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GOING *for* GOLD

For me an interesting aspect of the Beijing Olympics is who may emerge as the 'challenged-athlete' of the games. At Sydney 2000 it was "Eric the Eel", the swimmer from Equatorial Guinea who had never seen a 50 metre pool before. Before him was "Eddie the Eagle" at the 1988 Winter Games, Britain's first ever Ski Jumper who finished 55th out of 56 jumpers (the 56th having pulled out).

Eric and Eddie provided great entertainment, but they also give an insight into the human capacity for deluding ourselves. This is true in all aspects of life, and the business of baking is no different. How many times have you observed the actions of a competitor or new entrant into the market and shaken your head in bewilderment?

In an article in the McKinsey Quarterly, Charles Roxborough identifies some key areas of business strategy where we can often fool ourselves. His conclusion is that many of them are due to humans relying too much on their own brains and emotions, rather than facing facts. Roxborough's eight business strategy flaws are:

1. Overconfidence: Roxborough points to a study of Swedes, 90% of whom rated themselves as above-average drivers. It is a human failing to be overly confident in our ability, which can affect our ability to make sensible business decisions.
2. Mental accounting: we can treat expenses differently, even though physical costs are exactly the same. For example, while costs for an existing food product line might be tightly monitored, the expenses for a new, innovative line are given free reign because it is a 'strategically important' project.

3. Status quo bias: humans are naturally averse to risk and happier to stick with what they know. For example, we will only try product innovations around what we know, rather than a potentially profitable new segment.
4. Anchoring: "Present the brain with a number and then ask it to make an estimate of something completely unrelated, and it will anchor its estimate on that first number," says Roxborough, warning it can be dangerous when anchoring something to the past, e.g. the profitability of an unrelated product category.
5. Sunk cost effect: rather than write-off expenditure in a failing investment, people often prefer to put more money into that rather than take a clean break. IT systems are a good example, people sometimes opt to patch a poorly performing system, with predictably bad long term results, rather than scrap it and start again.
6. The herding instinct: as fashion designers know, people show a tendency to conform to the behaviour of others. In baking that can hinder business innovation as people to stick to mainstream approaches to mainstream products, missing out on opportunities to really differentiate.
7. Overestimating pain or pleasure: we are poor at estimating either how much pain or pleasure we will experience when our circumstances change dramatically. This can lead to poor decision making about our business, either being highly risk averse or overly optimistic.
8. False consensus: this is the 'agree with the boss' phenomenon, which can lead people to ignore their instincts and make poor decisions.

How can you combat these normal, human tendencies to dupe ourselves? None of us want to become the Eric the Eel or Eddie the Eagle of the baking world.

There are many aspects to this, from good leadership to a strong internal culture, but a fundamental is good information. The quality of data available in your business – its breadth, accuracy, timeliness – helps us make sound, rational decisions and avoid some of the strategy flaws Roxborough identifies.

The tough bit is having the right information in the right place at the time. Gaining a single, simple, integrated view of all the information involved in a typical baking operation is not easy. Some organisations focus on computerising their accounting and payroll, and then use tools like spreadsheets and manual systems to manage inventory, production and logistics.

While only larger manufacturers could previously afford integrated computer systems (enterprise resource planning or ERP systems), these kind of applications are now increasingly cost-effective for smaller organisations.

An integrated view of your information can be very useful. Imagine your sales are going up but it doesn't seem to be translating to an improved bottom line. Using a properly integrated computer system means you can quickly pinpoint the reasons. Having access to both costing data and sales results enables you to analyse profitability of different product lines, right down to the individual order level.

Has a particular input price risen quickly, is demand for a once popular product starting to wane, is a particular distribution outlet not performing? You can uncover these problems quickly and easily with an integrated system.

It also enables you to make decisions dynamically. You don't have to wait for the monthly or quarterly reports and then try to work out what is happening a long way after the fact. With the right system you can find what is happening today with a struggling product and make a decision straight away.

The imperative to be flexible and dynamic in decision-making is becoming stronger for all organisations, especially as customers become more aggressive. Organisations need to turn over products more quickly, and weed out poor performers regularly to ensure profitability and survival. Your ability to anticipate and react is becoming increasingly critical.

Without a good view of your key business data it is too easy to fall prey to the fundamental strategic errors that result when we rely too much on our own emotions and not on the story the real numbers tell. That clarity and simplicity is what can help your baking operation look less like an Eric the Eel and more like an Ian Thorpe or Cathy Freeman.

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