

Inside-out thinking damages firm's chances for growth

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Business Planning

Does the survival of your industry depend on assumptions that once were true, but may no longer be true today? Do you know what these assumptions are?

Would the most astute business person you know agree with your assumptions?

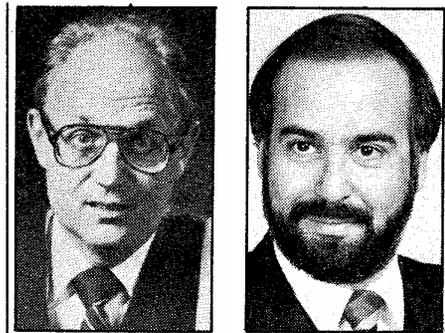
Assumptions about the way the world works pervade companies and whole industries. Sometimes these assumptions are right, sometimes they are unprovable, and sometimes they are wrong.

These assumptions and beliefs become a filter: They distort information, cloud one's view of the environment and muddle one's decision-making. They confound marketing, especially.

"Inside-out" thinking -thinking about the outside world as the company wishes to perceive the world, and looking for information of the sort that already is considered important -seldom pierces the filter of assumptions and beliefs.

But because it does not accept as many granted, "outside-in" thinking -taking an objective look at the world with the blinders off and assuming that new ideas are relevant until proven differently -is effective in identifying beliefs that no longer work, and in fact, in providing evidence contrary to erroneous beliefs.

We chatted with William Ashley, who has been an issues manager for Sears, MacDonald's and United Airlines. Ashley



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started by remarking, "When it comes to viewing the world and searching for threats and opportunities, some businesses are in a trance."

According to Ashley (and we can't disagree), part of the blame for this trance is the MBA, bottom-line type of thinking which puts a premium on analysis and forces attention to the company's internal situation.

Why the internal situation to the exclusion of the external?

"It's easier to analyse than the external environment," explains Ashley. "The external environment is ambiguous and hard to analyse, and is often neglected -because in reporting external developments, carefully researched facts have to be mixed with intuitive perceptions."

As Ashley put it, "Analysis causes paralysis: the 'soft' perceptions are worth more than the 'hard' facts, but the hard drives out the soft."

In other words, a large truth is often overlooked because it does not appear as credible as a bunch of isolated numbers.

We asked Ashley to identify some of the misperceptions held by a "typical" businessperson, and he obliged by analysing the housing industry.

Ashley pointed out that reliable industry estimates indicate a pent-up demand for housing, possibly 2.5 million units a year for the foreseeable future. But the U.S. homebuilding industry is fragmented.

"Homebuilding is mesmerized by unchallenged assumptions about critically important issues," Ashley said. To wit:

- Homebuilding will always be labor intensive.
- Suppliers will always be dispersed.
- Mortgage rates are the cause of the builders' problems.
- On-site construction is the only way to build houses.
- The buyer has to come to the builder.
- Broad segmentation of the market is the most economical way to proceed.
- The needs of the consumer have not changed in the last thirty-five years.

What's wrong with these assumptions?, we asked. Ashley cited some examples.

According to Ashley, Barrett Development, a British homebuilder, has been offering fully-furnished, full-scale condo-

minimums in San Diego for below the U.S. average price tag of \$50,000. It expects to capture 10 percent of the California housing market by the late 1980s and move into other sunbelt states.

The Japanese are producing solid, American-style homes in a fully automated, 10 block-long factory with virtually no labor. One company produces 29,000 homes a year. It custom-produces homes in 40 minutes or less, and these homes can be erected on site in as little as two hours.

The homes are fashion-right, competitively priced, earthquake- and typhoon proof; and they carry a 100year warranty. All this is done by Japan's second largest homebuilder.

Of course, if you believe the critical assumptions listed above for the U.S. housing industry, we do not have to worry about an invasion of Japanese factory -manufactured homes. No, not at all! But if you prefer to look for facts that disconfirm the assumptions, Ashley can furnish plenty.

According to Ashley, other industries that suffer from delusions are steel, banking; consumer electronics, chemicals, energy and fast foods.

If you want to discover your own unjustified assumptions, go to lunch with the best-informed business person you know from outside your industry. Explore your beliefs carefully. Our experience indicates that 80 percent of your misperceptions will fall into one of these three categories:

- You imagine you know exactly what your customers want when they buy your product or service.
- You have decided all your trouble originates from one source -the government, your workers, etc.
- You are convinced there is only one way to achieve every business task.

Remember: Your object is to see the world as it is, not as you wish it were.