# Rebels with a cause

## *How a new wave of multinationals are radically redefining corporate strategy*

For baseball fans, one of the modern legends that has enriched the sport was the success of the success of the Oakland Athletics team of the early 2000s. The team was one of the poorest, had little marquee talent, and yet through the genuinely radical, iconoclastic strategies adopted by the management team led by general manager Billy Beane it became on of the most successful teams of the decade.

The story was encapsulated by former Wall Street journalist Michael Lewis in his 2003 book *Moneyball* – rendered into celluloid with Hollywood star Brad Pitt no less in 2011 – and the book has become an alternative corporate strategy guide in how to redefine the game being played and excel when the competition are still lumbering under several misapprehensions. The book and the team were a success – but what are the real-world businesses doing to emulate such bold strategies?

### New world order

Typical of the change up in statistical and empirical number crunching was the re-evaluation of enshrined baseball statistics such as batting averages. Pored over by American kids for generations, venerated should any batter achieve over 0.400, the statistics are regarded as part of American life itself. However Billy Beane and his cohorts we given the freedom to challenge the hegemony of such data, as long as the budgets were kept tight. This was ok. One of the key scenes in the book is draft day, where all the alternative metrics put to use – termed ''sabermetrics'' – have identified players with outstanding empirical evidence proving their worth, such as high on-base percentages in competitive leagues. These players are, to the disbelief of the A's team, missed by the other Major League teams who instead go for more traditional achievements such as numbers of home runs scored, so that their targets come to them at every round of the draft and for a good price.

This willingness to challenge the existing order of things in the context of marketing is analyzed by Andrew R. Thomas and Timothy J. Wilkinson in their article ''The blame game'' (2011). Describing marketing in America as ''dysfunctional'', the authors examine not the ''evil corporate retailers'' as many authors do, but the suppliers of the huge multinationals such as Wal Mart, who like lemmings rushing for a cliff charge into the sleek headquarters of the mega-retailers willing to undergo any amount of price cutting just to get on the shelves. The problem is, as the authors point out, the whole rush to market in this way is unsustainable, and leaves only one winner: the big retailers.

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## Adding value

Let’s take the example of a breakthrough product in homeware. It has style, great design and coverage in all the leading home and living magazines. When the distribution model gets stretched, the manufacturers join the long lines outside the big retailers’ doors but with a compelling case for inclusion on shelves, and hey presto! They are accepted into the fold.

The logic of what happens to many such manufacturers then is chilling: retailers continually negotiate downwards on price. They refuse to take into account the increasing costs of raw materials. Manufacturing is forced offshore. Loyal suppliers are rewarded with cancelled contracts and lay offs. The majority of sales no lie with a handful of retailers. Sales are great, but margins are almost non-existent and are kept under pressure. Eventually the products lose their spot on the shelves to someone even cheaper and a once thriving company is left with no provenance for its products, no markets and no friends. The authors point this out without any judgment, but explain case after case where this has happened while pointing to successful companies such as Stihl which has refused to enter the big retailers, preferring to stick with its intricate network of independent stores where service offers are present for its products. The conclusion is that the large retailers’ business model is not for everyone, and may remove value for products instead of adding it.

## Follow the money

In their article ‘‘Unlocking new value in global business services’’ (2011), Cliff Justice and Bob Cecil argue that finance executives should look harder at why and how they move services and operations inside the company and outside with outsourcing strategies. A hybrid strategy is best with an eye on the bottom line, but often the authors argue decisions are made on cost basis alone rather than looking at the potential to add value. An approach that appraised all steps in the value chain for operations balancing cost reduction and value adding activities will result in a more streamlined, efficient global operation.

Justice and Cecil helpfully and succinctly distil this initiative into six strategic considerations:

1. Question the nature of outsourcing relationships and shared services in terms of whether they are managed at a strategic level.
2. Investigate the development of an enterprise strategy for service development, in line with corporate strategy and its goals.
3. Ensure technology is working hard for the business.
4. Take an holistic view of delivery on a global scale to ensure each geographical market is being served optimally.
5. Gauge how mature the service level is within the organization, and decide on what the most efficient balance of in-house, shared and outsourced service delivery.
6. Finally, examine the culture of the organization and identify barriers to adoption of end-to-end processes and the break up of silos.

The authors point to cloud computing as a good example of developing a mature, efficient and shared process to aid service delivery, which enable costs to be shared, global access without boundaries and the flexibility to alter the scale of services needed depending on demand.

## Decisions, decisions

However it is all very well imaging some corporate nirvana where such decisions are taken with confidence and background stability, however in the economic climate of 2011 where European banks are shuddering under the weight of failing economies and there is almost zero consumer confidence to fuel any type of growth, who can take such decisions so abstractly? The truth for many firms is that short-term, cost-effective decisions dominate, and in areas such as outsourcing this is determined by the bottom line, not ideal corporate strategy.

This is recognized by Ronan McIvor in his article ''Outsourcing done right'' (2011), which looks at four strategies to help organizations when and why to choose to outsource, or invest on in-house capabilities to develop a process or function. This decision-making is determined by identifying whether the firm's capability relative to the potential outsourcing, and how it will contribute to the firm's competitive advantage. By mixing these two position together, McIvor produces a matrix with four position from which to make an outsourcing decision that best reflects the corporate imperatives of a company:

1. *Less capable; not critical to competitive advantage*. This is an easy decision to make, as the firm in question is unable to create efficiencies in the same way as it would by outsourcing, and by outsourcing there is no real effect on the firm's competitive advantage position (outsource).
2. *More capable; not critical to competitive advantage*. Here there is similarly no overall change to competitive advantage, and little opportunity to develop outsourcing due to the strength of internal capabilities. Here it is advisable to keep activities internal, but outsource if capability could be shared or sold to other firms and the activity itself is outsourced as a subsidiary business (internal or outsource).
3. *More capable; critical to competitive advantage*. This position may seem to result in a difficult outsourcing choice, however in a complex situation where competitive advantage may falter in the future, or where there is an opportunity to develop long-term capabilities outside, outsourcing can be a good move. On the other hand, if the capability in question is central to current and future growth, keeping it internal and developing it further is still the correct way forward (internal or outsource).
4. *Less capable; critical to competitive advantage*. Perhaps the most difficult decision, as a firm that derives great competitive advantage from an activity it has little capability in is vulnerable. Outsource and it could make the firm even stronger; however choosing to invest if the competitive advantage is long term may be the wiser decision, especially if opportunities for outsourcing are low (internal or outsource).

## American dream

Going back to baseball, what makes Billy Beane's story in *Moneyball* all the more poignant is he himself had once been a phenom, with immense talent and promise as a baseball player

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only to fail when it came to translating it to the Major Leagues. Where talent let him down, acuity and perseverance paid huge dividends when it came to coaching, and it is this mental agility that is defining the new generation of successful multinationals in the most challenging conditions for decades. Utilizing complex strategies and analyzing the most efficient, real-world scenarios around a business will help trick outsourcing and marketing decisions, and hopefully lead to success, whatever the odds.

## Comment

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Corporate strategy,
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The three articles reviewed here present some alternative strategies to management decision-making, made all the more important during a global financial crisis. Both McIvor (2011) and Justice and Cecil (2011) offer clear strategic direction regarding outsourcing and sharing processes, and in particular offering a focus on the strategic imperatives in play with such decisions above and beyond simple cost reduction. In addition, Thomas and Wilkinson (2011) provide fresh insight into taking products to market and the dangers of partnering with the dominant operators in the US.

## References

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