

## Arming You With Provocative New Ideas

Managing a business is a tough job. Chances are that, as you read this, you have just finished solving a difficult problem — one of many that you have had to solve this week. This is your job and you are good at it. If you didn't solve these problems your business wouldn't run as smoothly and it would never get to the fabled "long term."

However, you are also a strategic thinker. If you were to spend your entire day, every day, solving difficult problems you would never have time to sit back and think about new ideas, new directions, and new methods. Because you are a strategic thinker you like to hear about new developments at other organizations. You want to hear what worked so that you might consider it for your organization and, occasionally, you want to hear about what did not work so that you might avoid the same pitfalls. You want tried and true techniques.

But not every good idea is tried and true. Some ideas are just that — ideas. There was a time when it was just a thought that you design products and services based on customer input. There was a time when no one had heard of measuring and tracking customer satisfaction. And there was a time when reengineering applied only to a product, not to the organization and its processes. Some visionaries thought up these ideas and tried them before anyone else had even heard of them. Those pioneers helped their organizations to succeed and they succeeded themselves.

We want to help you succeed. We want to arm you with new ideas.

From time to time, we will be publishing this idea sheet. Several times a year we will be bringing you new ideas. Some of these ideas will be success stories from other organizations like yours.

Other ideas will be new ideas that are being developed in academia. John Hauser, a principal and co-founder of AMS, head of the Marketing Group at MIT, and the author of the *Harvard Business Review* article that popularized QFD, has

agreed to write a column in every idea sheet. He will tell us about research being done at MIT and elsewhere to explore new ideas in management. We

hope that some of these ideas will hit home and cause you to think. Perhaps they will lead to a new way of managing your business or perhaps they will

cause you to be more confident in the way you are now managing your business. In either case, we hope they challenge you.

The first column appears on the back of this issue of *AMS Voices* — "You Are What You Measure." In future idea sheets, Professor Hauser will address the issues of how to avoid myopic shortterm decisions, how to balance a customer-driven focus with reengineering cost savings, and how to manage risk in product development.

Professor Hauser has also agreed to answer short questions from readers. Please send your questions care of *AMS Voices*. ~

*"...not every good idea is tried and true. Some ideas are just that — ideas."*



## You Are What You Measure

In a recent article the chief technical officer (CTO) of a \$14 billion company stated that measuring R&D effectiveness has become a survival tactic for the R&D community. His comment was indicative of many service functions within large organizations. Measuring value is a survival tactic. Let's explore what he meant and why it applies to you.

As part of an MIT project, my colleagues and I interviewed 43 CTOs, CIOs, and researchers at 10 research-intensive organizations. In those organizations, despite some stunning successes in R&D, there was a general tendency to cut R&D spending. Why?

It is very easy to measure R&D costs. In fact, in many organizations, stockholder dividends would double if no money were spent on R&D. On the other hand, it is very difficult to measure R&D's output. New projects are risky and may not have paybacks for 5, 10, or more years. Even if the ultimate payback is huge, it is hard to tie it directly to

R&D. Other functions must do their jobs (and take some of the credit) if the project is to succeed. It is just so much easier to measure R&D costs than it is to measure their benefits.

Some organizations have tried rewarding scientists and engineers based on market outcomes such as customer satisfaction, sales, or the percent of revenue from new products. This is fine in the short term, but not the long term. Faced with those measures, scientists and engineers realize that their advancement comes quicker if they make those measures look good. As a result, they choose projects that pay off quickly (short-term

ism), pay off for sure (risk avoidance), and can be

easily recognized as originating in R&D (the "not-invented-here" myopia). These and other effects lead scientists and engineers to change their focus — sometimes in good ways and sometimes in bad. For a few years the firm looks more profitable as, R&D turns its core technological competence into effective applied projects. But one day, a day that comes all too quickly, the firm wakes up to realize that it has not invested in tomorrow's core technological competence. As a result, applied projects, too, dry up. And this is just the tip of the iceberg. Without good R&D there are no spillovers to other business units and to the sur

vival of existing projects. (In some cases a technological breakthrough for one product can improve 10-100 other products or a new idea in managing one service may apply to many other services.) Many writers have suggested that the true return to R&D is many times that which is now measured.

But you are not in R&D, so how does this affect you? In an age of reengineering, every support group is being asked to justify its value. The closer you are to sales the easier this is — it makes sense to tie your rewards to customer measures. But how about the marketing research group? How about the product-testing group? How about the human resources group? You provide value to the organization, but that value is harder to measure than your costs. You need metrics that accurately reflect your group's value so that your firm can make the right investment decisions. These metrics are indeed a survival tactic. — *John Hauser* ~

***“In an age of  
reengineering,  
every support group  
is being asked to  
justify its value.”***

AMS Voices is a forum for new ideas in management. It is published by Applied Marketing Science, Inc., leaders in using *Voice of the Customer* technology to develop superior products and services. We'd like to hear from you. If you have an issue you would like addressed, or have other comments, please contact us:

Applied Marketing Science, Inc.  
303 Wyman Street, Waltham, MA 02451  
tel: 781-684-1230 fax: 781-684-0075

email: [newsletter@ams-inc.com](mailto:newsletter@ams-inc.com)  
web: [www.ams-inc.com](http://www.ams-inc.com)