

"Vendor relationship management" - a term with a future.



(continued)

possible monopolistically, to create a "silo" as Searls calls it. Customers however, want individual solutions often crossing the borders of such silos and minimizing the influence that companies might have on their decisions. The frequent use of ad-blockers, about 9% of all users in the Western hemisphere block online ads, and the "Do Not Track" and "Do not Call" initiatives against phone tracking and unsolicited calls can be regarded as first signs that customers empower themselves. "Vendor Relationship Management" (VRM) means that in the future, customers will take much more control of the way companies interact with them. Providers will have a less exclusive role and software applications will help to shift from the current supply side to a demand side perspective in business.

Searls' futuristic ideas have firm ground and many implications. Just a decade ago it was taken for granted that users would access the internet via "portals" which would consequently be the place for marketing efforts. Users have empowered themselves and surf much more specifically nowadays. Today, companies overlook that their CRM strategies are regarded as discriminatory, obtrusive and problematic from the privacy side of life by a substantial minority of customers. This minority will possibly grow into a majority as applications empowering customers become available. The real value of products will become much more important and marketing a side affair out-driven by real demand.



Napoléon Ier sur le trône impérial, Jean-Auguste-Dominique Ingres*

Links and Literature

The Customer as a God (Doc Searls)
www.managing-essentials.com/2ha

The result of "Know thyself" is often misleading.

A self-assessment is often a difficult but necessary requisite if one wants to be successful. In "Harvard Business Review" Heidi Grant Halvorson discusses some fallacies of self-assessment and how to get rid of them.

There is often no close match between what persons think of themselves and what others think of them. For decades this fact has fascinated Human Resources specialists looking for the right angle from which to assess staff. Because we mostly operate on a preconscious level self-assessment can be especially difficult. Consequently the causes of non-achievement are often not consciously accessible and are wrongly attributed. Halvorson stresses the problem of self-blaming in case of failure. Sometimes blame is taken for lack of ability where situational explanations would be more fitting. The key on how to eradicate such wrong self-assessments is to design questions that will identify the causes factually responsible for non-achievement. Peer

assessment can be of considerable help in this process. Only when blame is placed where it belongs can actual behavior improve. In addition to this operative advancement unjustified emotional distress may be avoided.

The problem with assessments is that nobody is completely right. Observers focus more on stable traits of a person, actors reflect more on detailed situational factors which might vary over time. Halvorson focuses on the problem of unproductive and unjustified self-blame in case of failure, but it is also a well known phenomenon that responsibility is denied and externalized. In fact the right answer on how to explain oneself in a particular situation is often not found because the wrong questions are asked. In cases of a non-achievement searching for feedback by experts is always better than labelling it a failure.

**Feedback helps
to understand
oneself**

Links and Literature

You Are (Probably) Wrong About You
(Heidi Grant Halvorson)
www.managing-essentials.com/2hb



The US economy: Coming back?

With unemployment above 8% and economic growth below 2%, at first sight the US economy does not appear in the best shape. However "The Economist" sees light at the end of the tunnel due to four unexpected developments.

Firstly, the housing crisis and the consumption excesses are matters of the past. Today houses are close to 20% below value but in contrast to Europe, the debt is written off by the banks. Secondly, the export deficit has shrunk from 6% in 2006 to a current 4% due to the weakening of the dollar. What's more, the structure of exports has changed; besides classics like movies and airplanes the US exports more high value services. The dominance in the internet economy and high-tech has helped to recover the economy faster with increased productivity. Finally, the hike in energy prices led to less demand and the stable higher price level made further exploitation of local sources profitable. Net imports of oil have receded to the level of 1995. This

assessment is supported by an article by Ruchir Sharma in "The Atlantic" who also sees the basis of a recovery in more productive manufacturing. He also advises a look at the global competition, with China struggling to reach the 8% growth predicted and Europe in deep crisis.

Some, like Rana Foroohar from "Time Magazine", see this recovery as a myth. In fact, assessment of the recovery is a question of the indicators used and speculations of how they will impact on further development. Nevertheless, as in previous crises, the US economy displays a stronger dynamic than that of comparable industrialized countries like Germany and Japan. These strong ups and downs are certainly not a pleasure for everyone and it remains to be seen if and when these will reflect on employment.

Expatriate life: New studies see costs of living rising.

A variety of studies about the living costs for expatriates have emerged in the last weeks. While they differ slightly in the ranking of cities, they agree that living costs are rising close to everywhere.

Consulting firm Mercer ranks Tokyo, Luanda, Osaka, Moscow and Geneva as the cities with the highest costs of living worldwide whilst Baku, Victoria in the Seychelles and Dakar are the cheapest places to live within the top 50. Mercer uses New York City as its benchmark and measures cost shifts against the US\$. In general, cities in Asia and Australia have become more expensive, an effect also caused by a strengthening of the currencies in this region. ECA Consulting published a similar study and probably due to the similarity in methodology the results do not differ dramatically. In particular Japanese and

Chinese cities moved up or kept their high ranking. With regard to Brazil both studies confirm the strong differences between Sao Paulo and Rio de Janeiro as costly with the remainder of the country is comparably cheap.

The studies serve as a basis for remuneration packages and their adjustments for potential expatriates. They share the problem of focusing on expatriate life with minimal adjustments to local conditions. Consequently, prices on housing, clothing and food items are often inflated. However, expats ready to become locals for a while will be able to get along cheaper.



The Tontine Coffee House (Wall Street 1797), Francis Guy*

Links and Literature

Comeback kid: America's economy is once again reinventing itself (The Economist)

www.managing-essentials.com/2hn

Comeback Nation: Why the U.S. Economy Is Much Stronger Than You Think (Ruchir Sharma)

www.managing-essentials.com/2ho

What U.S. Economic Recovery? Five Destructive Myths (Rana Foroohar)

www.managing-essentials.com/2hp

**The world is
their home**

Links and Literature

Worldwide Cost of Living Survey 2012 - city ranking (Mercer Consulting)

www.managing-essentials.com/2hq

ECA Global Perspectives - Cost of Living (ECA International Consulting)

www.managing-essentials.com/2hr



Business Cases

R&D communication failure: The fall of Nokia.

For 14 years Nokia was the largest manufacturer of cell phones. It has now ceded this position to rival Samsung with its stock losing 64% of its value, and another 10,000 employees losing their jobs. Anton Troianovski and Sven Grundberg detail the background in "The Wallstreet Journal".

Once the champion in its class, Nokia has lost 90% of its market value in the last 5 years and its market share fell from 40.4% in 2007 to 21% in 2012. In recent years the senior management was changed and job cuts announced reached five digits. However, these personnel measures were of little or no avail. This is surprising since Nokia as a company served for a long time as a prime example of the ability to reinvent itself; starting as a lumber mill, becoming a rubber products manufacturer and later the successful worldwide cell phone giant. The company

never avoided spending on Research and Development (R&D) in the last decade. The R&D budget in 2010 was more than US\$ 5 bn, twice as much as competitor Apple and 30% of the whole industry. The R&D was fruitful; Nokia's designers had prototypes of phones on their tables which could have been the later iPhone and they worked on several operating systems to compete with Apple. However, the smart phones developed by Nokia were never marketed, internal rivalries and frictions stalling progress in other areas.

Big organizations can develop even bigger communication problems and bureaucratic tendencies. The problematic situation now is not the result of one major unfavorable decision but of many smaller ones. Nokia developed into a complex company in which the jewels developed were overlooked and decision making was too

slow with collective decision making resulting in a reduced level of risk taking for some new products. Nokia must learn what many car manufacturers realized in the last decade, lean management is a must, as 'too many cooks' can be as problematic as too few.

Links and Literature

Nokia's Bad Call on Smartphones
(Anton Troianovski, Sven Grundberg)

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**Research must
be acted on**

Scientific publishing: Dramatic change to come.

Scientific publishing has been a highly profitable business. Authors often provide the product free and universities and research institutions provide a well paying customer base. "The Economist" predicts that this business paradise is going to change dramatically.

Since the early 20th century scientific journal publishers have advanced the sciences. In the 21st century they are businesses with profit levels most other sectors can only envy. Last year one of the scientific journal market leaders, Dutch publisher Elsevier, made a profit of over 35% on revenues of US\$ 2.4 bn. Such a margin is possible because the scientific papers, the "raw material", are provided free by the authors; being published in premier journals is the way to enhance scientists' academic and R&D profiles thus accelerating their career prospects. As can be imagined there is no lack of manuscripts. Also many journal editors and reviewers work for the kudos rather than the money.

Academic institutions form a secure and captive audience with their demand for research based journals. So nowadays the main task of the publishers is the organization and marketing of their journals. However, there are two recent developments to challenge and change this business model. Firstly, all elements forming the circle of a journal rest on the shoulders of the taxpayer. Publicly financed universities buy back what is written by their own research staff who often worked with publicly funded grants. Secondly, the open access approach of online journals is faster and cheaper. The US National Institutes of Health and the Wellcome Trust, a major British grant provider, have required freely accessible publications from their grant takers for some years. Now they are being followed by the British Government and the European Union when from 2014 the results of research funded by them will be freely available.

The decision of the European Union especially, which between 2014 and 2020 will provide grants of about US\$ 100 bn, is a tipping stone and its member states will most likely follow. The decision however affects not only commercial publishers but also many scientific associations which finance their activities by the sales of their journals. It will be a challenge to the management of many publishers to redefine their business.

Links and Literature

Brought to book: Academic journals face a radical shake-up (The Economist)

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(Continued from page 1)

heuristics operating below the level of conscious reflection. If you intend to buy a movie ticket for \$10 and at the counter notice that some minutes ago you had lost \$10 from your pocket, you would buy the ticket anyway. However, if you lose the ticket itself, the probability that you buy another one is low. When people have the choice between receiving \$1000 for certain or receiving \$2500 with only a 50% probability the majority choose the former. However, if the choice is between losing \$1000 with certainty versus losing \$2500 with a 50% probability the majority prefers the latter. These examples demonstrate that our reasoning does not follow the logic of mathematical probabilities but is human. As humans we see in the lost ticket a 'bad sign' or 'double investment' and when it comes to gaining money we prefer to be on the safe side but when it comes to losing it we might engage in statistically unreasonable risk taking behavior.

Kahneman and others argue that our judgments are based on the interaction of two evaluative systems. 'System I' is based on the fast, automatic and intuitive application of acquired associations and metaphors without intentional control. 'System II' consists of our slow, effortful and mostly conscious cognitive operations. A bat and a ball together cost \$1.10. The bat costs a dollar more than the ball. How much does the ball cost? Your immediate response from System I may be ten cents. If you think about it carefully, the

correct answer would be five cents.

In our daily lives we operate primarily on System I. We have to because we need its speed. If you had to plan every day ahead in detail it would never get started. Fortunately we have frames for the situations to come, routines for everyday tasks and schemata to categorize old and new events and people. Heuristics help us to get along with novelties, and biases tune our judgments. The price for the speed is accuracy. Consequently, System I may generously override problems which become noticeable only on second sight. Kahneman has become prominent by pointing out its limitations.

System II takes over when System I fails to respond successfully. One might simplify this by adding 'nearly only' because System II is troublesome and very limited in its capacity. It is a system we do not like to employ much. That we have to fall back on System II indicates that a real problem needs to be solved, or a barrier has to be overcome for which our routines and experiences are insufficient. We become aware of how difficult that often is. Thinking requires effort. It reminds us of the possibilities of human error and wakes up the pessimist in us. While System I in its fast efficiency gives us the illusion of mastering the world, System II reminds us that there are unknowns and uncertainties in this world and some of them cannot be tackled by analysis. In fact, as in the examples above, thinking may help to come to a better or the correct solution. However, these are comparably simple problems; most private problems are



The Lament for Icarus, Herbert James Draper*

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