How to evaluate our solutions

At the beginning of chapter 15 of *Smart Thinking* I outlined the three things we need to do to evaluate the solutions we had designed to solve any of the problems we have worked on. These are as follows:

1. Assess the **practical consequences** of each solution;

2. Try to predict the likely **responses and decisions of others,** who will be

 affected by it, so you can adjust the solution to make it more effective;

3. Evaluate the influence of your **reference point** on your evaluation of the

 problem – our preferences vary with our situation, so we have to take

 this into account as we evaluate each solution.

On pages 238-9 I listed all the practical questions we need to answer to assess the costs, benefits and practical issues of each of the solutions. Then we worked through problems 2 and 3. On the website pages devoted to this chapter you will see there is a separate file dealing with the Prisoners’ Dilemma, which contains exercises that will help you develop the skills you need to predict the responses and decisions of others, so you can choose the best way of responding. Finally, to summarise our analysis of these three points, on page 250 of *Smart Thinking* I listed the ten most important issues that we have to consider to deal with them effectively.

Now evaluate each of your solutions that you have designed to tackle any of the problems below by considering the implications of these three issues. I have also included case studies in this section of the website that you might like to use to evaluate using the same strategy.

Problems

1. Parents on the touchline

Many parents place intense pressure on their children from an early age to do well in competitive sports. They can be found on touchlines watching their children play football, abusing referees and coaches, and shouting at their children. There is a heavy weight of expectation on children, who may be desperate not to let down their parents. All authorities agree that this is not good for the child or for competitive sports in general. What can be done?

In previous chapters we have generated ideas, structured them and then designed possible solutions. On pages 200-1 of *Smart Thinking* you will see four possible solutions that we can now evaluate.

2. Bribery – The Bernard Fleming Case

In chapter 3 we examined the sort of questions this problem raises: whether it raises a question of fact, value or concept, or, more likely, a mixture of them all. In chapter 5 we analysed the concept of bribery to give our ideas a clear, manageable structure that we can use to design a solution. Then in chapter 9 we generated ideas using trigger questions from different perspectives and levels. We then designed solutions using analogies and the four strategies we discussed in chapter 12 of *Smart Thinking*.

3. Assistant manager of a chain store

I was working for a discount chain store that was expanding very rapidly. I was the assistant manager for a new store that was opening in the suburbs of Richmond, Virginia. There is an awful lot of work to be done in opening a new store; you have to order the merchandise, and when it comes in you have to check it off against the right orders, put it in the right racks and on the right shelves, add the right price tags, and generally keep things organised despite the chaos of last-minute construction and cleaning. I was helped by five really good people, who had been convinced to move from other stores in the chain because this was billed as a ‘training program’ for management. We worked long hours. We got the job done. One week after the store opened, I was told to find a reason to fire three of them because ‘we only have room for two trainees’. When I objected I was told, ‘Hey, there’s no problem. They can go back to the jobs they came from.’[[1]](#endnote-1)1

What should the assistant manager do?

4. Shoplifting

Shoplifting costs businesses a great deal and probably results in rises in prices to cover the increased security and insurance. So, businesses and consumers suffer. What are the possible solutions?

5. The elderly

As people live longer many western societies are facing a crisis of loneliness among the elderly. A much higher proportion of homes are now occupied by single, elderly people. Now that they no longer work, they have little contact with former workmates, and family and friends are only able to visit infrequently. Many elderly people also have mobility problems with only a very small proportion still owning and driving their own cars. This means that they cannot easily access community facilities where these are available. What is the solution?

6. Alcohol consumption

Over recent years many countries have seen an alarming rise in the consumption of alcohol among the young. This has been associated with violent, anti-social behaviour in city centres. One reason for this appears to be the cheap alcohol sold in many supermarkets as an inducement to attract more customers. In some supermarkets lager is cheaper than water. What solutions are there?

7. Toy makers

Traditional toy makers across the world are complaining that their businesses are declining, because traditional toys and games just don’t seem to be as attractive to the consumer as they used to be. What is the answer?

8. The plight of young people

In those countries that have chosen to tackle the problem of low growth through a policy of quantitative easing – a process by which the central bank stimulates economic growth by increasing the money supply – there have been ‘asset bubbles’: the price of assets, like houses, has risen as the increased money supply goes to inflate prices, rather than generate new economic activity. This has been made worse by the number of second homes now owned and by those who are investing in property to rent it out. Both of these things have increased the demand and, therefore, the price of houses.

This has practically destroyed the hopes of young people who want to buy their own homes. Increasing numbers are forced to live at home with their parents, often well into their 30s. What’s more, as house prices rise so do rents to cover the larger mortgages needed. This has meant that even those who have well-paid jobs do not earn enough to cover their costs and employers struggle to find the employees they need.

What is the solution?

9. Testing employees for drugs

In the 1980s it was revealed by the American Medical Association that over 50 per cent of the Fortune 500 industrial companies are now testing all job applicants for drugs. A separate survey revealed that almost 25 per cent of large and small businesses had similar testing programmes and many others were moving in the same direction.

Indeed, some companies had introduced programmes to assess how healthy job seekers were and how well they looked after their health. Applicants were asked questions not just about their use of recreational drugs, but about how much exercise they took, how much they weighed, did they smoke or engage in other activities that might affect their health. Some programmes even asked questions about whether applicants participated in dangerous sports, in which they may suffer injury. Of course, the obvious intention was to appoint staff, who would not be forced to take time off as a result of sickness or injury.

It is no doubt reasonable for companies, as they recruit staff, to consider every factor that might result in increased costs. We accept that it is legitimate for them to discriminate between applicants on a whole range of factors – the school they went to, their hobbies, do they like team sports – so why should these be any different? On the other side of the argument we must consider whether companies should have the power to invade someone’s privacy in this way and, as a consequence, dictate an individual’s lifestyle. What is the solution?

10. Adult illiteracy

It is estimated that up to eight million adults in Britain are functionally illiterate. In other words, they have literacy levels at or below those expected of an 11-year-old and would not pass an English GCSE. In practical terms, many cannot make sense of road signs, train timetables or read the letters they receive each day. They cannot fill in forms, make job applications, use the Internet or write a letter. According to the World Literacy Foundation one in five of the UK population are so poor at reading and writing that they struggle to read a medicine label or use a chequebook. It is estimated that this rate of illiteracy is costing the UK economy £81 billion a year in lost earning and increased welfare spending.

As the government reduces its funding of literacy projects this cost will inevitably increase. How would you solve the problem?

11. Insurance fraud

Insurance fraud now costs the industry around £1.6 billion a year. According to the Association of British Insurers, one in 10 adults is happy to admit to having made a fraudulent claim. Indeed, more and more people appear to believe that this is just acceptable practice. It is thought that this sort of fraud is rising at a rate of about 10 per cent a year. The most common form involves exaggerating a claim. People will add a few more DVDs to a home insurance claim or they might upgrade their watch to a Rolex on their travel insurance. Although probably a myth, it is said that more Rolex watches appear on insurance claims than have ever been made.

Of course, this affects all of us. It is estimated that it puts an extra £40 on every insurance policy each year. In other words, if you have four or five policies, this will cost you an extra £160 or £200 a year. So, what can be done? What is the solution to the problem?

Case Studies

The case studies below involve the management of organisations evaluating competing solutions to the problem of how they develop their organisations. Try it yourself. How would you evaluate these different solutions?

1. Robin Chase, Zipcar, and an Inconvenient Discovery[[2]](#endnote-2)2

Please insert the case study from the PDF or the link to the PDF.

A summary of one aspect of the problems facing Robin Chase as she developed the car-sharing startup Zipcar can be found on page 244 of *Smart Thinking*. What follows here is the complete account of the challenges she faced.

2. Starbucks

The following case study illustrates the way the customers’ reference point can change, wrong footing the management of a company. Starbucks began by catering to those who wanted a club-like atmosphere as they relaxed over a quality cup of coffee. But increasingly the company began to serve the ‘grab and go’ customer, who wasn’t interested in the relaxed atmosphere and a leisurely cup of coffee. So which way should the company go? If it develops one way, it is likely to lose its original type of customer on which its brand was based and find itself competing with larger outlets that don’t share the same interest in quality. To develop the other way would mean growing at a slower pace. Evaluate the two solutions and make the adjustments you think necessary to make them more viable.

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**How Starbucks’ Growth Destroyed Brand Value**

[John Quelch](https://hbr.org/search?term=john+quelch)

[Starbucks announcement that it will close 600 stores in the US](http://online.wsj.com/article/SB121494400432420449.html?mod=hps_us_whats_news) is a long-overdue admission that there are limits to growth.

[In February 2007, a leaked internal memo written by founder Howard Schultz showed](http://starbucksgossip.typepad.com/_/2007/02/starbucks_chair_2.html) that he recognized the problem that his own growth strategy had created: “Stores no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighborhood store.” Starbucks tried to add value through innovation, offering wi-fi service, creating and selling its own music. More recently, Starbucks attempted to put the focus back on coffee, revitalizing the quality of its standard beverages. But none of these moves addressed the fundamental problem: Starbucks is a mass brand attempting to command a premium price for an experience that is no longer special. Either you have to cut price (and that implies a commensurate cut in the cost structure) or you have to cut distribution to restore the exclusivity of the brand. Expect the 600 store closings to be the first of a series of downsizing announcements. Sometimes, in the world of marketing, less is more.

Schultz sought, admirably, to bring good coffee and the Italian coffee house experience to the American mass market. Wall Street bought into the vision of Starbucks as the “third place” after home and work. New store openings and new product launches fueled the stock price. But sooner or later chasing quarterly earnings growth targets undermined the Starbucks brand in three ways.

**First, the early adopters who valued the club-like atmosphere of relaxing over a quality cup of coffee found themselves in a minority.** To grow, Starbucks increasingly appealed to grab and go customers for whom service meant speed of order delivery rather than recognition by and conversation with a barista. Starbucks introduced new store formats like Express to try to cater to this second segment without undermining the first. But many Starbucks veterans have now switched to Peets, Caribou and other more exclusive brands.

**Second, Starbucks introduced many new products to broaden its appeal.** These new products undercut the integrity of the Starbucks brand for coffee purists. They also challenged the baristas who had to wrestle with an ever-more-complicated menu of drinks. With over half of customers customizing their drinks, baristas hired for their social skills and passion for coffee, no longer had time to dialogue with customers. The brand experience declined as waiting times increased. Moreover, the price premium for a Starbucks coffee seemed less justifiable for grab and go customers as McDonald’s and Dunkin Donuts improved their coffee offerings at much lower prices.

**Third, opening new stores and launching a blizzard of new products create only superficial growth.** Such strategies take top management’s eye off of improving same store sales year-on-year. This is the heavy lifting of retailing, where a local store manager has to earn brand loyalty and increase purchase frequency in his neighborhood one customer at a time. That store manager’s efforts are undercut when additional stores are opened nearby. Eventually, the point of saturation is reached and cannibalization of existing store sales undermines not just brand health but also manager morale.

None of this need have happened if Starbucks had stayed private and grown at a more controlled pace. To continue to be a premium-priced brand while trading as a public company is very challenging. Tiffany faces a similar problem. That’s why many luxury brands like Prada remain family businesses or are controlled by private investors. They can stay small, exclusive and premium-priced by limiting their distribution to selected stores in the major international cities.[[3]](#endnote-3)3

3. PPS.tv and China’s Online Video Distribution Market[[4]](#endnote-4)4

Please insert the case study from the PDF or the link to the PDF.

Evaluate the three options (re. page 1) open to the project team of the online video provider, PPS.tv (PPS), as they decided how to manage the next stage of the venture’s development.

4. Digital Divide Data[[5]](#endnote-5)5

Please insert the case study from the PDF or the link to the PDF.

Evaluate the four potential strategies for growth (re. pages 7-9) that DDD’s leadership team had to consider as the company sought to build on the success of its first seven years.

1. 1 Hosmer, L.T. *The Ethics of Management*, Third Edition (Chicago: Irwin, 1996), p. 26. [↑](#endnote-ref-1)
2. 2 Deborah Ancona and Cate Reavis, ‘Robin Chase, Zipcar and an Inconvenient Discovery’, *Learning Edge Case Study topics* at MIT Sloan Management website: https://mitsloan.mit.edu/LearningEdge/Pages/Case-Studies.aspx [↑](#endnote-ref-2)
3. 3 John Quelch, ‘How Starbucks’ Growth Destroyed Brand Value’, *Harvard Business Review*, July 02, 2008. [↑](#endnote-ref-3)
4. 4 Kevin Anthony, Richard Erdong Chen, Aaron Rackoff, Wai Yan Wong, ‘PPS.tv and China’s Online Video Distribution Market’, *Learning Edge Case Study topics* at MIT Sloan Management website: https://mitsloan.mit.edu/LearningEdge/Pages/Case-Studies.aspx [↑](#endnote-ref-4)
5. 5 Anju Mathew, Grete Rød, Jaime Villalobos, David Yates, ‘Digital Divide Data’, *Learning Edge Case Study topics* at MIT Sloan Management website: https://mitsloan.mit.edu/LearningEdge/Pages/Case-Studies.aspx

 [↑](#endnote-ref-5)