



Case Study

SUBJECT:

STRATEGIC FOCUS

EVENT:

VANGUARD MUTUAL FUNDS (2001)

SUMMARY:

The Vanguard Group has become a giant in the mutual funds industry by keeping overhead costs down. Vanguard recognized the cost of doing business associated with marketing costs and frequent transactions. By relying on targeted advertising and limited transactions Vanguard was able to pass on savings direct to the investors who are the fund's owners.

When confronted by changes in competition and new technology, Vanguard emphasized the core strategic focus and empowered front-line employees to identify opportunities to adapt with the technology in a manner that supported the core values of the organization. This tactic maintained the principles of the strategic focus while keeping pace with the changing competitive landscape.

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Strategic Focus – Vanguard Mutual Funds

Vanguard is a mutual company, not a public company, so the investors are the funds owners. The strategy at Vanguard had been to keep costs low in an effort to provide higher returns directly to the investors.

Unfortunately, for some time the strategic focus at Vanguard was unrecognized by the midlevel management. As a result, managers would identify trends and strategic shifts by competing organizations and propose sweeping changes within Vanguard to match the competition. The executive management at Vanguard determined to champion the strategic focus within the organization to all employees and to entrust the employees to initiate activities aligned with this strategic focus. “Sometimes the greatest value is reconfirming what we’re already doing,” said CEO Jack Brennan.

Vanguard responded to a major trend in retail fund distribution and the emergence of the on-line channel with unyielding dedication to the strategic focus. Industry surveys indicated that most investors desired internet access to their accounts and that on-line traders were significantly more active than those that conducted trading off-line. Rather than change strategic focus and core competencies to copy the competition, Vanguard embraced the internet in a manner that further supported the established strategic focus of keeping low costs. Vanguard allowed customers to access accounts on-line, but limited the number of transactions and web-based trading. It is worthwhile to note that front-line employees made the suggestions for internet activity, including early ventures with AOL, to executive management. The efforts to champion the strategic focus had paid off as the front-line employees recognized opportunity with direct relation to the company core strengths.

Vanguard's strategic focus permeates the entire management process, including hiring, training, performance measurements and incentives. “You are more efficient and can run with a leaner management team because everyone is on the same page,” said Jack Brennan.



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