Leadership and strategy in the news

Craig Henry

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).

Avoiding acquisition pitfalls

We've looked back over the last thirty years of M&A to identify the root causes of the more epic disasters. These are the Seven Deadly Sins of M&A: the warning signs that boards, CEOs and advisors can and must look out for in the year ahead . . .

1. Envy: The grass is always greener.

   Make sure that you do what is right for you, rather than simply mimicking what others have done . . .

2. Pride: The final step before you fall.

   Don't believe too much in your own infallibility! Many, many serial acquirers have eventually come unstuck through remaining loyal to strategic thinking that didn't evolve or simply believing they had the magic touch when it came to choosing targets and closing transactions . . . .

3. Greed: The long term starts tomorrow.

   Don't pursue a goal solely for short term ends . . .

4. Lust: If it walks like a duck.

   Pay attention to the due diligence. No matter how enamored you are with a particular target, don't allow enthusiasm for the deal to blind you to risks identified in due diligence . . . .

5. Gluttony: Just another wafer thin mint?

   Beware the deal to end all deals!

6. Wrath: "Anger is never without a reason, but seldom with a good one."

   Great businesses have been destroyed by getting caught up in the moment – by letting anger take hold when the deck is stacked against them . . . .

7. Sloth: Make the hard decisions now.

   Don't get too excited about closing the deal.

"The Seven Deadly Sins of M&A", *Pottinger Perspectives*, June 2016 www.pottinger.com

Cascading disruption and the Internet of Things

We are living in an era of bundling. The big five consumer tech companies – Google, Apple, Facebook, Amazon, and Microsoft – have moved far beyond their original product lines into all sorts of hardware, software and services that overlap and compete with one another. But their revenues and profits still depend heavily on external technologies that are outside of their control. One way to visualize these external

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dependencies is to consider the path of a typical internet session, from the user to some revenue-generating action, and then . . . back again to the user:

When evaluating an internet company's strategic position (the defensibility of its profit moat), you need to consider: 1) how the company generates revenue and profits, 2) the loop in its entirety, not just the layers in which the company has products.

For example, it might seem counterintuitive that Amazon is a major threat to Google's core search business. But you can see this by following the money through the loop: a significant portion of Google's revenue comes from search queries for things that can be bought on Amazon, and the buying experience on Amazon (from initial purchasing intent to consumption/unboxing) is significantly better than the buying experience on most non-Amazon e-commerce sites you find via Google searches. After a while, shoppers learn to skip Google and go straight to Amazon . . .

Amazon's vision here is the most ambitious: to embed voice services in every possible device, thereby reducing the importance of the device, OS, and application layers (it's no coincidence that those are also the layers in which Amazon is the weakest). But all the big tech companies are investing heavily in voice and AI. As Google CEO Sundar Pichai recently said:

The next big step will be for the very concept of the "device" to fade away. Over time, the computer itself? – whatever its form factor – will be an intelligent assistant helping you through your day. We will move from mobile first to an AI first world.

This would mean that AI interfaces – which in most cases will mean voice interfaces – could become the master routers of the internet economic loop, rendering many of the other layers interchangeable or irrelevant.

Chris Dixon, "The Internet Economy", *Medium*, 29 April 2016 https://medium.com/@cdixon/the-internet-economy-fc43f3eff58a#.j87tj4y2x

Digital disruption and media vicious cycle

Video will not save your media business. Nor will bots, newsletters, a "morning briefing" app, a "lean back" iPad experience, Slack integration, a Snapchat channel, or a great partnership with Twitter. All of these things together might help, but even then, you will not be saved by the magical New Thing that everyone else in the media community is convinced will be the answer to The Problem.

I can tell you from personal experience . . . in the media world that there is a desperate belief that The Problem can be solved with the New Thing . . . .

The Problem is that we used to have a really neat and tidy version of a media business . . . . Put simply, there were far fewer players in the game with far fewer outlets for their content, so audiences were easy to sell to and easy to come by.

Then digital . . . And all of a sudden all those old, fixed channels started falling apart . . . .

A second thing happened alongside those foundational publishing challenges: this industry . . . began to cede its power in the delivery and distribution process to other people . . . . People who told them the answer wasn't the best of something, it was the most of something.

So over time, we built up scale in digital to replace user value. We thought we could solve with numbers (the new, seemingly infinite numbers the internet and social media provides) what we couldn't solve with attention. And with every new set of eyeballs (or clicks, or views) we added, we diminished the merit of what we made. And advertisers asked for more, because those eyes were worth less. And we made more. And it was less valuable.

Joshua Topolsky, "Your Media Business Will Not Be Saved", *Medium*, 25 April 2016, https://medium.com/@joshuatopolsky/your-media-business-will-not-be-saved-1b0716b5010c#.x7v5qbaug

Microsoft, LinkedIn, and the future of work

LinkedIn, the business-oriented social-networking company that Microsoft acquired, this week, for $26.2 billion, was founded on two premises. The first was that, even in the winner-take-all world of Internet businesses, there would still be room for a niche company (meaning, in this case, only four hundred million registered users, and a hundred million users per month). The second was that what it means to work in a business is now profoundly different from what it was in the Organization Man era. White-collar employees . . . self-manage their careers, in part by maintaining online personal networks . . . .

Microsoft, which in its early days thought of itself as a consumer-facing company, seems to be turning into the business-to-business player among the Big Five. With this acquisition, it is betting on the idea that millions of people who work in business will pour personal information into the network, in ways that are economically useful to Microsoft. On LinkedIn, people do these things because they believe that it's a better career strategy . . . in the new economy . . . . A recent study by two leading economists, Lawrence Katz and Alan Krueger, shows an increase of nearly fifty per cent over the past decade in what they call "alternative work arrangements" – freelancing, temping, and so on. The increase has been especially large in fields like transportation, education, the arts, and, counter intuitively, government. A bet on the future of LinkedIn is, to some extent, a bet on the continued expansion of that kind of work.

Nicholas Lemann, "LinkedIn's Complicated Bet on the Future of Work", *New Yorker*, 17 June 2016.

Surviving disruption

As company performance starts to suffer, tightening up budgets, established companies naturally tend to cut back even further on peripheral activities while focusing on the core. The top decision makers, who usually come from the biggest business centers, resist having their still-profitable (though more sluggishly growing) domains starved of resources in favor of unproven upstarts. As a result, leadership often under invests in new initiatives, even as it imposes high performance hurdles on them. Legacy businesses continue to receive the lion's share of resources instead. By this time, the very forces causing pressure in the core make the business even less willing and able to address those forces. The reflex to conserve resources kicks in just when you most need to aggressively reallocate and invest . . . .

Further complicating matters, incumbents with initially strong positions can take false comfort at this stage, because the weaker players in the industry get hit hardest first. The narrative "it is not happening to us" is all too tempting to believe. The key is to monitor closely the underlying drivers, not just the hindsight of financial outcomes. As the tale goes, "I don't have to outrun the bear . . . I just have to outrun you." Except when it comes to disruption, that strategy merely buys time. If the bear keeps running, it will get to you, too . . . .

One notable exception was former digital laggard Axel Springer. The German media company was "a mere Internet midget," according to Financial Times Deutschland, until it leapt into action in 2005. It went on a shopping spree, acquiring 67 digital properties and launching 90 initiatives of its own by 2013.13 Like Schibsted, it saw the value pools moving to online classifieds and made the leap. The lesson is that incumbents can win even with a late start, provided that they throw themselves in wholly. Today, digital media contributes 70 percent of Axel Springer's earnings . . . The core has become the periphery.

Chris Bradley and Clayton O'Toole "An incumbent's guide to digital disruption", *McKinsey Quarterly*, May 2.

Apple and the device trap

Siri is still hopelessly tied to each Apple device. Siri on your iPhone doesn't really know anything about Siri on your Mac or Apple TV. On each device, Siri has different capabilities: On your iPhone it can call an Uber, if you have the Uber app installed, but Siri on your Mac can't. Siri on your Apple TV can search YouTube for clips of Stephen Curry, but Siri on your iPhone can't . . . .

If Siri is an intelligent assistant, why does she need to be tied to apps you have installed on your device? Why can't she call Uber from the cloud, regardless of which device you happen to be using?

The device-centric view gets particularly limiting when you think about asking your assistant complicated questions . . . . Google, in its demo for Home, a forthcoming voice assistant device meant to rival Amazon's Echo, seemed to be able to handle such questions. Two start-ups – Viv, which was founded by members of the team that created the original Siri app that Apple bought in 2010, and SoundHound have also unveiled systems that can tackle such complex queries.

To handle these questions, an assistant would need to pull information from multiple online services . . . . And that would be very useful . . . .

Voice interfaces could usher in a new paradigm in computing, one that would break free of the tyranny of apps on devices. They could get a lot done for us without much tapping and switching. Google, Amazon and several start-ups seem to be rushing headlong to build such a system.

Farhad Manjoo, "Can Apple Think Outside the Device?", *New York Times*, 16 June 2016.

Agile innovation comes to manufacturing

George Tome, a software engineer who had become a project manager within Deere's corporate IT group, began applying agile principles in 2004 on a low-key basis. Gradually, over several years, software development units in other parts of Deere began using them as well. This growing interest made it easier to introduce the methodology to the company's business development and marketing organizations.

In 2012 Tome was working as a manager in the Enterprise Advanced Marketing unit of the R&D group responsible for discovering technologies that could revolutionize Deere's offerings. Jason Brantley, the unit head, was concerned that traditional project management techniques were slowing innovation, and the two men decided to see whether agile could speed things up. Tome invited two other unit managers to agile training classes. But all the terminology and examples came from software, and to one of the managers, who had no software background, they sounded like gibberish. Tome realized that others would react the same way, so he tracked down an agile coach who knew how to work with people without a software background. In the past few years he and the coach have trained teams in all five of the R&D group's centers. Tome also began publishing weekly one-page articles about agile principles and practices, which were e-mailed to anyone interested and later posted on Deere's Yammer site. Hundreds of Deere employees joined the discussion group. "I wanted to develop a knowledge base about agile that was specific to Deere so that anyone within the organization could understand it," Tome says. "This would lay the foundation for moving agile into any part of the company."

Using agile techniques, Enterprise Advanced Marketing has significantly compressed innovation project cycle times – in some cases by more than 75%. One example is the development in about eight months of a working prototype of a new "machine form" that Deere has not yet disclosed. "If everything went perfectly in a traditional process," Brantley says, "it would be a year and a half at best, and it could be as much as two and a half or three years." Agile generated other improvements as well. Team engagement and happiness in the unit quickly shot from the bottom third of companywide scores to the top third. Quality improved. Velocity (as measured by the amount of work accomplished in each sprint) increased, on average, by more than 200%; some teams achieved an increase of more than 400%, and one team soared 800%.

Darrell K. Rigby Jeff Sutherland and Hirotaka Takeuchi "Embracing Agile", *Harvard Business Review*, May 2016.

Innovation and the shackles of expertise

Great innovators are not just smart, they are curious. They are rarely purists or polemicists, but are courageous enough to venture outside their domain . . . .

In The Structure of Scientific Revolutions, physicist Thomas Kuhn explained that discrete fields are often poorly equipped to break new ground because they get caught up in paradigms designed to solve old problems. To tackle new challenges, they need to undergo a paradigm shift and that usually entails incorporating knowledge from a separate domain.

Unfortunately, we design our organizations to do just the opposite . . .

Richard Foster at Yale University predicts that, by 2020, three quarters of the S&P 500 will be companies we've never heard of. So it is unlikely that we'll find the next big thing in the same places we found the last big thing.

The truth is that we won't find the next big thing in one of the existing disciplines that we encourage our bright young minds to pursue. The place to look for breakthrough innovations is not in one field or another, but where domains intersect in spaces we have not yet defined.

Greg Satell, "Where to Look for the Next Big Thing", *Innovation Excellence*, 9 June 2016 www.innovationexcellence.com/blog/2016/06/09/where-to-look-for-the-next-big-thing/

Even non-profits can innovate

On March 2, 2015, a line of people stretching around the block waited to get into the Rickshaw Stop on Fell Street in San Francisco. This was not like most nights at the funky music venue and bar; the people in line weren't waiting to see an indie band, or dance to music spun by a DJ. This night the entertainment would be opera . . . of a sort. The evening, organized by the San Francisco Opera (SFO), was called "Barely Opera," with the slogan "This Isn't Your Grandmother's Opera." Complete with a "Wheel of Songs" that audience members could spin to select the next song, a live DJ, opera-themed drinks, and costumes for attendees to try on, it was designed to remove the intimidation often felt by those new to opera and introduce a younger, hipper audience to operatic music.

Barely Opera was the result of a project that was part of a course at Stanford University's Hasso Plattner Institute of Design ("d.school") . . . .

Like almost every non-profit organization, SFO has limited resources . . . . To survive and thrive with the conflicting demands of performance excellence and constrained resources, SFO has developed a highly structured organization.

As a result of these factors, previous "experiments" had typically been meticulously planned, and executed at extremely high levels of quality. Given the drive for perfection ingrained in its culture, the natural response to poor results was that the quality level had not been sufficient, and other potential lessons were often lost. This blend of perfectionism and limited resources meant that experiments were rare events at SFO.

"Design thinking" is a hands-on approach that focuses on developing empathy for others, generating ideas quickly, testing rough "prototypes" that, although incomplete or impractical, fuel rapid learning for teams and organizations. The two d.school students who worked with the Opera were Zena Barakat and Madhav Thattai . . .

The SFO project began in January 2015. Zena and Madhav's first step was to take the SFO team working on the d.school project to meet with people from outside the world of opera. One was Christina Augello, founder of the experimental EXIT Theatre and organizer of San Francisco's Fringe Festival. She described the struggle of experimenting on a tight budget, something she considered to be an essential part of the creative process – a sign on the wall read "No Risk, No Art."

Bob Sutton, "Getting Comfortable with Feeling Uncomfortable: Innovation at the San Francisco Opera," *LinkedIn* 15 June 2016 www.linkedin.com/pulse/isnt-your-grandmothers-opera-traditional-organization-bob-sutton

Corporate learning and the value of bricks and mortar

For all of the notable advances that digitization promises, comprehensive learning cannot be based on the cloud alone. Companies still have compelling reasons to locate significant elements of corporate learning in tangible, specialized educational facilities . . .

The importance of this physical separation from the daily grind should not be underestimated . . . . Harvard professor Ronald Heifetz calls this a "balcony moment": the imperative for leaders to leave the "dance floor" periodically and reflect on the patterns and movement below . . . .

Indeed, corporate academies provide an unparalleled opportunity for employees to share experiences with fellow participants and to connect with company leaders. Many best-practice corporate academies deploy their top executives as visiting faculty; GE, for instance, has long used its most senior leaders in many learning programs. A major Asian oil and gas company . . . includes the number of days senior executives spend in such teaching capacities in their performance evaluations. The value of this interaction is particularly high for companies that operate across businesses and geographies.

Richard Benson-Armer, Arne Gast, and Nick van Dam, "Learning at the speed of business", *McKinsey Quarterly*, May 2016.

Innovation and "weak signals"

Too often, leaders focus only on current operations because it is the performance engine that generates the funds necessary to stay in play. But an organization's success may be relatively fleeting if its leaders don't simultaneously attend to the future and the past. It's a balancing act that requires a unique mindset, a particular set of skills and tools, and a specific strategy.

Continuously reinventing your organization doesn't mean you have to start from scratch with each new innovation. Exploring new opportunities is an incremental process that begins with sensitivity to changes in the broader environment. These changes, often unclear and barely perceptible, foreshadow new trends in human behavior, technology, and demographics. Futurists call them "weak signals."

. . . New ventures should stand alone to continue their experimental journey. If the venture is an acquisition, keep it separate from your company's main business. If the innovation is developed within your organization, assign responsibility to a dedicated team.

Vijay Govindarajan, "What Innovative Companies Can Learn from Keurig's Highs and Lows," *HBR blogs,* 20 June 2016 https://hbr.org/2016/06/what-innovative-companies-can-learn-from-keurigs-highs-and-lows

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