Scenario 1

THE DANGERS OF DOWNSIZING

FutureTech, a large, high-tech company with a specialized market niche, begins to experience financial pressures. Revenues are dropping, and profits are down. After much discussion in the executive committee, it seems as if the financially sound approach is to reduce costs by having a layoff. According to the committee's thinking, reducing the number of service and administrative staff will reduce the overhead of personnel costs, which will in turn increase profits. During the first quarter following the layoff, there *is* a drop in costs, and profit numbers improve.

In the following quarter, profits take another dip. With great regret, the executive committee concludes that they hadn't trimmed enough before, and they mandate another layoff. After a slightly chaotic quarter of adjustment, FutureTech once again sees an improvement in profit figures.

When the executives spot yet another, slightly sharper drop in profits, they decide to investigate before pursuing further cost-cutting measures. They discover that, with fewer service and administrative staff, customer inquiries, billing, and fulfillment materials are being handled more slowly. Service quality has declined, and with it, customers' overall perceptions of the company's product quality. As a result, customers are reluctant to buy, and sales and service revenue have decreased.

Scenario 2

PRICE PROMOTIONS: WHAT ARE THEY REALLY PUSHING?[2]

As U.S. population growth has slowed, major consumer goods manufacturers have experienced a slowdown in sales growth for many of their products. In the view of some of these companies, they have been dragged into the middle of an all-out campaign for control of consumer goods prices, market share, and profits. Because of a lack of real product innovations, manufacturers are often unable to distinguish their brands in meaningful ways other than through price. Hence, they have resorted to continual price promotion campaigns.

Industry analysts have pointed out that these price promotion campaigns carry some unwanted side-effects. For one thing, promotions can erode brand image and encourage consumers to shop solely on price. Also, manufacturers and retailers themselves can become "hooked" on short-term promotions to continue pumping up sales numbers.

The long-term implications are even more disturbing. Manufacturers' dependence on promotions has given supermarkets great power, because they ultimately control promotions. They can demand a wide range of subsidies from manufacturers. This means that a large percentage of discounts intended for consumers wind up in retailers' pockets, and that funds for improvements in brand image and quality are diverted to even more price promotions. The need for a higher leverage solution has never been more important.

Scenario 3

LIMITS TO QUALITY

National Courier, a package expediting company, implements a quality initiative. After the management speeches, training sessions, and team meetings, both line workers and managers begin to initiate some quality improvement projects and then an increase in the actual quality of services, especially tracking and on-time pick-ups. These improvements highlight the importance of the quality initiative and generate motivation to do even more. The company sets up additional quality improvement projects.

As people get involved with the projects, they realize they need more skills related to the issues they're surfacing; for example, financial accounting concepts and operations management. The training department goes into overdrive to find, create, and deliver training, but their staff and their budget are too limited to meet the growing need for training. As a result, staff keeps falling behind in their skills.

Eventually, people become discouraged by their inability to implement or pursue the improvements they want to make. The number of quality improvement projects tapers off, and enthusiasm for the whole idea just fizzles away.