BREAKING FAILURE

HOW TO BREAK THE CYCLE OF BUSINESS FAILURE AND UNDERPERFORMANCE USING ROOT CAUSE, FAILURE MODE AND EFFECTS ANALYSIS, AND AN EARLY WARNING SYSTEM

ALEXANDER D. EDSEL
Praise for

*Breaking Failure*

“As a 15-year marketing professional responsible for many campaign and product launches, reading *Breaking Failure* helped bring into focus my own planning and post-campaign assessment shortcomings. The author does an excellent job introducing a framework as well as techniques any manager can use to better identify, gauge, quantify and most importantly lessen the impact of failure. Detailed infographics and examples help the reader understand the power and applicability of each of these techniques. The author also does a good job illustrating how these techniques can be incorporated across any organization. *Breaking Failure* is a must read for any manager looking to improve business performance and avoid recurring pitfalls.”

—*Andrew Franco*, Vice President of Marketing at Transamerica

“In *Breaking Failure*, Alexander Edsel breathes new life into an age-old question: Can businesses prevent and mitigate failure? The short answer is yes, but the strength of Edsel’s approach is the way in which he convincingly transfers the insights of fields such as engineering into the marketing arena while also demonstrating their practical use and implementation potential. Edsel presents an intuitive suite of frameworks that address management biases, identify and prioritize risks, establish mechanisms for warnings, and develop strategies to prevent and prepare for failure. Highly recommended for the marketing practitioner who is looking for an actionable, pragmatic approach to dealing with failure, an inevitable reality of doing business.”

—*Yannis Kotziagkiaouridis*, Global Chief Analytics Officer at Wunderman

“Author Alexander Edsel has created a rich story that removes the mystery surrounding product success and failure, offering a refreshing blend of street wisdom and classical theory to apply problem-solving techniques from other disciplines into the crazy world of marketing and product management.”

—*Jeff Kavanaugh*, VP and Managing Partner, Infosys Consulting

“With all the buzz in marketing today around big data and technology as the way to improve our craft, Alexander Edsel reminds us that the best opportunities for progress may come from looking outside of our discipline and applying decision-making principles from other domains. Since reading Edsel’s book, I’ve changed the way I think about solving marketing problems and just as importantly have changed the way I think about staffing, giving much more weight to the need for cross-disciplinary thinking in our hiring.”

—*Patricia Lyle*, General Manager, Meredith Xcelerated Marketing
“I’ve worked with Alex on a number of projects, and I appreciate his ability to communicate highly technical concepts to executable actions for real business professionals. This book isn’t just for CEOs and senior executives; it’s also for managers and employees looking to implement improvement processes to create real value in their businesses. As Alex points out, the techniques do require a modest investment in time but most importantly the discipline to apply these practices on a consistent and concentrated basis to mitigate potential future failure.”

—Mike Hart, Vice President of Sales, Lennox Industries, Inc.

“Alex brings perspective on the real-world challenges that are faced by businesses today. His approach to diagnosing issues early, applying past learnings, and hopefully ending up with better outcomes will help all enterprises from small to large improve their performance.”

—Bob Nolan, Senior Vice President of Insights & Analytics, ConAgra Foods

“By identifying key areas where corporate failures typically originate from, Alexander Edsel lays out a roadmap for decision-makers to listen, assess, understand, and strategize to avoid or minimize the impact of catastrophic failures. This is an excellent, practical treatise to effect a learning, evidence-based organization where tools, process, concept-testing and empowerment replace gut-feelings and unsubstantiated domain-transfer generalizations. An excellent resource that should help trigger deeper thinking.”

—Dimitris Tsioutsias, Ph.D. / SVP, Strategic Business Analytics, Targetbase-Omnicom Media Group

“At a time when everyone in business is talking about being data-driven, but very few enterprises are actually benefiting from it, Breaking Failure provides a much needed set of frameworks and methodologies to guide decision making and maximize the impact of business investments. Complex concepts are laid out clearly and can be followed easily, making them ultimately practical and applicable. And maybe most importantly, the book is relevant to multiple levels of managers and executives, as well as across organizational functions, from marketing to operations and HR.”

—Slavi Samardzija, Chief Analytics Officer, Annalect-Omnicom Media Group

“Alexander Edsel’s perspective in Breaking Failure is key for businesses to use effective problem solving tools normally used for process improvement. By using his methodology, businesses can focus on the true reasons for the occurrence and abate failures before they occur, saving time and money. A book to add to my ‘Lean Library’ collection.”

—Lisa Townsend, Business Excellence Manager, Lennox Industries
Breaking Failure
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How to Break the Cycle of Business Failure and Underperformance Using Root Cause, Failure Mode and Effects Analysis, and an Early Warning System

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To my wife, Karen, and our wonderful children
Alex, James, Philip and Paul,
may you learn from failure and be
successful managing the most important
domain transfer the future holds.

To my departed parents, Ernest and Cristina,
for their unconditional love and guidance.

I especially want to dedicate this book
in memory of my father,
whom I credit with providing me
with the original concept for the book.
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About the Author

Alexander D. Edsel is the Director of the Master of Science in Marketing program for the Naveen Jindal School of Business at the University of Texas at Dallas, where he has been a faculty member for more than 12 years. In addition, he has more than 20 years of product management and marketing management experience in both B2B and B2C markets in the chemical, high-tech, and healthcare fields while at Bayer, Compaq, and WellPoint. His original work and research on failure and underperformance began in 1996 and was first published in March 2011 with an article that appeared in the Product Development Management Association’s *Vision* magazine. Edsel holds both MBA and JD degrees. In his spare time, he loves to read nonfiction books, spend time with his family, and explore additional failure-mitigation techniques at his blog at www.breakingfailure.com.
Introduction

“The obscure we see eventually. The completely obvious, it seems, takes longer.”

—Edward R. Murrow, American broadcast journalist

When Harry Markowitz, winner of the 1990 Nobel Prize in Economics for his portfolio management theory, was asked how he allocated his investments, he replied, “I should have computed the historical covariances of the asset classes and drawn an efficient frontier... Instead, I split my contributions 50/50 between bonds and equities.” Everyone has probably experienced this phenomenon whereby you analyze—maybe even use—sophisticated models to evaluate business challenges or opportunities but rarely apply the same amount of time, effort, or diligence to your personal finances or endeavors.

This paradoxical but common occurrence was described by Nassim Taleb, author of The Black Swan: The Impact of the Highly Improbable, as domain dependence or the inability to transfer a proven technique, process, or concept from one discipline or industry to another.

This book looks at why this blind spot occurs within different disciplines and professions. Identifying useful techniques from other domains and applying them to a different discipline is a simple yet transformational act that can yield a higher ROI than any of the incremental optimizations performed by companies. Also, it is not as if these domain transfers do not work; if challenged, everyone can think of highly beneficial knowledge or best practices adopted from other disciplines or industries. The origins of statistics, for example, began with the analysis of census data by governments many hundreds of years ago, evolving and improving over time. The adoption of statistics by other disciplines was accelerated by the development of probability theory first used by astronomers in the 19th century. Other
Disciplines soon followed, including business, which began using statistics in the early 20th century and which became the foundation for finance, operations management, and many areas in marketing. Another widely adopted domain transfer by business was the Stage-Gate system, which has become the de facto standard for new product development in many categories. The Stage-Gate concept originated with chemical engineering in the 1940s as a technique for developing new compounds. It was then adopted and refined by NASA in the 1960s for use in “phased project planning.” Dr. Robert Cooper is credited with formalizing and refining this concept for new product development in business in his 1994 blockbuster book, *Winning at New Products*. According to Cooper, he arrived at the Stage-Gate concept by observing what successful companies like DuPont were doing in this field. It is no small coincidence that DuPont was in the chemical industry, where the technique originated.

Domain transfers should not be confused with applying a different framework, sometimes incorrectly, to another industry or situation, as occurred during the short tenure of JCPenney’s CEO Ron Johnson. Johnson, the former Senior VP of Retail Operations at Apple, managed during his 16-month tenure at JCPenney to lose over a billion dollars in revenue and caused the company to suffer a 50 percent drop in its stock price. Johnson’s sin was to default to his usual framework—the Apple way—where consumer market testing, sales, and discounts were never used. Johnson believed that the Apple framework would work just as well in the nontech retail world of apparel, shoes, furniture, kitchenware, and knick-knacks. Addressing framework mistakes and how they can be prevented is the subject of Chapter 2, “Don’t Start Off on the Wrong Foot.”
State of Management

It is especially important to apply these failure mitigation and prevention techniques that we will cover in this book to areas like advertising, human resources, marketing, sales, strategy, and product management because despite the fact they are considered more “science” and less “art,” they still lack many of the standard protocols, continuing professional education requirements, and mandatory professional certifications found in other disciplines such as law, medicine, or accounting. Case in point: Even though the study of statistics is widely accepted by marketing and taught in most academic programs, it is used correctly and on a regular basis by probably fewer than 15 percent of marketing professionals. While there are some functional areas in marketing where statistics are less important (e.g., event management), there are still many areas where it should be used but isn’t. Most lead generation campaigns, for example, do not usually conduct split A/B tests, which is a related problem: the partial adoption of a domain transfer. Moreover, most business professionals have no grasp of statistical traps such as when correlations do not have a cause-and-effect relationship.

The premise of this book can be boiled down to three observations. Most failures and underperformance are due to the following:

- Error-prone thinking and decision making
- Voids in the domain transfer of proven techniques that would be useful to many areas of business (e.g., failure mode and effects analysis, root cause analysis, and an early warning system)
- A deficient and inconsistent knowledge base among many business professionals due to the lack of mandatory professional certifications and continuing education (finance and especially accounting being two notable exceptions)
This book proposes solutions to address the first two problems, but the third requires the collaborative effort of agencies, Fortune 1000 companies, academia, and professional organizations.

**Applicability of These Concepts**

The techniques presented in this book can be used by any company regardless of size or industry type. However, some techniques when applied to large, complex organizations, such as the Failure Mode and Effects Analysis or Root Cause Analysis, will require a team effort and are somewhat process-intensive, requiring some time and effort, especially when conducted for the first time. The best way to determine when to use these domain transfers is to initially use them on your most expensive and mission-critical campaigns or product launches and then decide what the threshold should be to use or not use them. For some companies, it might be when more than $10,000 is at risk; for others, the threshold might be when more than $100,000 is at risk. Once a company becomes proficient with these techniques, the time and effort required should decrease considerably. Other techniques, such as the early warning system and pre-planned exit strategy, require only a one-time effort with adjustments over time.

**Benefiting from the Topic**

“Volume hides a multitude of sins” is one of those wisdom-laden quotes of unknown origin but of profound significance to this book and topic. As explained in *Breaking Failure*, business failure and underperformance is more prevalent and likely to occur than most people suspect. However, all failures and underperformances are not equal. At large corporations, mistakes that would sink a small or
medium-sized company are often swept under the rug or shrugged off. There is also the emotional and family sacrifice that business failure can bring to individuals in start-ups and smaller companies. While the book is of benefit to everyone, it is especially important to those with the most “skin in the game,” be it in their careers or business.

The book is like a workout; it requires more focus than if reading a “get rich quick,” theoretical or opinion type business book. However, as with a workout when done correctly, it can translate into very tangible benefits. In addition, expensive and complex solutions have been eliminated from this book so that any small, medium-sized, or large company can benefit from its easy-to-understand concepts and techniques. These techniques do require a relatively modest investment, but only in time and not money. The bigger challenge, similar to exercise, is in developing the discipline to apply these techniques on a regular basis.

Many of the case studies used are about launching and managing products or about conducting different types of campaigns. However, these techniques can be used in any area of business, such as Human Resources to determine why 30 percent of new hires underperform and have to be let go after 12 months (using a Root Cause Analysis). It can be used by the Strategy or Mergers and Acquisition group to analyze all the things that could go wrong with a new company acquisition (using a Failure Mode and Effects Analysis) or by the Finance department to see why their investment choices are underperforming. In this last example, contributors to failure may have included immediate causes such as a sudden increase in the interest rate. What this book explains is how to go beyond that and find out what faulty decisions or assumptions led to the undesired outcome.

Finally, the ROI and benefits from applying these techniques should be readily apparent given that they have been proven and used by other disciplines and industries for decades—just not in key areas in business such as innovation, strategy, marketing, product management, sales, and finance.
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