CEO advisory

Leadership and strategy in the news

Craig Henry

Of strategies and strategists

How Amazon's digital strategy toppled conventional wisdom

When I was growing up in the MBA program, I learned competitive strategy . . .. And what I was taught was: competitive advantage comes from being better or cheaper.

Either you have a differentiation strategy or a low-cost strategy, right? And that's still fine, but I think that's not enough in this digital world. If you take an Amazon – that's how Amazon started as being better in some ways, and also cheaper because if they don't have the fixed costs of the brick-and-mortar stores. But if you look at the Amazon business, ask yourself what businesses is Amazon in?

It's all over the place. Strategy guys told us to be focused. So obviously, Jeff Bezos missed those strategy classes because he's certainly not focused. And the question is: what ties them together? And I would argue there are two key components that Amazon has that redefines the rules of strategy.

One is the complements – the razor and blade. So for example, Kindle is a "razor" for selling e-books. They don't have to make money on Kindle in order to make money on the books. Now that goes beyond the product complementarity.

So think about Amazon gets into giving loans to small and medium enterprises and competes with banks. How can Amazon compete with banks? Because as Amazon, I can give loans at a much lower rate because I don't have to make money on the loans. I make money when these small businesses do more transactions on my platform.

The moment I make the core part of the bank's business as my complement, the banks can't compete. So I don't have to be better than banks because I have this huge complementarity on the other side of the business.

The second aspect is the network effect, where even if you and I can start a better social network, nobody's gonna to come to Gupta.com, because everybody's friends are on Facebook. Even if I'm better or cheaper, it doesn't matter, because the big keeps getting bigger . . ..

The sellers go on Amazon because all the buyers are there, all the buyers go there because all the sellers are there. And therefore, once you have that flywheel effect, it's just winner-takes-all.

Sunil Gupta, "Understanding digital strategy," *HBR IdeaCast*, 28 August 2018, https://hbr.org/ideacast/2018/08/understanding-digital-strategy

When analogue is the best digital strategy

Hammacher Schlemmer continues to publish its signature catalog, as it has for the past 137 years. Hammacher Schlemmer mails out 50 million of them a year. It's the longest-running catalog in American history.. . .

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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Hammacher Schlemmer isn't allergic to the internet, and it wasn't blindsided by the rise of e-commerce. In 1986, the company opened a virtual store on CompuServe and became one of the first major retailers to sell wares on the web . . .. In 2005, online sales accounted for one-third of its revenue. These days the majority of orders come from the website, but the retailer believes the catalog is what pushes people there.

Lands' End reduced the number of catalogs it sent to consumers in 2000, and the New York Times reported in 2015 that this decision helped contribute to a $100 million drop in sales. J.C. Penney suspended its catalog in 2012, only to revive it three years later, after internal research demonstrated its viability as a modern marketing tool.

Crain's Chicago Business estimated Hammacher's 2016 revenue to be $156 million.

Nick Greene, "The world's most peculiar company," *Chicago Magazine*, August 2018

Technology and disruption

Digital disruption comes for the consulting industry

We all understand that AI is a disruptive force in the market, but it still takes some convincing for many of us to accept just how deeply AI will affect even highly skilled knowledge-based industries.

Management consulting offers a prime example. A $250 billion industry, consulting tends to view itself as an elite, untouchable echelon of the business world. But it is vulnerable to the same market forces that are disrupting services everywhere.

Most skilled services follow a common pattern: Gather data, analyze it, derive insight, and communicate recommendations. . ..

When it comes to analyzing this data, software is also quickly gaining on humans. Strategy consultants often solve the same problems over and over again — product line profitability, for example. Machine intelligence is quickly closing the gap with human intelligence when it comes to these well-trodden paths.

Market leader McKinsey may be well-positioned for this change. While many high-end strategy firms have turned up their noses at technology work, McKinsey invested early with its internal Digital McKinsey capability, and in 2015 also purchased QuantumBlack, an analytics startup with machine-learning experience, to bring new data capabilities to its work with clients.

Overall, however, the consulting industry is at risk. . .. So how should consulting companies, or any in the services sector, adjust to this new, data- and AI-driven world? Follow these rules:

- Identify where AI can enable and augment your workforce to have a bigger impact, and invest capital in being a leader in that space. Build new platforms with AI technology to drive insights, and let consultants shift on the human aspects of persuasion, motivation, and coaching.
- Recruit new leaders to your boards and C-suite. If your boards don't have independent directors who understand AI and platform business models, you probably don't have a chance to pivot.
- Determine what data you have, and what data you need to feed proprietary AI. Data is the fuel of business, and consulting companies have fallen behind in quantifying the insights and knowledge that they have given their broad experiences across industries.
- Institute new KPIs that measure what matters in today's world — the insights that you deliver rather than the hours that you work.

Megan Beck and Barry Libert, "Management consulting's AI-powered existential crisis," *MIT SMR Frontiers,* 14 September 2018, https://sloanreview.mit.edu/article/management-consultings-ai-powered-existential-crisis/

Agile management: not just for coders anymore

When Agile management was seen as something happening in the basement of an organization among software developers and their unintelligible computer codings, the question of the role of the C-suite in Agile didn't arise. . .As it became apparent that the pace and complexity of change in the marketplace required the whole organization to become more nimble and more innovative, "Agile software development" began morphing into "business agility" and "organizational agility." When that happened, it was obvious that the role of the C-Suite was central.

Thus, McKinsey and Company now defines "organizational agility" as "the ability of an organization to renew itself, adapt, change quickly and succeed in a rapidly changing, ambiguous, turbulent environment," or even more broadly as "the ability to quickly reconfigure strategy, structure, processes, people and technology toward value-creating and value-protecting opportunities." So defined, "organizational agility" necessitates the active involvement of the C-suite.

A recent survey by Deloitte shows that more than 90% of senior executives give high priority to becoming agile.

Steve Denning, "What the C-Suite must do to make the whole firm agile," *Forbes*, 9 September 2018

From Big Data to the Contextual Age

In my experience, we're much too simplistic in our framing of context .... Context is fractal – there's a never-ending series of broader contexts within which any specific context is embedded. Take the context of a consumer cooking a meal. Who else might be sharing in that meal? What is their broader network of friends and family and how might that shape the way they view this meal? What is the broader community that these friends and family reside in and how is that shaping the meal experience? . . .

I can certainly understand the fascination with the proliferation of data that's generated by our digital infrastructures. But the data is only valuable if we use it to gain more insight into evolving contexts. My concern is that we can get easily distracted by the data and focus on generating more and more of it, without understanding how to use that data to create value . . .

What institutions will have the greatest impact in the future? It will be those who shift their focus and learn how to harness that data to generate greater insight into expanding levels of context and to see new opportunities to add value in those contexts. In fact, the ability to generate and access much of the data that's relevant to context will increasingly depend upon the trust of the participants. One of the best ways to build trust is to show a deep understanding of context and, even better, to deliver more value tailored to that context . . .

That's why I suggest describing our current era as the Contextual Age. Yes, data and information is a key enabler of value, but it's the deep understanding of context that will generate the value .... Make an effort to look ahead and understand the forces that are shaping these contexts and what these contexts might look like many years from now. There's no better way to create value than to anticipate unmet needs.

John Hagel, "Navigating from the industrial age to the contextual age," *Edge Perspectives*, 15 August 2018, http://edgeperspectives.typepad.com/edge_perspectives/2018/08/navigating-from-the-industrial-age-to-the-contextual-age.html

Big Data: The dangers inside the black box?

Once an algorithm is learning, we no longer know to any degree of certainty what its rules and parameters are. At which point we can't be certain of how it will interact with other algorithms, the physical world, or us. After a time in the wild, we no longer know what they are: they have the potential to become erratic. We might be tempted to call these "frankenalgos" – though Mary Shelley couldn't have made this up.

These algorithms are not new in themselves. I first encountered them almost five years ago while researching a piece for the Guardian about high frequency trading (HFT) on the stock market. What I found was extraordinary: a human-made digital ecosystem, distributed among racks of black boxes crouched like ninjas in billion-dollar data farms – which is what stock markets had become. Where once there had been a physical trading floor, all action had devolved to a central server, in which nimble, predatory algorithms fed off lumbering institutional ones, tempting them to sell lower and buy higher by fooling them as to the state of the market.

. . .

No one could be surprised that this situation was unstable. A "flash crash" had occurred in 2010, during which the market went into freefall for five traumatic minutes, then righted itself over another five – for no apparent reason. I travelled to Chicago to see a man named Eric Hunsader, whose prodigious programming skills allowed him to see market data in far more detail than regulators, and he showed me that by 2014, "mini flash crashes" were happening every week. Even he couldn't prove exactly why, but he and his staff had begun to name some of the "algos" they saw, much as crop circle hunters named the formations found in English summer fields, dubbing them "Wild Thing," "Zuma," "The Click" or "Disruptor."

Neil Johnson, a physicist specializing in complexity at the University of Miami, made a study of stock market volatility. "It's fascinating," he told me. "I mean, people have talked about the ecology of computer systems for years in a vague sense, in terms of worm viruses and so on. But here's a real working system that we can study. The bigger issue is that we don't know how it's working or what it could give rise to. And the attitude seems to be 'out of sight, out of mind'."

Andrew Smith, "Franken-algorithms: the deadly consequences of unpredictable code," *The Guardian*, 30 August 2018

Industry focus

The challenges of online grocery retailing

Food shopping is one of the last major holdouts to online retail ....

Even Amazon, with its Amazon Fresh online grocery service, has struggled to gain ground in the business. The company's Whole Foods deal, paired with Walmart's 2016 acquisition of Jet.com, underscored that the future of selling food and household items requires cooperation between the digital natives and the old-school retailers.

Grocery companies "are realizing that with Walmart and Amazon moving at their pace, you need to pick yours up, too," said Greg Spragg, a former chief merchant at Sam's Club, the wholesale retailer owned by Walmart, who now consults at GrowthWise Group. "I wouldn't call it fear. I would call it a wake-up call."

Global food retailing is a $5 trillion business, and just 3 percent of the world's grocery spending happened online last year, according to Forrester Research. Online grocery sales are expected to double over the next four years, reaching $334 billion by 2022.

Market research conducted by Morgan Stanley in July found that 56 percent of consumers who were likely to order groceries online said they would most likely order from Amazon, compared with 14 percent who would go to a mass merchandiser and 10 percent who would use their local supermarket.

Erin Griffith, "Amazon's ripple effect on grocery industry: rivals stock up on start-ups," *New York Times*, 22 August 2018

The promise and peril of retailer's digital strategies

There is no denying that the retail landscape is undergoing a revolution unparalleled in recent memory . . .. All the while, traditional avenues for growth through brick-and-mortar expansion are drying up, and newer forms of growth, such as online retail, localized assortment, and expansion into international markets, are more competitive than ever.

Against this backdrop, the historical core of every retail organization—namely, the merchandising function—is finding itself at a critical inflection point. Over the past few years, the role and scope of the merchant has been forced to evolve rapidly . . .. To get product to customers quickly, merchants are working with cross-functional colleagues to increase vertical integration and with third-party partnerships to speed up and boost the supply chain. In today's faster-paced, more complex environment, these adjustments have allowed merchants to become more nimble and adaptive to consumer trends while they pursue the goal of presenting a seamless, omnichannel customer experience.

That said, winning decisions are increasingly driven by analytics more than instinct, experience, or merchant "art"; what succeeded in the past is now a poor predictor of the future, and analytics is helping to inform and unlock new pockets of growth . . .. Despite recent progress, most (if not all) leading retailers recognize the need to develop next-generation merchants to drive their business in this new world.

Indeed, retailers need nimbler merchants who leverage automated technology solutions to support decision making, have a more strategic mind-set with a focus on proactive category management, and who allocate more mindshare to the customer to create a truly personalized and distinctive shopping experience.

Steven Begley, Rich Fox, Gautam Lunawat, and Ian MacKenzie, "How analytics and digital will drive next-generation retail merchandising," McKinsey *Insights,* August 2018, www.mckinsey.com/industries/retail/our-insights/how-analytics-and-digital-will-drive-next-generation-retail-merchandising

Culture and innovation

German business: a victim of its own success?

"Whom the god wish to destroy they send 30 years of success". Supposedly from Aristotle, this quotation well sums up the position in which many [German] companies currently find themselves. As demonstrated by Clayton Christensen in the "Innovators' Dilemma," what brought success in the past cannot be relied on in the future. This is not a new finding, but the rate of change is increasing so fast that the leisurely adaptation processes of the past are no longer adequate. It is not without reason that the label "Made in Germany" was held up as THE sign of quality, and for many German corporate leaders, "the pursuit of perfection" is still the top priority. But this often goes hand in hand with unwillingness to take risks, experiment and especially, execute decisively – all necessary qualities for the entrepreneur. Basically, we can say that the socialization of the German management team has in the past taken place more through formal processes, business cases, comprehensive controlling and reporting as well as the increasing sweating out of redundancies and possible "efficiency killers," than through an entrepreneurial spirit.

"We can be efficient, but not innovative," was the conclusion of Thomas Sattelberger, one of Germany's most experienced international managers, when we discussed German innovation culture a while ago. It is a sobering judgment. Creativity is seen as one of the key future capabilities, in contrast to machines, and it is a given that we can only remain competitive by maintaining high rates of innovation.

Marc Wagner, "Forum innovation: shifting the balance of power," *10th Global Peter Drucker Forum,* 20 August 2018, www.druckerforum.org/blog/?p=1879

A wider perspective

Trust-busting in the 21st century

Antitrust crusaders have built up serious momentum in Washington, but so far, it's all been theory and talk. Groups like Open Markets have made a strong case that big companies (especially big tech companies) are distorting the market to drive out competitors. We need a new standard for monopolies, they argue, one that focuses less on consumer harm and more on the skewed incentives produced by a company the size of Facebook or Google.

Someday soon, those ideas will be put to the test, probably against one of a handful of companies. For anti-monopolists, it's a chance to reshape tech into something more democratic and less destructive. It's just a question of which company makes the best target.

GOOGLE: THE CONGLOMERATE. According to Open Markets' Matthew Stoller, the best long-term remedy for Google's dominance has more to do with Google's acquisitions. "If you're looking for a silver bullet, probably the best thing to do would be to block Google from being able to buy any companies," says Stoller. "Suddenly, you have to compete with Google, you can't just be bought out by Google."

AMAZON: THE PLATFORM. Stacy Mitchell, co-director at the Institute for Local Self-Reliance, says that could be solved with a Microsoft-style antitrust suit, carving Amazon up into distinct parts and setting new rules for each part. "Amazon needs to be broken up so that the platform is separated from its retail and manufacturing operations," says Mitchell. "The platform needs to be treated like a common carrier, so it's required to serve all comers equally."

UBER: THE PRICE-FIXER. The company has long insisted that drivers are independent contractors, not employees. That means Uber can't be a monopoly in the Standard Oil sense, but it could be a part of a price-fixing conspiracy, in which an entire industry colludes to raise prices at once . . ..

Marshall Steinbaum, research director at the Roosevelt Institute, says the "independent contractor" structure makes Uber uniquely vulnerable to a conventional antitrust case.

FACEBOOK: THE STARFISH. It may be that a social network with more than 2 billion users is simply too big to be managed responsibly, and no amount of moderators or regulators will be able to meaningfully rein the company in . . .. If that's true, a classical antitrust breakup (as some have suggested) would seem like the only option. The best example is the breakup of AT&T, which saw the telecom giant's local phone business split into "baby bells," each bound by serious geographical and regulatory restrictions.

Russell Brandom, "The monopoly busting case against Google, Amazon, Uber and Facebook," *The* Verge, 5 September 2018, www.theverge.com/2018/9/5/17805162/monopoly-antitrust-regulation-google-amazon-uber-facebook

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