Leadership and strategy in the news

Craig Henry

Of strategies and strategists

Amazon as mega-disrupter

It hasn't always been obvious that Amazon would transform the feeling of everyday life. At first, the company looked like a bookstore; next, it became a mass retailer; later, for somewhat obscure reasons, it transformed into a television and movie studio. It seemed to be growing horizontally, by learning to sell new kinds of products. But Amazon wasn't just getting wider; it was getting deeper, too. It wasn't just selling products but inventing a new method of selling; behind the scenes, it was using technology to vertically integrate nearly the entire process of consumption. This integration is Amazon's real product. It's what you purchase when you become a member of Amazon Prime. (According to some estimates, eighty million American households – more than sixty per cent of the total – have Prime memberships).

Amazon has created the world's most efficient order-fulfillment system, including a network of warehouses and a delivery arm, Amazon Logistics. It has started a shipping subsidiary, Amazon Maritime, to transport goods on cargo ships from China to the United States. Netflix, NASA, and the C.I.A. are among the million customers who run their systems using Amazon's cloud-computing platform, Amazon Web Services; this year, A.W.S. is expected to earn thirteen billion dollars in revenue – about as much as the N.F.L. In addition to its own point-of-sale devices – the Dash Button, Dash Wand, and Amazon Echo – it has created its own in-house advertising ecosystem: television shows like "Transparent" may win Emmys, but they also encourage customers to sign up for Amazon Prime, and pull them away from traditional television, where they might see ads for competing companies, such as Walmart. Amazon, in short, is far more than a retailer. It's like Diebold, U.P.S., Target, the CW, I.B.M., and S.A.P. combined.

Ben Thompson, a technology analyst who writes the blog Stratechery, has proposed an extraordinarily useful model for understanding Amazon's reach. He argues that Amazon works by dividing the world of commerce up into building blocks, which he calls "primitives." Some "primitives" are business-facing: servers, databases, warehouses, delivery trucks. Others are consumer-facing: books, music, clothing, television shows. Amazon makes money by allowing its customers to combine these primitives in unusually convenient and efficient ways. Using them, it's possible to run a whole company from within the Amazon ecosystem, with servers running in Amazon's cloud and products stored in and shipped from its warehouses. Amazon itself launches new businesses using the primitives it has mastered. Many people have

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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seen the Whole Foods acquisition as a way for Amazon to sell fancier groceries online, while using its larger scale and greater efficiency to lower prices. But, in Thompson's view, the acquisition is best understood as giving Amazon access to new, grocery-based primitives, such as fruit, vegetables, meats, and food-ready warehouses. He suggests that the company will launch "Amazon Grocery Services," a subsidiary that farmers or small manufacturers might use to sell, warehouse, and ship their products. Restaurants could stock their kitchens with it, too.

Joshua Rothman, "What Amazon's Purchase of Whole Foods Really Means," *New Yorker*, 21 June 2017

Marketing: new technology and old science

Growth leaders are adept at finding money to invest in initiatives that drive revenue. In this interview, Libby Chambers, Western Union's chief strategy, product and marketing officer since 2015, talks with McKinsey's Barr Seitz about how she has focused on ratcheting up marketing effectiveness and efficiency to release funds for growth programs:

Libby Chambers: The other side of the marketing ROI project included a number of different effectiveness measures like improved targeting of our digital-media buy, understanding exactly where the money was going and where the best ROI was. We also examined our research activities over time to make sure we weren't duplicating the same study over and over again but were actually building and sharing knowledge.

A crucial aspect of the entire process was the creation of test-and-learn discipline. We did a bit of teaching to make more people aware of the fact that test-and-learn can help you navigate budget constraints by pinpointing the right thing to do. We probably came up with 50 different measures that we've been able to put in place and are now tracking.

We put our captured savings in a "pot," where we measure it and then redeploy it to a series of growth projects. The challenge is to identify which of the many competing growth projects we should put the money into. I think a lot of people in the business thought it would just kind of fall to the bottom line, or the savings would just sit wherever they accrued, or they would be spent on a bigger campaign in that particular market or part of the business. But we designed a pretty clear mechanism around capturing it and redeploying it in a very purposeful way.

"How to turn marketing efficiency into growth," *McKinsey Quarterly Insights*, June 2017

Technology and disruption

Will apple lose the Big Data war?

Apple, Alphabet, Microsoft, Amazon and Facebook are the five most valuable U.S. companies, in that order. By 2025, it's a good bet at least one will no longer be on that list . . . . But there is a more profound reason to believe Apple could be culled from the Big Five: data. Data, as pundits like to say, is the new oil. Companies with the most data will win.

Data make a company's machine-learning software get smarter so that the company can better serve customers and vacuum up more market share. Think of Amazon's recommendation engine or the way the Google search algorithm constantly hones itself. As a company wins share, it pulls in yet more data, and the machine-learning software keeps getting smarter, further distancing the winning company from the also-rans. That spiral is why we've wound up with a handful of tech giants that boast a combined market value greater than the gross domestic product of the United Kingdom . . ..

Apple seems to be in a data-collection corner when competing against the other four giants. Its crown jewel – the iPhone and iOS – accounts for just 20 percent of smartphones, which means Google gets the data from the other 80 percent of smartphone users. Apple has no search, no social network, no significant online retail operation, no cloud services. All its productivity software ranks behind similar products from Microsoft and Google. Apple's Siri . . . has fallen behind Alexa and Google's voice services in the race to be our digital assistants.

And because, in the era of machine learning, data relentlessly increases the gap between the winners and losers, it's hard to see how Apple can catch up to Alphabet, Amazon, Microsoft and Facebook.

Selling cool hardware that we all need will be a good business for a long time, just as selling cars or refrigerators can be a good business. But when it comes to inventing the data-driven, machine-learning future, four of the big five seem to be in a better position.

Kevin Maney, "Can Apple Park Solve Apple's Data Problem?" *Newsweek,* 30 May 2017

From scalable efficiency to scalable learning

Ronald Coase nailed it back in 1937 when he identified scalable efficiency as the key driver of the growth of large institutions. It's far easier and cheaper to coordinate the activities of a large number of people if they're within one

institution rather than spread out across many independent organizations.

But here's the challenge. Scalable efficiency works best in stable environments that are not evolving rapidly. It also assumes that the constituencies served by these institutions will settle for standardized products and services that meet the lowest common denominator of need.

Today we live in a world that is increasingly shaped by exponentially improving digital technologies that are accelerating change, increasing uncertainty, and driving performance pressure on a global scale . . .. Our research into the long-term decline of return on assets for all public companies in the US from 1965 to today (it's gone down by 75 percent) is just one indicator of this pressure. Another indicator is the shrinking life span of companies on the S&P 500. A third is the declining rates of trust indicated by the Edelman Trust Barometer – as the gap grows between what we want and expect and what we receive, our trust in the ability of these institutions to serve our needs erodes.

To reverse these trends, we need . . .. to talk about institutional innovation, or re-thinking the rationale for why we have institutions to begin with.

We believe there still is a compelling rationale for large institutions, but it's a very different one from scalable efficiency. It's scalable learning. In a world that is more rapidly changing and where our needs are evolving at an accelerating rate, the institutions that are most likely to thrive will be those that provide an opportunity to learn faster together.

We're not talking about sharing existing knowledge more effectively (although there's certainly a lot of opportunity there). In a world of exponential change, existing knowledge depreciates at an accelerating rate. The most powerful learning in this kind of world involves creating new knowledge. This kind of learning does not occur in a training room; it occurs on the job, in the day-to-day work environment.

John Hagel III and John Seely Brown, "Great Businesses Scale Their Learning, Not Just Their Operations," *Harvard Business Review* 7 June 2017

Sustainability opens the door to disruption

Interface, once a small, rather obscure carpet maker in a sleepy little Georgia town, disrupted the entire flooring category and set into motion changes still being felt today. Founder Ray Anderson determined that his carpet company would become environmentally responsible in every way possible – in a day when no one but environmental activists would even consider such a thing. After reading Paul Hawken's "The Ecology of Commerce" Anderson turned his epiphany into a strategic direction and the force behind Interface.

Anderson's vision proved that you can be both sustainable and profitable, as the Interface brand shot from back of the pack to one of the top flooring producers in the world. Its leadership in environmental responsibility also had another benefit: Attracting the best product design talent in carpet. Suddenly, Interface also became synonymous with leading interior fashion in the world's business spaces. And all of this is because brand leadership at Interface refused to accept the status quo and fearfully eek out an existence in a low-interest category dominated by larger, intimidating brands.

Interface overcame all of the excuses, became a great brand in its category and forever changed the way carpet, and all floor covering, is produced and marketed.

Paul Friederichsen, "Excuses Keep Many Brands In Their Place," *Branding Strategy Insider*, June 2017. www.brandingstrategyinsider.com/2017/06/excuses-keep-many-brands-in-their-place.html#.WVpJBxXysgs

Industry focus

Uber and the power of social media

Until last week, Travis Kalanick, a founder of Uber and its chief executive, ruled his company absolutely. That was the Silicon Valley way; ever since Steve Jobs was ousted from Apple in the 1980s, tech founders have demanded, and been awarded, enormous deference by investors and corporate boards. So even as successive waves of scandal have hit Uber, Mr. Kalanick's position looked safe.

Then, all of a sudden, it wasn't . . .. Mr. Kalanick announced a leave of absence last week and late Tuesday said he was resigning as Uber C.E.O.

It is the swiftness of the fall that's interesting here. In another time, Mr. Kalanick might have been able to hang on. But we live in an era dominated by the unyielding influence of social feeds. Every new Uber revelation ignited a massive campaign against the company on Twitter and Facebook. A swirl of negative branding took on a life of its own – and ultimately could not be ignored.

The story is bigger than Uber. Online campaigns against brands have become one of the most powerful forces in business, giving customers a huge megaphone with

which to shape corporate ethics and practices, and imperiling some of the most towering figures of media and industry. Look at how quickly Bill O'Reilly, the former *Fox News* host, was dispatched from the network after *The New York Times* dug into his history of sexual harassment settlements. The investigation inspired an online boycott against his advertisers . . ..

To see why, we must first understand why brands are suddenly more vulnerable to consumer sentiment than they once were. It all comes down to one thing: Social media is the new TV . . .. Brands now have little say over how their messages get chewed up through our social feeds.

Yes, they can run ads on Facebook, Twitter, Snapchat and everyplace else. But social media elevates consumers over corporate marketing; suddenly what matters isn't what an ad says about a company, but what your friends think about that company.

Farhad Manjoo, "How Battling Brands Online Has Gained Urgency, and Impact," *New York Times,* 21 June 2017

Culture and innovation

Convergence and rising customer expectations

Lines between products, services and user environments are blurring. The ability to craft an integrated customer experience will open enormous opportunities to build new businesses . . ..

Products, services, and environments – both physical and online – are converging to anticipate and meet rising customer expectations. That's giving birth to a proliferation of new products, often from unexpected sources. It is also stirring up a storm of new, unanticipated competitors. In this novel mix, product companies will be pushed to create services and service providers to incorporate products into their offerings. Both will face the challenge of developing great user environments as part of customer-centric strategies . . ..

In late 2015, the Swedish public-transport provider Skånetrafiken aimed to enhance the value of bus transportation. The idea was to explore extending the travel experience beyond the bus with new technologies. Designers thought about that experience from an end-to-end perspective – before, during, and after travel.

The company's approach took the form of a design lab on wheels. A multidisciplinary group of technologists and designers, with support from transport companies Transdev and Volvo, prototyped and infused a bus with new technologies. The team employed an agile approach, with iterative prototyping to generate more than 40 innovative ideas (based on interviews with customers) in less than six months. Every two weeks, new ideas were conceived, prototyped, and tested with users in a number of iterations. New design concepts transformed the space, made seating more flexible, and integrated technology into the bus. One example: a specific spot for standing passengers – an integrated space divider with cup holders, phone chargers, and shelf space. Another, based on the preferences of bacteria-wary passengers, is a sensor system that lets riders send a stop signal to the driver without touching a traditional button.

Skånetrafiken's concept bus took a major step toward reinventing the urban-travel experience. Although it continues to be an ongoing lab and project, it is also now ready to transport riders in southern Sweden, who will provide ongoing feedback to inspire future work redesigning urban-travel options.

Raffaele Breschi, Tjark Freundt, Malin Orebäck, and Kai Vollhardt, "The expanding role of design in creating an end-to-end customer experience," *McKinsey Insights* June 2016

Creativity is combination

Nothing comes from nothing

. . .

There is no such thing as a completely new idea. Every step we make is based on the combination of different ideas that create something new.

In Strasbourg in 1,450 Johannes Gutenberg created the printing press . . .. Gutenberg's genius was to create metal movable type. He joined the flexibility of a coin punch with the power of a wine press. His invention started the knowledge revolution.

Everywhere you look progress comes from mixes and mash-ups:

Blocked Filter + Sawmill Cyclone = Dyson Cleaner

Fast Food + Motor Racing Pit Stop = Drive Thru'

Landing Gear + Perambulator = Maclaren Buggy

The way to create something new is to mix two old ideas.

The language we use . . . is chock full of terms and concepts that we have bashed together to create a third. How about: bio-technology, docudrama, electronic book, fish farm, home office, mass customisation, mobile home, plastic glasses and virtual reality?

Next time you meet a not invented here culture, ask yourself if anything ever was? Rather than saying "it will never work" a more productive strategy might be to ask "which bit would?"

John Lawther, "Not Invented Here", *Squawkpoint*, June 2017. www.squawkpoint.com/2017/06/innovation-2/

Evolving leadership models in the US Army

The Army readily admits that it increasingly faces what systems theorists call complex systems. Since the Training and Doctrine Command published The U.S. Army Operating Concept: Win in a Complex World in 2014, Soldiers and leaders have been inundated with discussions about complexity. Discussions have flourished about how the Army can meet the increasing demands of complexity by presenting the enemy with multiple dilemmas or through new concepts such as multi-domain battle. These are valuable discussions, but the Army must consider how its concept of leadership can help overcome these challenges as well . . ..

How Do Organizations Succeed in Complex Environments?

Complex environments require different leadership and decision-making techniques than succeeding in simple or complicated environments. The distinctions between these environmental "domains" comes from Dave Snowden's work developing the Cynefin framework in the early 2000s. The Cynefin framework's value comes from its ability to help leaders make sense of the environment they are operating in and choose the best leadership methods to succeed in that domain. Although the complicated and complex domains have similarities, the complex domain is unique in its ability to adapt. In these environments, organizational success depends on the organization's ability to identify cause-and-effect relationships and learn from its actions. Whereas leaders can solve complicated problems by leveraging resident experts to dissect problems and propose solutions, complex problems are circumstantial and rarely have predefined solutions. To succeed in these environments, leaders must be comfortable operating beyond the realm of best practices and subject matter experts.

Gary M. Klein, "Overcoming Complexity through Collaboration and Follower-Based Leadership," *Small Wars Journal* 2 July 2017. http://smallwarsjournal.com/jrnl/art/overcoming-complexity-through-collaboration-and-follower-based-leadership

A wider view

Intellectual property and the right to tinker

The case is called Impression Products v. Lexmark. Lexmark does a lot of business with corporate customers, so if you work in an office, you might know the name from seeing it on your printers there. Those machines rely on toner cartridges, which must be changed every so often when they run out, just like ink cartridges in your home printer. And just like home printing, laser printing hinges on a razor-and-blades business model where much of the manufacturer's income depends on the reliable sale of new toner cartridges . . ..

The Court said, a company such as Lexmark can't try to use patent law to stop other companies, such as Impression, from reselling its old cartridges.

What did Impression do, exactly? Companies like Impression make money by buying up old toner cartridges, refilling them with more toner and then selling them at a lower price than what Lexmark charges.

Lexmark argued that by refurbishing and reselling its cartridges without permission and outside the terms of Lexmark's service agreement with end-users, Impression was violating the patent that Lexmark held on the cartridges. Essentially, Lexmark was saying that its patent rights extended beyond the initial sale of the cartridge to cover even future resales.

The practical question is how much Lexmark or any other company can control what you do with the things you buy. This debate isn't limited to printer cartridges. If you buy a car, how do you know you really own it? What does ownership actually entitle you to do with your property, anyway?

These issues fit into a broader fight over what some experts call the "right to tinker." The thinking goes: If you buy something, you should be free to do whatever you want with it – sell it, modify it, even destroy it. But some companies, even car manufacturers, have sought to put limits on that freedom. They make arguments such as Lexmark's, where handling a product in a way that potentially undermines the company's business leads to an alleged violation of patent or copyright protections. In this view, the customer may think she owns the physical property outright, but she is still constrained by an invisible cage made of corporate intellectual property.

Brian Fung "How a Supreme Court ruling on printer cartridges changes what it means to buy almost anything," *Washington Post* 31 May 2017

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