

Leadership and strategy in the news

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Craig Henry, *Strategy & Leadership's* intrepid media explorer, collected these examples of novel strategic management concepts and leadership practices and impending environmental discontinuity from various news media. A marketing and strategy consultant based in Carlisle, Pennsylvania, he welcomes your contributions and suggestions (craig_henry@centurylink.net).

Of strategies and strategists

Making strategy with digital analytics

Over the past decade, advances in digital analytics have transformed the way businesses operate. From marketing and pricing to customer service and manufacturing, advanced analytics is now central to many corporate functions. The same, however, cannot be said for strategy—at least not yet.

While strategy development will always require creative and thoughtful executives to set aspirations and make bold choices, analytics tools can give you an edge. Advanced analytics can be used to accomplish the following:

- Reduce bias in decisions by calibrating the likelihood of your strategy succeeding before you allocate resources.
- Unearth new growth opportunities by complementing traditional brainstorming methods to reveal hidden pockets of growth.
- Identify early-stage trends by painting a real-time picture of how your business context is unfolding so that you can trigger big moves before your competitors do.
- Anticipate complex market dynamics by generating proprietary insights about the combined impact of myriad forces.

Each of these applications can sharpen business leaders' views of the competitive arena and how they can position themselves to win. But that requires putting advanced analytics front and center in the strategy process. . . .

In our recent book *Strategy Beyond the Hockey Stick* (Wiley, February 2018), we introduced the idea of using data analytics to bring an outside view to strategy. By embracing the outside view, you can estimate your strategy's odds of success before you allocate resources to that strategy.

Chris Mulligan, Nicholas Northcote, Tido Röder, and Sasha Vesuvula, "The strategy-analytics revolution," *McKinsey Quarterly* April 2021

Strategy after the pandemic

It comes as no surprise that lockdowns, suddenly remote workforces, challenged distribution channels, and the closing of various brick-and-mortar locations would prompt organizations to expedite their digitization efforts. But Deloitte research shows that those efforts now are in hyperdrive.

For example, according to Deloitte's 2021 insurance outlook, the need to accelerate digitization and enhance virtual operations turned headwinds into tailwinds at many insurers, driving faster action to deliver within the coming year what might originally have been three- to five-year transformation plans. . . . Digitization efforts also are heating up to help

industries meet regulatory and reporting targets. Deloitte's oil and gas industry outlook notes that apart from enabling remote operations and driving human-machine collaboration, digitization has an important role to play in setting near-term emissions targets, using standardized and credible reporting and tracking accountability across integrated value chains.

And with accelerating digitization comes increasing digital access. Our aerospace and defense industry outlook notes that the space industry is likely to experience increased opportunities, primarily in satellite broadband internet access. In the first half of 2020, space investments remained strong at US\$12.1 billion. . .

Patricia Buckley "Accelerating strategic initiatives from customer centricity to sustainability," Deloitte *Insights* 21 February 2021

www2.deloitte.com/us/en/insights/economy/industry-trends/2021-industry-outlooks.html

How a compelling product can fail

At its launch, the Tata Nano was hailed as the people's car. Produced by Indian automaker, Tata Auto, the Nano garnered more media attention than any other car launch in the world at the time, achieving the biggest sales uptake in the history of the global automobile industry. More than two hundred thousand orders poured in within two weeks of its launch in March 2009. . .

At the same price as a two-wheeler, it put an automobile within the reach of most Indians for the first time. Tata Motors matched this compelling value proposition with a compelling profit proposition. A series of cost innovations in design, manufacturing, marketing, and maintenance resulted in a profit proposition that was both differentiated and low cost.

Yet the Tata Nano, an initial success, failed to meet sales targets and public expectations.

What went wrong?

It had a brilliant value proposition. A viable profit proposition. And a strong people proposition for employees and suppliers. This setback arose largely from a major weakness in the people proposition for the external stakeholders whose cooperation Tata depended on. . .

Instead of using non-traditional channels to make the Tata Nano reach Indian families throughout the country as had been planned, Tata Motors resorted to traditional dealerships for the display and sale of the Nano. . . . As a result, the car was displayed only in large showrooms in big cities.

As typical two-wheeler buyers were reluctant to walk into a large car showroom, the "people's car" reached existing car owners who were looking to buy a cheap second car. As the reputation of Tata Nano shifted from being the "people's car" to the "cheapest car" as perceived by existing car owners, two-wheeler owners were further turned off as what they wanted was not only better mobility but also an upgrade in their socioeconomic status.

It was the mistakes made in the people proposition that eventually backfired on the Tata Nano's value proposition.

"Why alignment is critical to the success of your strategy (case and worksheet)" Blue Ocean Strategy, 24 February 2021 www.blueoceanstrategy.com/

Thinking strategically to disrupt consumer markets

My colleagues and I have spent the last several years researching low-cost businesses that exceed customer expectations with less, what we call Costovation. How did these

companies spend less while innovating more? We found three directives that these companies followed:

1. Dare to Have a Different Approach

Every industry has its own lore: war stories and folktales describing great challenges, turnarounds, and failures. Embedded in those stories are assumptions about how the industry runs and how a business in that market is supposed to look. Find those assumptions and defy them. . .

To create a fundamentally new low-cost business, dare to explore the merits of "unthinkable" moves like eliminating certain features or pursuing an unpopular customer type. Your customers may not actually need all the features and elements that the industry has long thought they need:

2. Focus Only On What Matters and Ignore the Rest

Low-cost business models require discipline and relentless prioritization. This doesn't have to be as scary as it sounds. You should take pride in the trade-offs you make, because those choices are what differentiate your business and brand from your competitors. . .

3. Innovate Deep Within the Business—Not Just On the Product

One of the most common mistakes that businesses make when it comes to innovation is thinking that the only place where they can or should innovate is with the product. After all, the product is what their customers can see and interact with.

Entrepreneurs aren't wrong to be investing there, but they are oftentimes overlooking a huge opportunity to innovate on the inside of the business.

Wayfair reduces the costs of being a furniture retailer because it doesn't

have huge warehouses. Instead, Wayfair puts its efforts into creating a great website that connects shoppers to a network of furniture makers. When a customer purchases an item, it's up to the manufacturer to ship purchases directly to them.

Steve Wunker. "Innovation Strategy for Low-Cost Businesses," *Branding Strategy Insider* 21 April 2021

www.brandingstrategyinsider.com/innovation-strategy-for-low-cost-businesses/

Technology and disruptions

Modeling a novel pandemic in real time

The researchers developing epidemiological models must navigate unfathomably difficult terrain, providing answers where often there are none, with a certainty they can't guarantee. They must make assumptions not only about the virus's biology, which remains far from fully understood, but about human behavior, which can be even more slippery and elusive. And they have to do it all at warp speed, cramming weeks' or months' worth of analysis into a matter of days without sacrificing accuracy. . . .

In the global health crisis wrought by COVID-19, epidemiological modeling has played an unprecedented role — for scientists, decision-makers and the public alike. . . .

Over the past year, models have opened a window into the inner workings of the novel coronavirus and how it spreads. They have offered well-focused snapshots showing the impact of the disease at given instants in myriad settings, and suggested how those situations might change going forward. They have guided decisions and policies, both for shutting down parts of society and for opening them back up.

At the same time, scientists have had to reckon with the limitations of

models as tools — and with the realization that pandemics can push the utility of models to the breaking point. The ravages of disease on society intensify the headaches involved in obtaining unbiased, consistent patient data, and they amplify the fickleness and irrationality of human behaviors that the models need to mirror.

Jordana Cepelewicz, "The Hard Lessons of Modeling the Coronavirus Pandemic," *Quanta Magazine* 28 January 2021 www.quantamagazine.org/the-hard-lessons-of-modeling-the-coronavirus-pandemic-20210128/

How the pandemic transformed retail

If you've shopped at Walmart recently, you may have noticed more employees snaking through aisles, carrying blue tote bins and picking items off shelves to be delivered, either curbside at stores or to customers' homes. The employees are called personal shoppers — and their ranks are skyrocketing. Walmart says it now has more than 170,000 of these workers in stores, more than double the number in the position last year and larger than Macy's entire workforce.

A surge in online shopping is expected to permanently alter the retail workforce as major chains turn their stores into warehouses to fulfill digital orders. . . . Stores from Target to Bed Bath & Beyond are adding similar positions to Walmart's personal shoppers to compete with Amazon. Using their stores as warehouses enables them to get orders to customers faster and save on shipping costs.

Employees and labor researchers interviewed said the stakes are high as Walmart tries to make online ordering faster and more convenient for its customers. A key feature of Walmart+, the membership program Walmart rolled out to take on Amazon Prime, is same-day delivery from stores. Walmart has also introduced

Express Delivery" service through which customers can pay an extra fee to get orders delivered from stores in under two hours.

Nathaniel Meyersohn, "This is one of the fastest growing jobs at Walmart," *CNN Business*, 12 February 2021

www.cnn.com/2021/02/12/business/walmart-jobs-personal-shoppers/index.html

Building trust through blockchain

When several large automakers considered how to confront a looming sustainability problem, they turned to blockchain. The issue? Even as electric vehicles (EVs) penetrate the market in growing numbers, with global sales jumping 40 percent year-on-year in 2019 according to the IEA, questions around the ethical sourcing and disposal of their batteries have lingered.

In response, Volvo and BMW are using blockchain technology to track the raw materials used in EV lithium-based batteries from the source. This includes the mining of the key component, cobalt, which has historically been marred by child labor and other human rights abuses. . . .

It is this ability to provide provenance — to track and trace materials, products, and services — that has been singled out by PwC as the biggest driver behind the widespread adoption of blockchain technology. In a 2020 study, PwC's economists ranked the top five uses of blockchain by their economic potential, predicting that using blockchain to prove provenance could generate US \$962 billion for global GDP over the next decade. Notably, this was more than double the potential of any other use case.

Haydn Jones, "How the need for secure supply chains is propelling blockchain," *strategy+business* 15 April 2021 www.strategy-business.com/article/How-the-need-for-secure-

Hidden costs in employer health care plans

It's no secret that health care in the United States is tangled in wasteful red tape. A study in 2019 estimated that administrative complexity was the single biggest source of waste—bigger even than fraud or over-pricing—and imposes an annual cost of \$265 billion.

The true extent of that waste, according to a new study led by Jeffrey Pfeffer at the Stanford Graduate School of Business, is even more shocking. Pfeffer and his colleagues found that administrative “sludge” in health care insurance costs employers and the economy billions of dollars in squandered work time, employee stress, absenteeism and reduced productivity. . . .

Pfeffer teamed up with researchers at Gallup, the polling company, to assess how much time employees spend on the phone with benefit administrators and how those encounters affect their work.

“Until now, most of the research on health care sludge has focused on the paperwork costs incurred by health care providers such as doctors and hospitals,” Pfeffer says. “Our new twist, which I can't believe no one looked at before, is how much employee time is wasted and the measurable effect of that time on employee stress, burnout, increased absence and diminished job satisfaction.” . . .

“CEOs are the ones who should care about this, but they're only interested in how to reduce direct medical costs,” Pfeffer says, “not realizing that the indirect costs of turnover, absenteeism and diminished productivity are many times the direct costs of ill-health.

Edmund L. Andrews, “The Staggering Costs of Health Insurance ‘Sludge,’”

Insights Stanford GSB, 23 February 2021 www.gsb.stanford.edu/insights/staggering-costs-health-insurance-sludge

Culture and innovation

Amazon wins by going slow

Agile might seem perfectly suited for when a company is developing a product or service that doesn't exist and is looking to move quickly. In these cases, it's difficult to simply interview customers or watch them in action, because they can't respond to a hypothetical product.

The solution is to develop a prototype, or minimum viable product. Through a series of sprints, typically lasting two weeks, a product team puts together something that's good enough to show customers and get their reaction. If the idea bombs, well at least the team got that information quickly and with only a small investment—and maybe they'll uncover a better idea in the process. If it gets traction, then the team can quickly iterate to create an even better product.

Contrast that with the working backwards approach, which is all about planning. Working backwards emerged in 2004: Amazon's e-commerce strategies had proven successful, and the company was aggressively seeking new opportunities with a large potential market. Where should it look?

Rather than jumping into developing a plausible product—what an agile mindset might encourage—the company preached going slow to go fast. CEO Jeff Bezos often called himself the “chief slowdown officer,” and he got involved when he thought teams were moving quickly into coding without clearly defining the customer problem and an elegant product solution.

The working backwards approach requires a fully realized vision of a proposed product, embodied in a

written press release for the product's launch. This felt wrong, even unnatural, to software developers and product managers who wanted to get going on coding already. Teams typically spent weeks, if not months, hashing out this press release—along with an FAQ that explained to colleagues, customers, and senior management how Amazon could create this wonderful offering at an affordable yet profitable price. Only when the executives were satisfied with these documents could anyone start writing code and actually assemble the product. . . .

The fundamental problem with Agile, as many companies use it, is that its relentless pace biases developers. They want to get out a minimum viable product in only a few weeks, so they skimp on scoping out just what the product should accomplish.

Colin Bryar and Bill Carr, “Have We Taken Agile Too Far?” *Harvard Business Review*, 9 April 2021

<https://hbr.org/2021/04/have-we-taken-agile-too-far>

Long commutes and declining innovation

A late-night conversation with a fellow researcher about the hassle of commuting inspired Harvard Business School Assistant Professor of Business Administration Andy Wu to conduct a study that asked: Does the daily commute affect innovation and productivity for tens of millions of workers?

...Wu's conclusions were clear: A long commute hurts workers and their employers by hindering creativity and productivity, which stifles innovation, according to his recent *Journal of Urban Economics* article “Commuting and Innovation: Are Closer Inventors More Productive?”

“It's amazing how robust the results are. Commuting hurts both innovative quantity and quality,” especially for an organization's highest-performing

workers, says Wu of the three-year analysis he conducted with coauthors Hongyu Xiao and Jaeho Kim, both of the University of Pennsylvania's Wharton School.

The results provide an important lesson for companies: "If firms want to make sure their best knowledge workers innovate at their peak, keep them closer to where they work," either by allowing them to work remotely or by providing incentives to move closer to offices, Wu says. ...

The most talented inventors suffered the most; the greatest productivity losses were found among the highest-performing inventors, those among the top 10 percent.

Lane Lambert, "Commuting Hurts Productivity and Your Best Talent Suffers Most," HBS *Working Knowledge* 30 March 2021

<https://hbswk.hbs.edu/item/commuting-kills-productivity-and-your-best-talent-suffers-most?cid=wk-rss>

A wider view

Social capital and community resilience

Why have the effects of COVID-19 been so unevenly geographically distributed in the United States? This paper investigates the role of social capital as a mediating factor for the spread of the virus. Because social capital is associated with greater trust and relationships within a community, it could endow individuals with a greater concern for others, thereby leading to more hygienic practices and social distancing. Using data for over 2,700 US counties, we investigate how social capital explains

the level and growth rate of infections. We find that moving a county from the 25th to the 75th percentile of the distribution of social capital would lead to an 18% and 5.7% decline in the cumulative number of infections and deaths, as well as suggestive evidence of a lower spread of the virus. ...

There is an increasing consensus that social capital—including trust, norms and networks—may serve as one of the most important ingredients in accomplishing critical tasks in emergency situations. Even if physical capital is destroyed, social resilience and collaboration can help communities rebound, which is especially relevant during times of national emergencies. During outbreaks, for example, social capital can facilitate calm, peaceful, and collective action.

Christos A. Makridis, Cary Wu, "How social capital helps communities weather the COVID-19 pandemic," *Plos One*, 29 January 2021 <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0245135>

How big is too big for the financial sector?

An effective financial sector is vital to a well-functioning market economy, but in America the sector has metastasized. Its share of corporate value added has risen from 4% after WWII to 6% in the 1960s to 9% in the 1980s to a record 14% last year. Its share of corporate profits, once less than 10%, reached 40% in the early 2000s and has remained consistently above 25% since.

Top business talent has followed. In 2020, 34% of graduates from Harvard's MBA program entered finance, as did 34% from Stanford's. ...

The "value added" that economists record as financial firms generate trading profits and rack up fees does not "add value" to the real economy in any meaningful sense. It does not improve the typical family's life, create better jobs or expand productive capacity.

The clearest evidence for this disconnect comes from data on investment. The core task of financial markets should be to make capital readily available to businesses that might put it to productive use. Yet as the sector has exploded in scale, the cost of capital hasn't fallen. Instead, businesses have adopted a strong preference for returning their capital back to the financial markets instead of re-investing it, and net business investment has steadily declined as a share of gross domestic product (GDP). In research published last month, American Compass showed that the net outflow of capital from public companies has more than doubled as a share of GDP over the past four decade. ...

Our nation would be more prosperous with a smaller financial sector that left more talent and capital to the real economy.

Oren Cass. "Has the Financial Sector Become a Drag on the Real Economy?" *Pairagraph* 26 April 2021

<https://pairagraph.com/dialogue/635b4b8e9239487aa31990ce5e8cf965>