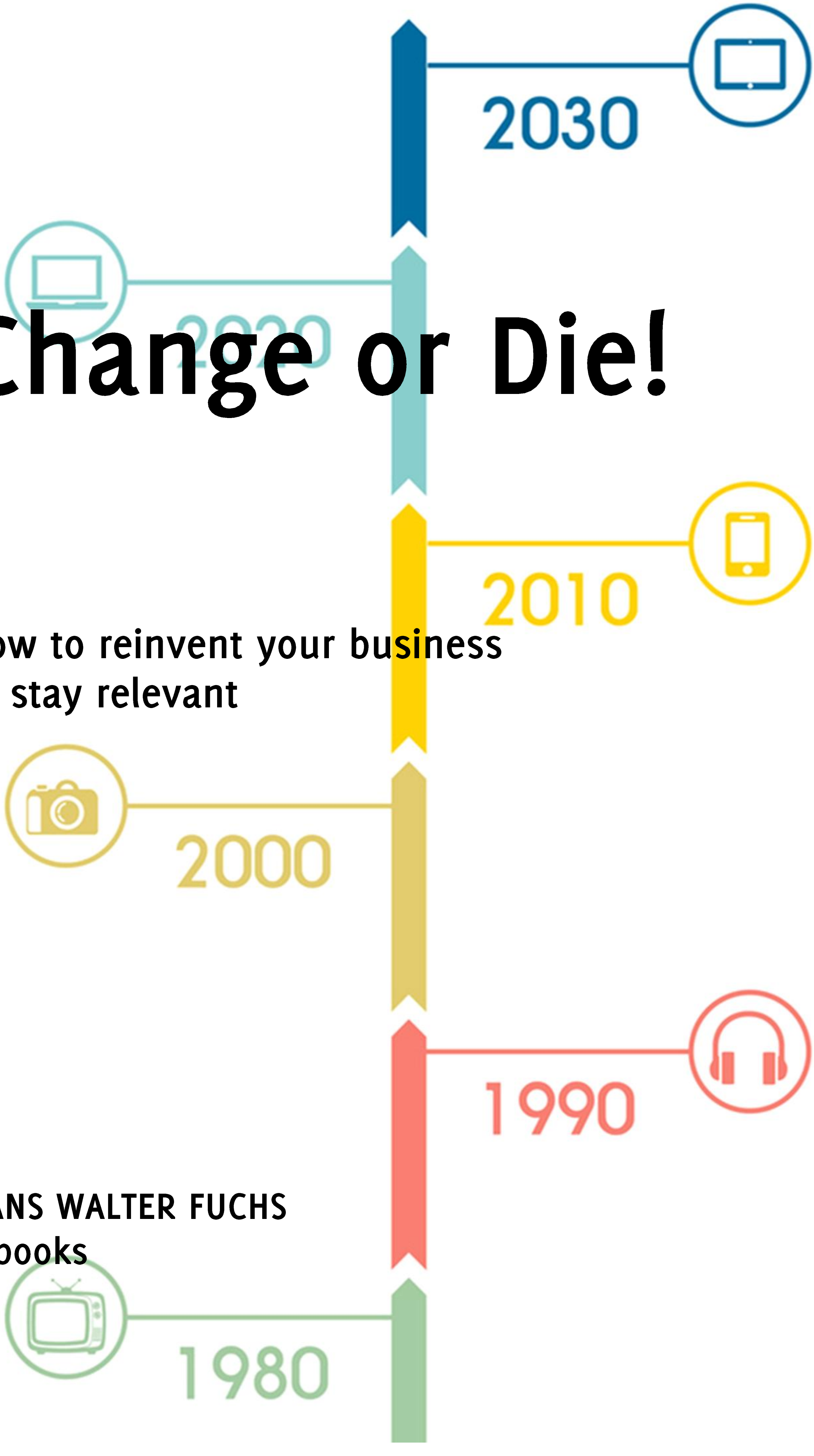
Change or Die!

How to reinvent your business
to stay relevant



HANS WALTER FUCHS
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Contents

1. Why Dinosaurs became extinct and Mammals have survived

65 million years ago, dinosaurs became extinct after living on earth for 175 years. What had happened? There are different theories trying to explain the reasons for this catastrophe. One of them is that the cold-blooded animals were unable to adapt to a rapid climate change caused by volcano eruptions and the impact of a meteorite. Mammals, however, at that point in time still insignificant, survived and began their success story.

Many companies´ fate is quite similar to that of the dinosaurs: After a long period of market success, they disappear. Here are some facts related to that:

- Only two thirds of the companies mentioned in the ´Fortune 500´ list in 1970 still figured there in 1993. One third disappeared from the list within 20 years.

- Only 57 of the companies that were part of the ´Standard & Poors 500´ in 1957 are still on the list today. Almost 90% have failed to maintain their position.

- The average age of Western European companies is 12.3 years!

(Source: Burkhard Schwenker, Mario Müller-Dofel: Gute Führung, Bruno Media Verlag 2012)

2. Why Nokia, Research in Motion und Eastman Kodak failed

Examples of once highly successful market leaders show how companies can spectacularly fail: At its height in 2000, Nokia´s worth exceeded 300 billion Euro, in 2011 the value was 93% lower! How could this happen? Nokia can proudly look back to a success story during which the company reinvented itself several times: Founded as a paper mill in 1865, Nokia started producing rubber boots and tires in 1898. In 1912, the company entered the electronics and cable business. In 1987 Nokia produced the first mobile phone. Its weight was 800 grams and the price was about 3.400 Euro. In 1998, Nokia was the world market leader in the mobile phone business. In 2009, the company recorded its first loss in 10 years and announced to cut 1,700 jobs, worldwide. In 2011, the new CEO, former Microsoft manager Steven Elop, warned in a dramatic call that Nokia was on a ´burning platform´ and he announced a strategic partnership with Microsoft. Finally, in 2013, Nokia sold its mobile phone business to Microsoft.

This failure is all the more astonishing given the fact that Nokia already had a touch screen before Apple conquered the market with its i-phone. And Nokia also offered apps before Apple turned them into a billion dollar business. However, Nokia was unable to successfully launch a smart phone in the market. The company failed to understand that it was the mobile phones´ software, not the hardware, that was becoming increasingly important. This gap was filled by Apple, which is the benchmark leader in this business today.

Smartphone pioneer Research in Motion (Blackberry) relied too long on its leading market position, which was based on targeting managers and other professionals. The company recognized too late that Apple and Google had conquered the mass market and, finally, the professional segment as well.

Eastman Kodak was forced to file for bankruptcy in 2013. Within a few years, digital cameras successfully replaced films and traditional cameras, once the domain of Kodak. Interestingly, Kodak had already developed the first digital camera in 1975 and some of its engineers saw the potential of the technology. However, Kodak´s management continued to place its bets on analog cameras which promised stable and high returns – until it was too late…

3. How IBM successfully managed its Turnaround

The example of IBM shows that big companies can also successfully manage a turnaround and reinvent themselves in the process. In 1993, the company recorded a loss of 8 billion dollars after decades of success. To lead the company out of the crisis, Lou Gerstner was hired, a successful manager with no IT background who had won his spurs at credit card company American Express. Gerstner first hesitated to take the job as he didn´t have the required industry know-how. However, it was exactly this fact which strongly contributed to his success as his decisions were far less driven by technology than by the market.

In 1993, IBM still generated more than 90% of its business selling mainframe computers, but sales figures were continuously declining. To counter this trend, Gerstner repositioned the company as a systems integrator and put the focus on consulting and services. He sold unprofitable businesses and re-established a tight control of foreign subsidiaries.

In his book ´Who says elephants can´t dance´, Gerstner describes that his biggest challenge was changing the organization´s culture. “Culture isn’t just one aspect of the game,” Gerstner writes, “It is the game“.

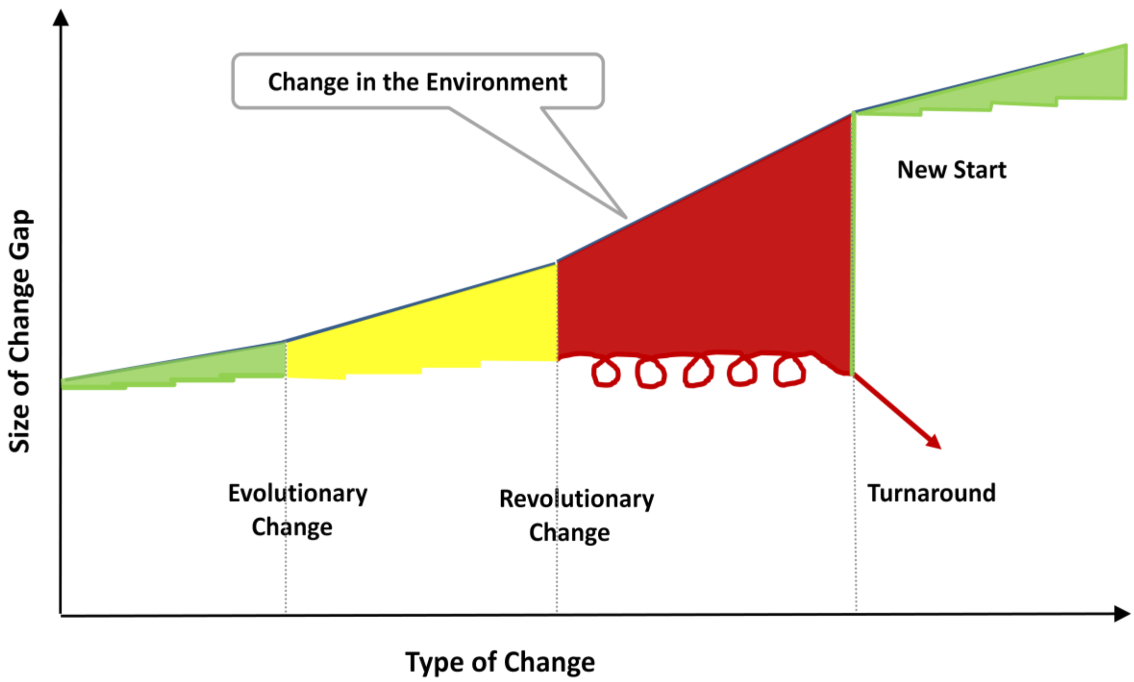
Gerstner broke down the company´s encrusted structures, reduced the power of high-handed regional leaders and introduced new, performance-driven compensation structures. He made sure that market requirements were no longer ignored in new product development and he stopped individual departments working in isolation or even against each other. In 2002 Gerstner handed over his office to Samuel J. Palmisano. IBM has since been transformed into a provider of services and software: In 2012, the biggest part of its operating profit was generated by selling services (41%) and software (45%). The sale of hardware and related financial services only contributed 14% to the operating profit.

IBM´s success story shows that companies that adapt to changing market conditions survive and thrive. Those which don´t change will eventually become extinct. This applies to the corporate world as well as to the world of animals. Charles Darwin described this principle as follows: ´It is not the strongest of the species that survives nor the most intelligent. It is the one that is the most adaptable to change.´

4. The Change Gap

Why is it so difficult for organizations to change? In a nutshell: Success is the natural enemy of change. In his famous book ´The Innovator's Dilemma´ Harvard Professor Clayton Christensen describes the phenomenon that many business leaders defend once successful products and business models until the end rather than face up to new and difficult challenges. Management practice shows that business transformation becomes more difficult as the gap between external and internal change widens (comp. fig 1). Jack Welsh, former CEO of General Electric, once said in this context: ´If the rate of change on the outside exceeds the rate of change on the inside, the end is near.´

Fig. 1: The Change Gap



The biggest challenge for business leaders is to identify the need for change in the first place and then to recognize that they have to act!

Thought leader Charles Handy compared a company that is resistant to change with the situation of a frog thrown into a pot of lukewarm water. The frog feels good and doesn´t recognize that the water is gradually getting hotter and hotter. He doesn´t react - until it is too late…

However, there are also positive examples in the animal world from which companies can learn how to survive. The most astonishing animal here is the chameleon. I has lived on earth for 26 million years and possesses skills that are also interesting for companies. E.g. it can produce two separate pictures with its highly-developed eyes and focus on distant and near-by objects simultaneously. Companies should also focus on the short-term – the next 12 - 18 months – to quickly react to turbulence. At the same time, they should look into the distance – the next 10 years - to see where their industry is heading as a whole.

Companies that fail typically display the following behaviours:

- Early warning signals concerning market and technological changes go unnoticed or they are ignored.

- Regulatory and political influences that have an impact on the company´s future development are consistently underestimated.

- Changes relating to markets and customers are not sufficiently analyzed and discussed in detail.

- The company clings too long to outdated routines that worked in the past.

- There is a lack of courage to contradict prevailing opinions.

- In projects involving substantial change, there is too much hesitation. There is a lot of actionism and ´showmanship´, but no concrete measures.

- There is a lack of a clear and convincingly communicated vision and strategy.

(Source: Burkhard Schwenker, Mario Müller-Dofel: Gute Führung, Bruno Media Verlag 2012)

5. Scanning the Environment systematically

How can these mistakes be avoided? Every organization should have a radar to detect weak signals in the environment at an early stage. Decision makers should look through a telescope and a magnifying glass simultaneously: With the telescope, they can spot trends early. The magnifying glass helps them to identify changing customer needs and reveals where the market as a whole is going. When analyzing the competition, it is important not only to look at competitors in the same industry, but to include adjacent industries as well: The paradigm shift from the traditional mobile phone to the smart phone originated in the computer industry (Apple), it was not triggered by a player in the mobile phone industry!

6. Black Swans

When analyzing their environment, organizations should be increasingly alert to more or less unforeseeable events that include both opportunities and risks! ´Black swans´ are a metaphor for such phenomena. They are occurrences considered improbable, but that can nevertheless happen. These include political upheavals or crises like, e.g., the global economic crisis in 2008/9. To react quickly, companies need a culture that promotes openness, unconventional thinking and unsolicited, critical questioning. As a result, ´weak signals´ will enter the strategic agenda more quickly and unpleasant truths will not be swept under the carpet. Measures to reduce risk include diversification, a high equity ratio, innovation and flexibility based on redundant resources. However, the flip side is that higher flexibility usually also involves higher costs.

Using scenario technique, the possible impact of unexpected events can be simulated and appropriate counter measures can be taken in advance. In this context, e.g., the following ´what if questions´ should be asked: How would we react to a low price competitor from an emerging market country? Are there alternative product concepts/technologies that could make our products obsolete? What would happen if our biggest customer went out of business tomorrow? However, decision makers should be aware that it is impossible to anticipate every potential occurrence and that there is always a residual risk!

7. Driving Change through Innovation

Successful companies react to changes in the environment early. At the same time, they actively drive the change themselves – they not only react, but they act as well! 3M, one of the world´s most innovative companies, has developed a culture that promotes and rewards the innovativeness of every single employee: Every employee is free to invest 15% of his/her time to find new product ideas. In the same vein, Software giant SAP founded a venture capital company to be early involved in revolutionary Industry trends through cooperation and partnerships with small, innovative companies.

Another example is the German Post, which runs the online portal ´Allyouneed.com´ as a ´test laboratory´ to find out how selling food via the Internet works best and how it can support its transportation customers in that area.

8. Managing Change successfully

How change is best managed in a specific situation depends on whether an evolutionary or a revolutionary transformation is required. The longer a company waits, the more revolutionary the change has to be if it wants to stay in the market: IBM could only be saved through a turnaround - a radical, revolutionary transformation.

Organizations that react early can successfully manage the change by following an 8-step process (comp. Table 1). In the following, we will show how this process can be applied in practice based on the example of global silicon producer Dow Corning.

Table 1: Steps in the Change Process

1	Recognize the Need for Change
2	Create Urgency for the Change
3	Define and convincingly communicate your Goals
4	Build the Change Team; allow Trial and Error
5	Adapt Structures and Processes
6	Get People´s Commitment; overcome Obstacles
7	Make short-term Success possible
8	Consolidate and expand your Results

9. Step one: Recognize the Need for Change

At the end of the 1990´s, Dow Corning was confronted with dramatic market changes: Many customers started buying from low-price suppliers as products were considered increasingly interchangeable. It became more and more difficult for the company to articulate a competitive advantage and to charge premium prices. Traditionally, Dow Corning was positioned as a supplier of high-price, service-intensive solutions and it considered itself immune to low-price competitors. However, reality was different: In 2001, the company saw an increasing loss of customers, which led to a significant drop in turnover and profits.

How should Dow Corning react to that challenge? At first, the company focused on cutting costs and personnel. But management quickly recognized that this did not lead to a fundamental change of the situation. If the company wanted to continue successfully competing in the market, a new, innovative strategy was needed.

The foundation of strategy is the definition of specific target groups, in other words, market segmentation: Based on the results of a customer and sales rep survey, Dow developed a new segmentation approach based on customer needs. The company differentiated among ´New Product Customers´, ´Technical Buyers´, ´Technical Economic Buyers´ and ´Economic Buyers´ (comp. table 2). In the future, the Economic Buyers segment was to be offered cost-effective products without any service.

Table 2: Dow Corning´s new Customer Segmentation

Segment	Customer Needs
New Product Customers	Close cooperation to develop new products
Technical Buyers	Cooperation to improve the performance of silicon in finished products
Technical Economic Buyers	Reduction of production costs
Economic Buyers	Lowest possible price, no service

10. Step two: Create Urgency for the Change

Dow´s leaders recognized that a quick reaction to the changing market was required: If the company didn´t react, it would sooner or later lose its leading position. To avoid this, management decided to develop, with high priority, an attractive low-price offer to serve the Economic Buyers segment and to confront the competition.

11. Step three: Define and convincingly communicate your Goals

Lou Gerstner said in his book that a vision was the last thing that IBM needed in its situation. Rather, what was important was implementing measures that had an immediate effect to save the company from bankruptcy. At Dow Corning, the situation was different: The company was still in a comfortable situation and, in January 2002, its leaders communicated the ambitious goal (the vision), that, within 6 months, in January 2002, a new product range was to be launched at a price 10 – 15% lower than current products. Profitability was to be reached within one year after the launch.

12. Step four: Build the Change Team; allow Trial and Error

The company established a change team and made a budget available. The team was organized as a skunk works: Team members were supposed to show a high level of personal initiative, motivation and creativity. Management encouraged them to leave traditional paths and to develop new ideas. Trial and error was explicitely allowed. The team developed several scenarios and reached the conclusion that it was not sufficient only to eliminate the service and consulting components of the existing offer to achieve the targeted 10 - 15% price reduction. A significant cost decrease would only be possible if processes were automated to a large extent. This could be achieved by leveraging the Internet. Consequently, the company used this technology to develop a web-based platform as the key element of a highly-automated, cost-effective order management system.

To try out the new concept, a ´War Game´ - a test phase – was set up: Dow wanted to find out how the market would react and to what extent the new strategy could be implemented within the existing organization. The result was devastating: Dow Corning´s culture was traditionally focused on the personal sale of high-price solutions with strong consulting support. Against that background, a low-price strategy involving an automated order management system was impossible to implement!

13. Step five: Adapt Structures and Processes

To get out of this dilemma, management came up with the radical idea to establish a separate, new business under the XIAMETER® brand beside the existing Dow Corning business. The low-price product range of the new business had to be clearly differentiated from the traditional business to avoid cannibalization. Figure 2 shows the different offerings sold under the two brands.

Figure 2: Dow Corning and XIAMETER® Offerings

DOW CORNING	XIAMETER® from DOW CORNING
With our *Dow Corning*® brand, we're more focused than ever on unleashing our innovative spirit to offer custom, silicon-based materials and solutions.	The XIAMETER® brand provides you with the most direct and efficient way to purchase standard silicones.

Source: Dow Corning Website

14. Step six: Get people´s Commitment, overcome Obstacles

In 2002, XIAMETER® was simultaneously launched in 50 countries. Thanks to top management´s strong commitment, the company could successfully overcome the reservations and obstacles that were expected - particularly in Marketing and Sales. The field sales force, traditionally focused on value-based selling, could be won over for the new strategy: Salespeople had to be able to clearly explain to their customers that they now also had the possibility to purchase lower price products without any service and consulting via a web-based platform.

In his book ´Good to Great´, American management guru Jim Collins recommends to ´get the right people in the right seat.´ That´s exactly what Dow did: To get the right people for XIAMETER®, the company didn´t want to give up existing know-how. On the other hand, it wanted to recruit people that were not stuck with the organization´s traditional culture. Dow was looking for flexible, entrepreneurial and risk-taking people. To test potential candidates´ suitability, they had to spontaneously decide whether they wanted the job during the interview.

15. Step seven: Make short-term Success possible

Resistance and scepticism can best be overcome when success is achieved in the short-term. It proves that new things really work! At Dow, there was a strict schedule to produce measurable results. The objective to become profitable within 1 year after the XIAMETER® launch was achieved after three months already!

16. Step eight: Consolidate and expand your Results

In 2009, the XIAMETER® business was expanded further. Today, the company offers a wider product range, more self-service, extended options for order quantities and a more transparent pricing system. In 2013, XIAMETER® had a 40% share of Dow´s total turnover. Future plans include integrating social networks and mobile devices.

17. Summary

Organizations that don´t change will eventually die! Like animals, companies have to adapt to a continuously changing environment. Otherwise, they run the risk of being left behind. The biggest obstacles to change are the success of the past and an internally focused culture. Companies should permanently scan their environment to react early to relevant trends. Simultaneously, they should proactively drive the change through innovation themselves. Change management is a leadership task and successful change projects include the following 8 steps: Recognize the need for change; create urgency for the change; define and convincingly communicate your goals; build a change team and allow trial and error; adapt structures and processes; get people´s commitment and overcome obstacles; make short-term success possible; consolidate and expand your results.

The Author

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Hans Walter Fuchs, MBA, is a Strategy Expert and Lecturer at the Hochschule für Oekonomie und Management, Frankfurt/Main (FOM). He holds a Master´s Degree in Applied Linguistics from the University of Heidelberg and a Master of Business Administration (MBA) from the Henley Business School, UK.

As Head of Marketing Services at Beneo, a division of Südzucker AG, Mannheim, Hans Walter was responsible for the international marketing of sweeteners to the confectionery industry. As a Product Manager for specialty chemicals at Bärlocher GmbH, Munich, Hans Walter managed a profit centre for specialty chemicals. As a Key Account Manager at Lahnau Akustik GmbH, Lahnau, he was in charge of European key accounts and coordinated a strategic alliance with the US partner.

In 2002 he founded his company, Hans Walter Fuchs International Consulting, which helps organizations to develop and implement international success strategies at the Business Level as well as in Marketing and Sales. The goal is profitable growth and superior business performance in the competitive arena.

Hans Walter is trilingual and offers his services in the same consistent high quality in English, German and French. His practical experience as an international manager enables him to quickly understand his clients´ situation and to develop pragmatic solutions. He has a passion for unconventional "out-of-the box thinking" and challenges his clients to develop and implement innovative approaches to lead their organization into the future.

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