

The Masters Forum

Scanning the Periphery

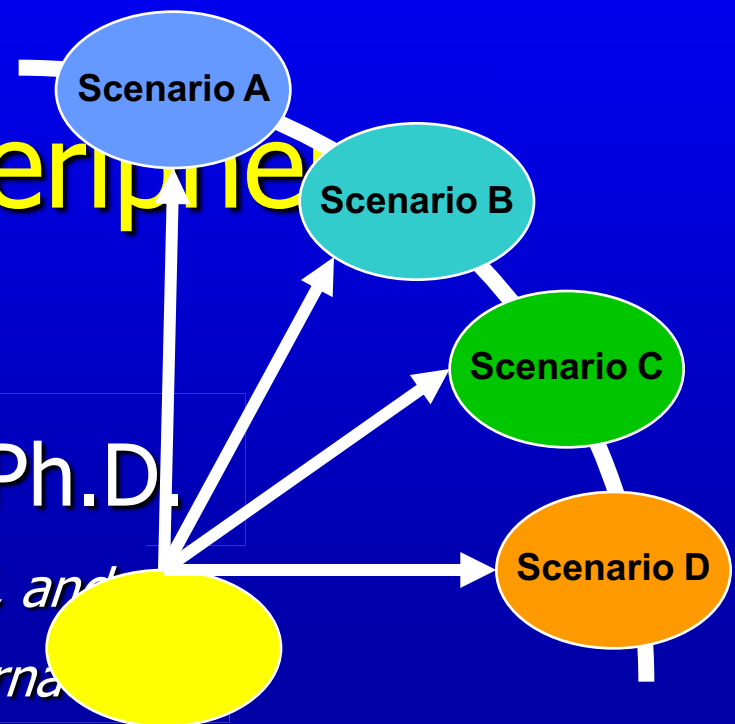
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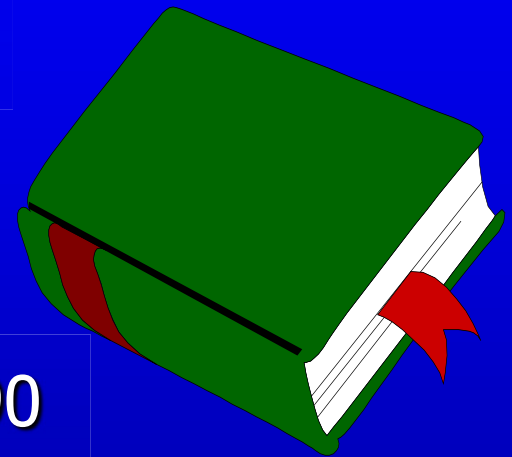
Warm-up Exercise

- *Can you name any of the top ten U.S. Industrial companies from 1910 (measured by size of assets)?*
- *How many are still around today?*
- *What do you think happened to them?*



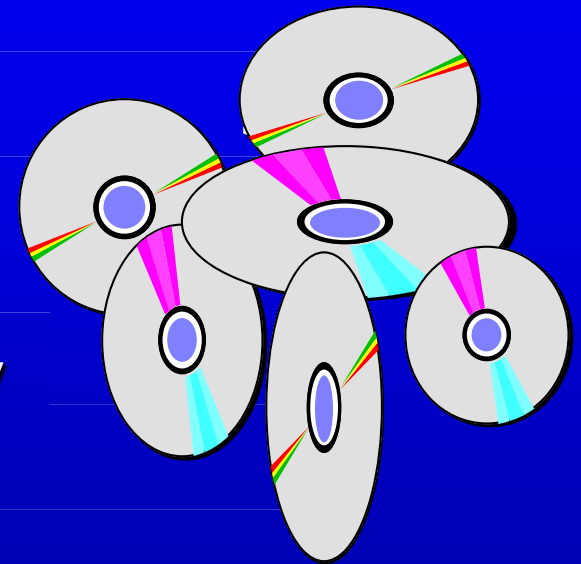
Encyclopedia Britannica - I

- Oldest English language encyclopedia
- Published 15 editions over 225 years
- Sales grew 8.1% per in 1980s
- Record sales in 1989: \$627 million
- Sold 117,000 copies for \$1,300 in 1990
- Profitable in 19 of previous 20 years
- Translated into many foreign languages
- Heavily invested in specific sales model



Encyclopedia Britannica - II

- Emergence of CD-ROM Encyclopedia
- CD-ROM adds graphics, sound, video
- Cheap to manufacture and store
- Losses of \$4.6 million in 1992 and million in 1993
- In four years sales dropped 53%
- No money to develop new technology
- Management looks for a buyer in \$400-\$500 million range
- In 1995, CEO Peter Norton retires
- Facing new competitors: Microsoft, Times-Mirror, Bertelsmann, etc.



IN TODAY'S FAST-PACED
ONLINE, ON-DEMAND
WORLD, AN OLD-FASHIONED
ENCYCLOPEDIA MAKES AN
ABSOLUTELY WONDERFUL
DOOR STOP...
PAPER WEIGHT...
AFTER-DINNER
CONVERSATION PIECE...
DRIED FLOWER PRESS...



Adam
@home

BRIAN
BASSET

Why Scan the Periphery?

- A. Winners Often Become Losers**
- B. Need for Fresh Perspectives**
- C. To Profit from Uncertainty**



Why Do Great Companies Fail?

- Corporate arrogance and hubris
- Insufficient attention to weak signals
- Lack of vision and risk taking
- Trapped in yesterday's business models
- Biases of internal decision processes
- Wrong incentives: short-term & risk averse



Long-Lived Organizations

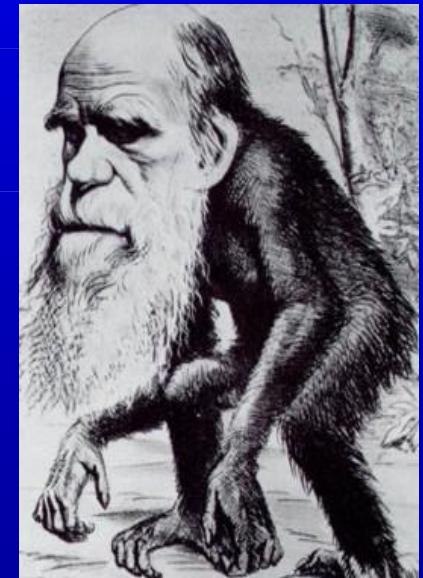
- Are Financially Conservative
- Have Deeply Embedded and Shared Values that Are a Guide to Action
- Are Skilled at Peripheral Vision
- Have an Experimental Mindset at the Edges of their Market



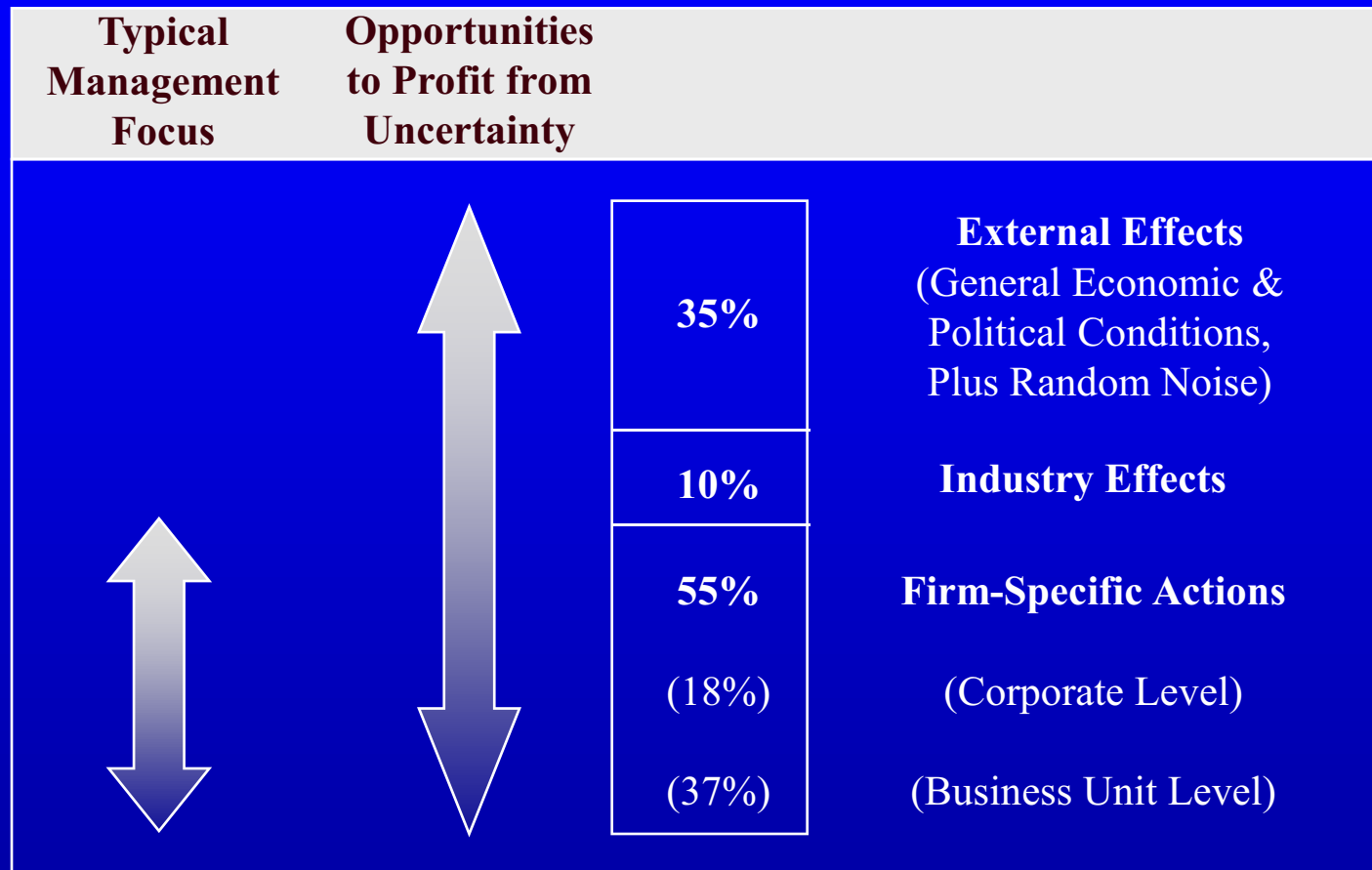
It's not the strongest of
the species who survive,
nor the most intelligent,
but the ones most
responsive to change.



Charles Darwin



Half the Business Is Left to Fate



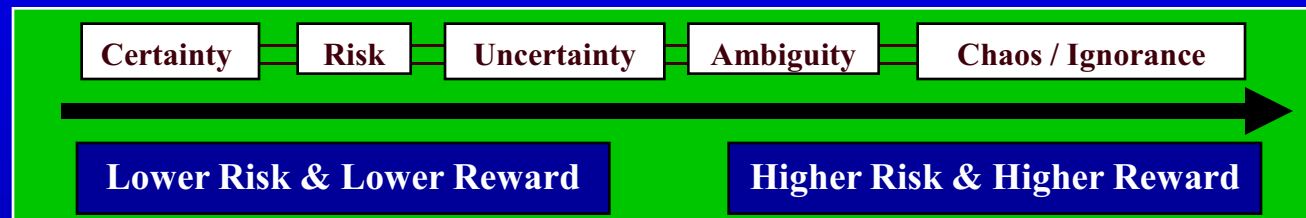
Note: The percentages refer to how much of the variance in return on assets is due, on average, to various influences. The data reflect over 100 US manufacturing firms consisting of at least two strategic business units covering 160 industries. Source: Jaime Roquebert et al, *Strategic Management Journal*, Vol. 17 (8), 1996.



We Must Change our Tools and Focus

Newer Tools

Influence diagrams
Scenario planning
Real options analysis
Hedging / Derivatives
Total risk management
Dynamic monitoring
Systems dynamic modeling
Learning models / Simulation



Traditional Tools

Extrapolative forecasting
Net Present Value analysis
Decision trees
Bayesian updating
Expected utility theory
Monte Carlo simulation
Portfolio optimization
Stochastic modeling
Insurance / Safety programs



Key CEO Insight

“Giving up the illusion that you can predict the future is a very liberating moment. All you can do is to give yourself the capacity to respond to the only certainty in life – which is uncertainty. The creation of that capability is the purpose of strategy”

Lord John Browne,
Group Chief Executive of BP



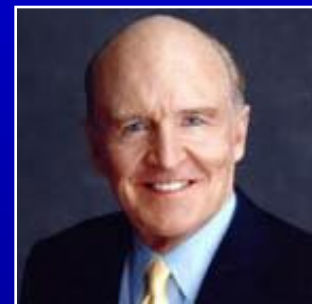
The Importance of the Periphery

“When spring comes, snow melts first at the periphery, because that’s where it’s most exposed.”



Andrew Grove (Intel)

“Leaders must develop a sixth sense, an ability to see around the corner.”



Jack Welch (GE)



Balancing the Learning and Performance Organization

Performance Organization

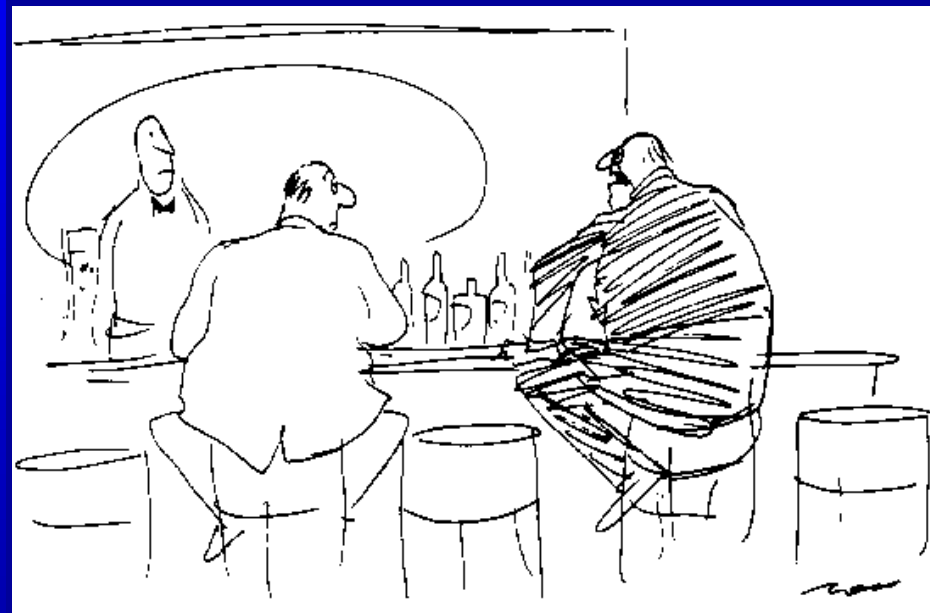
- Internally oriented
- Focused on making the numbers
- Rewards consistency
- Dislike of ambiguity and deviations
- Rule and procedure oriented

Learning Organization

- Inquisitive and externally focused
- Experimental and innovative
- Shares information: fluid
- Rewards risk-taking
- Relies on cross-functional teams



Overconfidence Defined



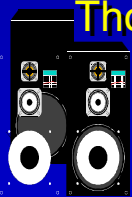
“What do you mean ‘Your guess is as good as mine’?
My guess is a hell of a lot better than your guess!”

(Source: Gary Larson, [The Farside Gallery](#) Chronicle Publishing Co., 1980)



They Believed It

"The phonograph...is not of any commercial value."



Thomas Alva Edison
(inventor of the
phonograph, c. 1880)

"No matter what happens, the U.S. Navy is not going to be caught napping."



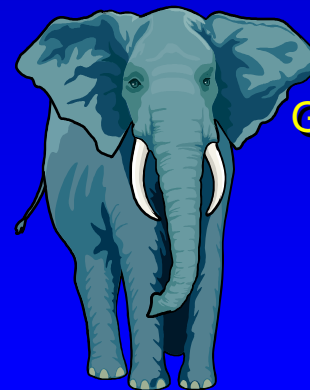
Knox (U.S.
Secretary of the
Navy) December 4,
1941, just before the
Pearl Harbor attack



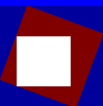
"We don't like their sound. Groups of guitars are on the way out."

Decca Recording
Company
Executive,
turning down the
Beatles in 1962

"They couldn't hit an elephant at this dist....."



General John B.
Sedgwick, 1864
(last words,
Battle of
Spotsylvania)



Strategy Pitfall #1: Overconfidence

For each of the questions, enter a range (low and high boundaries) for which you are 90% confident you are correct



Overconfidence Quiz

QUESTION	LOW	HIGH
1. Length of the Nile river (in miles or km)?	_____	_____
2. Year in which John Steinbeck won the Nobel Prize for literature?	_____	_____
3. Average gestation period (in days) of female Asian elephant?	_____	_____
4. What was the level of the Dow Jones Industrial Average on July 1, 1985?	_____	_____
5. How old was Martin Luther King when he was assassinated?	_____	_____
6. Air distance between London and Tokyo (in miles or km)?	_____	_____
7. Weight in tons of an empty Airbus plane (Model A340-600)?	_____	_____
8. In what year was Wolfgang Amadeus Mozart born?	_____	_____
9. Number of books in the Old Testament?	_____	_____
10. Surface area (in square miles or km) of the Mediterranean Sea?	_____	_____



Strategy Pitfall #2: Wrong Frames

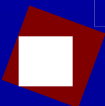
*View the playing cards on the next slide
and write them down.*



GM's Frame (circa 1968)

Key Assumptions:

- GM is in the business of making money, not just cars
- Success flows from rapid adaptation, not technological leadership (automatic transmission last major innovation)
- Cars are primarily status symbols: people want to upgrade
- The U.S. car market is isolated from the rest of the world
- Fossil fuels (oil) will remain cheap and abundant
- The government is an enemy and so are unions
- Planned obsolescence works (quality less important)
- Efficiency of mass production beats other approaches
- Bigger is better - we can manage anything

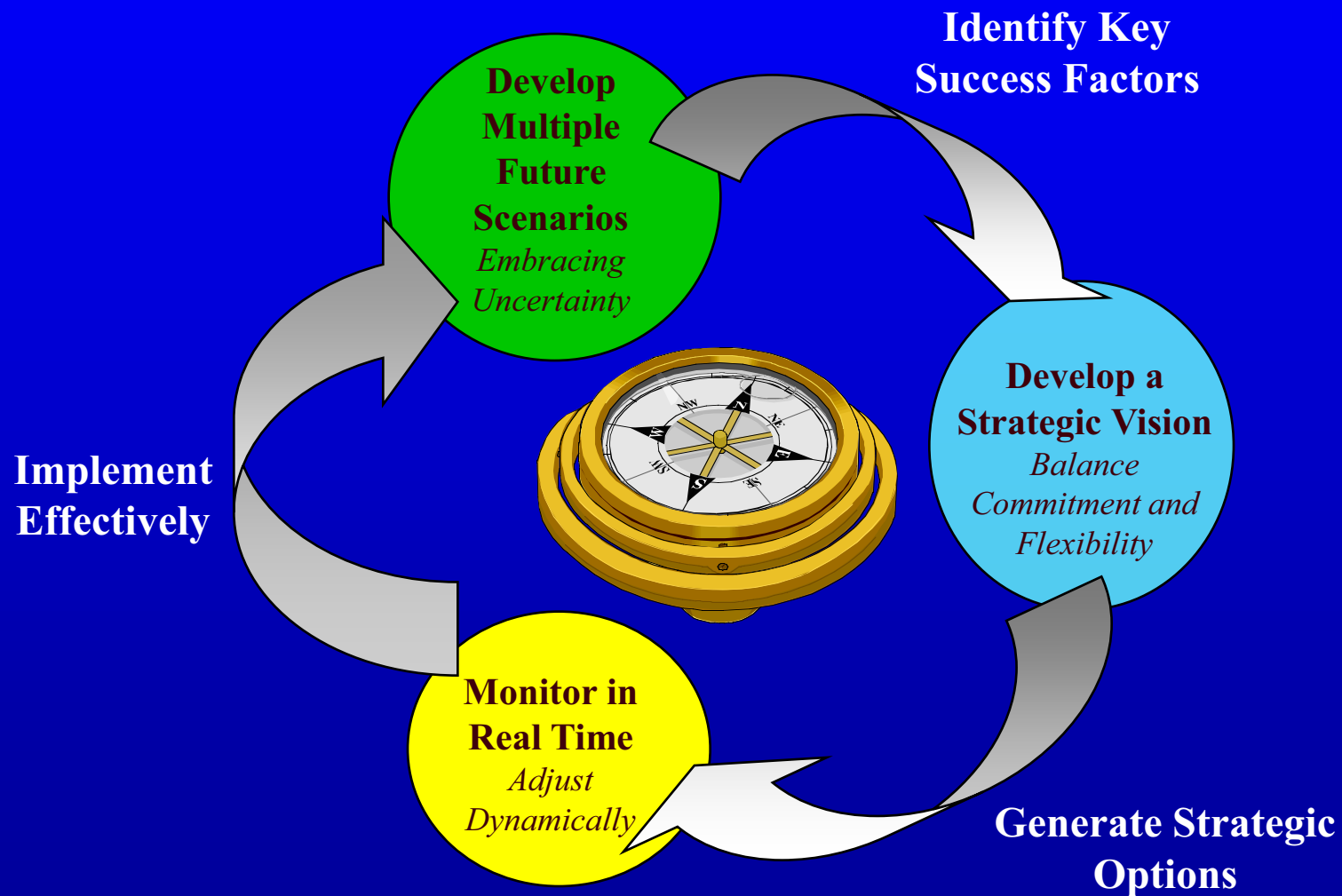


When to Use Scenario Planning?

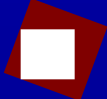
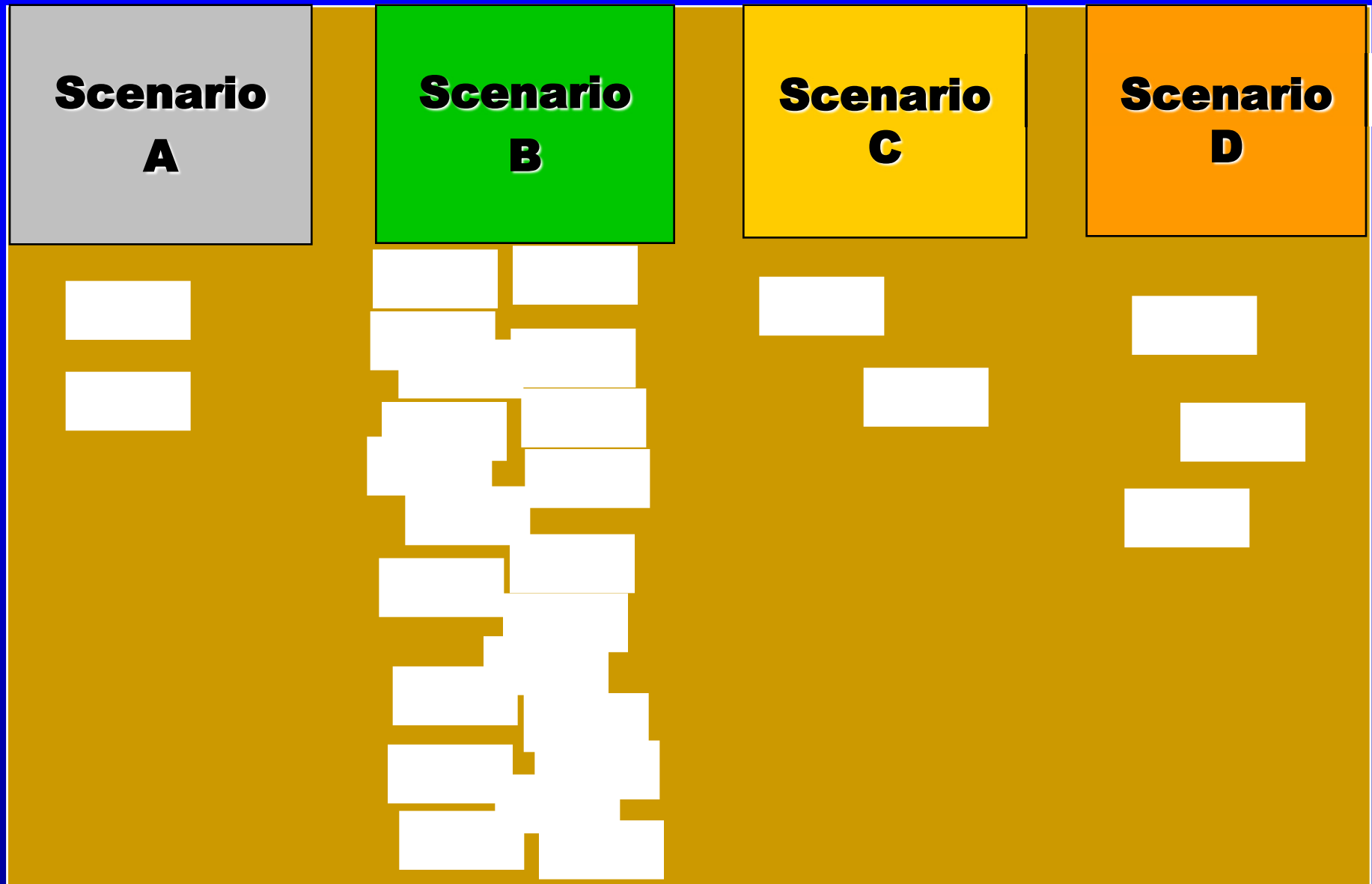
- If uncertainty is high relative to one's ability to adjust
- If too many costly surprises have occurred in the past
- If insufficient new opportunities are perceived
- If the quality of thinking is deemed to be low
- If an industry is experiencing significant change
- If a common language is desired, without stifling diversity
- If major differences of opinion exist, each having merit
- If your competitors use scenario planning



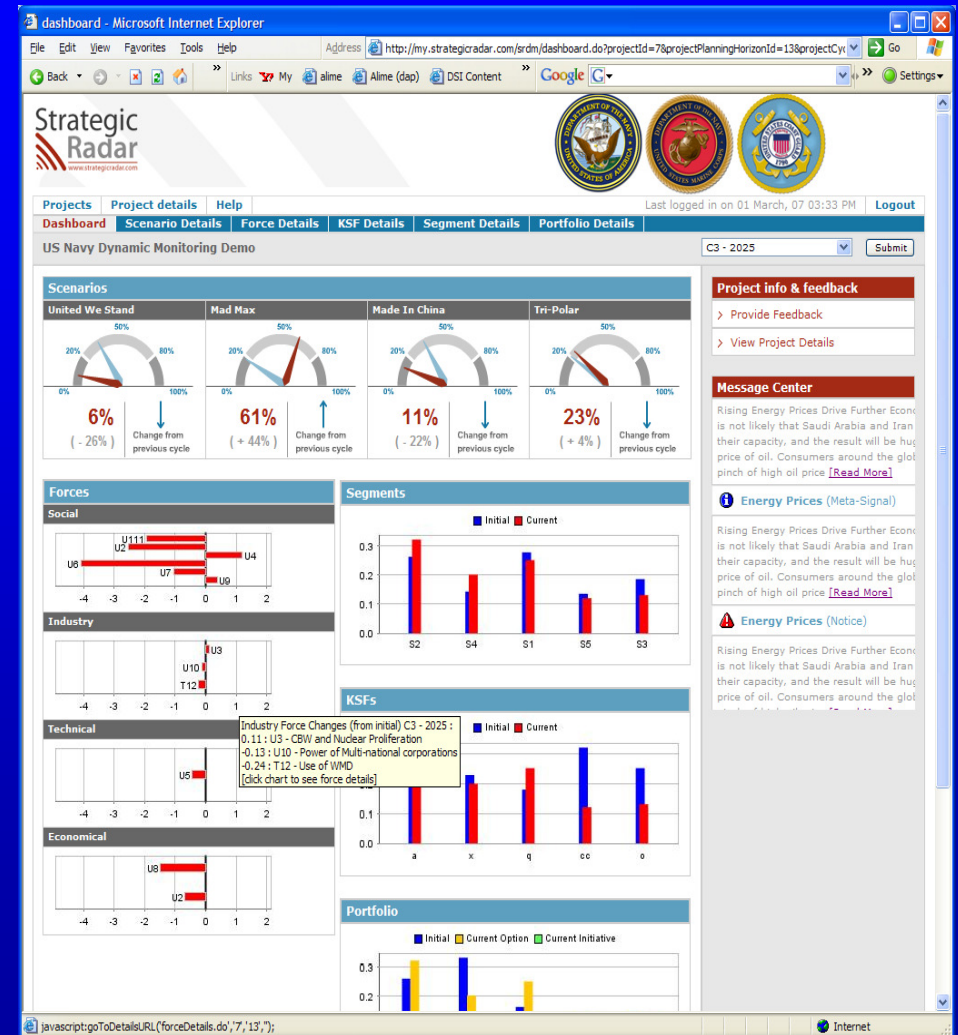
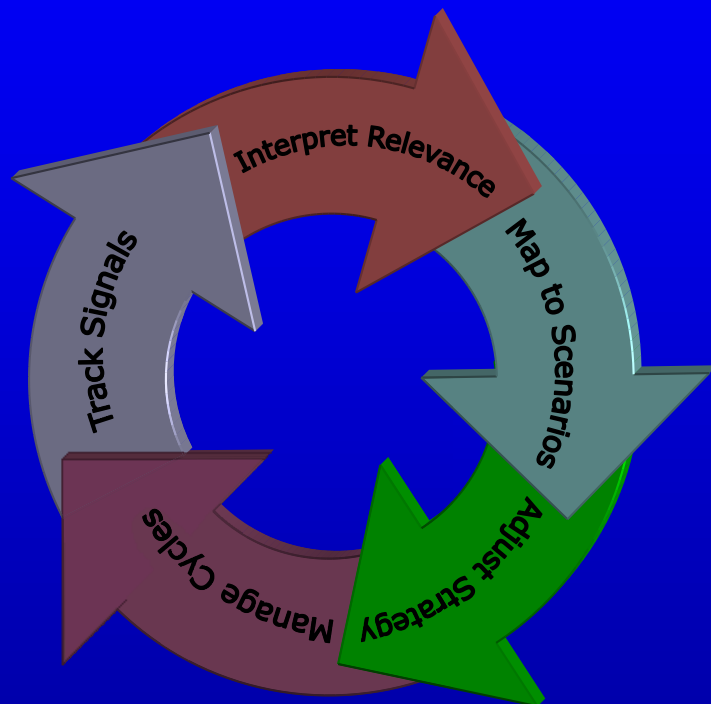
Strategic Compass for Profiting from Uncertainty



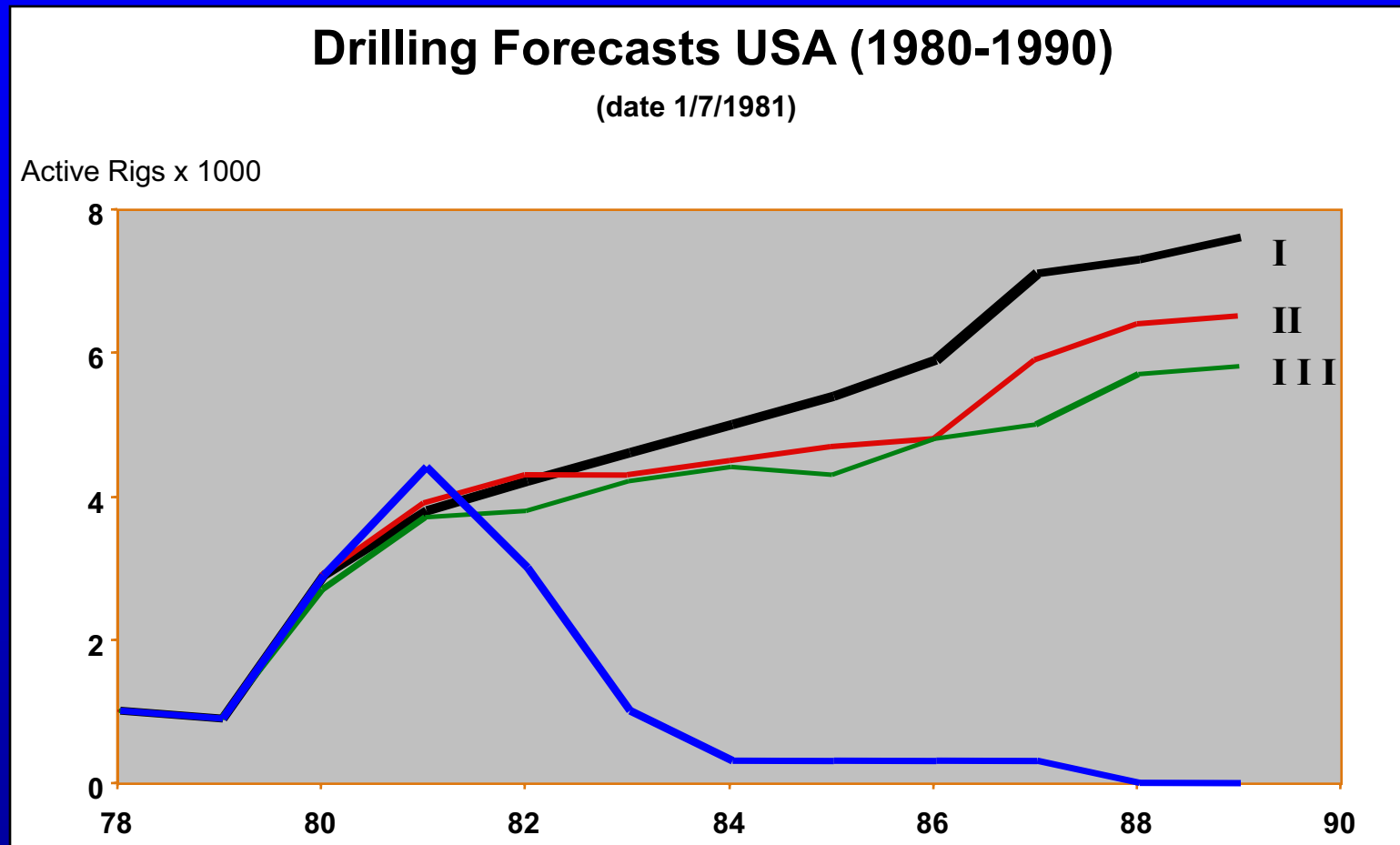
Monitoring the Outside World



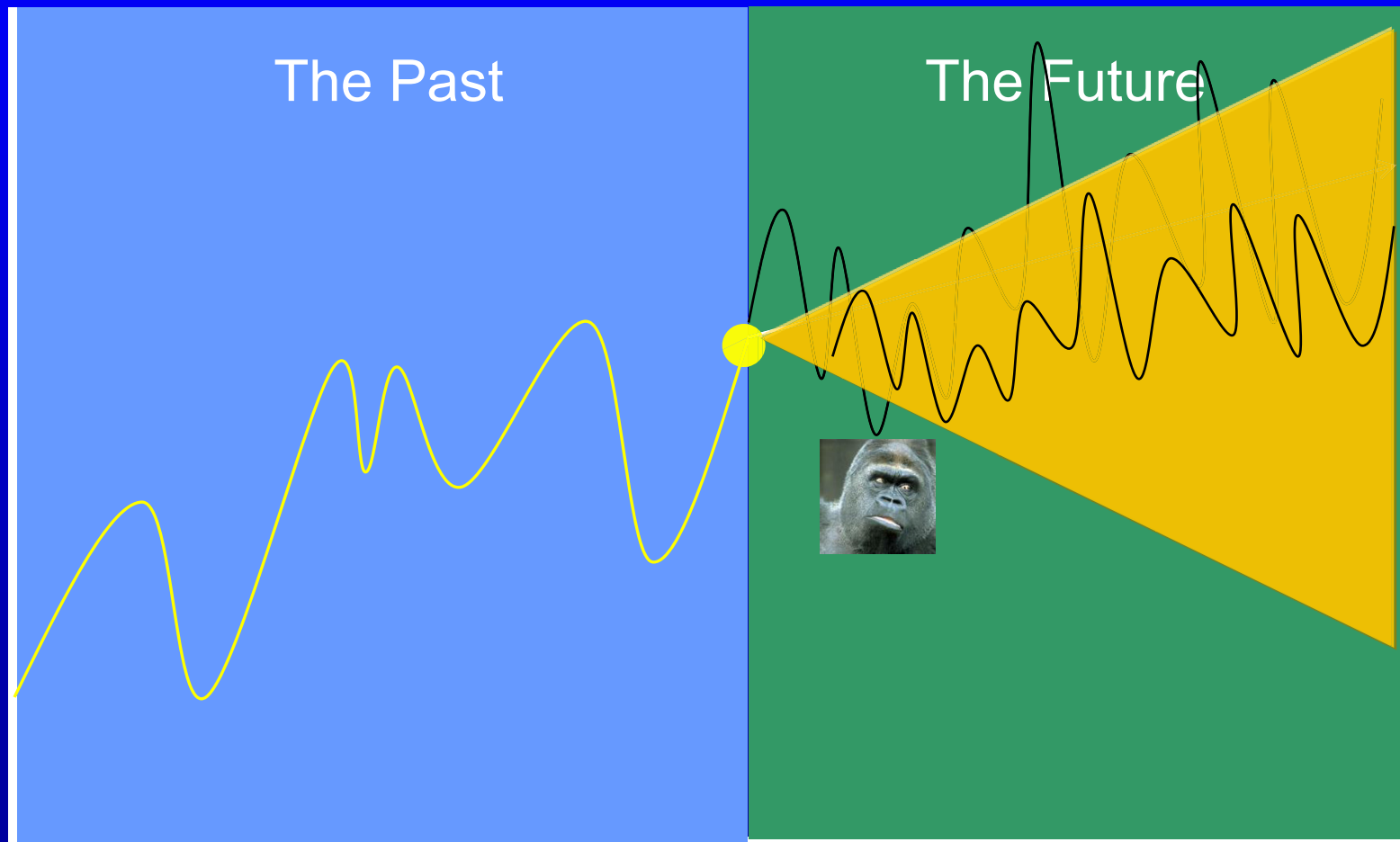
Dynamic Monitoring: Strategic Radar



Example of How Not to Do It



Applying the Concepts in Practice



Basic Scenario Matrix

Availability of US Talent

Organizational Structure

	scarce	abundant
flat	Casting Director	Global Deal Maker
hierarchal	Caregiver	Systems Integrator



How is Your Peripheral Vision?

Strength of Capability

(strategic thinking, culture, configuration, knowledge management)

Need for Peripheral Vision

(complexity and volatility of environment)

High

Vulnerable
(myopic)

Vigilant
(20/20)

Low

Focused
(laser-beam)

Neurotic
(ADD)

Low

High



Many Other Senior Executives Apparently Cannot “See Around the Corner”

In a survey of executives conducted by DSI:

- Two-thirds said they had been surprised by at least three high-impact events in the last five years.
- 97% said their organization lacked an adequate early-warning system.
- 81% felt that their present organizational capacity for strategic vision is less than their future need.



Classic Barbie

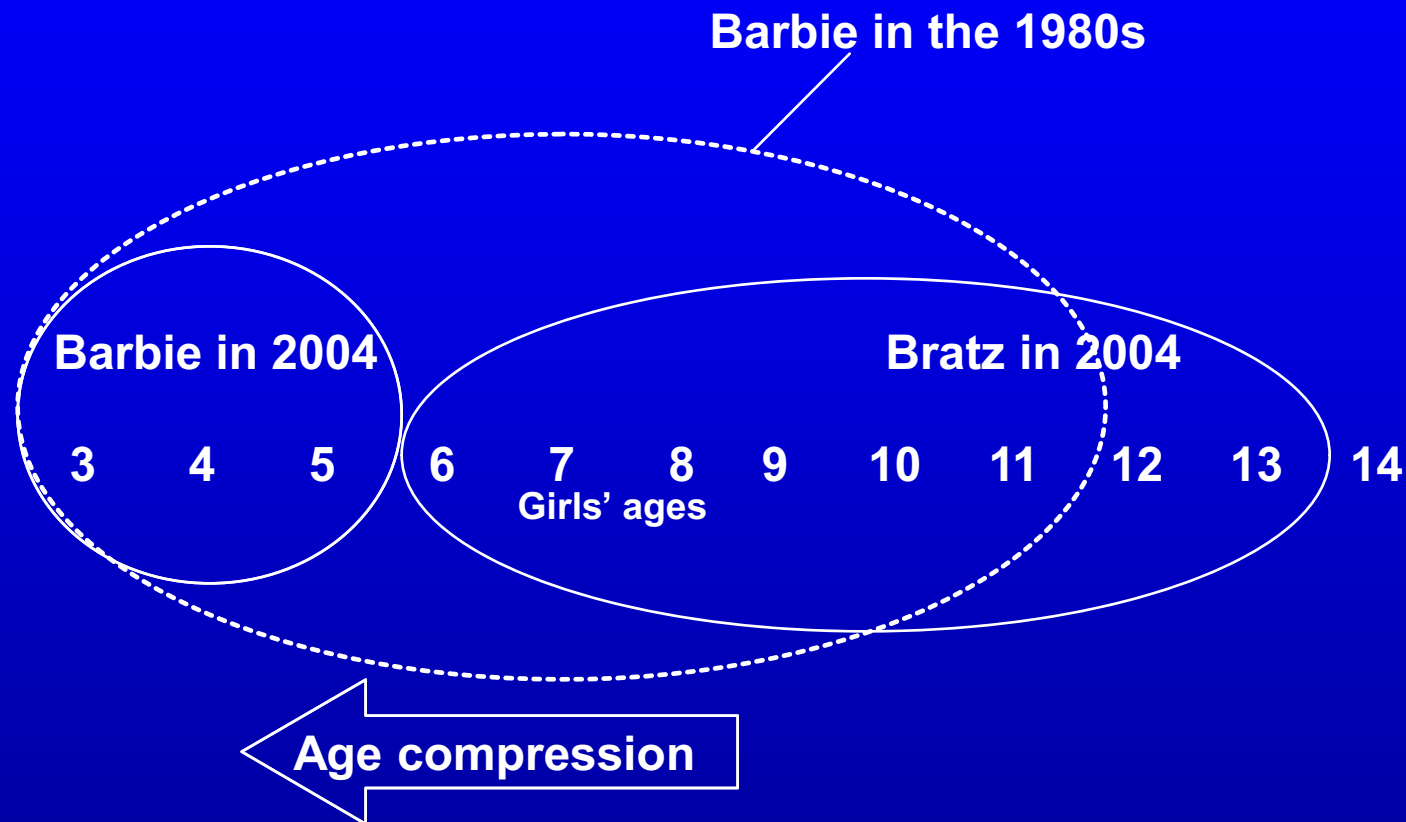


Sensing and Acting on Weak Signals

- Mattel's Barbie doll renewed itself many times since 1959 – as doctor, astronaut and presidential candidate
- But age eventually caught up to Barbie
- Girls grew up more quickly and lost interest in Barbie
- Games and TV took more time from young girls
- The core market for Barbie dolls got compressed from ages 3 to 11 down to 3 to 5



Squeezing Barbie's Core Market



The Bratz Doll



Developing a Vigilant Organization: How the Beat Barbie



Vigilant Leadership?

- Narrowed focus to deal with internal crisis
- New CEO promised “stability”
- Focus on cost cutting

Strategy Making?

- Planning focused on keeping Barbie at cutting edge of fashion
- Fear of cannibalization

Culture?

- Product-driven
- Cautious and conservative (100+ page manual)
- No willingness to listen to scouts
- Limited information sharing



Developing a Vigilant Organization: How the Beat Barbie (cont.)



Knowledge systems?

- No lack of data
- 200 “fragmented enterprise systems couldn’t easily share data
- No money for systems overhaul

Organizational configuration?

- Boys and Girls divisions didn’t interact or transfer people
- In 2003 launched “Project Platypus” to develop hit products

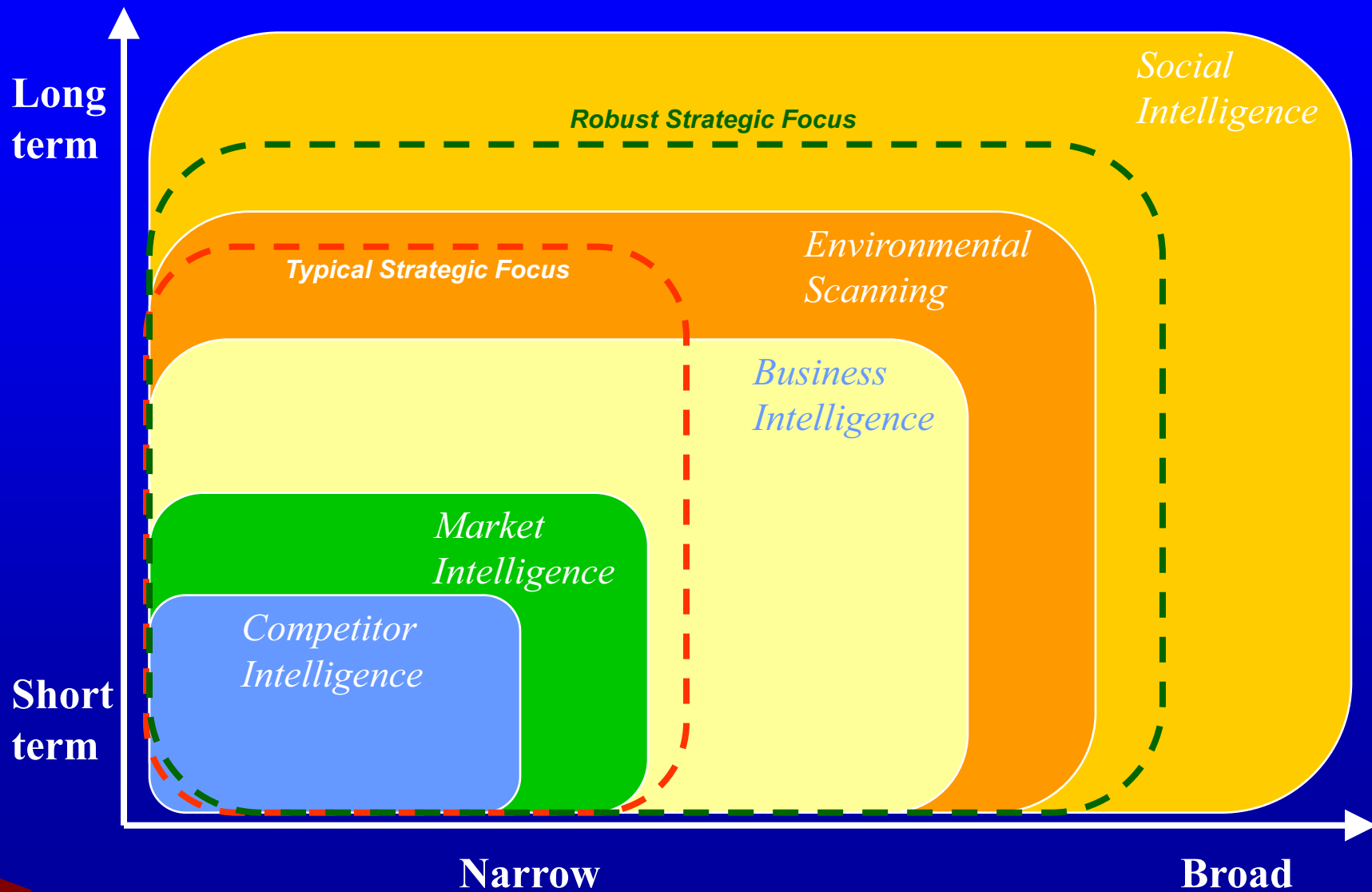


PV Breakout Exercise

- Identify an example of having been badly blindsided and discuss why this happened.
- Identify one example of a major threat or opportunity that was spotted early by the organization and how this all happened.
- Based on the above, how can the organization improve its curiosity and vigilance generally.



Scanning More Broadly



Asking the Right Questions

- **Learning from the past**

- What have been our past blind spots? What is happening there now?
- Is there an instructive analogy from another industry?
- Who in your industry is skilled at picking up weak signals and acting on them ahead of competition?

- **Examining the present**

- What important signals are you “rationalizing away”?
- What are your mavericks and authors saying?
- What are peripheral customers and competitors really thinking?

- **Envisioning new futures**

- What future surprises could hurt or help us?
- What emerging technologies could change the game?
- Is there an unthinkable scenario?

