

Renewing Our Business'

Mental Model*

***Abridged, annotated, out-take from live presentation**

Every company in a mature industry within the US is either already in, or a step away from, “commodity hell” in which firms seem stuck selling their products and services for a lower price. Meanwhile, industry capacity doesn't seem to shrink as fast as global capacity expands to provide equally, excellent products and services from Asia.

To reinvent profit power most CEO's proclaim “the need to change and innovate”, but their company cultures and unprofitable activity traps keep them from finding the resources – time, talent and treasure – or the sustainable will to overcome past personal, company and industry-wide mental models.

This slide show is an abridged version of the introductory section of a “How to reinvent profitability” presentation that I have recently done for a number of organizations and association meetings. The story it tells, along with the additional references it provides, will hopefully help you and your organization start down a productive customer value reinvention path.

Cutting costs and successfully doing old activities more efficiently is good and necessary stuff. But, achieving breakthrough value propositions for the best, right customers in the best, right niches for each profit center will be the key to profitable growth.

“GESTALT FLIP”

MCG



show # 11 2

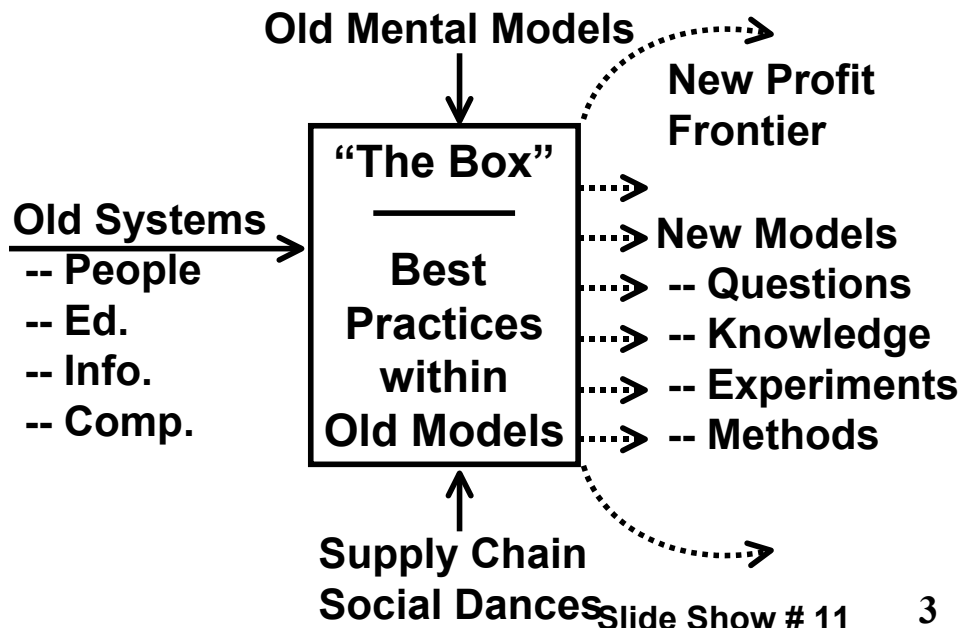
This illustration that demonstrates “perceptual ambiguity” was popular 20+ years ago. If you have trouble seeing both the beautiful lady and the old crone – one at a time, because you can’t see both simultaneously – you might enjoy going to this URL to get the whole story on the picture and what it illustrates.

http://psylux.psych.tu-dresden.de/i1/kaw/diverses%20Material/www.illusionworks.com/html/perceptual_ambiguity.html

Some points for business applications are:

- a. Do you see business as tough (the old crone) or as potentially beautiful (the young lady). It can depend upon mental model thinking and metrics that focus on the dying edges of a business as opposed to metrics, questions and experiments that focus on the living edges of a business.
- b. In live presentations, I also use a film of two different teams of three people each passing basketballs to illustrate another angle of perceptual ambiguity. I can’t tell you the punch line, but right now 99% of audiences that have seen the video are stunned by the outcome. The film does a wonderful job of opening minds to thinking about how we think with mental models. (A note of gratitude: I got turned on to the video by Michael Weber, a great speaker, magician and an expert on “paying attention.” He is currently evolving a site at www.payingattention.com.)

GET OUT OF THE BOX?

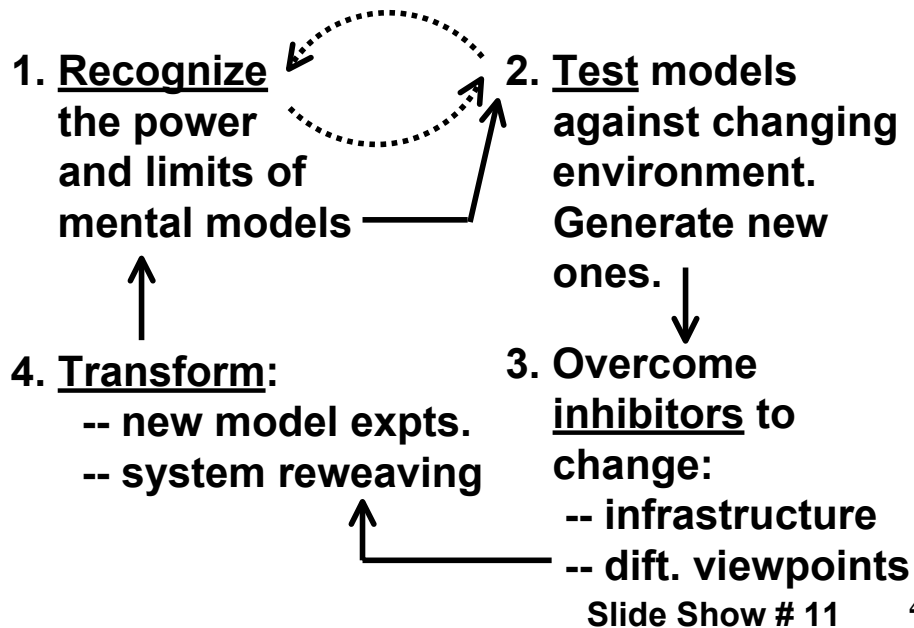


Every business and most of its management team is in a performance box. Everyone is doing the best that they can do within that box considering that we are all engulfed and constrained by current un-spoken, mental models, metrics, systems, etc. We can't know what we don't know until we consciously try to define the box, its boundary constraints, and look for ways out of the box. We have to think about our thinking.

The "social dances" phrase at the bottom of the diagram is meant to represent the way we do business with our channel partners. If we should pitch either or both of our suppliers and customers on a new improved way of doing business, most will want to keep on dancing with us the way that they have. Their mental models have to be overhauled too.

The right hand side of the diagram is meant to suggest a way out of the box by super-focusing on the few, most profitable and/or growing parts of our business with new lenses, new questions and new experiments. This will increase the odds that we can discover new pathways to renewed profit power. Customer profitability ranking reports and the related plays and question-maps are tools for doing this new frontier work.

MENTAL-MODEL OVERHAUL



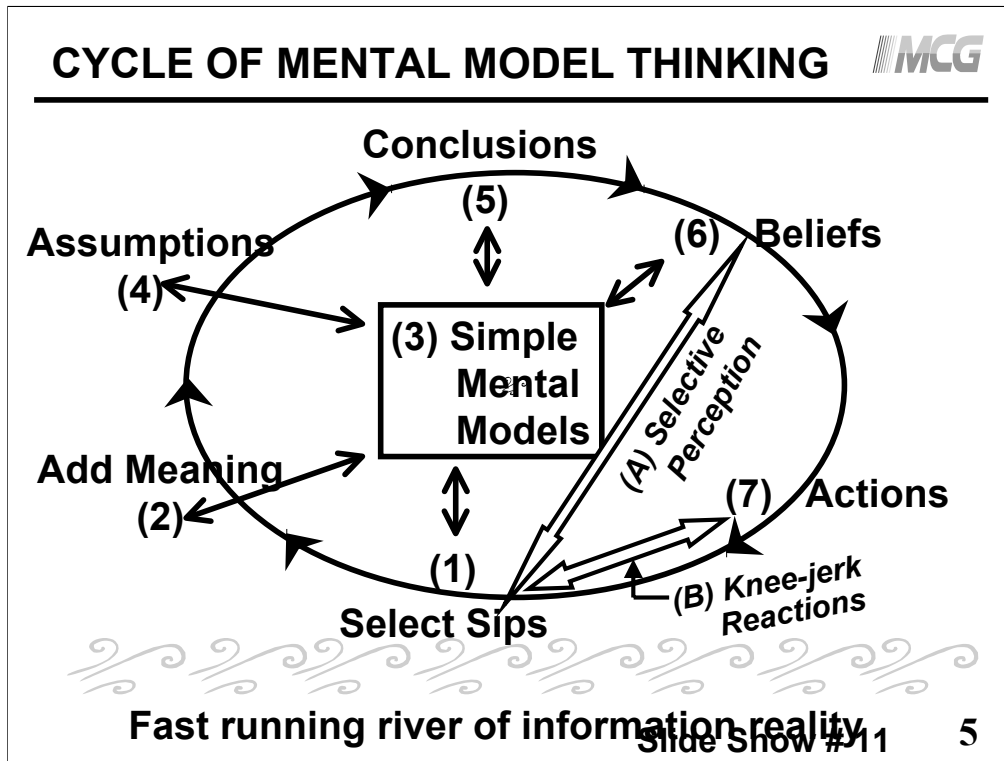
This diagram is a modified version of a central one used in the excellent book: The Power of Impossible Thinking by Wind and Crook. What's difficult about applying it in the way it is laid out is that most people can't, for step 1, describe or adequately get in touch with their true existing mental models and their emotional investment that is woven into those models.

By starting with step 2 & using customer profitability reports and related question-maps, new models for doing more with super – winners, losers and growers – can be proposed. The collective pushback that this exercise evokes can then be used to reverently identify, flesh out and emotionally unpack the old models that are at once very, silently powerful, but also limiting. We often need new model proposals as triggers to surface the old models.

Once we have a better grip on both old and potentially new mental models, then we can test them against the current environment to see what's relevant & promising from both sets of models. The best solution for most companies, for both intellectual and emotional reasons, will be a blend of the old and the new.

Even if a management or core leadership team at a company can get through the first two steps, they then need to address step 3. How can we get the rest of the employees and channel partners through the first two steps? And, how should we overhaul our systems and metrics to support the new hybrid model?

Transforming (step 4) our company so that we can actually shape the future to some degree instead of reacting to it might ideally be done by “pushing the wheel of learning” (slide 8 in this show) continuously to design and try quick, cheap, good experiments. As we fail forward towards bigger and bigger successes and develop new corporate skill sets, our confidence and credibility will gather momentum like a large flywheel.



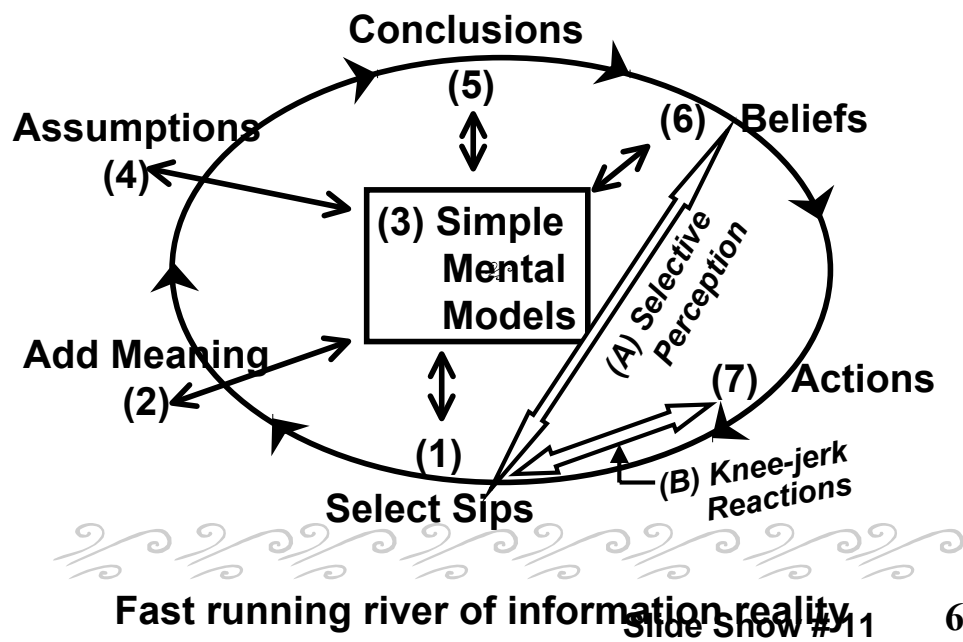
This slide is a more complicated derivative of the “ladder of inference” first named and explained by Prof. Chris Argyris in Theory in Practice published in 1974 and popularized by Peter Senge in The Fifth Discipline published in 1990.

The story of this slide starts at the bottom with the fast-flowing river of change and digital data that is generated by our global, innovating economy. From this river, we (#1) take tiny self-selected sips of information. Our information intake is limited by our: curiosity, observation skills, job niche, etc. We then (#2) add meaning to the data and start to create in our head (#3) simple mental models for what we think is going on in the world. While world reality has many complex systems – each made up of many inter-dependent variables – all interacting with one another, our mental models are:

- Simple with a few operating variables that are often guided by a few linear, cause-and-effect variables (if A, then B type thinking.)
- We tend to over weight those variables that are closest to us that have the most personnel impact on us at the moment. (Buy this item you really want now, pay later. Don't do the net present value benefit versus math, because it would prove to be a dumb deal.)
- We tend to see things in an all-or-nothing, win-lose, black-or-white, two-dimensional ways which are all mental logic traps.
- Etc. (Nobel prizes are now being given to economists who prove that humans make consistent, predictable, irrational choices in certain types of situations.)

Once we start to create mental models, those models, in turn, will interactively effect all of the other steps of the cycle. Our models can start building and interacting with input from any part of the cycle. Learning religion from our parents, for example, starts with our parents and our religious creeds stating, “here is what we believe”. We can later go find facts, assumptions and conclusions to further support and build on those beliefs. Brainwashing is, in a way, the installation of fully developed mental models from “trusted” superiors particularly when we are 0 to 8 years old or total rookies in a new situation. (Think boot camp training in the military or some large, strong culture companies.)

CYCLE OF MENTAL MODEL THINKING



What's really insidious about this total process is how automatic, knee-jerk reactions will eventually happen (steps A and B). Because of our beliefs and our fully grown mental models or mindsets, we start to (A) only sip or "see what we want to see and ignore the rest" (a line from a Simon and Garfunkel song) and then (B) re-act in a knee-jerk fashion. We short circuit steps 2 through 5 without any reflection or questioning. This see-and-respond capability was important for survival in the wilds where simple mental models worked reliably for a simple, slowly changing world. But, the metabolic rate of change in our business environment is picking up and if we don't change as fast as it does we are toast.

How should we use this model as a strategic conversation tool? Look at the living and dying edges of your business under new, more powerful analytical lenses to raise as many questions as we can. Have questions that touch on each step of the cycle as it relates to the customers, products, services and resources being discussed. Raise new hypothetical theories and thought experiments in these questions. Then, organize all of these questions into a "question-map" for some "new, frontier conversation". Examples of question-maps are in exhibits 30 - 33 at <http://min.isisit.com/merrifield/exhibits>.

During a subsequent strategic conversation, listen for personal resistance to new ideas or perspectives, and then say something like:

"Great! I love your energy (it has some emotional conviction). Where does it originally come from? May we use the Cycle of Mental Model Thinking to unpack your mental model because you are also speaking for the emotional convictions of many of us who have been working here or in this industry for some time. All of us form our mental models for the way our business and industry work in our early years. This could be quite dated for veterans. Our collective goal should be not to protect the past completely, but to find what might still be good about old mental model thinking and what might be dated. Then, we can blend the best of the old with the possible new mental models to all move together successfully with unanimity."

But, do this identification and unpacking of old mental models patiently and reverently. Yesterday's fortuitous accidents have become today's religion and our reasons for being successful.

WELCH: DO STRATEGY IN 3 STEPS*

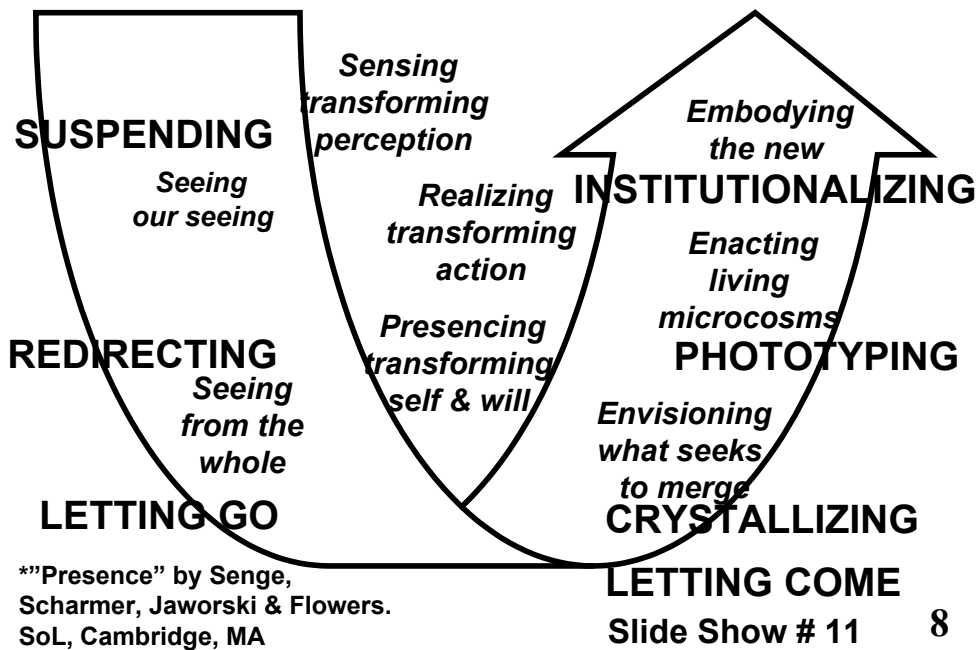
- 1. “Big Aha” - A smart, realistic, relatively fast way to gain sustainable advantage**
- 2. Right people in right jobs to do “Aha”**
- 3. Apply “best practices” in customized way to achieve “Big Aha”**

- Best Practices “ A Big Aha**
- Big Aha (+) Weak Executives = 0**

***From “Winning” by Jack Welch, page 167 Slide Show # 11 7**

Jack Welch’s new book “Winning” is brilliantly written to be enlightening, pragmatically helpful and accessible for even the lightest business readers from CEO’s to someday-managers. On page 167, he explains his three steps for doing strategy which appear in this slide in abbreviated form. He then follows these three steps with questions on 5 slides. If a management team tried to answer the questions on the five slides with honest candor it would do wonders for re-focusing their current strategy.

7 STEPS TO "AHA"



Jack Welch does an excellent job of getting managers to ask and discuss the right, straightforward strategy questions, but many management discussions may not result in fresh, new, aha insights, because the participants are too enmeshed in group and industry-think.

This slide diagrams how a management group might 1: "suspend" all of their knee-jerk beliefs so that true dialogue can happen instead of head-on debate. (For more on dialogue see exhibit 6 at http://www.merrifield.com/exhibits/Dialogue_Exhibit.pdf)

Step 2: "re-directing", is the ability to step back from the operational weeds and see the entire business ecosystem forest and the underlying feedback systems that govern many individual, dysfunctional activities.

Step 3: "letting go", means to monitor what our mental reflex thoughts are and let them go and just hang out in watching and discussing the systems of the whole. Don't try to rush to fix things, just wait until potential new solutions "emerge" on their own and present themselves. This can take time and requires patience.

Step 4: "letting come", means to be open and not initially critical or judgmental about any emergent possibilities. The more possibilities that emerge the more likely that one of them might be the beginning of something new, fresh and interesting.

Step 5: "crystallizing", means to start to rough out best new possible visions of what might be done to create solutions for the present and the future instead of just fine-tuning the past.

Step 6: "phototyping", means to paint, draw, describe pictures of what the solution might look like on simple, quick testing scale basis. Feed the winners and learn from the losers.

Step 7: the winners from "phototyping" will then grow to become institutionalized within the existing corporation and industry ecosystem often changing them all and driving the non-changers out of the business.

WHAT'S HISTORY TEACH US?

- **“The future enters into us in order to transform us long before it happens” (P S.: or doesn't, causing death.) Rilke**
- **To change something requires reweaving the whole.**
- **Using (unspoken) old models & words to describe new things locks us into a profitless, fading past.**
- **New words/models enables new profitable actions**

Slide Show # 11 9

The quote by Rilke and my other conclusions in this slide are hopefully self-explanatory.

BIG, SLOW HISTORY FLIPS

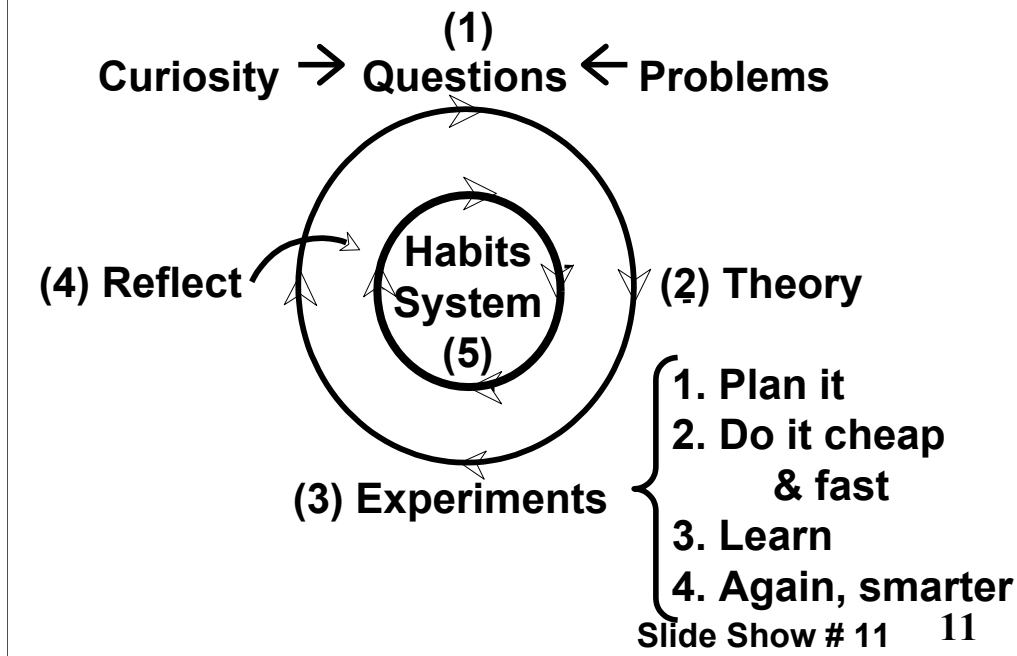


- 1492: Go West to get East;
100 year gold rush**
- 1861: Slavery doesn't work in a
democracy (85 years)**
- 1923: Women should vote (147 years)**
- 1970+: Co-education of elite private
schools**
- 1989: Title 9 changes women's sports**

Slide Show # 11 10

The historical events in this slide are examples in which the actual event had been preceded by years of collective thinking, debate and mental model overhauling. The problem in business is that if we don't do what we know we should do sooner, then we may well be dead.

WHEEL OF LEARNING



This diagram combines two of my own adaptations from many other people's work to explain the process of how we can collectively learn and fail forward with "good mistakes" that are well planned, but still done initially as cheaply and quickly as possible. (First, as thought experiments if possible.)

For lots more on these two concepts, you can check out modules 5.7 and 5.8 in our video training, corporate renewal program in a box entitled: "High Performance Distribution Ideas for All." Or, go to the full description of them in slides 10 and 11 in another slide show at our site entitled: "How to Close the Knowing-Doing Gap" at this URL:

http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf

ACTION STEPS



- 1. Do living edge customer profitability reports**
- 2. Develop frontier, question maps for:**
 - most profitable accounts**
 - most losing accounts**
 - best target accounts**
- 3. Use the pushback to identify & unpack old mental models**
- 4. Blend the best of old & new models**
- 5. Push “The Wheel Of Learning”**

Slide Show # 11 12

Each of the steps in this slide have had good coverage in: our “High Performance...” video & in articles & other slide shows at our site. For more on step one, see slide show #10;

http://min.isisit.com/merrifield/articles/Identify_Customer_Niches.pdf;

articles: 2.3, http://min.isisit.com/merrifield/articles/2_3.asp; 2.15,

http://min.isisit.com/merrifield/articles/2_15.asp; and 2.19

http://min.isisit.com/merrifield/articles/2_19.asp; and/or, “High Performance Distribution” video modules 3.5 to 3.11.

When you look at the top 10 super profitable and the bottom 10 super loser accounts with a management team, you will always hear collective gasps and comments like: “this is ridiculous, I can’t believe that some of these accounts are that good or that bad.” This is good pushback energy that will allow the frontier, question-maps (step 2) to get some good dialogue going.

The goal then is (step 3) to use the dialogue to surface, flesh out and evaluate both old and new models in the light of today’s realities and facts. The rest is self-evident.

WHAT NOW?



Do you think that you can do what's recommended in this slide show? If you need a little help, I would be glad to sell you a video, some fractional time on the phone or an on-going advisory relationship. For now, though, do the ranking reports described in slide show #10 along with some background reading at our site and skim through the frontier, question maps. The results at the bottom and the top of the ranking reports are so shocking that it could be the beginning of a mental model overhaul process.

Slide Show # 11 13

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