The new American dream had nothing to do with working hard and long to build a business but featured instead hanging out with some buddies, coming up with a cool idea, and “going public” in a year or so. The business *zeitgeist*, as promoted by self-proclaimed visionaries, was that we were in a “New Economy,” in which the business cycle had become a thing of the past. The Internet had changed everything, and mundane issues like cost and quality and inventory had become irrelevant.