The Post-Hype Economy

by Robert E. Hall, EnAct Group Executive, Carreker Corporation

"Nothing sedates rationality like huge doses of effortless money."

Warren Buffett

"The new economy" turns out in retrospect to have been mostly "the hype economy." Like "the perfect storm," the hype economy was a series of trends converging to create a once in a lifetime happening. Shareholders were hyped – and went on to hype each other – about stock values with no upper limit. Management hyped the prowess of their products, the size of their markets, the competitive advantage of their technology, and their "owned" customers – sometimes fudging the revenue and earnings reality. They hyped their employees with incentives that often were thinly disguised bribes to perform unnatural acts like pushing product, extracting fees, and skinnying down service. They hyped customers non-stop with thousands of advertising messages a day. Hype ruled, at the expense of substance.

Now we are settling uneasily into the post-hype economy. The revolution has come and gone. In its wake, management must now replace the rule of hype with new leadership.

For many management teams this is a pretty hard right-turn. Although most were able to stay within the bounds of law, there is no question the rules have changed. Ask Jack Welch the adulated former CEO at GE, who negotiated his retirement package under one set of rules and then had to conform his package to the new set of post-hype rules. For managements that have operated under the rules of the hype economy, what will the post-hype regime look like and how will they operate differently?

Five key areas beg for greater substance:

Size – For the past two decades we have heard that "bigger is better." Big companies could reap huge economies of scale by outspending the smaller on technology, marketing/advertising, R& D. The goal to be large was mistaken for competitive strategy. But economies of scale got trumped by diseconomies of skill (not knowing how to make a large organization effective or how to deliver distinctive value). To date, bigger has been mostly slower, less customer centric, less profitable, and much harder to manage.

Speed – When the attention of the whole enterprise is riveted on the next quarter, inordinate resources are spent on what will move the needle in 90 days. So many organizations today are desperately trying to break the adrenaline addiction to quarterly sprints, and seeking a strategic aim along which to align organization efforts. Rarely has the strategic agenda in corporate America been so barren as it appears today, even as management scrambles to define a strategic destination toward which speed is warranted.

Technology – So much of the spending in technology was driven by the fear of falling hopeless behind. On-line providers were going to dominate, branches were going away, staff would not matter, customer information would drive everything. The myth that technology is competitive advantage has been debunked. A more substantive claim is that technology is an enabler when coupled with sound business strategy and execution.

Financial incentive – If we could just give executives, managers, and front line staff the right incentive, they would manage themselves. Too often the metrics we used did not align very well with the value we were attempting to create. Incentive costs went way up but value delivered to shareholders did not. In some cases incentive plans became more like bribes. These days tough questions are being asked from top to bottom about financial incentives. Is what we are incenting delivering value? What returns are we getting? Have we used an overly expensive incentive plan to replace management? Strategically, how should we be motivating the work force?

Cost – Being the low-cost provider has turned out to be a grueling competition that can commoditize whole industries. Cost-cutting your way to greatness takes ability and skill that few have. If what management really desires is to be the low-cost value provider – that is, the best value for the cost – that's a very different proposition.

Perhaps one of the reasons that the economy and the stock market are so stalled as of this writing, is that the hype and effortless money has been exposed, but the substance of what will replace it has not yet been defined.

Robert E. Hall
EnAct Group Executive
Carreker Corporation
rhall@carreker.com