

## Chapter 2

### Strategic Planning and Budgeting

1. **Strategic Action Competency.** Two key aspects of this competency are having a good understanding of the industry and in understanding the capabilities and resources of your own company. These are absolutely key to this question.

It is important to understand that the on-line challenge is a strategic decision that market leaders in business often face: At what point does one stop ignoring pesky upstarts and counter-attack – particularly if doing that means cannibalizing one's existing business? Responding too quickly, before a new business model catches on, can unnecessarily damage both profits and reputation. But waiting too long can allow the upstarts to become entrenched, as Sears discovered with discount retailers and as U.S. auto makers learned when Japanese rivals won a big piece of the American car market.

It clearly appears, however, that the time is right. Schwab's bet the ranch strategy has paid off, as increased volume more than made up for lower commissions. Schwab's own stock soared, and last December its total stock market value topped venerable Merrill's, astonishing the securities world. So there is no doubt that the answer to the first question is that Merrill faces a "*big* problem.

As to what Merrill should do, we need to take into consideration some other questions. First, how much of Merrill's total business is at risk with this decision? Analysts estimate that less than \$2 billion of Merrill's 1998 revenue of \$17.5 billion (11%) came from commissions paid by individual investors for stock and bond trades. Thus Merrill does not appear to be in as much of a "bet the company" sort of situation as was Schwab. A second question is how much could sales increase as a result of an aggressive entry into on-line trading? Merrill's own brokerage business grew by only 7% last year under the full-commission model. By comparison, Schwab's business grew by 59% during the same period. Recognizing that Schwab's sales base is much smaller than Merrill's, it still suggests that a significant portion of the potential commission loss can be made up in greater sales. If for instance sales would grow by 5 times the rate of growth under the old system, then a drop from \$50 to \$15 commissions would not be onerous. Is there the opportunity for comparable or even better growth by Merrill? Certainly Merrill brings a lot of equity and name recognition to the game which should be very enticing to newer investors. At the same time, some of the growth is likely to come from existing customers. How does this work? There is the story of the Merrill customer in Austin, Texas who had a second on-line account that he used for his frequent trades because of the lower brokerage fee, but still continued to trade with Merrill. In other words, there is opportunity for greater customer penetration by meeting all the investing needs of current Merrill customers.

What about the brokers reaction? Some will leave, undoubtedly. Some who stay will be unhappy with the decision. But as more and more brokers lose customers to online trading, they will understand the need to change. An old saying applies here: "People will change when the pain to change is less than the pain not to change."

2. **Technology Competency.** This question focuses on the point that it is not enough to simply know about the new technologies, there is a real people aspect to the integration of technology into the daily lives of your people.

This is actually a true story. The second time around, Access did two things that really helped to motivate the sales force to use the technology being introduced. The vice president of sales and marketing led by example. Access' VP made it know that he'd be using the automation tools himself. And second, he linked market- and product-based measurements and reps' sales to the technology. "I was not going to check up on reps via e-mail," he said. When leads came in, they were automatically downloaded into the software – ensuring that reps who wanted that information used the technology. And, he adds, "We also had support from the president and CEO," who uses the technology an average of once a week as an operational tool. So, SFA was not just endorsed, it was used at the highest level.

Another thing Access did well the second time around was to give adequate training to the sales force. The technology was introduced at the national sales meeting in April, where reps received one full day of training, from 8a.m. to 6p.m. Then, in October they attended a three-hour refresher course in which they were broken down into beginners, users, and advanced users. Access also provided a 24-hour help desk for the sales forces technology questions and issues.

Some additional steps experts recommend companies take when introducing SFA initiatives include: (1) knowing what you want to accomplish in implementing SFA (e.g., What part of the sales process can be improved? What information is not available now? What administrative tasks are the most time-consuming? What are we overlooking?) and (2) involve the sales force early in the process including vendor selection.

3. **Coaching Competency.** One of the aspects of coaching is choosing role models to emulate. This question asks what Lou Gerstner, one of the best business people to emulate, did right in the Monsanto relationship and what type of customer relationship was IBM attempting to have with Monsanto.

With respect to the first question, certainly the following the points could be given as examples of what Gerstner did right:

- Look to the customer for guidance in how to improve IBM's situation. Involved the customer in the process.

- By going out himself to the customer, he was able to open customer contacts at a very high level in the customer's business.
- There is the indication that the attitude taken was one of "What can we do for each other." In other words, it was much more collaborative in nature.

With respect the type of relationship being attempted between IBM and Monsanto, there is little question but that it is an enterprise type of relationship. The following aspects could be mentioned in support of this answer:

- Both parties have been willing to make changes in how they conduct business.
- There is the potential for a great deal of value creation for both parties.
- The relationship will require cross-functional teams to execute and maintain. This is indicative of a situation in which the customer is interested in the core capabilities of the supplier.
- Both parties are instrumental and have access to each other's strategy.

It is important to note that the dollar amount of the deal, reputed to be in the hundreds of millions, is not necessarily indicative of an enterprise level relationship.

4. **Team Building Competency.** Two very important aspects of team building are to create a supportive environment within which teams can function and to manager the conflicting personal and professional objectives of the team members. These considerations are absolutely critical to the success of WESCO's national accounts program.

WESCO's problem is a tough one faced by almost all companies involved in enterprise type of customer relationships. The crux of the problem is that the supplier, in this case WESCO, must invest in the relationship to a higher degree, at least initially, than the customer does. For instance, WESCO is offering lower prices to these customers which lowers its gross margins, it studies the customer's procurement processes to see if it can develop a better system which takes time and training commitments, and WESCO would have had to have invested in development projects in order to design the programs in the first place. Customers, on the other hand, may choose to accept the contract at their headquarters and continue doing things as they always have, simply pocketing the 2-3% discount with a "thank-you." What all this suggests is that WESCO must be very, very careful in selecting customers for this program. Given the importance of local purchasing compliance for the ultimate success of the program, the local salesperson must be involved in the selection and planning process. This will also help gain buy-in at the local level. It is also likely that the compensation plan for the local reps needs to be adjusted to place more incentive on compliance with national accounts and in successful selection and implementation of the program in

individual accounts. A bonus program might be considered. There also appears to be the need for more communication and interaction between the local salespeople and the national account managers. Given the strategic importance of the local reps job, especially in the front-end part of the relationship, these are important considerations for WESCO.

5. **Self-Management Competency.** One of the key dimensions of self-management is self-awareness: who am I? In actuality, most people will probably answer this question in a relative sense. In this case, we are asking people to rate themselves on four dimensions and then compare their ratings with those for different types of sales positions.

One of the key learning aspects of this question is that different sales positions call on a different portfolio of skills. Chally makes this point well with the following quote: "There are no Universal Salespeople!! Every pro baseball player must throw, catch, and hit. Yet what it takes to be a greater hitter or a 20-game winning pitcher are dramatically different. So too in sales...all salespeople must talk to customers and take orders. However, different sales positions will require a distinctly different set of skills."

Obviously all self-ratings should be accepted at face value. It is not necessary to rate high in only one skill and low in the others. Someone may be high in all four, at least in their own opinion. A reasonable rating for the sales positions and type of relationships discussed in the question might be as follows for closing, consultative, relationship, and display:

	<b>Closing</b>	<b>Consultative</b>	<b>Relationship</b>	<b>Display</b>
Stock broker:	8	4	4	2
Telephone:	2	4	6	8
Jet sales:	4	6	8	6
Computer software:	5	8	6	4
Transactional:	9	4	3	2
Consultative:	5	8	5	3
Enterprise:	2	6	9	4