Defrocking the priests of productivity

CANADA COMPETES

BY DANIEL TREFLER

Canada has found religion. It is led by a new productivity priesthood who chasten us weekly with their simple message: Lagging productivity is the price we pay for being a nation that simply does not work hard enough. Indeed, Canadian gross domestic product per capita now sits 20% below U.S. levels, or about $7,500 per man, woman and child.

Like most mature religions, the productivity priesthood has fragmented into a number of sects, each with a messianic view of redemption — advocates of tax cuts, increased research and development spending, rebuilding cities, opening borders and even separation.

Although it is a shame to waste a good productivity crisis, many economists, academics and policy analysts don't share these doom-and-gloom prophecies. A very different type of religion exists, one that puts the individual at the centre of the great economic cosmos and makes him responsible for his own productivity. Whether you are Richard Currie, CEO of the Year, or Cheryl Shour, chief environment officer of Healthy Home Services, it is you who makes the decisions about how to compete.

The problem with productivity numbers should be obvious. They tell you there is a problem, but they don't tell you how to fix it. Competitiveness, on the other hand, is about the strategies private firms and public institutions use to create innovative new processes and products. It is about new ideas for increasing market share and profitability or consumer satisfaction and value added.

In the next 12 weeks, the *Financial Post* explores what competitiveness means for your business and what your competitive business means for Canada.

This series was born over a lunch of pizza and Pepsi in a small seminar room at the University of Toronto's Rotman School of Management. An intense debate among some of Canada's sharpest thinkers on competitiveness led to a new "triad" approach. Canadian competitiveness depends on three broad factors: The macroeconomic context, the sophistication of company operations and the microeconomic environment.

Sophistication of Company Operations and Strategy (Parts 1-5) Competitiveness starts with individuals within a company, how a company is structured and how it interacts with other companies. In the first five weeks of the series, we focus on how companies need to take advantage of the macroeconomic setting by making sophisticated choices consistent with innovation, upgrading and competitiveness. Interested in developing a good business plan for your firm? Ask Roger Martin, dean of Toronto's Rotman School of Management, what was his best business plan ever and he will tell you there isn't one: "If it's already been used, it is no longer distinctive."

The Quality of the Microeconomic Business Environment (Parts 6-8) The quality of the business environment depends largely on economic clusters, as well as customers, and the availability of core business services such as venture capital markets.

The Political, Legal and Macroeconomic Context (Parts 9-12) The macroeconomic context, or the economy's "big picture," has long been the focus of the productivity priesthood. We will focus on how taxes, exchange rates, and municipal and government policies affect productivity and competitiveness.

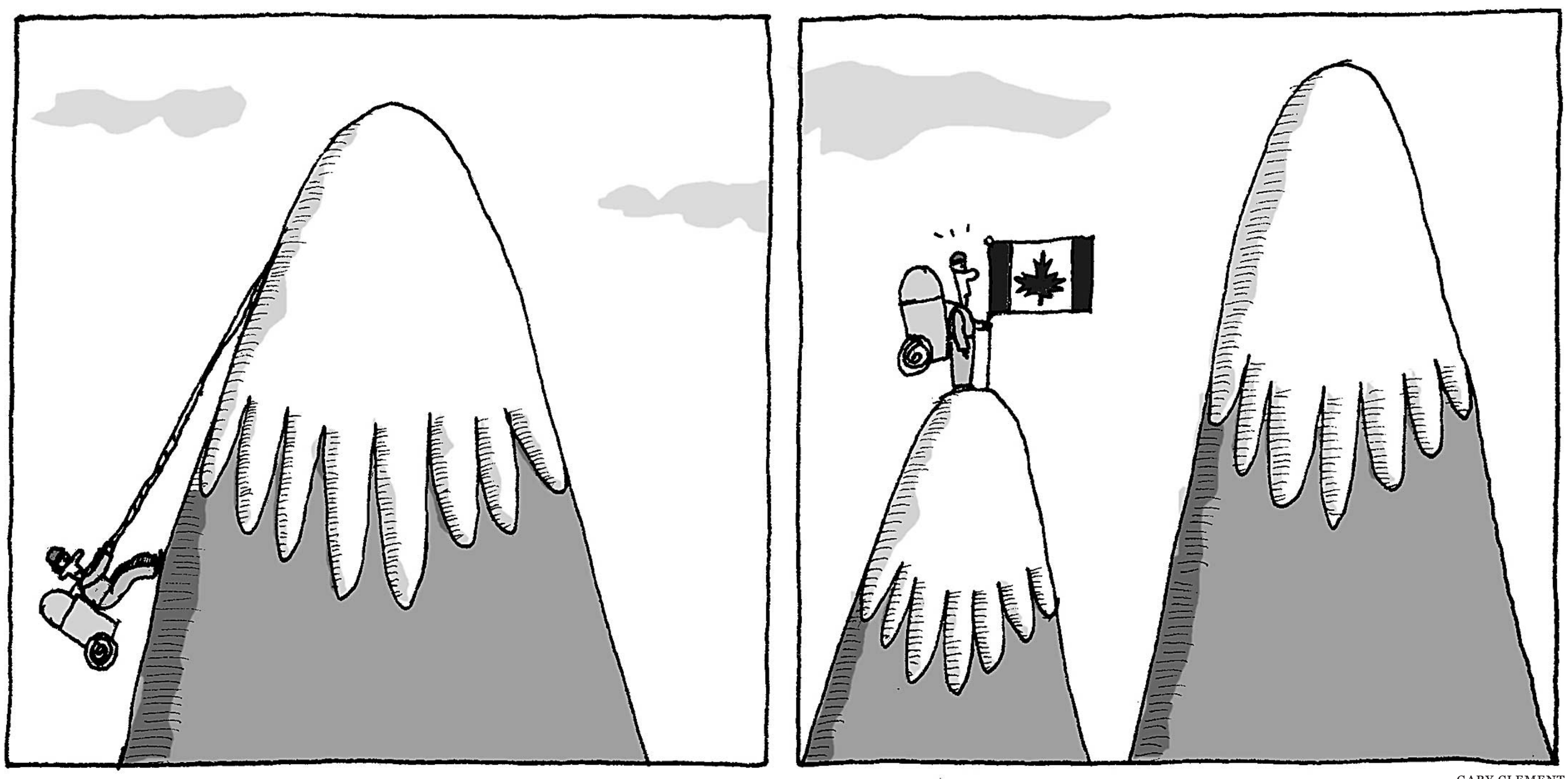
The series will explore why the business decision-maker is at the centre of lagging productivity and offer ways to come out on top.

▮ Daniel Trefler is the academic consultant of this 12-part series.

He is a professor of business economics at the Rotman School of Management and a research fellow with the Canadian Institute for Advanced Research (CIAR).

Next week: Falling victim to the Red Queen — why companies need intense rivalry to survive.

PART 1 — PRODUCTIVITY: THE LOCAL PEAK PROBLEM



GARY CLEMENT

Canadian businesses can not only succeed but prosper in global markets

Conquer the world and triumph in Canada

In Part 1 of the Canadian Competitiveness series, Roger Martin, dean of the Rotman School of Management at the University of Toronto, argues that too many Canadian companies set their sights too low and aspire only to compete in the local market. "Too many Canadian firms begin their journey with too little in their backpack and too little training for the climb," he says. "It is like the mountain climber who climbs what he thinks to be the tallest peak only to discover that there is a much taller mountain standing in the distance."

BY ROGER MARTIN

When we look at the power of a global brand such as Coca Cola or Sony or Mercedes-Benz, or a fabulous product such as a Boeing 777 or Pentium IV chip or, for that matter, a Pringles potato chip, we see the manifestation of a set of choices made by firms many years earlier to be globally competitive. A few of these choices represent the razor's edge — on one side lies the future of Coca Cola, Mercedes and Pringles, while on the other Dr. Pepper, Chrysler and Humpty-Dumpty.

At some critical point in the past, the former firms aspired to be globally competitive. This aspiration led them inexorably to invest in assets — proprietary products, unique technologies, powerful branding, etc. — that would enable them to achieve their aspirations.

While one can be certain that not all who aspire to be globally competitive actually succeed — witness TransWorld Airlines, Marks & Spencer or Nissan Automotive — one can be equally certain that all who aspire only to be locally competitive will fail to become global power houses.

This is because to be globally competitive, a firm must invest in world-class competitive assets, whether physical (such as world-scale plants), financial (such as the equity necessary to expand globally), human (such as skilled scientists or salespeople), knowledge-based (such as patents or proprietary know-how) or network (such as global alliance partners).

Since investing in global-quality assets is difficult and expensive, firms that don't aspire to be globally competitive simply will not invest in them. For example, Procter and Gamble's Pringles business is willing to invest in plants large enough to serve entire continents and a breakthrough technology for making potato chips, while Humpty-Dumpty is willing only to invest in plants big enough to serve a small region of one country, using off-the-shelf technology. Coke is willing to invest billions of dollars to build global distribution and ensure ubiquity of its product, while Dr. Pepper is willing to do only a decent job and only in North America.

Three interlinked choices define a firm's strategy and determine the likelihood of it achieving global competitiveness. These are driven by its aspirations. As shown in the chart, the key choices are: aspirations and goals, where to play, and how, given that "where" choice, to win on the chosen field of play.

In this way, the choice of global, national or local aspiration drives the decision of where in the market to play and how to approach the task of winning in that market. For example, in 1986 when the global mutual fund market was nascent, Winnipeg-based Investors Group led the Canadian market with $7.5-billion in assets under management. Meanwhile, Boston-based Fidelity was a U.S. leader with $45-billion in assets under management — bigger than Investors, but not overwhelmingly so. However, the aspirations diverged markedly.

Investors Group sought to lead in selling mutual funds to Canadians while Fidelity aspired to lead the world in sales. By 1999, Investors had grown impressively to $41-billion in assets — a compound growth rate of more than 15% a year.

In the same period Fidelity had grown to $1.3-trillion in assets, now over 30 times bigger than Investors Group, rather than six times bigger in 1986, and ominously already second in the Canadian market. Given its aspiration, Fidelity was, and is, willing to invest hundreds of millions in building its brand and penetrating markets outside the United States. Given the scale this strategy generated, Fidelity is willing to invest hundreds of millions in technologies, such as voice recognition, that can be amortized across its now huge global business. In the global mutual fund business, the endgame has already been determined. Giant U.S. (Fidelity, Vanguard, Capital Research) and European (Amvescap) firms will duke it out for global supremacy and in the course of that battle take over many of the Canadian players — as has been the case with Trimark.

This is a major challenge for Canadian companies— the setting of aspirations sufficiently high to underpin a successful global strategy. Too many Canadian firms set their sights too low, resulting in a problematic pattern (see chart). In a World Economic Forum analysis, Canada ranked 27th in unique products and processes, 14th in company R&D, 13th in global distribution and 21st in branding. These are not rankings suitable for a country that wishes to maintain or improve its sixth-place standing in GDP per capita among the larger countries in the world.

Far too many Canadian firms begin the journey with too little in their backpack and too little training for the climb. It is like the mountain climber who climbs what he thinks to be the tallest peak only to discover that there is a much taller mountain standing in the distance.

However, this need not be the fate of Canadian firms. Those that set their sights high can and do succeed. In the early 1980s the then-fledgling Four Seasons hotel chain decided it would lead the world in the luxury hotel market. Despite facing giant competitors in the global hotel business and a much larger and deeply entrenched competitor — Ritz-Carlton — in the luxury segment, Four Seasons sallied forth, intent on building a global brand synonymous with quality, innovative service, and hotels in the key destinations worldwide.

Despite what appeared to be long odds, Four Seasons has accomplished its goal of building the biggest share and best brand in the luxury hotel market, with 54 hotels (in 24 countries) versus Ritz-Carlton's 36 hotels and its surrender to a takeover by Marriott.

Canadian firms as diverse in their markets as Bombardier, McCain's, Nortel, Manulife, Alcan, Masonite International, and Butterfield & Robinson demonstrate that Canadian businesses can not only succeed but prosper in the global markets — but only if they actually try!

▮ Roger Martin is chairman of the Institute for Competitiveness and Prosperity and dean of the Rotman School of Management at the University of Toronto.

SOPHISTICATION OF COMPANY OPERATIONS AND STRATEGY

	Incompatible with global competitiveness	**Compatible** with global competitiveness
ASPIRATIONS AND GOALS	• National competitiveness • Sustainable advantage over local competition	• Global competitiveness • Sustainable advantage over global competition
WHERE TO PLAY	• Primarily in home country • Broad participation • Serving most easily satisfied customers	• Globally in focused product niche • Serving demanding customers at home and abroad
HOW TO WIN	• Replication with low-cost labour / raw materials • Minimal R&D • Weak branding	• Unique product / process • High R&D • Global distribution • Powerful branding

NATIONAL POST

BUSINESS CASE STUDY

How Four Seasons weathered global competition

Toronto-based Four Seasons Hotels and Resorts is an excellent illustration of distinctive positioning and a reinforcing activity system leading to global competitive success. (Harvard Business School Case: Four Seasons Hotels and Resorts, 2000, Roger Hallowell plus interviews by Roger Martin and Christian Ketels).

Four Seasons operates 54 luxury hotels and resorts in 24 countries around the world. It wins awards at an unprecedented level in industry publications as the leading player in the luxury hotel and resort business worldwide. Ten or more of its hotels routinely make lists of the top 100 hotels in the world. The company often appears on the *Fortune* list of best places to work. Its revenue per available room in the highly competitive U.S. market is more than 30% higher than that of its closest chain competitor, Ritz-Carlton. Countries and cities around the world encourage Four Seasons to build hotels in their jurisdiction because the presence of a Four Seasons signals a quality location.

The result is growing profitability and growth opportunities that financial markets have rewarded with a significant premium for Four Seasons stock compared with its peers.

Four Seasons has achieved this impressive performance not by being similar to its peers. Rather, the success has derived from making an integrated set of choices that are highly distinctive. Its goal was to develop a brand name synonymous with an unparalleled customer experience.

To meet these aspirations, it chose to focus exclusively on serving high-end travellers. This choice was in direct contrast to large competitors such as Hyatt, Marriott, Hilton and Westin, all of which competed across the spectrum of hotel classes, including high-end niche brands such as Marriott Marquis and Conrad Hilton. By competing across the spectrum of hotel classes, competitor chains struggled to establish consistent high-end service and branding. The only hotel chain with focused high-end positioning, Ritz-Carlton with 36 hotels worldwide, saw its positioning endangered when it was purchased recently by Marriott and made part of a broad-based chain.

A second choice was to pursue a truly global strategy with its growing portfolio of hotels and resorts in key destinations around the world. This distinguished Four Seasons from the bulk of smaller high-end competitors. Competitors such as Mandarin Oriental (20 luxury hotels, mainly in Asia) or Peninsula Group (eight hotels in Asia and the United States) could not provide ubiquitous global service to their high-end clientele.

The final key choice, which was made in 1985, was to specialize as a hotel manager, not a developer and owner. This was a distinct choice in the industry until Marriott divided its business into hotel ownership and hotel management companies.

Imitating some aspects of a strategy, but not all, leads to a large gap in performance. Should one of the other hotel chains, for example, copy Four Seasons' focus on medium-sized hotels in a selected number of prime locations, it would forsake a large part of the market. And without the additional activities in terms of recruiting, training and so on, it would not reap the benefits of superior personal service that merits higher prices from the most discriminating travellers.

Because the Four Seasons strategy is unique and is ensconced in an activity system that would force competitors to make unacceptable trade-offs, its competitors have been disinclined to imitate Four Seasons, despite its obvious success. The result is a Canadian global leader with attractive growth prospects for the future. *Roger Martin*