Learning to Love Discontinuity

Your biggest threat could be the greatest Opportunity you will ever see

Many people in business worry about discontinuity, but it spells opportunity to even more people than to those to whom it spells doom. As Wayne Gretzky said, “I skate to where the puck is going to be, not where it is.” When BankAmericard rebranded to Visa, in the mid 70s, Citibank took advantage of the apparent confusion (it was a modest BankAmericard issuer, having historically been mainly a Mastercard issuer) to become the largest credit card issuer in the world, a position it held for many years. When millions of BankAmericard customers were sent letters explaining that their new “Visa” card would soon arrive in the mail, and to destroy their old “BankAmericard,” Citi seized the opportunity. Citibank sent out millions of Visa cards to its competitors’ customers, most of whom simply got rid of their old cards and started using the Citibank Visa. When the card from their own bank arrived a few weeks later, most consumers either assumed that it was redundant or that it was from a competitor, and tossed it. Thus Citibank took advantage of the confusion caused by change. It was only overhauled many years later as a card issuer by competitors who used acquisition to grow. Yet, for many companies, discontinuity is akin to falling off a cliff. Sony failed to adapt the Walkman to new technology until the iPod dominated the market for MP3 players. Discontinuity can come in many forms. For Fidelity, it was financial deregulation. For Dell, it was changing distribution channels, though the company has been slow to move with the next phase of change. In the face of technological change, Microsoft used Internet Explorer to leapfrog its competitors. So, while for a few companies, change and discontinuity are enormous opportunities, for others, more numerous, they spell out potential doom. Are there differences in how the companies behave which lead to these results? We have seen that the answer is very much “yes.”

Some of the key characteristics which distinguish companies which thrive from discontinuity are:

- ✓ Seek to not only embrace and welcome change, but drive it. The principle is that the more the rules (regulations, technology, or market situations) change, the more the most adaptable companies will change.
- ✓ Strong customer/consumer focus, not only as a reaction to change, but in “getting ahead” of them by understanding their needs at a deep level so that the company can meet them before the customers consciously acknowledge having them.

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While most companies carry out market research, it frequently does not meet the needs of discontinuity planning.

- ✓ An internal culture and capability to take advantage of change, whether it is through technology, regulatory or channels of distributions.
- ✓ Really understanding the existing business model. In most companies much is assumed, and an external perspective from someone who is not afraid to ask the "dumb questions," can strongly benefit even those within the company who challenge the existing order.
- ✓ Encourage people to "stray from their own lanes." While uncomfortable for many, companies where roles are indistinct tend to be more adaptable, even if they are sometimes less efficient.
- ✓ Encourage and reward curiosity. The desire to understand and to explore new ways to do things is essential if a company is to profit from change.
- ✓ An assumption that everything a company does can be changed, and much of it should be. "Received wisdom" is dangerous. Doing anything because "that's the way we have always done it," or even, "we developed the perfect process a couple of years ago," is an enormous barrier to improvement.

This is much harder to do consistently. Many of the companies which are held up as shining examples of managing through discontinuity have done it once, but fail to do it a second time. While Microsoft adapted rapidly to the growth of the Internet with the introduction of Internet Explorer, which met and beat back the threat from Netscape, it has been slow to meet more recent challenges, from search engines to smart phones. Dell created a system to keep down costs and provide a more up to date system by requiring all customers to custom order, but as laptops have gained share from desktop systems, consumers are more likely t buy from a retailer where they can see and try out the machines. Enron was a master at dealing with the discontinuity of energy deregulation, but lost sight of core values and went much too far in trying to manipulate change. Apple, which contributed to the creation of the future in 1984, lost its way, but found it again, and for the past twelve years has continued to innovate and create discontinuity to its own advantage. As Alan Kay said, "the best way to predict the future is to create it."

While corporate culture is critical, and very hard to change, understanding the consumer/ customer is as hard. Most companies carry out traditional market research, which tends to reinforce existing business models, even as it fine-tunes them because the questions asked are in context. Even most qualitative research makes assumptions going in. The key is to carry out exploration of consumer and customer attitudes, which is completely independent of framework. A major health insurance company recently carried out such work, and discovered that it was operating under mistaken assumptions. It had previously identified 7 key issues in reform. It discovered that in total, those 7 issues represented only 20% of the issues in the marketplace, and only 5 of them were in the top 20! So, it had been developing plans that were based on false assumptions. This was largely because the executives were using “received wisdom,” where they had so much experience in the industry that they relied on the stuff which “everybody knows.” It is critical to question all assumptions, yet few do.

One of the classic examples of how observation of the customer and an open mind changed the world in which we live was the invention of the shopping cart, a device that we now take for granted. In 1934, the middle of the depression, Sylvan Goldman acquired several Humpty Dumpty stores. It seemed like a poor idea as the stores continued to lose money. He spent long hours watching shoppers and noticed that as soon as their shopping baskets got heavy, they headed to the checkout. So he invented the shopping cart, by attaching two baskets to a wheeled undercarriage. However, shoppers would not use them. He persevered by hiring decoy shoppers to wheel the carts through the store, giving a visual demonstration of how they could be used, and hired greeters to stand by the door and hand shoppers a cart. The cart took off and became part of everyday life. Upon his death in 1984, Goldman left an estate of $400 Million.

So much else which seems obvious in retrospect was not at all obvious before it was invented. The Credit card was not obvious. Even Diner’s Club, launched in 1950, required payment in full when the customer received the bill. Dee Hock who launched the revolving credit charge card, BankAmericard, now Visa, believes in what he calls “chaordic leadership.” One of the principles that has worked for Visa he formulated as "given the right circumstances from no more than dreams, determination, and the liberty to try, quite ordinary people consistently do extraordinary things." He asserts that the main role of the primary leaders is to release the chaos of talent, drive, values, and passion that every person has inside and creates the conditions by which both individual and organization can evolve and succeed. This is totally antithetical to the ethos of many companies. When he considers that management as it is taught now consists of methods for “reducing all diversity and complexity to uniform, controlled processes endlessly repeated with ever increasing efficiency - that is how to make subordinate people behave as cogs and wheels in a mechanistic, predictable, mathematically measurable manner.” He also supported the idea that our knowledge may be a hindrance as much as a help. “Every mind is a room packed with archaic furniture.”

Barbed wire shaped America. Until its invention in 1868, there was no practical way to raise livestock in the West. Lumber was in short supply, as were rocks and stones – never mind the labor required to build fences and walls to cover huge distances. But when Michael Kelly invented barbed wire, it allowed ranches to be created in the West, which in turn allowed the West to be populated with cities, and alongside the railroad, for Eastern cities to grow enormously. Yet, for lack of this now apparently simple, obvious idea for many years the growth of many countries had been as limited as it would have been had the wheel not been invented. How did someone think of the can opener, or the corkscrew – long stories in themselves.

The same applies to service businesses. Most people assume that the business model they grew up with is the only way to do something, but it rarely is. When radio first started, the equipment manufacturers produced and broadcast the first programs to provide consumers with a reason to buy. While in the US, this was supplanted by an advertiser supported model, it was actually, globally, a minority model. In most countries, a subscription based model was adopted. In the US, magazine subscriptions are offered at a discount to cover price, whereas in other countries, a premium price is charged.

One of the simplest ways to find new processes and products is to look outside the industry or country. The "transfer of success" is a technique which has often, though not always, been very successful. When the energy industry was deregulated in the late 1990s, US energy companies spent a lot of time looking at how other countries dealt with deregulation. While the processes were often different, that look resulted in some very successful new business models. In financial services, the ATM was first adopted by Barclay's bank in the UK, but adopted soon after by US banks. In healthcare, there are companies which make money in each country, but they may have to adopt a very different business model in countries where the system is different. How can an insurance company make money in a system where it has to provide basic health insurance on a non-profit basis? Well, in a regulated US industry, where profits are regulated, how can they grow profits while revenues remain steady? They certainly do – by understanding how to adapt to the system.

A very few people can look at the world they live in with eyes that see clearly how it can be changed and improved. This is the opposite of pessimism, but a sort of active optimism, wherein they know that for good things to happen they have to make the changes. So, a Steve Jobs, or a Dee Hock can make changes which build businesses. However, anyone can do the same if they really have an open mind and are prepared to look outside the normal "industry experts" as well.

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