CEO advisory

Leadership and strategy in the news

Craig Henry

Of strategies and strategists

Blue ocean strategy in a declining industry

When I set up [my advertising] agency 15 years ago, the digital industry was really gaining momentum. Google had created the advertiser's dream: only pay for the clicks. For a number of years, advertisers did very well out of this. . .. There were hundreds of agencies specializing in digital, all fiercely competing for a greater share of limited demand – a classic red ocean. . ..

What I find really inspiring about blue ocean thinking is that it challenges you to ignore what the industry is doing and just start thinking about what the opportunity is. As everyone was running for digital advertising, I had to think in a blue ocean way and find a channel that others weren't considering. Everybody talks about the declining print industry, but people read papers every day. And because printing is not in demand, I could get really cheap rates. I found using print to drive online sales generated more value for client companies. . ..

Printed advertising, especially printed leaflets in e-commerce deliveries, such as Amazon boxes, is a very efficient way to reach people. You get to their home and you are reaching potential customers when their intent to buy is very strong. . .. In terms of costs, because the print channel isn't in demand, I can negotiate a much better price. Additionally, with the printed leaflets, the big delivery cost of getting the product from the factory to the front door is being taken care of, we're just piggybacking that experience.

In this way, blue ocean strategy guided me to offer client companies differentiated, high impact – low cost advertising, while allowing my company to enjoy a differentiated, low-cost business model. A real win-win. . ..

"Is Print Advertising Dead? Not Exactly," *Blue Ocean Strategy blog*, www.blueoceanstrategy.com/blog/is-print-advertising-dead-how-one-company-made-millions-from-it/

Surviving the next recession

A recession will likely land soon, and structural trends will influence a new cycle, notably the accelerating technology revolution in many industries and the end of decades of low interest rates. Preparing now enables companies to gain market share and accelerate: Winners pulled away from losers during the last recession and widened the profit and market-cap gap during the subsequent expansion, Bain's analysis of nearly 3,900 companies worldwide shows.

The winners excelled in four areas: early cost restructuring, financial discipline, aggressive commercial plays and proactive M&A. A four-point recession-readiness plan based on a company's strategic and financial strength can help leadership teams prepare now.

Craig Henry, *Strategy & Leadership's* intrepid media explorer, collected these examples of novel strategic management concepts and 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).

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During the last downturn . . . the losing companies tended to follow a few recession dead ends. Some tried to slash and burn their way to the other side, under the misconception that extreme cost-cutting would be enough to survive the storm. They cut R&D across the board, scaled back on sales and marketing activities, laid off valuable talent and ruled out acquisitions. Other lagging companies strayed outside their core business, investing in the latest hot sectors and tools, praying for a winner. . ..

Companies that ranked among the eventual winners, by contrast, moved deliberately to capture opportunities before the recession. While they focused intensively on cost transformation, they also looked beyond cost. Think of a recession as a sharp curve on an auto racetrack — the best place to pass competitors, but requiring more skill than straightaways. The best drivers apply the brakes just ahead of the curve (they take out excess costs), turn hard toward the apex of the curve (identify the short list of projects that will form the next business model), and accelerate hard out of the curve (spend and hire before markets have rebounded).

Tom Holland and Jeff Katzin, "Beyond the Downturn: Recession Strategies to Take the Lead," Bain *Insights,* 16 May 2019 www.bain.com/insights/beyond-the-downturn-recession-strategies-to-take-the-lead/

Historical analogies as narrative models

Ray Dalio has had a lot of jobs. But the one he's best known for is founder and current co-CIO and co-chair of Bridgewater Investments, the most successful hedge fund in history and one of *Fortune's* five most important private American companies. . ..

Part of Dalio's — and Bridgewater's — success has been applying historical lessons to the present: "There are cause-effect relationships, and they repeat through history." Dalio's study of the factors contributing to the Great Depression, for example, helped his firm anticipate the 2008 financial crisis.

Now he draws further analogies between the 1930s and today: "Again we have a large wealth gap and rising populism. [In the 1930s] you had the classic rising of a power to challenge an existing power. Then, it was Germany rising to challenge the British Empire. Now we have China rising. And a lot of political polarity. So we're certainly heading to different kinds of conflicts. The question is: How are we going to handle it?"

Sachin Waikar, "Bridgewater Investments Founder Ray Dalio: Invest in Idea Meritocracy," Stanford GSB *Insights* 20 May 2019 www.gsb.stanford.edu/insights/bridgewater-investments-founder-ray-dalio-invest-idea-meritocracy

Technology and disruption

Winning with Big Data is not just a question of hardware

For data to be transformational, it needs to be business-critical, from the top to the bottom of the organization. The right insights then need to be readily accessible, interpretable, and actionable at the point of need — a situation enabled by technology and a culture of making data easily available.

Digital-first businesses understand this necessity and have used it as an organizing principle for everything they do. . ..

1. Link data to the business agenda. . . . Companies must clearly define their use cases, mapping them to the broader agenda. Those that succeed typically ensure that data-driven decisions are embedded in their business strategies and innovation plans.
2. Create a data-driven culture. Becoming a data-driven organization depends on getting the buy-in of everyone in the business. . ..
3. Bring data-generated insights to life. For data to translate into positive business results, it must first be synthesized into insights that inform decision making. . ..
4. Implement the requisite technology and infrastructure. Technology choices will have a significant bearing on organizations' ability to exploit data strategically and operationally. . ..

Pawan Kumar, Ramy Sedra, and Javier Barguñó Casanova, "Winning with a data-driven strategy," *Strategy+business*, June 2019

Aggressive strategies to counter disruption

Practicing disruptive jiu-jitsu — learning from the competition, then deliberately disrupting one's own business model to stay ahead of it — can enable CEOs to go on the offensive in the face of disruptive marketplace threats.

A decade ago, the first public blockchain was developed as a ledger for transactions of the cryptocurrency Bitcoin. But while Bitcoin made headlines for its rapid appreciation in value (and subsequent crash amid concerns around illegitimate use), its real significance, the use of blockchain as a distributed verification mechanism, was more profound. By eliminating the need for transactions to be brokered by banks, blockchain had (and still has) the potential to disrupt the entire financial system — by rendering the traditional "financial institution as trusted broker" concept obsolete.

Aware of this possibility, some incumbent banks did something atypical for many large, established companies. Rather than attempt to protect themselves only through traditional defensive methods — such as improving their existing offerings' terms or underlying economics — they chose to embrace blockchain technology, focusing specifically on its ability to enable low-cost, high-speed transactions. By understanding the advantages of blockchain and determining how it could be integrated into their business model, these traditional banks were seeking to identify opportunities to enhance their own value proposition to customers. At the same time, they took aim at what is arguably cryptocurrency's key vulnerability: The natural anxiety among market participants that if their assets were to disappear due to a technical glitch or a cyberattack, there would be no one to reach out to for help.

A growing number of banks have now been experimenting with blockchain as an essential part of their global infrastructures while simultaneously chipping away at the principle of decentralized trust. (Witness, for instance, JP Morgan's unveiling of its own so-called cryptocurrency, the JPM Coin.) They are reasserting their historic role as trusted brokers. . .. These incumbent banks might neutralize blockchain's most disruptive potential impact on their industry, even as they aim to capitalize on the technology's benefits.

Benjamin Finzi, Mark Lipton, Vincent Firth, and Kathy Lu, "Disruptive jiu-jitsu," Deloitte *Insight* May 2019

Airbnb: The platform as strategic fulcrum

Without the overhead of real estate and hotel staff, Airbnb has quickly expanded into related services, making it tougher for incumbents to compete. . ..

Thales S. Teixeira: Airbnb started off offering just a room. . . Over time, the company started saying, "Well, you can rent just the room, but some people might want to rent the whole house." From there, Airbnb started looking at the customer value chain and what else people might want while staying in somebody else's house, like activities to do or places to eat.

Travelers might spend $1,000 to $2,000 a week on vacation. Brian Chesky, Airbnb's founder, wants to take an ever-increasing portion of that money by becoming the supermarket for all your travel needs. . . By the nature of its platform, the company can go into new aspects of the customer value chain without putting much money up front. And that's why it has grown so quickly into adjacent services.

"The Airbnb Lesson for Startups? Success Takes More Than Technology," HBS *Working Knowledge* July 2019 hbswk.hbs.edu/item/the-airbnb-lesson-for-startups-success-takes-more-than-technology

Former employees can be a strategic asset

Companies go to great lengths to keep some employees from leaving to work for rivals. Aside from offering benefits, they often rely on non-competes, trade secret protection and other legal means to avoid losing important talent and letting knowledge get into the hands of competitors. But our research suggests that companies might actually benefit from certain employees going to work for others in the same space.

In a recent study we found that these employees act as "bridges" and facilitate more collaborations between their past and present employers. This facilitation can be useful, because even though partnerships create value for both companies, negotiating them can be tricky – both sides have incomplete information and differing technological capabilities, goals, and expectations. . ..

We studied this in the context of R&D collaborations in pharmaceuticals. . .. Our results show that it is quite common for scientists to move between competing pharma companies. More than 8,200 scientists moved, individually or in small teams, from one firm to another over the 16 years we tracked. We also saw that, on average, the odds of forming an R&D alliance are 33% higher when a scientist moved between the two firms within the last five years.

When we dug deeper into the data, we found that these mobile scientists not only led to more frequent alliances but also to more fruitful ones . . . . And the odds that both firms collaborate again in the next three years was 25% higher compared to other alliances.

Stefan Wagner and Martin Goossen, "The Upside of Losing Innovative Employees to Competitors," *Harvard Business Review*, July 2019

Culture and innovation

Leadership in the digital economy

In partnership with MIT Sloan Management Review and Cognizant, Douglas Ready surveyed more than 4,000 managers and leaders from over 120 countries on their preparedness for the transition to a digital economy. Only 12% of respondents strongly agreed that their organizations' leaders had the right mindset and 9% strongly agreed that their leaders had the proper skills to lead in the digital economy.

To Ready, this "mindset gap" is more concerning than the skills deficit. . . . "But developing a digital mindset is a more complex challenge because it is a less tangible one to address." The four digital blind spots that Ready identifies are:

Strategic: Emphasis today needs to be on platforms, the space in which users create value for other users.. . ..

Cultural: Far more than talking about digital leadership, leaders need to live it. . ..

Human Capital: Digital leaders need to proactively design talent policies and practices that will attract, motivate and retain a new wave of workers who seek investment in their professional growth and a sense that their contribution has purpose.

Personal: As noted above, 12% of respondents feel their leaders are prepared to lead in the digital economy. However, when asked about their own preparedness, 26% of respondents believed themselves up to the task.

Dylan Walsh, "What makes someone a great leader in the digital economy?", S*loan Management Review,* 21 May 2019 mitsloan.mit.edu/ideas-made-to-matter/what-makes-someone-a-great-leader-digital-economy?

Breaking the chains of group think

Diversity brings variety and incongruity. . .. Our modern day focus on Design Thinking has reinforced the value of integrating divergence into the design process. Imagine the contrast of outcomes generated from a future scenario planning session by a stereotypical management team, versus the outputs created with the inclusion of diverse age, gender, ethnic, culture and alternatively experienced participants. This is 'Cognitive diversity'. This is essential for effective innovation.

Cognitive diversity is the inclusion of people who have different styles of problem-solving, with diverse perspectives, based on varied demographics, that creates uncommon experiences and unique associations, typically leading to divergent outputs. . ..

Charlan Nemeth, a professor of psychology at UC Berkeley found that minority dissenting perspectives — even when wrong — add value, because they "stimulate divergent attention and thought . . . [which] contribute to the detection of novel solutions and decisions that, on balance, are qualitatively better."

Steve Graham, "Cognitive Diversity is the DNA of Innovation," *Innovation Excellence, 24 June 2019* www.innovationexcellence.com/blog/2019/06/24/cognitive-diversity-is-the-dna-of-innovation/

The serious benefits of frivolous play

Marc Bekoff, a researcher at the University of Colorado and a lifelong student of animal behavior, argues that play broadens an animal's behavioral repertoire, giving them the flexibility to adapt to changing circumstances. In other words, animal play creates diverse behaviors, regardless of whether that diversity is immediately useful. It prepares the player for the unexpected in an unpredictable world.

That very flexibility can also help the smartest animals solve difficult problems. A 1978 experiment demonstrated its value for young rats. In this experiment, some rats were separated from their peers for 20 days by a mesh in their cage, which prevented them from playing. After the period of isolation, the researchers taught all the rats to get a food reward by pulling a rubber ball out of the way. They then changed the task to a new one where the ball had to be pushed instead of pulled. Compared to their freely playing peers, the play-deprived rats took much longer to try new ways of getting at the food and solving this problem.

University of Cambridge ethologist Patrick Bateson linked observations like this more directly to the landscapes of creation when he argued that play can "fulfill a probing role that enables the individual to escape from false endpoints, or local optima" and that "when stuck on a metaphorical lower peak, it can be beneficial to have active mechanisms for getting off it and onto a higher one."

Andreas Wagner, "Why It Pays to Play Around," *Nautilus* 6 June 2019 http://nautil.us/issue/73/play/why-it-pays-to-play-around

Industry focus

The energy challenge: rising demand and the sustainability crisis

The world is at the midpoint of a massive energy-related transformation. By 2040, the global demand for all forms of fuel and power will be four times what it was in 1990. During the same 50 years, the issue of global climate change will have moved from the margins to the centre. . ..

In the energy, utilities and resources (EU&R) industries, the relationship between these two dynamics — the rise in demand and the recognition of carbon use as a climate threat — is already determining basic strategic choices. . . . This development will profoundly affect a wide range of companies: producers of all forms of energy; disseminators and sellers of electric power, gas and oil; energy based process industries such as chemicals and steel; and producers of other extracted commodities. Leaders in all those businesses will need the acumen to make and execute decisions that combine growth with environmental sustainability. . . .

The urgency became clear in the results of a number of surveys conducted recently by PwC. . . . For instance, when we surveyed senior executives in Germany's energy sector in 2018, 77% said that the bulk of their company's revenues would continue to come from their core businesses over the next five years, yet 57% of them expected those revenues to fall over the same period. Likewise, in chemicals, according to our 22nd Annual Global CEO Survey trends series, the next decade is likely to see the sector come under increasing pressure on a range of sustainability measures. In short, although the demand for EU&R's elemental commodities will grow and its essentially extractive, capital-intensive nature will not change, business as usual will not be a viable alternative for many companies.

PwC, "Transformation in energy, utilities and resources," 13 June 2019 www.pwc.com/gx/en/energy-utilities-mining/pdf/transformation-in-energy-utilities-and-resources.pdf

A wider view

The persistent problem of modern slavery

The survey, known as the Global Slavery Index, was started five years ago by an Australia-based rights group called the Walk Free Foundation. . . . The index measures the extent of modern slavery and the steps taken to combat it, country by country.

The 2018 edition of the index estimates that more than 40 million people around the world are trapped in modern slavery — including what Walk Free called a surprisingly high number in developed nations like the United States, France, Germany and others.

"Given these are also the countries taking the most action to respond to modern slavery, this does not mean these initiatives are in vain," the survey said. "It does, however, underscore that even in countries with seemingly strong laws and systems, there are critical gaps in protections for groups such as irregular migrants, the homeless, workers in the shadow or gig economy, and certain minorities."

In the United States, more than 400,000 people, or one in 800, are living in modern slavery, the report said. The United States is also the largest importer of what the report called "at-risk" products, or those at least partly manufactured by workers engaged in forced labor.

These products, estimated to be worth at least $354 billion, include mobile phones, computers, clothing and food like fish and cocoa, the report said. The United States imports more than 40 percent of the total.

"Modern slavery is a First World problem," said Andrew Forrest, an Australian businessman and a co-founder of the Walk Free Foundation. "If you are a chief executive or an investor and you are not prepared to take human rights into account now, you don't deserve to be a chief executive or an investor."

Satoshi Sugiyama, "Report Finds Surprisingly High Rate of Slavery in Developed Countries," *New York Times* 19 July 2019

Are the Middle Ages our next future?

The seeds of the future are to be found in the present and the past. . .. Let's look at the time when belief was indeed greater than fact: in the West, the medieval world of the 13th through 16th centuries. There are some disturbing analogies. Here's a selection.

We no longer believe in evidence. People build their views of the world from images created by others, with their own agendas. Paintings become Photoshop; messengers from afar and sermons in church become those news feeds we choose to follow because they agree with and reinforce our point of view. . ..

New technology spreads science and literacy and thought – and rumor and myth and false facts. Others have made the comparison between Gutenberg and Tim Berners-Lee, between the printing press and the world wide web, and they are right.

We are under constant surveillance. . .. Britain has the highest density of CCTV in the world; China has facial recognition built into everything; Google, Apple and Facebook know who you are, intimately – and who your friends are. It's a short step from this real surveillance to the stories of an omnipresent God, who knows all – and judges you for your actions as China's concept of social capital judges you now.

The past may be a foreign country, but the map looks awfully familiar.

Jonathan Blanchard Smith, "Are we entering a new age of medievalism?," Sami Consulting, 31 May 2019 https://samiconsulting.wordpress.com/2019/05/31/are-we-entering-a-new-age-of-medievalism/

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