June 2015 Newsletter

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Toy Stories and More – Facing up to Business Model Erosion

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RITA GUNTHER | MCGRATH
Author. Speaker. Consultant.

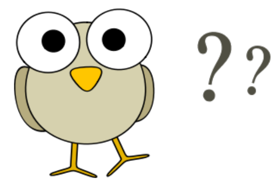
Dear Colleagues,

The talk in May was all about the threat of facing business model erosion in a wide range of industries. This month's newsletter addresses the requests I've been getting to share the specific warning signs I see that companies might want to pay attention to.

Thirteen Signs That Your Current Advantages May Be Fading

At Columbia's flagship Advanced Management Program, participants wanted to know how you handle the people challenges of moving resources around when the jobs they were hired for are no longer necessary, as the business has moved on. At a meeting with the clients of a major reinsurance company, the concern was whether millennials would want to do business through the traditional broker model. With an Asian telecommunications firm, the worry was how to avoid becoming a commoditized dumb pipe while all the cool kids ran 'over the top' services.

The common thread through all of these concerns is the need for leaders to be extraordinarily candid when early signs of erosion make themselves known, and be prepared to consider their options for changing their business models.



Below is a set of questions taken from my book, *The End of Competitive Advantage,* that if answered honestly, can give you a heads up that your current advantages may be at risk.

1. Are we investing at the same levels, or even more, and not getting margins or growth in return?
2. Are our customers finding cheaper or simpler solutions that are "good enough"?
3. Is competition emerging from places we didn't expect?
4. Are our customers no longer excited about what we have to offer?
5. Are we no longer considered a "top place to work" by the people we would like to hire?
6. Are some of our very best people leaving?
7. Is our stock perpetually undervalued?
8. Are our technical people (scientists and engineers, for instance) predicting that a new technology will change our business?
9. Are we not being targeted by headhunters for talent?
10. Has the growth trajectory slowed or reversed?
11. Have very few innovations made it successfully to market in the last two years?
12. Is the company cutting back on benefits or pushing more risk to employees?
13. Is management denying the importance of potential bad news?

Consider discussing a few of them at your next management offsite – more than 5 or 6 "yes" answers calls for a candid look at your strategy.

Columbia Course: Leading Strategic Growth and Change

During the week of May 18th, a diverse and delightful group of participants gathered for my Columbia course *Leading Strategic Growth and Change*. The course, which is attended by

Columbia course *Leading Strategic Growth and Change*. The course, which is attended by pretty senior people, covers many basics of corporate entrepreneurship and innovation, including how to:

- Budget for new ventures.
- Create an opportunity portfolio that balances innovation in today's business with creating options for the future.
- Make better decisions under uncertainty.
- Think about platform businesses, entrepreneurial thinking and lessons from a major strategic change program.

But, enough with the course content. Every time I run the course, I try to include something that is related to the theme, but is experiential and gets us out of the building (to quote my friend Steve Blank). This time, guest professor, my friend and author Dorie Clark pulled off a major coup. She arranged for our whole group to travel to Dominique Ansel's bakery, have our delicious lunch there and enjoy an interview (and a selfie!) with the man himself.

For those of you who don't know Ansel, he is widely regarded as one of New York's most innovative pastry chefs. He is probably most famous for his invention of the "Cronut," a combination of Croissant and Donut that, two years after it was introduced, still has New Yorkers lining up at 5 am to score one of the prized pastries. We not only learned a lot about how he keeps the magic going, but enjoyed the luncheon goodies.

Meanwhile, over on Fifth Avenue and in Silicon Valley

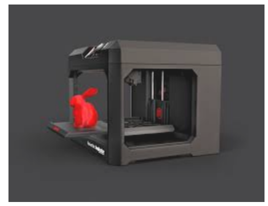
Several generations of shoppers are already mourning in anticipation of owner Toys R Us shutting down the fabled F.A.O. Schwarz location on 5th Avenue in Manhattan. In a piece in Fortune, I argue that Schwarz might have done better had they capitalized on the magic in their store by creating destination experiences that people would pay for.

No sooner had the digital ink dried on that piece than the parent company said I was wrong to say FAO Schwarz was "dying" – instead they are just looking for a different site. Still, the store is clearly working with a very difficult business model. More thoughts on this here.

I'm going to be looking at business models from a whole other angle, as the good folks of mach49 in Silicon Valley are putting their design skills to work to figure out how to keep parent companies from unintentionally sabotaging their new growth ventures. More here.

Latest Articles

How 3-D Printing Will Change Everything about Manufacturing
(Wall Street Journal) With the advent of commercial 3-D printing, we are on the cusp of yet another seismic change in our assumptions of how manufacturing is conducted.



Indian IT Now Needs a Reboot Through New Business Models
(The Economic Times)
The core value proposition for many of the big IT services companies in India was that they could take care of tasks for their clients that were either not something their clients wanted to keep in-house, or that could be done more cost-effectively in a services center, based in India. That model is well on its way to competitive erosion.

In the News

The Washington Post picked up on my Fortune piece about an alternative future for F.A.O. Schwarz, citing my suggestion that they consider adding new revenue streams relevant to the customers' experience, rather than relying on selling toys only.

In an acerbic note in the Economist, the Schumpeter column reflects on whether the business guru business has run out of steam – blaming in part the emergent thought leadership paradigm that so many new entrants have started to try to play. I actually think the dimming of the guru business has to do with the fact that business academia, once a fertile breeding ground for gurus with new ideas, has gone so far over to the pure academic side that the healthy exposure to real business problems never emerges.

In the transient advantage economy, the pressure to develop new leaders quickly is enormous. This article describes the efforts different companies are making to innovate in these areas these areas.

The debate about whether competitive advantage is sustainable or not continues. And then, of course, there are those that say "it all depends".

More links to recent press mentions can be found on the Press section of my website.

And the end?

I am often asked, "well, what do we do if we see the early warning signs that a business is coming to an end and we've concluded there is no future for it?" Like many things in organizations, the answer is "it depends". If the business is emotional or part of a firm's identity, it can be very difficult to disengage from an exhausted advantage. The most famous 'disengagement' in business history was probably Intel's decision to exit DRAM chips and put a big bet on microprocessors. In the end, we realized that it saved the company. IBM's decision to sell its PC business, while it was still profitable, is another example. GE's decision to exit its reinsurance business (and to sell it to a company that had reinsurance at its core) was a good move. I think DuPont's decision to exit legacy chemicals is positioning the company to participate in higher growth sectors. More here.

So, if you see warning signs creeping up on you, your organization may be better off finding a way to disengage **than ignoring the signs and waiting until it's too late.**

All the best,

Rita

Password for the "Tools" Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the RitaMcGrath.com website and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

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Our mailing address is:
Rita Gunther McGrath
2880 Broadway
Armstrong Hall, 4th Floor
New York, NY 10025

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