Capgemini Consulting

DIGITAL LEADERSHIP

An interview with

Rita McGrath

Professor at Columbia
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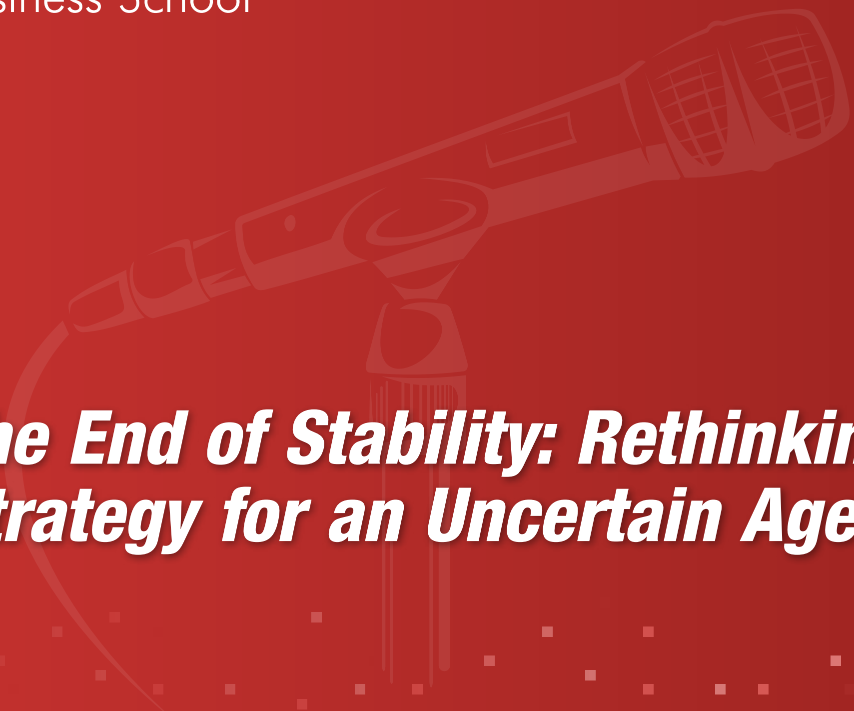

The End of Stability: Rethinking Strategy for an Uncertain Age

Transform to the power of digital

Rita McGrath

Professor at Columbia Business School

How Transparency is Transforming Markets and Organizations

We are seeing major changes across sectors – industry boundaries are getting blurred, companies are co-creating with consumers. In your opinion, what are the major factors reshaping industries?

If I were to pick one major shift, I would choose the impact of the transparency of information. The transparency of prices, values and information has enabled the creation of markets for more and more things that never could have happened before. You have markets for all kinds of commodities which means that access to assets rather than ownership of assets is the key thing.

With markets becoming more transparent, what is the big learning for businesses?

One of the big lessons that companies need to learn is that customers don't care anymore about what companies do. It is a very difficult message for the industry. Customers care more about getting their own needs met. They will go with the firm that is more convenient, cheaper or user-friendly and don't care what industry the company is from. Financial services is a case in point. Silicon Valley startups are taking over parts of the bundled banking model and offering just select services. For instance, Prosper for investing, TransferWise for funds exchange and LendingTree for mortgages. They are not replacing banks, but replacing many jobs that banks traditionally did. And that is an important distinction.

> *"Customers don't care anymore about what companies do."*

Stick to Your Long-Term Goals but Be Nimble

The technology landscape is fast-moving and very uncertain. Is it still possible to have a long-term strategy for large corporations?

I believe it is actually more important than ever to have a long-term strategy. The reason for that is that people don't do well under conditions of high uncertainty. People tend to be paralyzed when things around them appear to be out of control and change very quickly. The importance of a long-term strategy is to give people something to hang on to and act as a broader guide during times of uncertainty. Obviously, you will have to adjust your strategy as things go forward - you can't just lay out the strategies without paying attention to your surroundings, but the key is to have a point of view on the future. Intel is an interesting case of how badly things can go when you miss the long-term strategy. The market was moving from PCs towards mobile devices and Intel completely missed that market transition. The result – Intel said in April that it would lay-off around 12,000 people or 11% of its workforce.

> *"It is actually more important than ever to have a long-term strategy."*

Intel was a giant of the PC era. What went wrong with their strategy?

Intel was used to designing chips for better speed and with higher processing power. When they were in a duopoly with Microsoft, higher processing speed was what sold computers. The processing power really limited what you could do with your PC. As Moore's law progressed there were quantum improvements in speed and capacity. Intel followed that trajectory rather than working less powerful, low power consumption chips. Their assumption was that they were making chips for devices that would always have access to an electricity supply. They were never worried about power consumption.

"The importance of a long-term strategy is to give people something to hang on to and act as a broader guide during times of uncertainty."

When you switch and look at the mobile world we want phones where the battery is going to last for a long time. Intel missed that inflection of going from a stationary device where processing speed was the dominant purchase criteria to a mobile device where low power was the dominant criteria. And I think they made the assumption that mobile was never going to be as big a market as it has subsequently turned out to be.

"According to Jeff Bezos, CEO Amazon, "Lots of people get all hung up on what is changing in the world. I focus on what isn't going to change. No customer will ever say I wish your products were more expensive, delivered slowly and wasn't world class."."

If you are a large organization, how do you create a roadmap that is nimble enough to adapt to changes?

Amazon offers us a very good example of a company that does this in a smart way. According to Jeff Bezos, CEO Amazon, "Lots of people get all hung up on what is changing in the world. I focus on what isn't going to change. No customer will ever say I wish your products were more expensive, delivered slowly and wasn't world class." When you flip that on its head and look at it that's brilliant. What he is basically saying is, "Let's focus on innovations in our long-term roadmap around what isn't going to change."

"Schibsted was not afraid to cannibalize their existing business and rewarded senior folks who were able to switch the customers from their analog focus to their digital focus."

Can you share success stories of companies that have been able to stick to long-term goals whilst being really nimble?

My favorite example is a 150-year company called Schibsted in Europe. Before the internet era Schibsted was into traditional media, TV, newspapers and movie distribution. In the late '90s the top management understood the power of the internet and began significant moves to convert their paper-based classified advertising business into a business of selling classified ads on the internet. The head of strategy of Schibsted at the time said the internet was made for classifieds and classifieds were made for the internet. They relentlessly worked to convert their systems and structures over to the internet-based model. Schibsted was not afraid to cannibalize their existing business and rewarded senior folks who were able to switch the customers from their analog focus to their digital focus. Today Schibsted is among the top three players in the whole world in classified advertising.

The End of Five-Year Strategic Plans

Companies spend a lot of time preparing their three or five-year strategy plans. Do you see this continuing in the longer run?

I think we need to be very careful about what we are describing. A strategy is not the same thing as a strategic plan and a budget. If you don't have a very clear distinction between strategy and planning or budgeting, the budgeting and planning activities drive strategy right out the door. Planning and budgeting have specific deadlines, and it's a very organized process. We are getting away from this notion of reviewing classic five-year plans full of charts and graphs with immovable targets that are basically budget documents. We are moving towards a process of developing strategy that is more dynamic in terms of inception and implementation.

We don't hear that many companies nowadays talking about Crowdsourcing strategy involving the entire organization. Do you think it is still an important aspect of strategy development?

It definitely plays a role. You need to access ideas from the frontline because that's where interactions with customers take place and where the real information about what's going

The Winning Strategy for an Uncertain Age

Focus on What is Not Going to Change

Amazon

- Delivers world class products quickly
- **Focus** on innovations in a long-term roadmap around **what isn't going to change**

Stick to Your Long-Term Goals but Be Nimble

Schibsted Media Group

- **Cannibalized** existing business
- Rewarded senior folks for switching customers from analog to digital
- Now top 3 player in classified ads

The Importance of a Long-Term Strategy

> The importance of a **long-term strategy** is to give **people something to hang** on to and act as a broader guide during times of **uncertainty.**

Should You Become a Platform?

YES … if the **addition of extra users adds value** to what you are offering

… and if transaction costs are low

Greenfield, Acquisitions or Organic Growth?

> If you can't change fast enough, you buy. - Rita McGrath

The Innovation Dilemma

You are not good at innovation → you have to acquire → but if you are not good at innovation, it's hard to judge the value of acquisitions on in the market exists. However to come up with a strategy, someone has to ultimately take responsibility. One of the best approaches to this that I have seen was under Alan Mulally when he came into Ford. He initiated a weekly Business Plan Review meeting with all his senior executives. In a lot of companies, senior executives know about their own area, they don't know what's going on in other parts of the firm. The first thing Mulally did was to break that down. The meeting was mirrored down at each senior executive's team all the way down to the organization. When you mirror the Business Plan Review meeting all the way down the organization, you get inputs at that level which then get crystallized at the weekly meeting with Mulally. I think it's a very structured approach to getting input from all across the organization without having it devolve into whoever shouts the loudest gets heard the most. Some companies like Swiss Re and IBM use technologies to accomplish some of this information sharing. Employees are invited to give strategy perspective on a technology platform like enterprise social media or video blogs.

> *If you are manufacturing office staplers, you will unlikely need a platform. If I buy an office stapler, it has a certain value to me. The fact that you have bought the same stapler does not really add a lot of extra value to me.*

Create a Platform When the Network Effect Adds Value to Consumers

Companies such as Facebook and Airbnb have been immensely successful with their platforms. We are now seeing large organizations developing a platform strategy like GE for industrial Internet or Visa for payments. Do you reckon all companies should become platforms?

There is a school of thought that says they should. Being a platform is unavoidable if the addition of extra users adds value to what you are offering. For instance, one person on Facebook has zero value, a billion people on Facebook has exponential value. But if you are manufacturing office staplers, you will unlikely need a platform. If I buy an office stapler, it has a certain value to me. The fact that you have bought the same stapler does not really add a lot of extra value to me.

> *Being a platform is unavoidable if the addition of extra users adds value to what you are offering.*

What are the advantages of a platform strategy?

The objective of a platform is to be the central place where other organizations buy, sell, transact and communicate because you get a little bit of revenue off of each of those transactions. The danger of being a platform is you are not really in control. If your user community decides to go to some other platform, there is not much you can do to keep them tied to you. We have seen this in MySpace or Friendster. So, platform strategies are not without their risks.

> *The danger of being a platform is you are not really in control.*

Do you think there are some sectors that are more conducive to a platform strategy than others?

Platforms flourish where the transaction costs are low. If you have high transaction costs, then it's going to be expensive for each member to join and chances of them doing that are low. But if your transaction costs are low, then the more membership you get the better it is for the platform.

> *Platforms flourish where the transaction costs are low.*

If You Can't Change Fast Enough, Buy

The routes to implementing digital strategy are many. Some companies are going Greenfield, others are trying to transform the core of their operations, while others are acquiring firms. What is the best approach to implement digital strategy?

The classic answer is that if you can't change fast enough you buy. The trouble with acquisition relative to organic growth is it is very expensive.

Companies that have survived their startup phase are going to charge a hefty fee to be bought by a large company that hasn't been able to innovate for itself. There is a bit of a conundrum where organizations are under incredible pressure to innovate while at the same time most organizations are not good at it. The dilemma is if you are not good at innovation, you have to do acquisitions. But if you are not good at innovation, it's also very hard to judge the value of the acquisitions. MySpace would be a case in point where an acquiring company bought them and thought that it was going to help them get into some massive new opportunity, only to find that they didn't know how to manage it and it fell apart. If you are in an industry with too many players then acquisition may be your best alternative – you take out some of the existing providers to help get some clarity around the level of rivalry and pricing.

If a company decides to choose the path of acquisitions, how should they go about integrating an acquired company?

There are three kinds of archetypes that companies pursue when integrating acquisitions. The first is the Cisco model. Cisco is quite famous for their track record in acquisitions where the acquired company's logo disappears and it becomes Cisco within 48 hours. That's the kind of crash and burn theory of acquisitions where you buy the company and own it completely. Some acquired companies are fine with it, and many aren't. The second model is to buy a company, but leave it on its own and they let it be independent. That is what you do to get into a new market or technology. You want to let it live its life the way it is. Amazon and Zappos is a perfect example of this model. The third model is where an acquisition gets merged with a two-way influence between the two company's cultures. You want a change of the culture of your company by going through these acquisitions. Nokia/Alcatel-Lucent is a good example of such a model.

> *"The dilemma is if you are not good at innovation, you have to do acquisitions. But if you are not good at innovation, it's also very hard to judge the value of the acquisitions."*

How can companies choose which path to consider – acquisitions, greenfield or transformation?

Speed is definitely a key consideration. Your ability to integrate the potential acquisition is another. You have to be careful with acquisitions where there is a huge cultural gap or where the companies bring with them huge liabilities. For example, when Boston Scientific bought Guidant, it was famously described as the second worst acquisition ever after AOL-Time Warner. Boston Scientific hadn't appreciated the cultural gaps and legal liabilities due to defective medical products produced by Guidant.

What would be your key recommendations to large organizations on their shift to digital?

The first thing is to get an inventory of digital and non-digital initiatives in innovation, business development and product portfolio. You can't make intelligent plans until you know where you stand and most organizations are not aware of where they stand. There are bits of knowledge spread all over the organization that are not centralized. Step two - organizations need to develop a point of view about the future for a five- to eight-year timeframe. They need to introspect on the big strategy questions like which markets to enter, what customer demographics to target and how to improve or differentiate product offerings. The third step is to walk backward from that future and ask what are the actions needed to move to the envisioned future. This is also called the 'future-back' strategy as organizations need to envision the future and then work backward into what needs to be done today to deliver the future vision.

Are there companies that you admire and that have been able to succeed their digital transformation so far?

GE would certainly be one as they have expanded their business into the software and analytics domain. Procter & Gamble has also done some very interesting work around innovation. Delta Air Lines is starting to leverage digital for the benefit of their customers. Ford and the auto companies in general are doing some really interesting things. General Motors recently bought a big stake in Lyft.

Rita McGrath

Professor at Columbia Business School

Rita McGrath, a Professor at Columbia Business School, is one of the foremost experts on strategy and innovation. Her work focuses on strategy development in uncertain environments and her latest book is called The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business. Rita McGrath has been recognized among the Top 10 Most Influential Business Thinkers by Thinkers50 in 2015.

Capgemini Consulting spoke to Rita McGrath to understand how organizations should go about strategy development in an era of accelerated change and disruption.

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