

*Ghostwritten Article for:*

**Management Review**

April, 1995

"COST, COMPETITION & COOKIES: SHATTERING THE CONSISTENCY VERSUS COST DILEMMA"

How does a multi-unit, geographically dispersed company such as Mrs. Fields Cookies achieve a competitive edge? Competitive advantage is the result of a company's "formula for success" -- its concept, product offering, customer service, and management techniques -- and the company's ability to effectively execute that formula across locations. The most efficient way to attain consistency of performance is through the use of technological systems that embed corporate directives in computer software.

Historically, the problem of inconsistent performance has been addressed through the application of corporate policies and procedures, management staff, and reporting processes. These solutions aren't enough. Consider, for example, the experience of Debbi Fields.

In 1980, Debbi Fields went to visit a Mrs. Fields Cookies store in Hawaii -- the company's first location outside her direct management. As co-founder of the business, she wanted to make sure the four-month-old store was meeting all operating standards under the watchful on-site tutelage of Steve, the company's very best quality-oriented manager.

Up to that point, maintaining a consistent set of standards and practices in Mrs. Fields' stores was a fairly straightforward task. Debbi Fields could drive to these stores on a daily basis to review operations. As long as a location was under her direct span of control, there were few problems with replicating the concept, product offerings, and practices that reflected company values and strategies. Product quality and Debbi's "hour by hour" management technique (in which managers work toward hourly sales and production goals) remained intact.

But the Hawaii store was another matter. There, Debbi found that after four months the cookies bore little resemblance to her original product. In fact, she said, "they looked like little

cakes." Unknowingly, Steve had allowed the cookies to migrate a bit each day, in barely noticeable increments, from their original form and texture. This transition was unplanned and virtually undetectable by store employees, since each day's fare was compared with the previous day's already altered version rather than the original. The unintended consequence: a product that was no longer consistent with company standards.

Debbi Fields' experience illustrates the battle every company must wage to achieve consistency in their product and service quality, operating procedures, and overall performance. The marketplace has clearly shown that it appreciates such consistency, and for companies such as McDonald's, Disney, Levi-Strauss, and Hewlett-Packard, consistent quality and performance have become a major part of their competitive strategy.

Traditionally, though, the cost of building consistency across many units or geographical markets has been high. Vertical controls -- a retail store or plant operator who is checked by a district manager who is checked by a regional manager -- can raise cost structures to dangerous levels. Likewise, horizontal controls -- functional staff in finance, human resources, and other areas who enforce corporate policies through procedures and paperwork -- add to the financial burden. These approaches generally spawn complex bureaucracies, as evidenced by boxes of forms, reports, analyses, and memos that attempt to create uniform operations through the slow but structured gathering of data and distribution of corporate advice, policy revisions, and directives.

But in recent years, many companies have adopted new strategies and tools for building consistency. One of the main weapons in this arsenal: technologically-driven, "paperless" management systems that coordinate dozens of activities across both functional and geographic lines. Through the use of rules-based software programs (expert systems derived from artificial intelligence technology), organizations are reducing layers of management and eliminating activities designed solely to confirm that locations are functioning in ways that are consistent with corporate policies and are leveraging the existing pool of corporate information.

## **Cost Versus Consistency**

Proper application of technology can minimize the dilemma faced by managers who must build consistency while simultaneously holding down costs. These dueling pressures have led many managers to feel that they were being asked to "draw a square circle," as an executive at one electronics company put it.

As a result, a manager may try to solve this dilemma by asking, "How much consistency do I have to give up to stay within the company's budget constraints or financial model? Not surprisingly, this unappealing scenario may lead to procrastination or the most dangerous choice of all -- doing nothing to maintain consistent practices. In other cases, it has caused firms to waver in their approach, alternating periods of tight, high-cost controls -- after yet another reorganization or change in management philosophy (read: fad) -- with periods of loose, uncoordinated chaos.

In today's marketplace, there's no room for the confusion and cynicism that dominate in such uncertain work environments. In fact, consistency is more important than ever in these days of instant communications and demanding customers, when even one mistake has the potential to sink a company. Consider the threat experienced by Jack-in-the-Box, a fast food chain, when the hamburger meat at one of its locations was not cooked properly and exposed customers to harmful microbes, thus endangering lives.

Most companies have attempted to develop and ensure consistency with the "Three Ps": people, paper, and procedures. They add layers of management whose sole responsibility is to ensure that the people under them are conforming to corporate policy, creating a superfluous body count that contributes little to the actual work being done. They also create a flood of paperwork, using sales reports, personnel forms, and other paper-based processes to achieve uniform operations.

Moreover, today's procedural canon often is outdated or even incomprehensible to the location manager because its dissemination is ineffective and unwieldy. At the same time, paperwork encumbers location managers with minimally productive responsibilities. Many want to make the transition from manger to leader, but instead find themselves feeling and acting like bureaucrats stuck in an administrative quagmire.

There are limitless variations on the "Three Ps" solution, the most common being a self-delusional plan to hire the most magnificent and disciplined workers available without paying a premium for them. This strategy only works if your competitors don't have the same idea (good luck). But even if you do hire the best and brightest, this tactic won't ensure protection from inconsistent results. Plenty of anecdotal evidence suggests that eager, innovative employees are the very ones who push the border of established procedures. Their contributions are a source of wealth when harnessed within the company's values and systems. But if their input is haphazard - recall the imagery of Lone Rangers and loose cannons -- the risk taking can be disastrous.

### **Developing Consistent Operations**

Technology -- in the form of action management systems -- helps to shatter the age-old dependence on high-cost controls in achieving corporate consistency because it replaces many of the costly vertical and horizontal controls that previously have been used to achieve uniform operations.

INSERT GRAPH HERE

Why is this so? Consider the results of "Three Ps" management. Operations information flows up the chain of command as a result of paper-based reporting procedures. It is analyzed by top executives, who determine the appropriate organizational response and send action directives, in the form of paper-based policies or instruction from intermediate managers, back down the hierarchy. Success or failure of the directive is measured through the capture of new data, which

is sent once again on the information-to-action route. The system is marked with time delays, waste and error.

Nonetheless, the management process outlined above can be broken down into four parts: Data collection, information compilation, information analysis and decision making, and action directives. Each segment of the process benefits from increased consistency when technology is applied to the challenges of organization management. Here are some illustrations.

The Data Collection Problem. Collecting employee attendance data for use by payroll and personnel departments is an administrative task common to all organizations. At first glance, the collection process seems to be a reporting procedure that enforces company policies regarding employee pay for hours worked. However, placed in the larger context of unit operations, inefficient collection procedures result in a loss of consistency in overall performance. For example, prior to the implementation of technological solutions, a national pizza chain used a manual punch in/punch out system to track restaurant employee attendance. At the end of each week, the manager for each of the company's 560 locations made a 10 minute call to corporate headquarters with the attendance report.

Why did this data collection system have an impact on product and service quality? First and foremost, the administrative task took the restaurant manager away from the floor and his primary responsibility of managing his employees to meet company standards. The person most accountable for consistent quality was removed from actual operations -- on a weekly basis. In addition, the attendance data gathered by each manager was not easily compiled or tracked for organization-wide trends. Tardiness is a corporate concern. Employee lateness can cause insufficient floor coverage, which results in inadequate customer service. However, this company had no efficient way to measure the extent of their tardiness problem.

Adopting a time and attendance software package improved the speed and accuracy of data collected, eliminated the opportunity for human error during the collection process, and

lessened the location manager's administrative load. Employees now clock in and out on a computer, which compiles and transmits the data to headquarters on a nightly basis. In addition to receiving information in a form that is easily manipulated and analyzed, the company experienced a reduction in the costs associated with organizational control. Since attendance data collection went on-line, corporate staff has been reduced, resulting in a savings of \$200,000 per year.

The Information Compilation Problem. All organizations structure sales, personnel, and operations information collection and compilation through the use of reports. However, these reports are a misleading management tool if the information contained in them is out-of-date. When executives make decisions based upon where the company was 30, 60, or 90 days ago, the organization exchanges incremental improvements in consistent performance for a zigzag course of constant catch-up corrections.

For example, a specialty retailer found that employees completed a total of 260 different forms in the course of administering the business. Why? The district manager wanted information, the regional manager wanted information, and management and each of the functional divisions at corporate headquarters wanted information. The same bit of information might appear on four separate forms sent to four separate people. Since the process of sharing paper-based information was slow in this geographically-dispersed company, if another person wanted the same data, he often created yet another form.

The result of this flood of paperwork was that store managers spent 60% of their time on administrative tasks and corporate headquarters still didn't truly know what was going on in the field. Multiple forms phrased requests for information in different ways and covered different time periods, so that the data collected on different forms couldn't be compared. By the time information reached top management, so much time had passed that the reports no longer reflected current store operations. Clearly, policy decisions made under these conditions would

have a negative influence on performance. With different people receiving different reports at different times, directions to stores were based on contradictory information. And, as with data collection, the reporting processes took the manager away from his most important function, ensuring consistency in the day-to-day running of his store.

Automation of the reporting process improved the company's collection and compilation of data and provided executives with better information for achieving even more consistent operations. Fifty automated forms were developed that replaced the 260 previously in use. Reports were distributed to multiple locations electronically, closing the time gap between when the form was completed and when it was received. Centralized information compilation and dispersal ensured that everyone who needed to know could know the same thing at the same time and proceed accordingly.

In addition to improvements in information flow, the company was able to redirect the store manager's time away from administrative tasks and onto the sales floor. Store managers now spend 80% of their time managing store operations rather than completing reports in a back office. The company confirms that adopting a technological management system has enabled them to redefine the manager's role throughout their organization.

The Analysis and Decision Making Problem. Increases in integrity of information and the speed with which it is received, which are the results of improvements in data collection and information compilation, lead to better analysis and decision making by the executive. In addition, specific technologies exist that improve the consistency with which data is analyzed, including software that allows users to manipulate figures and create multiple "what-if" scenarios.

Before instituting computerized financial models, a specialty retailer found that line managers and executives lacked a common background and framework for understanding the impact of sales and expense figures on the company. Discussions centered upon what data meant rather than what decisions should be made based upon the information at hand. Since

implementing a financial analysis tool with drill down capabilities, interaction between all levels of the management staff, from seasoned executives to new-hire store managers, has been facilitated. In addition, the technology has promoted the exchange of ideas between front-line employees and corporate headquarters, because all employees find it easier to explain the implications of the shared information.

The Action Directive Problem. While improvements in data collection, information compilation, and analysis and decision making lead to better policy directives, executives are still faced with the challenge of disseminating those directives to all employees and ensuring that they are being followed. Traditionally, new procedures have been distributed in the form of memos or manuals. There is no way to measure whether or not the new policy has been remembered or even read by an employee. The result is inconsistent performance and product quality as some employees follow the newest policies and some don't.

The solution is software that allows executives to define the key business information that their location managers need and action prompts that recommend appropriate responses. For example, a manager's computerized view of the business might include up-to-date information on employee status, projected and actual sales, and a menu of routine activities. Pre-defined prompts correspond to the information displayed. If actual sales of an item are below those projected, the action prompt might read "Oatmeal cookie sales are down. Put out a sampler tray." If customer service standards require management acknowledgement of all sales over \$500, the manager's action prompt might show "A sale of \$531.27 has been made at Register 5. Thank the customer." Additional prompts might prioritize actions based on financial impact for the company, quality issues, marketing promotion objectives, or district-wide performance goals. The company's best practices and preferred operating processes, as developed by its best and brightest managers and employees, are embedded in the software each manager uses, guaranteeing consistent performance across locations.

Once achieved, consistent performance can lead to related benefits, such as speed. Successful companies recognize that speed is an important competitive weapon, especially when responding to a customer request or demand for action. The faster this response, the higher the level of customer satisfaction. By embedding the organization's best practices in technology, managers can reduce the response-time delays caused by unclear procedures or internal structures that retard communications and decision making.

### **Creating a Forum for Innovative Ideas**

In many organizations, the tension between consistency and cost control creates a choke point for innovation and creativity. The organization needs innovation -- new products and improved processes -- in order to stand out in the marketplace. However, implementation of those ideas is too expensive and too time-consuming.

A technology-based management system establishes a structure for the free flow of information and ideas. Insights on customer behavior, new products, and market opportunities move up, down, and around the electronic system with a timeliness that is crucial to business success. In addition, as the company solidifies some level of consistent performance, management grows more confident in its ability to execute an innovation efficiently.

At the same time, the organization needs effective cost controls. The safest way to compete on price is to reduce the company's cost structure. A technological management system helps with that effort by eliminating the squadrons of people who check the work of others and the extraneous paper-based processes that companies often resort to when building consistency.

In the final analysis, an organization's ability to stand out and stand up in the marketplace is more dependent each day on its ability to recognize the opportunities provided by changes in technology and economic conditions. Delivering a reliable level of product quality, profit margins and overall performance -- without the need for high-cost controls -- is one such opportunity.

*Ghostwritten for:*

Randall Fields is co-founder of Mrs. Fields Cookies and Chairman of Park City Group, a paperless management systems software development company, both based in Park City, Utah.

Nicholas Imparato is a professor at the University of San Francisco, a consultant and speaker with management groups worldwide, and co-author (with Oren Harari) of "Jumping the Curve:

Innovation and Strategic Choice in an Age of Transition," Jossey-Bass, 1994.

### **Sidebar:**

Slip sliding away

Why do companies have such a tough time maintaining consistency? While there are a number of reasons, the idea of organizational drift -- akin to the biological concept of genetic drift -- suggests the fundamental challenge this objective presents.

Simply put, deviations from the norm or previous standards can occur due to chance, deliberate adaptation to new circumstances, an employee's eagerness to develop an individual style, or some combination of these and related factors. The change is incremental, and often not perceived on a day-to-day basis.

What happens? At the start, every manager aims to have the organization perform in a particular way. The formula for this standard may come from a textbook, the manager's brain, the founder's ideology or what Tom Peters calls "creative swiping" from a competitor. Regardless, the company has a performance goal of "X." Its first attempt to reach this goal might be X minus 30 percent. With feedback, coaching, and adaptation, it becomes X minus 20 percent, X minus 10 percent, and, finally, X.

Each day, the organization continually approximates the desired goal. This is the expectation at Toyota, Xerox, and other corporations committed to continuous improvement.

Every organization that has pursued excellence and quality recognizes the strategy.

Organizational drift and resulting problems with consistency are about the opposite process. Here, the company starts down the path of reverse approximation, in which each day's incremental change takes it farther away from the goal and the ideal. Starting at X, the firm begins to slip to X minus 10 percent, then X minus 15 percent, and so on.

Reverse approximation doesn't only occur with easily measured processes and easily observed behaviors. It also applies to events that are more difficult to quantify but that have a profound effect on a business's success. The most vivid example of the latter category occurs when companies begin to lose sight of their core ideas and values. For example, IBM's commitment to the customer eroded as bureaucracy slowly overcame the early vision of Tom Watson. The consequences for IBM were nearly lethal until senior executives made strenuous efforts to restore the customer focus that had once been the keystone of the firm's success.

### **Sidebar:**

#### Technological Consistency

To reap the benefits of increased operational consistency at lower cost through the use of technology:

1. Identify the specific processes in your company that are out of synch with corporate goals. These processes may be as all-encompassing as information flow or as specific as inventory management.
2. Detail the problem process as it currently exists then define measurable objectives for improving it. A reengineering consultant may be useful at this point.
3. Decide whether the solution you desire will require integration of multiple applications or a single software package. Some software companies offer a comprehensive solution while others provide point solutions. Identify a software company based on your needs.

4. Involve implementation and hardware specialists as required by the specifications of the software.
5. Let the software's specifications and the need to integrate applications drive the involvement of implementation and hardware specialists.