

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 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

Best Buy's human strategy for a digital world

Best Buy's...advisors act as, in Best Buy's language, personal chief technology officers, helping people make their homes smart or merely more functional. Some in this group worked on the Geek Squad, some as retail staff...and at least one was employed by companies that Best Buy put out of business. They've already learned about the devices and appliances they can offer....

Best Buy, the last national electronics chain, is counting on these advisors to distinguish it from Amazon.com Inc., the company's competitor, partner, and would-be vanquisher. With more than 1,000 big-box stores in North America and about 125,000 employees, Best Buy was supposed to have succumbed to the inevitable. "Everyone thought we were going to die," says Hubert Joly, who was hired as chief executive officer in August 2012....

Instead, Best Buy has become an improbable survivor led by an unlikely boss. Hubert Joly was raised and educated in France, trained at McKinsey & Co., and previously employed by hospitality company Carlson, based outside Minneapolis, and media conglomerate Vivendi SA, where he greenlighted a little game called World of Warcraft. He's the first outside CEO in the chain's 52-year history. He had no retail experience—Best Buy's stock fell 10

percent the day he was named CEO—but Joly understands how to value, and capture, customers' time. Comparable sales rose 5.6 percent last year and 9 percent during the Christmas season, the biggest holiday gain since 2003. The stock price has quadrupled. Even Amazon CEO Jeff Bezos is impressed. "The last five years, since Hubert came to Best Buy, have been remarkable," he said at an appearance in April. Those years were about getting people into Best Buy stores and onto its website; Best Buy's future will be about getting its people into homes. Joly, who made a surprise visit to talk with the trainees, explains the importance of this strategy: "That lets you have a real conversation....This is a great way to make a sale, but it's also the beginning of a beautiful friendship, to quote Casablanca."

"Best buy should be dead, but it's thriving in the age of Amazon," *Bloomberg Business week*, 19 July 2018.

Ford's game plan for bold innovation

To help test drive the future, in 2016 Ford paid about \$50 million to acquire Chariot, a startup mobility service. Incubated at Y Combinator, the venture was aimed squarely at the most important, most reliable, most consistent mobility need that consumers have every day: getting to and from work. While this seemed like a small bet for a \$165 billion company built on the mass production of

vehicles, the deal was scouted, in part, by Jim Hackett, then head of Ford Smart Mobility who has since been elevated to CEO.

All this makes the early lessons from the Chariot venture worth heeding as it gains traction in the market. Here are five to learn from Ford thus far, about mobility services in particular, and more broadly, about how to deal with the uncertainty of new business models in new markets by testing and learning one's way forward.

1. Be ambitious but start small. As a so-called "micro-transit solution," Chariot began life in one of the world's most high-tech and commute-challenged regions, the San Francisco Bay area, with a small fleet of 14-passenger vans equipped with Wi-Fi, electric outlets, and overhead storage. Using the Chariot phone app, riders could sign up for existing routes and also propose new ones under a crowdsourcing model. Only when the service was successfully operating did Ford begin to expand it. . . .
2. Satisfy social, emotional, and functional "jobs." While getting people to and from work seems on the surface to be an exercise in cold logistics, it's all a very human effort. If people are going to be spending an hour or more in a Chariot van every day, it has to work as an experience in and of itself. . . .
3. Examine the profit formula. Ultimately, Ford has to create a business that's profitable, and part of that involves designing route maps in which certain customers willingly pay more for rides. . . .
4. Establish new rules, norms and metrics. Ford's core business of designing, manufacturing, and selling cars and trucks is governed by long-established business rules, behavioral norms,

and success metrics. Since it takes several years for a new model to go from the drawing board to the marketplace, Ford's ROI formulas are mapped out according to historical precedents.

But as Barclay's CEO Ashok Vaswani says, don't let the mother ship kill the pirate ship. If Ford applied those same ROI expectations to its new logistics business, it would likely kill it before it has a chance to thrive. Instead, Ford has had to develop new norms and new competencies to meet its new challenges. . . .

5. Develop a portfolio of new business models. Any new venture or business model is risky. While Ford has mitigated much of the risk by starting small and testing, learning, and pivoting along the way, Chariot certainly isn't the only business model in its new growth space. Indeed, the Dearborn, Michigan company is assembling a broad portfolio of ventures.

Mark W. Johnson, "How Ford is thinking about the future," *Harvard Business Review*, May 2018, <https://hbr.org/2018/05/how-ford-is-thinking-about-the-future>

Netflix: Media juggernaut

Alone among the giants, Netflix is a clear exception to this mix of soaring share prices and suspicion. Since its founding in 1997, the company has morphed from a DVD-rental service to a streaming-video upstart to the world's first global TV powerhouse. This year its entertainment output will far exceed that of any TV network; its production of over 80 feature films is far larger than any Hollywood studio's. Netflix will spend \$12bn-13bn on content this year, \$3bn-4bn more than last year. That extra spending alone would be enough to pay for all of HBO's programming—or the BBC's.

The 125 million households the company serves, twice as many as it had in 2014, watch Netflix for more than two hours a day on average, eating up a fifth of the world's downstream internet bandwidth. (China is the one big market where it is not allowed to operate.) Its ascent has mirrored the decline of traditional television viewing: Americans between the ages of 12 and 24 watch half as much pay-TV today as they did in 2010. . . .

Moguls who once happily handed their content to Netflix as a source of extra revenue are now scrambling to compete with it. The result is a dealmaking frenzy, with AT&T buying Time Warner and Disney and Comcast fighting over bits of 21st Century Fox. Consolidation is only part of the answer for conventional entertainment firms, however. They must also follow Netflix's lead and use the internet to offer consumers lower prices and more choice. Netflix now has more subscribers outside America than inside it. From Mexico to India people stream "Narcos" and "Stranger Things" in a planet-wide community of binge-watchers. It makes expert use of data, categorising individual users' preferences into about 2,000 "taste clusters", to serve up different shows to different users, including within the same family, via targeted recommendations.

"Can Netflix please investors and still avoid the techlash?," *Economist*, 28 June 2018.

When caution is a high-risk strategy

What is really dangerous these days is safe thinking. If we try to repeat the patterns of the past to fall back on the predictable, to do what we know has worked for others in different situations, and always prefer incremental change to big innovation, we're going to eventually fail. The environments that we are in are

changing so quickly that if our patterns of thought and behavior aren't changing with them, we're just not going to be able to stay relevant.

There is a natural tendency, especially under pressure, to feel a certain amount of anxiety and fear. But the innovators I spoke to who were able to break out had learned to reframe that sense of fear and anxiety as fuel for creativity. They recognized that if an idea didn't make them nervous, it probably wasn't going to be breakthrough, and that the moments in life when they moved towards those feelings of discomfort and unsafety were where all of the breakthroughs came from. I'm not saying that we need to always do the crazy thing, but if we're not making ourselves uncomfortable from time to time, we're certainly not pushing ourselves to the creative edge. ...

Your competitive advantage is being nimble with those ideas that you are creating, getting good feedback from the marketplace and constantly adapting as the world changes around you. The old model was, become an expert at one thing and just ride it as long as you can. Now, there is a growing understanding that expertise is a thinking trap. It is the people who are constantly updating that lens through which they see the world who are able to stay on the edge. ...

You look at companies like Amazon and Google, and every time they roll out a product to the consumer, there is a question. Why are we doing this? What does this even mean? What is this thing? They are out ahead of even demand, and that is because they are incubating many products and recognizing that there is no standing still in business. You simply can't.

Jonah Sachs, "Celebrate the rule breakers: why unsafe thinking leads to innovation," *Knowledge@Wharton*, 12 July 2018, <http://knowledge.wharton.upenn.edu/article/disrupting->

[conventional-thinking-finding-effective-supportable-practices/](#)

Harvard Business School looks beyond the MBA

If you look up a list of Harvard Business School's most successful alums, chances are you'll come across a list of C-suiters and industry moguls who passed through the institution's prestigious MBA program—men and women like J.P. Morgan CEO Jamie Dimon, Facebook's Sheryl Sandberg, or billionaire Mike Bloomberg.

But one could argue that, these days, the face of HBS is really a student more like L.L. Cool J. In 2016, the rapper and actor attended a four-day course called the "Business of Entertainment, Media, and Sports," which has lately turned into an academic pit stop for successful artists and athletes looking to hone their business know-how. ... The celeb appeal of this course has made it the viral symbol of HBS's massive, growing, and lucrative executive education program, which typically brings midcareer professionals and corporate leaders from around the world to Boston for courses that cost thousands of dollars, and can last from several days to several months. Last year, according to the business school's annual report, 11,361 students enrolled, up by about 2,000 from a decade earlier. By comparison, HBS has added just 73 students to its traditional MBA program in that time, bringing the total to 1,879.

The expansion of executive education at HBS underscores a broader reality about the institution. It may be world-famous for bestowing graduate degrees on tomorrow's captains of industry and CEOs. But the more closely you look at the business school as, well, a business, the more its other operations can start to look like the main show. ...

In 2017, it generated \$800 million in revenue: Just over half that came from executive education (\$190 million) and HBS's quietly enormous publishing arm (\$220 million). Only \$133 million, a mere 16.6 percent, came from MBA tuition and fees. The rest comes from the endowment, donations, and other smaller sources. To give those numbers a little perspective, Stanford Graduate School of Business, which may be the world's best MBA program depending on who you ask, has a total budget of around \$250 million. HBS's lucrative side-hustles generate more revenue than its main competitor's entire operations.

Jordan Weissman, "How Harvard certificates and a publishing company are key to HBS's prosperity," *Slate*, 10 May 2018.

<https://slate.com/business/2018/05/harvard-business-schools-golden-geese.html>

Technology and disruption

Precursors of disruption

Legacy companies are falling like dominoes to disruptors. Together, emerging technology and new business models have created new ways of serving customers. The same way Airbnb, Uber, and LinkedIn fundamentally changed the lodging, taxi, and recruiting industries, titans such as Amazon, Google, and Facebook are now poised to disrupt every industry as wide-ranging as health insurers to grocers. It's safe to say that no industry will be left untouched – but is yours next?

... We have looked at common patterns among more recent business model innovations and determined three major signals that your industry could be on the precipice of major change.

Sign No. 1: Your Industry Has Significant Regulatory Burdens. The first major sign is that your industry is highly regulated. While heavy

regulations have a long tradition of protecting companies from new entrants, this may not be true in the future. Industries with high regulation often suffer from complacency, as they may not have had to worry much about customer experience or optimizing operations. However, emerging technology is changing this landscape.

Sign #2: Your Customers Have to Work at Managing Their Costs. The second signal for disruption is that your cost models are difficult to understand for customers. This is often the situation when there are one or more middlemen between the origination point of the product or service and the customer. Handoffs in the supply chain often increase cost without adding value, and they also can contribute to poor customer experience. A good example is how Tesla Inc. sells cars directly to consumers, cutting out dealerships.

Sign #3: Your Customers' Experience Isn't Positive – or Even Neutral. The third signal often exists as a side effect from the first two: Your industry is not optimized for modern customer expectations – which means that customers aren't delighted to interact with you. This often happens in industries where the consumer doesn't have a lot of choice and is beholden to the provider out of necessity. Ask yourself: Do customers regularly complain about the experience of doing business with us?

Megan Beck and Barry Libert, "Three signals your industry is about to be disrupted," *Sloan Management Review*, 11 June 2018.

An age of disruption

Today's executives...are beholden to markets that demand exceptional financial precision. Anything that deviates from delivery on promised financial results can be easily called into question. Since everything in a

business is focused on core products and services, delivering the results on a quarterly basis, someone, it seems, needs to act as a 'jester', constantly asking to expand thinking beyond the next quarter. The fact of the matter is, cultural attitudes, efficient processes, reward systems and other factors make the job of a "chief innovation officer" difficult, often turning the role into a chief incremental officer. What major corporations need is a senior executive whose only job is to focus on the future, on disruption, on what's emerging and how the company can win. What I'd call a chief disruption officer.

The CDO

... When everyone in the company is focused on maintaining and defending the status quo, someone or some team needs to be looking over the horizon, seeing what's next and planning for emerging opportunities and emerging threats. There is simply too much change underway to ignore this or to pay lip service to understanding what may disrupt your business, or what you can disrupt.

People will agree that insight into emerging opportunities and potential disruptions is important. However, they will try to distribute the activity across a number of people or teams, and as the role is disseminated this way it loses importance. Further, the role becomes an observer role rather than a proactive role, requiring the company to react to factors the observer identifies rather than move proactively into the marketplace. To win the future, to be a good innovator, you need a fully functional CDO.

Jeffrey Phillips, "You need a chief disruption officer, not a chief innovation officer," *Innovate on Purpose*, 18 July 2018.

<http://innovateonpurpose.blogspot.com/2018/07/you-need-chief-disruption-officer-not.html>

Culture and innovation

Narratives as a competitive tool

Companies today are fixated on innovation, to say the least. Many have reorganized so that ideas can move forward faster and with less internal friction. A recent McKinsey Quarterly article describes how companies are experimenting with virtual-reality hackathons and "innovation garages" to step up their product-development hit rate. We know that much of corporate innovation travels along well-orchestrated pathways—a neat tech breakthrough, a product owner, and an orderly progression through stage-gate and successful launch.

Occasionally, though, it's a "crazy" idea that bubbles up through a lone entrepreneur battling the system, overcoming false starts, and surviving against the odds. While such instances are by their very nature idiosyncratic, one thing many have in common is that good storytelling helps them break through. Storytelling has always been important in business, of course, but in today's environment, with executive and investor attention stretched thin by information overload, the softer stuff is ever more important for getting ideas noticed. ...

The disconnect between academic labels and good storytelling

"Fast follower" and "self-cannibalization" are terms long-used by academics like me to describe, clinically, what some companies are doing to innovate and reinvent their business models. ...We recharacterized them as "best beats first" and "master of reinvention."

A "best beats first" innovator takes the measure of a competitor who may be dominating a market with an acceptable product, and then leaps to the front with something even better. It's about winning through

cunning, instead of using the conventional playbook of scaling a similar product with heavy investment to maintain share. Many innovators told us that the “fast follower” meme is bereft of emotion: no one ever wins people over by talking about their capacity for imitation. “Best beats first” celebrates doing things in a new way and vanquishes the competitors by seizing an opportunity they missed. . . .

Julian Birkinshaw, “Telling a good innovation story,” *McKinsey Quarterly*, July 2018

Leadership: beyond the numbers

Great leaders have the capacity to speedily and decisively reach conclusions and act upon them. . . . The capability to generate and apply insights and qualitative judgments to innovation is a key competitive advantage – or, at least, should be.

The trouble is that most companies use a number-driven approach to innovation. Companies invest heavily in developing analytical skills. In recent years, investments have poured into analytics and big data to increase organizational analytical power. Innovation processes have been re-engineered, or over-engineered, with stage-gate processes equipped with financial evaluation tools to support the go/no go decisions and the release of resources at each stage. In their search for numbers, analysts look for benchmarks, from which they can extrapolate impressive-looking business cases and forecasts. Before you know it, the decision has been taken and the company committed to a me-too innovation.

The result is that qualitative perceptions don’t get an airing. Strategy and innovation should not be a mere exercise of analytical power, but a qualitative process in which the analysis serves insights born out of

individual observation and reflection, rather than the other way round. . . .

Consider the story of Nespresso by Nestlé, which has become Europe’s leading brand of premium-portioned coffee. Nespresso machines brew espresso from coffee aluminum capsules, a type of pre-apportioned single-use container of various high-quality coffees and flavourings. The Nespresso brand took off when it stopped targeting offices and started marketing itself to households. Behavioural evidence on how households would respond to the new concept was poor and suggested that consumers’ intentions to purchase did not meet quantitative threshold requirements set by market research protocols at Nestlé. Jean-Paul Gaillard, a young marketing head of Nespresso at the time, believed strongly in the product and thanks to his skillful interpretation of the data convinced the company to take the risk. If he had only listened to quantitative research, the concept would have never got off the ground.

Alessandro Di Fiore, “The power of judgment,” *Thinkers50* <http://thinkers50.com/blog/the-power-of-judgement/>

Silicon Valley’s secret

When you live and work in Silicon Valley and talk about it with people who don’t, you get used to a look in their eyes that begs, “What’s the secret sauce?” People know it’s where innovation happens, and many want to know how they can make it happen where they work, too. . . .

But what research and reality show is that there are numerous levers organizations – and people – can pull. Here are five we find particularly powerful:

- Tap the power of pride: Innovation starts with people. Pride in your work and organization is a powerful motivating and creative force.

Research by PwC’s Katzenbach Center shows that “emotional energy drives employees to go above and beyond, regardless of external incentives such as compensation and benefits,” creating a repeating cycle of energy and motivation.

- Make failure an option: Preconceived ideas and solutions can block innovation and change. PwC’s digital services practice leader says you have to be willing to take risks and embrace the uncertainty and potential for failure inherent in those risks.
- Rethink your company culture: Organizational culture is not the same thing as employee engagement. As a PwC expert points out, one is “synonymous with free food, foosball tables, and other workplace perks.” The other is about empowerment to make decisions, freedom to innovate, and work–life balance. The key to unlocking performance via your organizational culture is to align your company culture to business priorities.
- Place your customer at the center of innovation: The question at the heart of PwC’s Global Innovation Challenge is: What value are you delivering? PwC strategists suggest that it’s no longer enough to target customers. To stay ahead, you need to be thinking about long-term experience – the value you want to create for your chosen customers over three to five years.
- Flex to grow: Innovation doesn’t necessarily happen between 9 a.m. and 5 p.m., so consider how flexibility can play a part in your organization’s strategy to tap into people’s best skills, no matter where and when they work.

Vicki Huff, "How innovation happens," *S+B blogs*, 23 May 2018, www.strategy-business.com/blog/How-Innovation-Happens?rssid=all_updates&gko=6104d

Industry focus

The state of retail today

Deloitte undertook an extensive research process, devoting the better part of a year to examining the retail environment: studying official data; conducting a survey of over 2,000 participants; and drawing on the knowledge of our clients, industry contacts, and our own industry specialists. Our key finding: "Balanced" retailers (which deliver value through a combination of price and promotion) are generally doing worse than either price-based retailers (which deliver value by selling at the lowest possible prices) or premier retailers (which deliver value via premier or highly differentiated product and/or experience offerings). Specifically, premium retailers have seen their revenues soar 81 percent over the last five years, while price-based retailers have seen their revenues steadily increase 37 percent over the same period. This contrasts with balanced retailers, whose revenue has increased only 2 percent.¹ What's more, consumers are more likely to recommend premier or price-based retailers than balanced, suggesting that retailers at either end of the spectrum are more in tune with the changing needs and are better at meeting the expectations of consumers than those in the middle.

Kasey M. Lobaugh, Christina Bieniek, Bobby Stephens, Preeti Pincha, "The great retail bifurcation," *Deloitte Insights*, 18 March 2018.

www2.deloitte.com/content/dam/insights/us/articles/4365_The-great-retail-bifurcation/DI_The-great-retail-bifurcation.pdf

The great start-up decline

Historically, startups have been the engine of US economy. By creating new jobs and surfacing new ideas, startups play an outsized role in making the economy grow.

It's too bad they are a dying breed. The share of companies that are startups has been falling. While companies that were less than two years old made up about 13% of all companies in 1985, they only accounted for 8% in 2014. A far smaller share of people work for startups. From around 1998 to 2010, the share of private sector workers in companies that were less than two years old plummeted from more than 9% to less than 5%.

A new report from the Brookings Institution, finds that in nearly every industry, from agriculture to finance, the share of new companies is falling. So what's going on?

One possibility: Startups are struggling in this era of rising market concentration. In most industries, since the 1980s, the share of all sales going to the top firms is increasing. Startups may have a hard time competing with these mega firms, which can out pay them for the best talent and sometimes attempt to drive them out of the industry. Previous

Brookings research found there are fewer startups in states where a smaller number of companies dominate the market.

Another related possibility is that the most-educated American workers are no longer attracted to entrepreneurship. In 1992, 4% of 25-54 year olds with a master's degree or PhD owned a small company with at least 10 employees. In 2017, this was true of only 2.2%. Companies started by the highly educated are often unusually productive.

The Brookings report suggests that high salaries for educated employees at big companies have made entrepreneurship less compelling. Why compete with Google or Walmart when they are offering you an enormous amount of money to come work for them?

The decreasing number of startups has some advantages. The economy is less dynamic, but fewer startups also means fewer destroyed jobs from the competition. This means that, contrary to popular belief, jobs in the US are far more secure than they were in previous decades.

Dan Kopf, The US startup is disappearing, *Quartz*, 20 June 2018 <https://qz.com/1309824/the-us-startup-company-is-disappearing-and-thats-bad-for-the-economy>

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