

Bad decisions at work

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Are you tired of bad decisions imposed on you? or frustrated because no decision is being made?

In the past, there was a big advantage of being big because it meant you could benefit from economies of scale and produce things cheaply.

But why are economies of scale often not working anymore in today's digital times, and what should you do instead, if you want to save costs, but also increase your revenues, that's what this episode will all be about.

So, in theory, imagine know that you all need in different countries the same product. Well, it would be cheaper if you buy it in bulk, for instance, because in bulk it will lower the price. Or you all need to produce some things that again, it would be cheaper to produce it once for everyone then if each country would produce it, the same goes for distribution. And so, in the past, it would often be cheaper to do things together than to do them alone. But in today's fast changing digital times, it is often not the case anymore. In Excel, it looks great because if you add up the costs of every country, it is very expensive, so why not produce it for every country. Because then it will be cheaper. But it is not working anymore. And let me illustrate this with an example.

In my previous company, we wanted to build a platform for digital exercises. And not only Belgium needed that platform, the other countries of the group, they also needed a platform to build digital exercises for the schools to win it to include in all the manuals, and then all our offerings for the pupils and the schools. So, with a headquarter, they thought, instead of making these big investments of building a platform to make these digital exercises in each country, let's build it together it will be much cheaper. And of course, like I said, previously, in Excel, this looks really great because you see all the costs that can be saved.

So, it's a no brainer, but in reality, it didn't work.





And it didn't work for several reasons.

First of all, what's happened is that in debts way of working, what most companies do is they use what we call the waterfall way of working. So, we make plans, we gather all the needs of each country's What do you need? What do you need? What do you need, etc.? And we describe every need of everyone. And once everything is described, we will then make a plan, how much is it going to cost and then we will start implementing it.

But as we have seen already several times in fast changing digital times, this isn't working anymore, because the plans kept changing, or the demands of the customers kept changing, or we had new regulations or new technologies. And so, with all these countries, we were way too long in this planning phase of trying to gather all the data from everyone to build something great, but we never came into the phase of actually building it. Or when we got to that phase, so many things had changed already, that we didn't build what was necessary.

So, because of that speed of change that is accelerating, this was not working anymore.

But another thing was not working neither. And that's was the cost of alignment.

Because we had to align with all these countries we had to travel or to have meetings to discuss what we needed. And that had also a big cost. And because we were all under pressure in this digital transformation, to lower costs and to increase revenues, but especially, of course, to lower costs. Well, the problem was that we didn't have the budget for all the requirements for all the countries and what usually happens then is, of course we apply the 8020 rule, we're going to look at, where does it bring the most added value or the most revenue? And in reality, that was you're often in the big countries. So, the big countries with most of the time, get what I wanted. And the small countries wouldn't because, well, it's not so bad if a small country doesn't get what it wants. But if a big country doesn't get it, well, then it's really a problem for the whole group.

And so, there were economies of scales were created, in fact, so that everyone could produce cheaply. What was happening in reality is that the small countries were paying for the big countries and not getting what they wanted. And that's why it's not working this well anymore. In Excel, it is working. But in real life, there is an alignment cost that is often not taking into account.

That's why economies of scale in a world that is changing so rapidly, is not working that well anymore. Often the cost of alignment is bigger than the economies of scale and the reduced prices that you get from it.

And then as a result, for instance, in our country, we didn't get what we wanted. We didn't have a platform that we needed, we only had the costs, but we didn't have the product that our customers needed. So, it was really





for us a lose situation. It costed us money. We didn't deliver what a customer wanted, and so we didn't have the extra revenues.

But what I also noticed is that in today's world, the barriers of entry and the access to new technologies has become much easier. For instance, in the past, I had a larger organization of 130 people with a big IT department. And we were part of a much bigger group. And with that, I felt that we had to build a lot of things. And we wanted to automate. And so, we needed access to several different technologies. And now I am a startup with only three people working in my startup. And I managed to automate things much more easily than I did in the past because I have access to so many technologies that are also so easy to integrate with each other. So that means that you don't need to build things by yourself anymore. There are so many things available that you can just connect to build something.

So when should you go for economies of scale?

Well, if the technology that you want to use is not available if you really need to build something. And of course, you use economies of scale or you go for economies of scale, only if the benefit from these economies of scale is bigger than the cost of alignment, and that cost of alignments can be really huge.

And let me tell you another example. At some point, we were in publishing, educational publishing and of course, we did a lot of design and type writing of books. And it was much cheaper to do the design of our books in what we call low cost countries, so in India, in China, etc. It was like maybe only 10% of the price of doing it there, then doing it here. So here again, the headquarters they made the math, they thought, okay, you're spending that much on production and on typewriting. So we noticed that if we work with a supplier in a low cost country, you will be able to save a lot of money. So we're going to cut your budgets with, I don't remember 50% so that you sent everything there.

But here again, we had some other issues because, yeah, of course, in Excel, if you looked at typewriting of one page, it was cheaper. It was way cheaper in India. But the problem is that they needed perfect manuscripts, and those perfect manuscripts to deliver those perfect manuscript. It costed us a lot of extra hours in Belgium that were much more expensive when you counted the extra hours that we needed here in Belgium to deliver that perfect manuscript to India all together, the costs were higher than when we were working with our suppliers that we were working with for so many years that looked much more expensive on paper.

And also they made a lot of mistakes. So, for instance, if we would write, please put this in bold. In the manuscript, instead of putting the word in bold, we would find the text please put this in bold in the manuscript. So,





we had a lot of work also, to correct this. So here again, it was a good idea in Excel to do that, but it wasn't working, at least not working immediately.

I'm interrupting my own podcast to let you know that in the last years, I've helped many leaders build meaningful lives and organizations and I've identified specific traits that characterizes each of them. Do you want to know which type of leader you are? Take our free two minute quiz to find out, go to rebelleaderwithaheart.com/quiz, or to the show notes of this episode to take it, you'll receive your leadership profile, seven personalized lessons and a roadmap to transform yourself, your team or organization. And remember, you are a leader of your life. You don't have to have a team to take this quiz. No, let's go back to our episodes.

And so in the past, you had an advantage of being a big organization because you could benefit from these big economies of scale and produce things cheaply. But it wasn't working anymore or not for so many things, only if the cost of alignment and if the technologies were really not available, then it would still be an advantage to build things together. But otherwise, what I noticed is that instead of trying to be big and benefit from economies of scale. What is working now today was being small and agile because being small and agile were working with a lot of technologies that are readily available and that you can combine together. Well, by being small and agile, we could seize much more opportunities than our competitors. And we could also save much more costs because we could see together how we could save costs instead of having these very rigid structures where things have to go to the top and then back to the bottom before anything is decided.

So, if you are frustrated because your organization is still working with this very slow decision process of trying to centralize things and to be in control, and using as an excuse these economies of scale. What can you do then?

Well, first, of course, you can show them or send them this episode because they might understand that the cost of alignment and also the cost of slowing everything down by centralizing things might be higher than the benefits from doing centralized things. So that's what you can do. And the other thing you can do is have a discussion with them.

And that's what I will talk about in the next episode is what can you do when bad decisions are imposed on you? And how can you sell things like a pro and get much more autonomy?

So, in summary, economies of scale are not working as well anymore in these fast changing digital times, because they are slowing down everything. But also, because there is often a big cost of alignment that is ignored. So, what should you do instead? Try building many companies and



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empowering people and becoming really agile. So, don't try to be the big, large organization anymore. But if you have a large organization, try to build mini corporations within your large organization.

