

THE ULTIMATE COMPETITIVE ADVANTAGE

Secrets of
Continually Developing a
More Profitable Business Model

Donald Mitchell and Carol Coles



BERRETT-KOEHLER PUBLISHERS, INC.
SAN FRANCISCO

Copyright © 2003 by Donald Mitchell and Carol Coles. All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other non-commercial uses permitted by copyright law. For permission requests, write to the publisher, addressed "Attention: Permissions Coordinator," at the address below.

Berrett-Koehler Publishers, Inc.

235 Montgomery Street, Suite 650
San Francisco, CA 94104-2916

Tel: (415) 288-0260 Fax: (415) 362-2512 www.bkconnection.com

ORDERING INFORMATION

Quantity sales. Special discounts are available on quantity purchases by corporations, associations, and others. For details, contact the "Special Sales Department" at the Berrett-Koehler address above.

Individual sales. Berrett-Koehler publications are available through most bookstores. They can also be ordered direct from Berrett-Koehler: Tel: (800) 929-2929; Fax: (802) 864-7626; www.bkconnection.com

Orders for college textbook/course adoption use. Please contact Berrett-Koehler: Tel: (800) 929-2929; Fax: (802) 864-7626.

Orders by U.S. trade bookstores and wholesalers. Please contact Publishers Group West, 1700 Fourth Street, Berkeley, CA 94710. Tel: (510) 528-1414; Fax: (510) 528-3444.

Berrett-Koehler and the BK logo are registered trademarks of Berrett-Koehler Publishers, Inc.

Printed in the United States of America

Berrett-Koehler books are printed on long-lasting acid-free paper. When it is available, we choose paper that has been manufactured by environmentally responsible processes. These may include using trees grown in sustainable forests, incorporating recycled paper, minimizing chlorine in bleaching, or recycling the energy produced at the paper mill.

Library of Congress Cataloging-in-Publication Data

Mitchell, Donald, 1946–

The ultimate competitive advantage : secrets of continually developing a more profitable business model / Donald Mitchell, Carol Coles.

p. cm.

Includes bibliographical references and index.

ISBN 1-57675-167-8 (alk. paper)

1. Competition. 2. Strategic planning. 3. Industrial management. I. Coles, Carol. II. Title.

HD41.M57 2003

658.4'012—dc21

2002190856

First Edition

08 07 06 05 04 03 10 9 8 7 6 5 4 3 2 1

Copyedited by Bernice Pettinato, Beehive Production Services. Composition and production services by Westchester Book Group.

Instill a Spirit of Teamwork and Cooperation for Mutual Advantage

A number of the companies described in this chapter worked effectively on teamwork and cooperation. Certainly, Nucor, Rogers and Southwest Airlines could also serve as examples for this subject.

What does your company do to drive customers away?

Before considering any other examples, let's think about the typical company. Turnover of employees may be from 20 percent to more than 50 percent a year (in some low-paying service businesses). Such turnover means that companies expect the whole work force to turn over on average every few years. The good news about that turnover is that it creates potential for new ideas to come into the company. The bad news is that a lot of talented people leave who initially came energized and filled with good ideas. What happened in between? Clearly, many employees and their companies see their interests as opposed to one another.

Next let's look at the customer base. A similar level of turnover occurs with those people. Many of today's customers will decide they will be better served by a different supplier in the future. Does such turnover suggest that the company is fulfilling its potential? Probably not. Competitors' offerings and prices are frequently similar. The typical reason for switching is because a supplier makes the customer feel abused and disrespected through providing poor service. Honest errors can be forgiven by most customers, as long as a company shows that it is sincerely interested in doing the right thing . . . and doesn't repeat the errors. What does your company do to drive customers away? Taking advantage of customers' ignorance is particularly infuriating. How hard do you think customers try to help improve suppliers that continually annoy them?

Now, consider suppliers. For a typical company, 60 to 70 percent of suppliers will be gone or be receiving dramatically lower orders within five years. If a supplier decides that its company has

little chance of being a survivor in serving your business, how hard will it work to find new ways to improve your business model?

As you can see from looking at these sources of friction with stakeholders, the typical company takes actions every day to drive off most of its potentially most committed allies: those who invest their working lives and hard-earned money to serve or be served by the company.

To overcome this harmful cycle of uncaring, fractious relationships, you must establish trust and cooperation through mutually supportive, continuing relationships. Xilinx seems to be a leader in focusing on this opportunity, and has been recognized as one of the best U.S. companies to work for (*Fortune*, December 2000 and 2001). Xilinx is the leading provider of programmable logic devices (microprocessors that you can customize with software). It attributes much of its success in having positive stakeholder relationships to a long-standing practice of creating an innovation-focused workplace. The company looks at everything carefully in this regard, from its marketing activities and how products leave the shipping dock to the way the company keeps the financial community informed. Xilinx employees are urged to take risks and are not punished when they fail. The company's philosophy is that occasional failure is natural and a necessary part of building the "learning organization" that Xilinx wants to be.

The company's business model has always provided for outsourcing product fabrication. This choice frees Xilinx to concentrate its focus on three key competencies: chip and software design, marketing and technical support. With this potential to fascinate and focus employees, Xilinx has succeeded in developing long-term relationships with its employees. The company enjoys an enviable employee turnover of less than 5 percent a year in the job-hopping Silicon Valley environment where 20 percent annual employee attrition has been the norm.

When Mr. Willem (Wim) P. Roelandts arrived as CEO from Hewlett-Packard in 1996, he saw an opportunity to build on the company's sound internal teamwork and cooperation. His goal was to move to even higher levels of cooperation with suppliers and customers. For fabrication suppliers, this approach meant working

with two companies instead of five. As a result of being a more important customer to them, Xilinx got faster access to the most advanced fabrication technology from the remaining two suppliers. Xilinx's designers and the fabrication suppliers work together to accelerate the technical development of state-of-the-art semiconductor manufacturing processes used to make Xilinx's programmable chips.

The Xilinx value proposition has always been reducing time to market for its customers. By themselves, Xilinx chips offer the fastest way for customers to create unique logic circuits in silicon. But in other areas of its business, Xilinx also began to take responsibility for speeding customers' products through the supply chain to the end user. Any place where there were delays or inefficiencies, Xilinx directed its attention. It looked at the companies that distribute its products, the semiconductor foundries that make the silicon wafers, and the companies that package the chips and perform final tests on them.

In another area, Xilinx pioneered the use of "intellectual property cores" in its chips. These predefined and pretested cores—from Xilinx or one of its partners—are programming files that make the Xilinx chip perform a specific standard function. Thanks to cores, customers don't have to recreate the function from scratch, and, as a result, they can shave weeks or months from their product design cycles.

As mentioned earlier, Xilinx began more recently to offer turnkey design services. In these cases Xilinx's engineers, not the customer's, create the unique semiconductor logic circuits for a particular piece of digital electronic equipment. This kind of service is especially attractive for customers who are industry entrants and want to reap the time-to-market benefits of programmable logic chips, but don't have the expertise in-house to meet the market's stringent new product development and delivery schedules.

Having created solutions-oriented teamwork among the company and its suppliers and customers, Xilinx will probably continue to extend its connections through stronger and more effective relationships with long-term customers and software partners.