
FEEL FREE TO BE MECE

To structure your thinking when solving business problems (or anything, for that matter), you must be complete while avoiding confusion and overlap.

MECE (pronounced “me-see”) stands for “mutually exclusive, collectively exhaustive” and it is a sine qua non of the problem-solving process at McKinsey. MECE gets pounded into every new associate’s head from the moment of entering the Firm. Every document (including internal memos), every presentation, every e-mail and voice mail produced by a McKinsey-ite is supposed to be MECE. Ask any number of McKinsey alumni what they remember most about the way the Firm solves problems and they will tell you, “MECE, MECE, MECE.”

MECE structures your thinking with maximum clarity (hence minimum confusion) and maximum completeness. MECE starts at the top level of your solution—the list of issues making up the problem you have to solve. When you think you have determined the issues, take a hard look at them. Is each one a separate and distinct issue? If so, then your issue list is *mutually exclusive*. Does every aspect of the problem come under one (and only one) of these issues—that is, have you thought of everything? If so, then your issues are *collectively exhaustive*. Suppose your team is working on a study for that famous American manufacturing firm Acme Widgets. The problem you face is “We need to sell more widgets.” Your team might come up with a list of the following ways to increase widget sales:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.

If this list looks rather generic, that’s fine; we will talk about moving down a level of detail in the next section. What matters is that the list is MECE.

Suppose you add another item, say, “Reengineering our widget production process.” How does that fit with the three issues you already have? This is certainly an important issue, but it isn’t a fourth point alongside the others. It falls under “Reducing the unit cost,” along with other subissues such as “Leveraging our distribution system” and “Improving our inventory management.” Why? Because all these are ways to reduce the unit cost of widgets. Putting any (or all) of them with the other three issues on the list would cause an overlap. The items in the list would no longer be mutually exclusive. Overlap represents muddled thinking by the writer and leads to confusion for the reader.

Once you have a list in which all the items are separate and distinct (i.e., mutually exclusive), you have to check that it also includes every issue or item relevant to the problem (i.e., it is collectively exhaustive). Go back for a moment to “Reengineering our widget production process.” You put this under “Reducing the unit cost.” Now one of your team members says, “We should think about ways to improve widget quality through the production process.”

She’s right. Does this mean you should go back to having reengineering as an issue in its own right? No, but you should refine your list to include, under “Reducing unit cost,” the subissue “Reengineering the production process to reduce unit cost,” and, under “Improving the way we market . . .,” the subissue “Reengineering the production process to improve widget quality.” Now you have something that looks like this:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.

- Reengineering the production process to improve widget quality.
- Reducing the unit cost of our widgets.
- Reengineering the production process to reduce unit cost.

Suppose your team has come up with some interesting ideas that don't fit under the main issues. What then? You could ignore those points, but that wouldn't help Acme. You could make them issues in their own right, but then you would have too many issues. A good McKinsey issue list contains neither fewer than two nor more than five top-line issues (of course, three is best).

There is a solution to this dilemma—the magical category “Other Issues.” If you can't figure out where to put those two or three brilliant ideas, there is always Other Issues. There is a caveat, however. Avoid using Other Issues in your top-line list—it looks out of place. It's fine lumped in among a bunch of subissues, but on the first slide of a big presentation, it sticks out. So try a little harder to fit those brilliant ideas into your top-line issues. Chances are you can. Still, if all else fails, Other Issues will help you stay MECE.

SOLVE THE PROBLEM AT THE FIRST MEETING—THE INITIAL HYPOTHESIS

Solving a complex problem is like embarking on a long journey. The initial hypothesis is your problem-solving map.

The initial hypothesis (IH), the third pillar of the McKinsey problem-solving process, is the most difficult to explain. To make the explanation easier for you (and me), I will break this section into three parts:

- Defining the initial hypothesis.
- Generating the initial hypothesis.
- Testing the initial hypothesis.

DEFINING THE INITIAL HYPOTHESIS

The essence of the initial hypothesis is “Figure out the solution to the problem before you start.” This seems counterintuitive, yet you do it all the time.

Suppose you have to drive to a restaurant in a part of town you don't know. You know you have to make the third left off Smith Street and then take the first right; it's just after that corner. You know how to get to Smith Street; you'll just follow your directions from there. Congratulations, you have an initial hypothesis.

Solving business problems is more complicated than finding a restaurant, but the initial hypothesis works the same way. It is a road map, albeit hastily sketched, to take you from problem to solution. If your IH is correct, then solving the problem means filling in the details of the map through factual analysis.

Let's return to Acme Widgets from the last section. You and your team must find a way to increase sales at the widget business unit. After you've brainstormed using your knowledge of the widget business, but before you've spent a lot of time gathering and analyzing the facts, you might come up with the following top-line IH:

We can increase widget sales by:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.

As I will show in the next section, you would then take each issue down to another level or two of detail to determine which analyses you need in order to prove or disprove each hypothesis.

Remember that a hypothesis is merely a theory to be proved

or disproved. It is not the answer. If your IH is correct, then, a few months down the road, it will be the first slide in your presentation. If it turns out to be wrong, then, by proving it wrong, you will have enough information to move toward the right answer. By putting your IH down on paper, and determining how you can prove or disprove it, you have set up a road map that you can follow to an eventual proved solution.

GENERATING THE INITIAL HYPOTHESIS

The IH emerges from the combination of facts and structure. Therefore, as the first step in generating an IH, you must start with the facts. Remember, however, that you don't want to do a lot of digging around for information before you know *where* to dig. One former McKinsey SEM had a good approach for generating IHs:

At the start of an engagement, I would just try to digest as much of our fact base as possible. I would sit down with the trade publications in that industry for an hour or two—not so much to gather facts as to absorb something of the flavor of that industry: what the jargon is, what the current industry issues are. I would especially seek out people in the Firm who knew about this particular industry. That was the quickest, most efficient way to get up to speed.

When generating an initial hypothesis, you don't need all the facts, just enough to have a good overview of the industry and the problem. If the problem is in your own business, you may already have the facts in your head. That's great, but facts are not enough. You have to apply structure to them.

To structure your IH begin by breaking the problem into its components—the key drivers (see “Find the Key Drivers,” in Chapter 3). Next, make an *actionable* recommendation regarding each driver. This is extremely important. Suppose your business's

profits are greatly affected by the weather; in fact, it is the key determinant of profits in a given quarter. “We have to pray for good weather” is not an actionable recommendation. On the other hand, “We must reduce our vulnerability to changes in the weather” is an actionable, top-line recommendation.

For your next step, you must take each top-line recommendation and break it down to the level of issues. If a given recommendation is correct, what issues does it raise? Consider the likely answers to each issue. Then go down another level. For each issue, what analyses would you need to make to prove or disprove your hypothesis? With a little experience, and a lot of debate within your team, you should get a good sense of what is provable and what is not. This will help you avoid blind alleys.

In the Acme Widgets problem, suppose your team decided that the key drivers were the sales force, the consumer marketing strategy, and production costs. You then came up with a list of actionable, top-line recommendations as your initial hypothesis:

We can increase widget sales by:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.

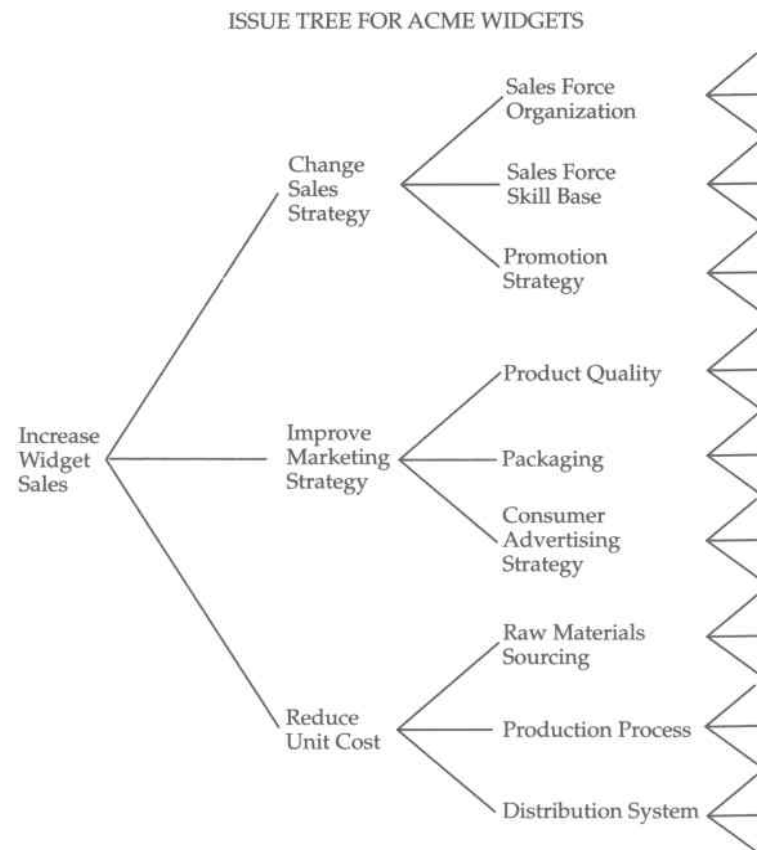
Let's begin with a closer look at the sales force. It's organized geographically (Northeast, Mid-Atlantic, Southeast, etc.) and sells primarily to three types of retail outlets: superstores, department stores, and specialty stores. The team believes that the sales force ought to be organized by customer type—that's one issue.

What analyses could prove or disprove that belief? You could break out the sales by customer type for each region. If penetration of superstores in the Northeast is higher than in any other region and higher than for the other types of retail outlets, find out why. When you talk to the Northeast sales reps, you might

find that they have a better feel for superstores than any other sales team. What if they were put in charge of all superstores across the country and achieved the same penetration? What would that mean for widget sales?

The end product of this exercise is what McKinsey calls the *issue tree*. In other words, you start with your initial hypothesis and branch out at each issue. The result looks like the figure below.

When you've completed your issue tree, you have your problem-solving map. That's the easy part. The difficult part will come when you have to dig deep to prove your hypothesis.



TESTING THE INITIAL HYPOTHESIS

Before you take your problem-solving map out on the road, you want (forgive the mixed metaphor) to kick the tires on it. Test it. Is it the best possible hypothesis you could devise, given what you know about the industry and your client or company? Have you thought about all the issues? Have you considered all the drivers of the problem? Are all your recommendations actionable and provable?

When I discussed generating an IH, I used the phrase “your team” rather than “you.” My experience at the Firm (and that of the many McKinsey alumni I interviewed for this book) taught me that IHs produced by teams are much stronger than those produced by individuals. Why? Most of us are poor critics of our own thinking. We need others to pick apart our ideas. A team of three or four bright individuals is an excellent vehicle for that.

So when your team meets to come up with an IH let a thousand flowers bloom. Everyone should have his or her own ideas and initial hypotheses. Everyone should be prepared to push a teammate's thinking and test each new idea. If you are the team leader, you should try to be the thought leader too. Try to take a different approach from whatever has just been said. Ask, “What if we change this? What if we push that? How about looking at it this way?” The process involves shooting a certain amount of bull. That's OK, have fun—as long as it pushes your thinking. (For more ideas and techniques to push your team's thinking, see Chapter 9.)