

Cut out the **risk for the biggest rewards**. The leaders of today's successful companies are risk shapers rather than risk takers.

By *Stefan Stern*

Every day this newspaper reports on winners and losers of the business world: those who speculated and won, and those who played it safe and lost. This running commentary seems to confirm what everyone knows: risk and reward are closely related.

But what if the reality is rather different? That is one of the central arguments of Adrian Slywotzky's important new book. "The conventional wisdom is that risk and reward go together – that to get great upside results, you need to accept big downside risks," he writes. But risk and reward are not inextricably linked, he maintains. "The leaders of today's most successful companies aren't risk takers, they're risk shapers."

Good point. What companies such as Toyota, Coach, Samsung and Target have understood is that you can "compete in advance". You can systematically "de-risk" your enterprise by paying closer attention to how your customers are changing, and by thinking harder about how your market is developing.

Customers first. They really can be an awkward bunch. As the author – a director of management consultancy Oliver Wyman, formerly Mercer – points out: "They want bigger cars. Then smaller. Then really bigger. Then really fuel efficient."

Toyota was up to the challenge. Starting work on its Prius hybrid car as long ago as 1993, the company invested \$1 billion on a project that would have been fraught with risk had management not taken a number of bold decisions. It aimed high, seeking maximum fuel efficiency; it sought the input and expertise of its best young engineers; ideas were welcome wherever they came from. Eighty different engines and 20 different transmission systems were tested.

Risky? Not nearly as risky as not planning the launch so well (Honda's experience), or being slow to anticipate the need and demand for hybrid cars (Detroit's response).

Coach, the upmarket women's handbag maker, deals expertly with another customer-related risk: being taken by surprise by a sudden shift in taste. First thing every morning Coach's top 30 managers receive a voicemail message detailing the previous day's sales figures. These numbers must be studied and understood. The approach involves what Slywotzky

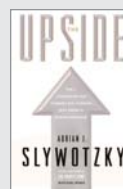
calls "knowledge intensity", also known (in Tom Davenport's phrase) as "managing by analytics". Important, revealing and relevant data is gathered and studied frequently.

"The best countermeasure for defeating customer risk is creating and applying continuous proprietary information about your customers," Slywotzky says. "It's answering the question: what do we know about customers that others don't? And then using that knowledge to make and keep profitable customers for life."

The "knowledge intense" company moves from an approach based on guessing to one based on knowing. It also has sensitive "risk antennae". Microsoft may have been slow to wake up to the potential of the internet, but having got the message in 1995 it changed course, just in time. This was thanks in part to attentive middle managers. "Through their constant contacts with customers, competitors, suppliers, distributors and other outside sources of information, they hear about potential discontinuities when it's still early enough to prepare for the shock," the author says.

Samsung drove out risk by making it clear that sub-standard products would not be tolerated. In the late 1990s \$50 million of inventory – inferior mobile phones – were destroyed in a public display of violence. "Workers wearing headbands with the slogan 'quality first' were ordered to smash the phones and toss them into a bonfire," the author says. "According to one eyewitness: 'Before it was over, employees were weeping.'" An unmistakable message was sent out to the entire company.

Apparently risky situations may provide the best opportunities for growth, Slywotzky argues. But to make the most of the "upside", it is necessary to remove as much of that risk as possible with planning and hard work. Sidestep the unnecessary blows and mitigate those you can't avoid. To win really big rewards, cut out the risk.



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