OWN *the* FUTURE

50 Ways to Win *from* The Boston Consulting Group

Edited by
Michael Deimler, Richard Lesser,
David Rhodes, and Janmejaya Sinha

WILEY

OWN *the* FUTURE

50 Ways to Win *from* The Boston Consulting Group

Edited by
Michael Deimler, Richard Lesser,
David Rhodes, and Janmejaya Sinha

WILEY

Cover image: Ken Orvidas/Courtesy of BCG
Cover design: John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data:

Own the future : 50 ways to win from the Boston Consulting Group / edited by Michael Deimler, Richard Lesser, David Rhodes, and Janmejaya Sinha.
pages cm
Includes index.
ISBN 978-1-118-59170-3 (cloth); ISBN 978-1-118-65155-1 (ebk);
ISBN 978-1-118-65176-6 (ebk); ISBN 978-1-118-65179-7 (ebk)
1. Strategic planning. 2. Competition. I. Deimler, Michael S. II. Boston Consulting Group.
HD30.28.O92 2013
658.4'012–dc23

2013004417

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Contents

Acknowledgments

Our deepest debt is—as always—to the many clients of The Boston Consulting Group (BCG). The winning moves presented in these pages were begun and then evolved and matured during our close collaboration with them. We are gratified that so many outstanding leaders have found it beneficial to tackle some of their biggest challenges with BCG by their side. We are honored by their abiding trust in us and the work we do with them.

It all started in 1963, when Bruce D. Henderson founded BCG. Fifty years on, we publish this book to celebrate the anniversary and to renew our pledge to help clients face up to their toughest tests in an age of accelerating change.

We also publish this book to honor the individuals at BCG who have held up their ideas to the scrutiny of their peers in our proudly self-critical culture. We salute their commitment and thank them for broadening our horizons.

Everything you see here is the result of teamwork extending far beyond the authors of these 50 chapters. We thank the teams standing behind the authors—those who work late into the night collecting data, testing ideas, and presenting and honing the arguments.

We would also like to single out a few of our colleagues for specific acknowledgment. Hans-Paul Bürkner and Patrick Ducasse supported and encouraged us to celebrate our first 50 years with this book. Martin Reeves and David Michael were instrumental in developing and sharpening its character and content. Simon Targett, Katherine Andrews, Dan Coyne, Mark Voorhees, Harris Collingwood, Gerry Hill, Martha Craumer, Mickey Butts, Jeff Garigliano, Jon Gage, Amy Barrett, Pete Engardio, Catherine Cuddihee, and Bob Howard helped us and our coauthors to express ourselves clearly. Adam Whybrew, Matthew Clark, Eric Knight, Paul McNamara, and Tim Leach masterminded the process of creating this book.

—Michael Deimler, Richard Lesser, David Rhodes,
and Janmejaya Sinha

Introduction

Own the future.

This is a statement of purpose. If leaders are to win, if they are to put their stamp on tomorrow, they must decide to do so today.

It is also a statement of priorities. To own the future, leaders must do two things.

First, and very fundamentally, they need to win in the marketplace. This is the competitive imperative. Simply put, they need to own—or control—more business than their rivals. In doing so, they will earn the right to wield greater economic power and gain access to more opportunities for growth and value creation.

Second, they need to be accountable for their actions. This is the social imperative. A core tenet of ownership is that with rights come responsibilities. In practice, this means that leaders can't carry out a slash-and-burn strategy in pursuit of a quick buck. Instead, they must commit to the long view, to building a sustainable business.

■ ■ ■

Resolving to "own the future" is one thing. Doing so is quite another—and altogether more challenging.

How can you own the future?

This question triggered the creation of our book. As part of the effort to mark the fiftieth anniversary of The Boston Consulting Group (BCG), we've gathered together 50 chapters on how to turn today's major challenges—many of which have been simmering for some time—into opportunities. This body of work is based not on ivory tower musings but on our close collaboration with clients across the private, public, and social sectors. BCG's guiding principle is "Shaping the Future. Together," and the chapters in this book testify to this.

Week in, week out, BCG's 800 partners, operating in 16 practice areas, work with leaders and their organizations to develop new ideas, new insights, and new ways to win and own the future. From these experiences, we've created a large portfolio of publications and multimedia content. In 2012, we produced more than 300 reports, articles, videos, podcasts, and interactive graphics, all of which are readily available on bcgperspectives.com.

For *Own the Future*, we have pulled together what we think are the best winning moves for leaders and their organizations today: most of these have been developed over the past decade in partnership with our clients, but some are classics that have been developed over the past 50 years and that have stood the test of time.

This book is the third in a series we've produced with John Wiley & Sons, a global publishing house, on groundbreaking business ideas. The two previous volumes were compendiums of BCG writings on strategy going back to the 1960s. This new volume is more contemporary and forward-looking. It has been put together for a very different purpose: to help business leaders navigate their way through a period of accelerating change.

At the book's core is a manifesto for radical transformation—something that has been BCG's underlying mission since its founding 50 years ago. The firm was born in convulsive times: the 1960s were a time of social ferment. Today, the world stands at a new crossroads, facing social, political, and economic turmoil on an unprecedented scale. Everywhere you look, things are changing.

Two things in particular are happening. First, we are experiencing the most radical restructuring of the global economy since the Industrial Revolution, when the countries of Western Europe surpassed China and India—until then, the world's largest markets. This is a seismic and secular shift. Second, as this process unfolds (which may take several decades), we are encountering striking levels of turbulence and volatility.

BCG is at the forefront of efforts to understand this dual phenomenon—and to help organizations stay one step ahead. We have produced some pioneering work on the reshaping of the global economy. In 2008, we wrote *Globality*, which described the competition between everyone from everywhere for everything. Two years later, we wrote *Accelerating out of the Great Recession*, which emerged from our Collateral Damage project and explained the contours of a two-speed world. Most recently, we wrote *The $10 Trillion Prize*, which calculated the likely impact of 1 billion Chinese and Indian middle-class consumers on the world economy by 2020.

We have also led the way in understanding the unprecedented nature of the turbulent conditions confronting business leaders today. Research and analysis by our Strategy Institute have shown that turbulence is striking more frequently than in the past (more than half of the most turbulent quarters over the past 30 years have occurred during the past decade), increasing in intensity (volatility in revenue growth, in revenue ranking, and in operating margins have all more than doubled since the 1960s), and persisting much longer than in preceding periods (the average duration of periods of high turbulence has quadrupled over the past three decades).

Amid all this change, it is not clear where the world is heading over the next 50 years. But one thing is clear: the game is changing. The old ways are rapidly becoming outdated, obsolete. New opportunities are opening up. Some see this transitional period in a gloomy, pessimistic way. By contrast, we at BCG are profoundly positive about the future. As Hans-Paul Bürkner, BCG's chairman and former CEO, says in his chapter, "Strategic Optimism: How to Shape the Future in Times of Crisis" (Chapter 49), "The fundamental drivers of growth are stronger than they have been at any point in human history."

But to capitalize on these trends, and to really own the future, leaders must be proactive. They must challenge the status quo. In short, they must change the game or risk going out of business. This is not the time to tinker with reform. This is a time for large-scale transformation. In convulsive times, the stakes are higher—and the consequences of success or failure are greater.

■ ■ ■

The book's chapters, some of which have been abridged from longer reports, are arranged along 10 dimensions—each one an attribute of outstanding organizations and their leaders. In an age of accelerating change, foremost among these attributes is the need to be adaptive. This capacity to change—and, in particular, to turn each new challenge into an opportunity—is the secret of the most successful game-changing organizations.

BCG has long extolled the virtues of adaptive approaches. Bruce Henderson, BCG's founder and the architect of modern corporate strategy, wrote extensively on what he called strategic and natural competition, drawing on ideas about evolution and adaptation from Charles Darwin. In this book, we republish some of our latest thinking on this attribute, which has been featured in *Harvard Business Review*.

It is clear that leaders and their companies need to be more adaptive than they have been before, given the pace of change and the volatility of today's business climate. And they must be more global too.

We've been advising companies on the challenges and opportunities of globalization since our earliest days. We were among the first to explain the significance of Japan's rise, we were the first multinational consulting company to be authorized to conduct business in mainland China when we established an office in Shanghai in 1993, and today we have more than 75 offices in more than 40 countries around the world.

This gives us a privileged vantage point on the fast-globalizing world. What are we seeing? New sources of growth are continually appearing in far-flung cities and rural areas around the world. Also, new competitors are appearing. These include those that, driven by the cutthroat approach that has emerged in the wake of the Great Recession, are moving into adjacent sectors, product lines, or services. They also include those that, based in the emerging markets, are aggressively pursuing accelerated global strategies. Almost every year since 2006, BCG has identified 100 such global challengers that are vying for international leadership in their industries. Given this new competitive intensity, the ability to innovate has become increasingly critical. At the same time, companies must know how to find the new centers of growth and how to deal with the new competitors, which can be allies as well as adversaries.

Another feature of today's business environment is its extraordinary connectivity, even hyperconnectivity. Digitization has played a part, and so too have the spectacular advances of engineering, which have bridged the seemingly unbridgeable. As a result, organizations now need to be connected in the broadest sense with employees, customers, suppliers, shareholders, and a wide range of stakeholders.

Also, organizations need to be sustainable, and not only in the sense that they must be mindful of the environment. Creating a sustainable "business model," one that is built to last, is harder than ever. But there are organizations—we call them sustainability champions—that have found a way to square the circle: to do good and do well.

These four attributes—adaptable, global, connected, and sustainable—have come to the fore in this age of accelerating change. But although necessary, they are not sufficient to succeed. As well as these, organizations need to show what we call ambidexterity: an ability to be, on one hand, efficient and effective, and on the other hand, inventive and creative.

Let's take the first ability: to be effective and efficient. The attributes associated with this ability are timeless, immutable truths of business. They are not goals as such (profitable growth is a goal), but they are prerequisites for success—and they need to be held with ever greater tenacity in turbulent times.

One such timeless attribute is customer first. It is hard to imagine an organization not making its customers—the buyers of its products and services—a priority. But to really deliver on this commitment, executives must understand their customers in a deep and profound way—and even completely rethink how to connect with them.

Another attribute is what we call fit to win. There is no doubt that competition is intensifying: it is a Darwinian dog-eat-dog world out there. This means that organizations must be structured and led in a way that puts their ideas into action and gets things done.

A third such attribute is value-driven. The core objective of every organization is—or should be—to create value. How to do so has been a theme that BCG has returned to time and time again, ever since Bruce Henderson first opined on it in the 1960s. Without added value, there is no lasting business.

A fourth attribute, which has always been a feature of the most successful organizations down the ages, is "trusted." In fast-changing times, when the world is turned upside down, trust—always an essential attribute—becomes an invaluable source of competitive advantage. Leaders trusted by their employees can get things done amid great uncertainty; likewise, organizations trusted by their investors, suppliers, customers, and other stakeholders can leap ahead of their rivals. But trust is a precious commodity. It must be nurtured because, in today's global, connected, and transparent world, it can be so easily lost in an instant—with devastating consequences.

There are two more attributes that we think are critical to the success of organizations today—and they relate to the ability to be innovative and creative. In these testing times, the demands on leaders are especially high. In particular, the onus is on them to act and not to sit idly by in the hope of better times. This is why, in our view, leaders must be bold and inspiring.

Why bold? In our lexicon, the word *bold* describes the collection of characteristics needed to create growth opportunities: the readiness to innovate, to take calculated risks, to invest in alternative futures. This is not just about product innovation but fundamental business model innovation that can transform a company's prospects. Without boldness, it is hard to see how organizations can change the game.

Why inspiring? Simply put, leaders need to provide the spark, the story, the vision. This goes far beyond the more mechanical management skills required to run an organization. In some ways, inspiring leaders must energize and personify their organizations so that their organizations can inspire customers with their range of products and services.

Without these leadership characteristics, it is hard to see how organizations can ever hope to own the future.

■ ■ ■

Now more than ever, leaders need advice and guidance on their next steps. The decisions they make today and over the next 10 years will have an extraordinary and enduring impact on their own fortunes as well as those of their organizations, the global economy, and society at large.

By definition, the future is unknowable with certainty. But leaders can prepare by developing the capabilities needed to pivot one way or the other depending on circumstance and by putting themselves in the best position to win—to change the game and own the future.

We hope that these chapters, representing the collective wisdom of The Boston Consulting Group, will serve as a useful resource in that endeavor.

1 Adaptive

The business environment has changed markedly over the past 30 years. Driven by a host of powerful forces—including digitization, connectivity, trade liberalization, global competition, and consumer activism—today's competitive terrain is more unsettled and less predictable than ever before. And the breadth of new conditions that companies face continues to grow. The effects on corporate performance have been dramatic. Turbulence within industries, measured by such metrics as volatility in revenue growth, revenue ranking, and operating margins, is demonstrably greater and more prevalent than ever. Industry leadership, once relatively stable, now changes rapidly.

To succeed, businesses must rethink how they generate competitive advantage. A critical element of this is understanding the competitive environment (or environments) in which the company operates—and choosing an appropriate *style* of strategy for that environment. Is the environment one that the company has the potential to shape, for example, or is it one over which the company has minimal influence? The two scenarios bear little resemblance and thus call for wholly different styles of strategy.

A second must-have for success is the ability to adapt to unpredictable and changing circumstances. Companies that can adjust and learn better, faster, and more economically than their rivals stand to gain a decisive advantage in the marketplace. Indeed, what we term *adaptive advantage* increasingly trumps classical, static sources of competitive advantage, such as scale and position.

The chapters featured here delve into these topics. Chapter 1, "Why Strategy Needs a Strategy," introduces the concept of strategic styles and explains how they should be deployed. We identify five distinct styles of strategy—classical, shaping, visionary, survival, and adaptive—and assert that executives will increasingly need to learn and manage a portfolio of different ones.

We believe that five capabilities are needed to be adaptive: the ability to read and act on signals of change; the ability to experiment rapidly, frequently, and economically; the ability to manage complex, multicompany systems; the ability to mobilize the organization; and the ability to generate value and achieve competitive advantage by sustainably aligning the company's business model with its broader social and ecological context. Chapter 2, "Adaptability: The New Competitive Advantage," discusses the first four of these and offers tips for large corporations seeking to become more adaptive. We discuss the fifth source of advantage in Chapter 34, "Social Advantage," which appears in Section 8 of this book.

Chapter 3, "Systems Advantage," focuses on a special case of adaptive advantage—gaining advantage through multiparty ecosystems. The article explains the rationale for such an approach and discusses principles for designing and managing advantaged and adaptive systems. Chapter 4, "Adaptive Leadership," argues that just as today's environment demands a different approach to strategy, it also calls for a different type of business leader. Increasingly, today's successful leaders eschew traditional command-and-control tactics. Rather, they focus on creating the conditions that enable dynamic networks of actors to achieve common goals against a backdrop of uncertainty.

Adaptability is an ability to develop new capabilities, but it wasn't always obvious that capabilities matter. In fact, when *Harvard Business Review* published our article "Competing on Capabilities" in 1992, the notion that capabilities are a critical source of strategic advantage was a novel one. At that time, managers were more focused on factors such as scale, position, and operational efficiency. Although those factors were and still are important, we argued that competition was a "war of movement" in which companies had to move quickly in and out of products, markets, and even entire businesses. We stand by that view. Today, the piece (a condensed version of which is published here in Chapter 5) is one of BCG's most well-read articles—and has redefined how executives think about competitive advantage.

1 Why Strategy Needs a Strategy

Martin Reeves,
Michael Deimler, Claire Love,
and Philipp Tillmanns

The oil industry holds relatively few surprises for strategists. Things change, of course, sometimes dramatically, but in relatively predictable ways. Planners know, for instance, that global supply will rise and fall as geopolitical forces play out and new resources are discovered and exploited. They know that demand will rise and fall with gross domestic products (GDPs), weather conditions, and the like. Because these factors are outside companies' control, no one is really in a position to change the game much. A company carefully marshals its unique capabilities and resources to stake out and defend its competitive position in this fairly stable firmament.

The Internet software industry would be a nightmare for an oil industry strategist. Innovations and new companies pop up frequently, seemingly out of nowhere, and the pace at which companies can build—or lose—volume and market share is head-spinning. A player like Google or Facebook can, without much warning, introduce a new platform that fundamentally alters the basis of competition. In this environment, competitive advantage comes from reading and responding to signals faster than your rivals do, adapting quickly to change, or capitalizing on technological leadership to influence how demand and competition evolve.

Clearly, the kinds of strategies that would work in the oil industry have practically no hope of working in the far less predictable and far less settled arena of Internet software. And the skill sets that oil and software strategists need are worlds apart as well. Companies operating in such dissimilar competitive environments should be planning, developing, and deploying their strategies in markedly different ways. But all too often they are not.

What's stopping executives from making strategy in a way that fits their situation? We believe they lack a systematic way to go about it—a strategy for making strategy. Here we present a simple framework that divides strategy planning into four styles according to how predictable your environment is and how much power you have to change it. Using this framework, corporate leaders can match their strategic style to the particular conditions of their industry or geographic market.

Finding the Right Strategic Style

Strategy usually begins with an assessment of your industry. Your choice of strategic style should begin there as well. Although many industry factors will play into the strategy you actually formulate, you can narrow down your options by considering just two critical factors: *predictability* (how far into the future and how accurately can you confidently forecast demand, corporate performance, competitive dynamics, and market expectations?) and *malleability* (to what extent can you or your competitors influence those factors?).

Put these two variables into a matrix, and four broad strategic styles—which we label *classical, adaptive, shaping*, and *visionary*—emerge (Figure 1.1). Each style is associated with distinct planning practices and is best suited to one environment.

Let's look at each style in turn.

Classical

When you operate in an industry whose environment is predictable but hard for your company to change, a classical strategic style has the best chance of success. This is the style familiar to most managers and business school graduates—five forces, blue ocean, and growth-share matrix analyses are

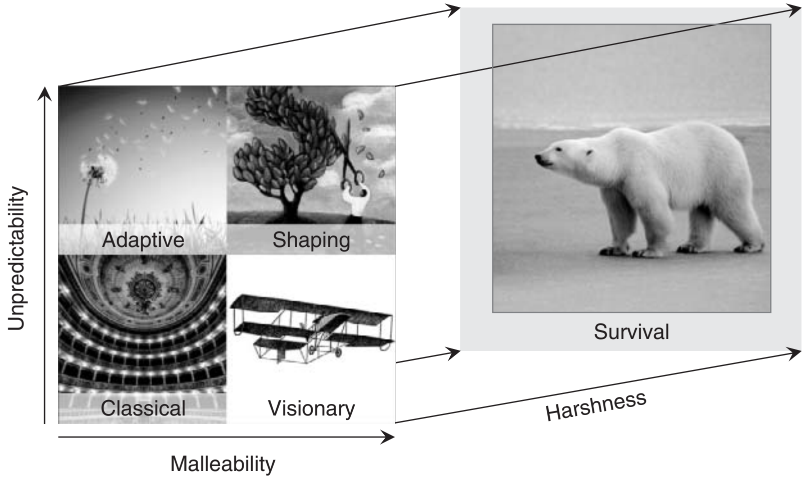

FIGURE 1.1 Environment Determines the Most Appropriate Strategic Style
Source: BCG analysis.

all manifestations of it. A company sets a goal, targeting the most favorable market position it can attain by capitalizing on its particular capabilities and resources, and then tries to build and fortify that position through orderly, successive rounds of planning, using quantitative predictive methods that allow it to project well into the future. Once such plans are set, they tend to stay in place for several years. Classical strategic planning can work well as a stand-alone function because it requires special analytic and quantitative skills, and things move slowly enough to allow for information to pass between departments.

Oil company strategists, like those in many other mature industries, effectively employ the classical style. At a major oil company such as ExxonMobil or Shell, for instance, highly trained analysts in the corporate strategic planning office spend their days developing detailed perspectives on the long-term economic factors relating to demand and the technological factors relating to supply. These analyses allow them to devise upstream oil extraction plans that may stretch 10 years into the future and downstream production capacity plans up to 5 years out. These plans, in turn, inform multiyear financial forecasts, which determine annual targets that are focused on honing the efficiencies required to maintain and bolster the company's market position and performance. Only in the face of something extraordinary—an extended Gulf war, for instance, or a series of major oil refinery shutdowns—would plans be seriously revisited more frequently than once a year.

Adaptive

The classical approach works for oil companies because their strategists operate in an environment in which the most attractive positions and the most rewarded capabilities today will, in all likelihood, remain the same tomorrow. But that has never been true for some industries, and it's becoming less and less true where global competition, technological innovation, social feedback loops, and economic uncertainty combine to make the environment radically and persistently unpredictable. In such an environment, a carefully crafted classical strategy may become obsolete within months or even weeks.

Companies in this situation need a more adaptive approach, whereby they can constantly refine goals and tactics and shift, acquire, or divest resources smoothly and promptly. In such a fast-moving, reactive environment, when predictions are likely to be wrong and long-term plans are essentially useless, the goal cannot be to optimize efficiency; rather, it must be to engineer flexibility. Accordingly, planning cycles may shrink to less than a year or even become continual. Plans take the form not of carefully specified blueprints but of rough hypotheses based on the best available data. In testing out those hypotheses, strategy must be tightly linked with or embedded in operations to best capture change signals and minimize information loss and time lags.

Specialty fashion retailing is a good example of this. Tastes change quickly. Brands become hot (or not) overnight. The Spanish retailer Zara uses the adaptive approach. Zara does not rely heavily on a formal planning process; rather, its strategic style is baked into its flexible supply chain. Zara need not predict or make bets on which fashions will capture its customers' imaginations and wallets from month to month; instead, it can respond quickly to information from its retail stores, constantly experiment with various offerings, and smoothly adjust to events as they play out.

Shaping

Exxon's strategists and Zara's designers have one critical thing in common: they take their competitive environment as a given. Some environments, as Internet software vendors well know, can't be taken as a given. For instance, in young high-growth industries where barriers to entry are low, innovation rates are high, demand is very hard to predict, and the relative positions of competitors are in flux, a company can often radically shift the course of industry development through some innovative move. A mature industry that's similarly fragmented and not dominated by a few powerful incumbents, or is stagnant and ripe for disruption, is also likely to be similarly malleable.

In such an environment, a company employing a classical or even an adaptive strategy to find the best possible market position runs the risk of selling itself short and missing opportunities to control its own fate. It would do better to employ a strategy in which the goal is to shape the unpredictable environment to its own advantage before someone else does—so that it benefits no matter how things play out.

Like an adaptive strategy, a shaping strategy embraces short or continual planning cycles. Flexibility is paramount, little reliance is placed on elaborate prediction mechanisms, and the strategy is most commonly implemented as a portfolio of experiments. But unlike adapters, shapers focus beyond the boundaries of their own company, often by rallying a formidable ecosystem of customers, suppliers, and/or complementors to their cause by defining attractive new markets, standards, technology platforms, and business practices.

That's essentially how Facebook overtook the incumbent MySpace in just a few years. One of Facebook's savviest strategic moves was to open its social networking platform to outside developers in 2007, thus attracting all manner of applications to its site. By 2008 it had attracted 33,000 applications; by 2010 that number had risen to more than 550,000. So as the industry developed and more than two-thirds of the successful social networking apps turned out to be games, it was not surprising that the most popular ones—created by Zynga, Playdom, and Playfish—were operating from, and enriching, Facebook's site.

Visionary

Sometimes, not only does a company have the power to shape the future, but it's possible to know that future and to predict the path to realizing it. Those times call for bold strategies—the kind entrepreneurs use to create entirely new markets (as Edison did for electricity and Martine

Rothblatt did for XM satellite radio) or corporate leaders use to revitalize a company with a wholly new vision (as Ratan Tata is trying to do with the ultra-affordable Tata Nano automobile). These are the big bets, the build-it-and-they-will-come strategies.

Like a shaping strategist, the visionary considers the environment not as a given but as something that can be molded to advantage. Even so, the visionary style has more in common with a classical than with an adaptive approach. Because the goal is clear, the strategist can take deliberate steps to reach it without having to keep many options open. It's more important for the visionary to take the time and care needed to marshal resources, plan thoroughly, and implement correctly so that the vision doesn't fall victim to poor execution. The visionary strategist must have the courage to stay the course and the will to commit the necessary resources.

When the Cold Winds Blow

There are circumstances in which none of our strategic styles will work well: when all access to capital or other critical resources is severely restricted, by either a sharp economic downturn or some other cataclysmic event. Such a harsh environment threatens the very viability of a company and demands a fifth strategic style: *survival*.

As its name implies, a survival strategy requires a company to focus defensively—reducing costs, preserving capital, and trimming business portfolios. It is a short-term strategy, intended to clear the way for the company to live another day. But it does not lead to long-term competitive advantage. Companies in survival mode should therefore look ahead, readying themselves to assess the conditions of the new environment and to adopt an appropriate growth strategy once the crisis ends.

Operating in Many Modes

Matching your company's strategic style to the predictability and malleability of your industry will align overall strategy with the broad economic conditions in which the company operates. But various company units may well operate in differing industry segments or geographies that are more or less predictable and malleable than the industry at large. Strategists in these segments and markets can use the same process to select the most effective style for their particular circumstances, asking themselves the same initial questions: How predictable is the environment in which our unit operates? How much power do we have to change that environment? The answers may vary widely. We estimate, for example, that the Chinese business environment overall has been almost twice as malleable and unpredictable as that in the United States, making shaping strategies often more appropriate in China.

To apply the right strategy style, you must correctly analyze your environment, identify which strategic styles should be used, and take steps to prime your company's culture for those styles. Then, you will need to monitor your environment and be prepared to adjust as conditions change over time. Clearly that's no easy task. But we believe that companies that continually match their strategic style to their situation will enjoy a tremendous advantage—potentially as much as several percentage points in total shareholder return (TSR)—over their industry peers that don't.