Chapter 1.
Extinction is Forever

There is a tide in the affairs of men, which, taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries. On such a full sea are we now afloat, and we must take the current when it serves, or lose our ventures.

Marc Antony, "Julius Caesar"

The Treacherous Business Environment

Bill Marriott, Sr., founder of the Marriott Corporation and chairman of that enterprise for many years, often said "Success is never final." He believed that staying at the top of the competitive heap was even harder than getting there. Dr. Peter Drucker also commented dryly in an interview, "Whom the gods would destroy, they first grant forty years of business success." He believed that sooner or later, time will turn your most precious assets into liabilities, and that the most powerful competitive advantage may eventually be neutralized by the shifting structure of the business environment. Intel's chairman Andy Grove agreed, with his now-famous remark, "Only the paranoid survive."

When we study the changing fortunes of companies over periods of twenty years or more, we are forced to the conclusion that there is no final answer, no permanent solution to the problem of long-term survival and growth. Management skill can make a big difference, but there are times when the tide just turns against you. Success in business is becoming more and more a matter of "riding the waves," i.e. anticipating and capitalizing on the fundamental changes in the business environment that can turn winners into losers and create new winners.

You don't have to look far for illustrations of trends and events in the business environment that can radically change the success formula for various lines of business. Horizon Health Corporation, for example, a leading provider of mental

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health and rehab services under out-source contracts to hospitals, lost its footing when the US federal government abruptly changed its policies for reimbursement of the firm's client hospitals for such services. Many hospital executives decided it was unfeasible to continue offering the services, and began canceling or not renewing their contracts. Through no fault of its own, the company found itself with radically declining revenues, crushed profit margins, and a share price chopped to one third of its peak.

In the vaunted high-tech sector, Applied Magnetics Corporation, one of the leading makers of read-write heads for computer hard drives, got caught in a timing squeeze as the technology for making the products shifted. The company's leading position in inductive thin-film magnetic technology suddenly lost its value as magnetoresistive technology became the preferred concept within a matter of months. The firm's revenues dropped by over half and it had to embark on a year-long crash program of heavy investment and retooling to refocus its products. Shareholders saw the market price of their certificates drop from 27 dollars per share to less than four.

Even more ironically, Hayes Corporation, the company that pioneered the electronic modem used by personal computers to send data over telephone lines, ran into trouble keeping its product line current. Other firms copied its products, improved upon them, and left it behind. It filed for bankruptcy protection and recently closed its doors with $40 million in debts, at a time when modem sales were setting new records.

All of Japan's biggest banks went into financial crisis at about the same time, when it became evident that their five-year lending binge had created an unprecedented number of ill-advised and unrecoverable loans. The domino effect of the banking crisis caused a credit shortage which crippled other capital-dependent firms such as exporters and others seeking to grow their operations. The result was a near melt-down of the Japanese economy, resulting in the worst recession in 50 years.

Indonesia suffered a similar banking crisis, for similar reasons, although the impact was far worse due to the colossal waste and mismanagement of capital by the members of president Suharto's extended family and others who were part of that country's "crony capitalism" structure.

Boeing Aircraft Corporation, America's largest single exporter, found itself in the rare position of posting record losses on record orders from its customers. A combination of factors created the dilemma: deep discounts given to acquire the biggest orders, high operating expenses inflicted by an antiquated production system desperately in need of re-engineering, declining demand from the Asian markets, and cutbacks in orders from previously secure customers. The company had to resort to massive layoffs and production cutbacks, as well as revamping its production systems. Of course, many of the firms supplying parts and materials to the company felt the domino effect, including Northrop Grumman, with 12 percent of its revenues coming from Boeing.

Callaway Golf Company, the leading maker of high-performance and prestige golf equipment, saw its impressive sales growth flame out under the double-barreled effects of declining demand from the Asian markets and price cuts by its ever-more aggressive competitors. Falling demand, overcapacity, and price wars are a sure-fire recipe for the destruction of profit. The firm's earnings dropped to zero, and its share price fell to one-third of its peak.

Motorola Corporation, once the darling of Wall Street, became a pariah when its delay in switching to the new digital technology for its cellular phones cost it a major chunk of market share.

Smith-Corona Corporation held the dominant position in the market for typewriters for decades. The company filed for bankruptcy in 1995, leaving many industry observers to wonder why it didn't transform its business to adapt to the personal computer age. After all, they reasoned, why shouldn't the leader in typewriters be the natural candidate for leader in the printer market?

These and countless other examples dramatize the need to be ever more watchful for events, trends, and forces in your business environment that can threaten your existence. It is no longer enough to relegate the strategic review of the environment to the annual executive planning retreat or the annual management conference. It is no exaggeration to say that executives must scan the business horizon every single day for telltale signs of significant change.

Managing the Blind Side

While we're tuning up our sensitivity to events and trends in the business environment, let's not overlook the obvious threats. It's not always a devious competitor or a capricious customer that can cause you harm. There are plenty of mundane ways a firm can lose money, lots of it, that don't seem, at first thought, like part of the big picture of grand strategy.

While a company is fighting its competitors with finely tuned maneuvers to gain an extra sliver of market share, a significant labor strike could inflict far greater damage on its profits than the amount the share war might capture. A major strike by the United Auto Workers against General Motors in 1998 cost the company over *one billion dollars in profit*. Are your union and its political parents part of your business environment? The question answers itself.

What about a major product disaster that creates enormous liability costs? Should such an event be considered in a review of the hypothetical legal environment? Certainly. Consider that Foodmaker Incorporated, operator of over 1000 Jack-in-the-Box hamburger restaurants, incurred costs of over $40 million in 1993 caused by an episode of food poisoning involving beef tainted with *E. coli* bacteria. Several customers died and others became seriously ill. Even though the episodes were limited and local, the firm's brand image took a major blow. Lawsuits by customers, as well as franchisees who claimed their investments were devalued, distracted company management for over a year.

Corporate security expert Steven Albrecht refers to these types of episodes as “blind side” events. A major lawsuit for sexual harassment or racial discrimination can take a significant nick out of the bottom line. Episodes of employee violence, if not properly managed, can trigger major legal liabilities. Even the kidnapping or death of a key executive by foreign criminals has to be part of the list of possibilities.

Albrecht points out that “A company’s executive team can be concentrating so closely on the customers, competitors, economic trends, and technological issues, that they overlook the potentially lethal threats right under their noses. Dealing with all strategic contingencies has to include managing the ‘blind side’ as well as the frontal threat.”

In his book: *Crisis Management for Corporate Self-Defense*, Albrecht says:

> ***“No matter what product or service you sell, no matter what your industry, market, or type of organization, you may face a serious corporate emergency at some point in the near future. If nothing significant has happened to you or your firm to date, consider yourself lucky. But just because you don’t hear examples of modern-day disasters doesn’t mean they aren’t going on around you”.[1]***

This is not to say that the executive team should be frightened into immobility by the unlimited number of possible threats that could arise in the environment. But a thorough scan of the business environment must include these kinds of possibilities in addition to the more commonplace issues.

Would You Invest in Your Company?

One way to think about the future of your business, in terms of its opportunities and problems, is to stand back and look at it dispassionately as if you were a potential buyer of the business or an investor. How would you decide whether this firm will be a good investment over the next five years? What are the key factors that will drive its growth and profitability?

In the language of strategic planning, this process of searching the business environment is known as the “environmental scan,” and it’s the first key step in formulating, revising, or verifying the overall competitive strategy. Scanning the business environment has become an essential habit for senior executives and thinking managers at all levels. Of course, it is necessary to transform the discoveries that come from the environmental scan into policies and actions; there is little point in knowing you’re heading for an iceberg if you don’t know how to steer around it.

Certainly, you’ll want to consider the “internals,” i.e. the talent and knowledge of the senior management team and the various assets of the firm. A strong CEO and a well-qualified team of executives can never hurt. But in some cases, management quality may be far overshadowed by the "externals," such as a steadily declining demand for the product or service, a takeover of the market by a few deep-pocket competitors, or a technological change that undermines the added-value proposition of the firm's offering. Conversely, sometimes a firm rides to glory on an environmental wave, regardless of — or in spite of — the capabilities of the leadership team.

Management skill may be important, but it is often not decisive in predicting the success of the firm when all key driving factors are considered. The celebrated mutual-fund investment guru Peter Lynch likes to say "I want to invest in a company that can be run by any fool, because sooner or later it will be."

This is not to disparage the management team of any enterprise, but merely to point out that executives need to consider the environmental forces over which they have little or no control, and prepare the firm to adapt to them in any way possible.

Of course, we have to understand the primary business parameters: What's happening to the total market demand for our value package? What is the structure of the competition? Which competitors are favored by the structure of the industry, brand power, capital strength, and access to the customer? What are the unique strategic issues for a firm of our particular size, capabilities, and style of operating? Most executive teams are very familiar with these basic truths of their business, and it isn't necessary for this book to dwell on the things everybody knows.

The trick, however, in scanning the business environment is to reach beyond the standard business parameters and explore the variables and relationships that present real threats or opportunities. These may always not be obvious, even to the experts who manage the firm on a day-to-day basis. Making your firm a good investment means aligning its strengths with the possibilities presented by the business environment that is unique to your particular enterprise. And that requires an intimate understanding of those possibilities.

Most executive teams could benefit by devoting more time and attention to the environmental scan, and especially to discussing the implications of the findings. Not all executives are equally up to date on what's happening in the business environment. Most are probably aware of the primary issues and events that affect their business, or at least their particular part of the business. But it is not at all uncommon for a whole team to lack a coherent concept of the environment.

As the overall business environment becomes ever more fluid and complex, it becomes more critical that every member of the management team, including middle managers, have a firm grasp of the basic dynamics of at least that sector of it that affects the firm itself. It is equally important that the leaders keep up a running dialogue on the meaning of the significant events and trends, and that they build some kind of consensus as a basis for setting or refining the direction and strategy of the business. While the techniques for setting and implementing the business strategy are outside the scope of this book, we should keep in mind that the whole purpose of the environmental scan is to make that process more intelligent and more effective.

Tuning up Your Corporate Radar

To offer a useful metaphor: every business enterprise is a bit like a ship plowing through heavy seas, presumably to a well-chosen destination. Its crew must keep it on course when the course is right, and they must know when and how to rethink the course if circumstances change. The key to this consciousness of the correct course is knowing what's out ahead of the ship. This is why the *Titanic* sank, and it's why ships today all have radar systems.

Every ship needs a physical radar, and every corporation needs a figurative radar. Your corporate radar is the disciplined process of investigating, studying, analyzing, and thinking about the various dimensions of your business environment. Your radar must be turned on and scanning full time.

About twenty-five years ago, the vogue in management thinking was long-range planning. Executives were supposed to think in terms of decades, and to draw up growth plans reaching to the end of the century. Japanese firms claimed planning philosophies that extended outward for 100 years or more.

Starting with the "oil shock" of 1972 and beyond, executives saw more and more change and upheaval in the business environment. At the same time, a wave of restructuring in business touched off mergers and de-mergers, acquisitions and spin-offs, partnerships, downsizing, delayering, and outsourcing, which shifted the emphasis in management planning to a very short-term mindset. "Long range" now typically meant "until the end of the year." Many executives began to feel that success depended on being able to react quickly to events, and being willing to make drastic moves to cut costs, move products to market faster, and grow more aggressively. Time-based competition became the concept of choice in a number of industries, particularly the high-tech industries.

Now, however, the imperative for the longer view seems to be returning. It becomes more and more necessary to define and analyze the key events, trends, and forces in the business environment that will dictate the tactics of choice. This is not to say that the need to move quickly and manage resources more aggressively is diminished in any way. But business leaders are going to need a special brand of "bifocal vision," which is the ability to see and react to the immediate threats simultaneously with detecting the mid-term changes that are not so obvious but which will shape the options for the new near term.

Intel Corporation's chairman Andy Grove speaks often of "points of inflection," which are points in the lifespan of a company or industry at which subtle but profound changes begin to make themselves felt. In his book *Only the Paranoid Survive*,[2] he contends that failing to perceive one of these key points of inflection can spell the difference between survival and extinction in some industries. He believes that the key role of the chief executive is to study the environment, learn from it, and help others interpret its messages. One reason he stepped down from his role as chief executive officer of Intel in 1998, aside from his battle with cancer, was to devote more of his time and attention to understanding, as he describes it, “a world with a billion connected computers.”

In this book, I will offer a framework for learning the lessons the business environment has to teach; for getting useful insights into the structure and dynamics of a particular business sector; and for integrating a wide range of discoveries, findings, and conclusions into a unified tapestry. The purpose of this strategic tapestry is to give the leaders of the enterprise a shared concept of their likely future, and a framework for evaluating various strategic alternatives and initiatives in terms of their likely success.

Boundaries and Ground Rules for this Discussion

I seldom devote space in my books to “intellectual preliminaries,” e.g. previewing the subject matter, profiling the reader, or setting out cautions and disclaimers. I prefer to get right to work. However, the task of understanding the business environment is quite vast, and reducing it to manageable proportions requires making key choices about the focus of the discussion, the extent of coverage of various topics, and a consciousness of the wide range of variation in readers, business sectors, and business environments in various countries and regions. In this case, it does seem advisable to set some boundaries and ground rules for the exploration.

The first step in tackling a mission such as that promised in this book is to get our ambitions under control. For example, it would be a futile exercise to try to catalog all the key events, trends, and forces that will shape the future of even one major industry or business sector, to say nothing of trying to do so for many. Such a result might be mind-boggling in its scope, and it’s unlikely than any category would have greater depth of insight than already offered by experts who specialize in that particular industry or sector. So it is immediately clear that this discussion must focus on the thinking process itself, not solely on the content or inputs to the process.

Next, we will have to set some reference point for the level of knowledge expected of the reader in order to use the book properly, as well as the kind of business he or she is engaged in. Although some readers might be quite well-versed in various management topics, others may not. I don’t want to write a book just for experts. While expert readers might find a discussion of population demographics a bit boring, for example, it might not seem at all simplistic to a reader who has less formal training in marketing topics. If I have to choose, I’d prefer to bore the expert rather than baffle the novice.

On the other hand, this cannot be a primer on the basics of business, because we would never get to the techniques to be explored. I will assume, as a reference point for the reader of this book, a person with management responsibilities, ranging anywhere from middle management up through executive management, which includes owners or CEOs of small to medium sized firms. It seems fair to assume that this person has a reasonable grasp of business fundamentals, including at least the simple truths of economics, corporate finance, marketing, and the effects of information technology, but not necessarily an interest in highly analytical methods such as statistics and economic modeling.

We must also recognize that the possible responses to significant factors in the environment will be very different for different kinds of firms. In particular, the problems and possibilities facing the small to medium-sized enterprise are very different from those facing the large firm. It seems only fair to entertain both perspectives to the extent possible, in hopes of discovering lessons of values to both kinds of businesses. The same reasoning applies to firms operating in different countries. What makes sense for a firm operating in a mega-economy such as the US, Japan, or any of the other GATT nations, might not make sense for a firm in one of the "micro-tiger" economies such as Finland, Hong Kong, Israel, Singapore, or Taiwan.

Similarly, the issues presented to a firm in a strong developing economy such as Brazil could manifest themselves in very differently in a less-developed country such as Vietnam.

Further, every discussion of the future necessarily proceeds from the particular worldview, personal biases, and base of knowledge of the person offering it. There can be no "objective" discussion of the future. This mandates that we consciously make note of these biases at the outset, and wherever possible account for their impact on the discussion. It also means that I as your figurative tour guide should point out my own biases whenever possible.

The Americentric View of Business

Inasmuch as I am American by birth and acculturation, and most of my experience has been focused in the US business environment, my reference point is the US culture and economic system, and American — or at least Western — management thinking. I can only say that, having worked in various countries around the world for 20 years or more, I believe I have become reasonably alert to significant differences in point of view that can influence the discussion. I have no doubt, however, that my multinational and multicultural colleagues will take me to task if my Americanized worldview overshadows the discussion too much.

This latter point deserves some further consideration, because it certainly colors the treatment of the subject matter of this book. In most of my books I have made a conscious effort to "de-Americanize" the discussion, by invoking examples from various countries rather than dwelling on those best known to American readers. I've also tried to draw upon and credit the ideas of various management thinkers from other nations besides my own. But beyond that, if we're going to scan the business environment in this book, or at least think about how to scan it, we must start with the realization that the environment can be radically different for different countries, in many ways.

To cite just a few examples: the American population is one of the most ethnically diverse on Earth, certainly for any sizable country. In contrast, the Japanese population is one of the most ethnically homogeneous. The process of building a brand concept, crafting a marketing message, and communicating it to prospective consumers is radically different under those different circumstances. Target marketing, although not unimportant in Japan, tends to be much more important in the US, because of its more differentiated population.

Similarly, building a powerful brand image for a certain product or service might be quite possible in a small country like New Zealand, with a population of about 3.6 million. But in a country like America, with 270 million people, it may not be economically feasible. It might make more sense to build a regional brand identity and to compete in regional markets rather than conceive of the whole country as a single market.

Conversely, it might be a mistake to assume that something that works in the US would not work in a less-developed country, based on differences in educational level or economic status. For example, I have usually discovered that executives and professional people in the developing countries I have visited are just as up to date with computers, software, and information technology as their American counterparts. Indeed, when I lecture in various developing countries, I must be very careful to get an accurate profile of the level of knowledge of the attending audiences. It is easy — and painful — to underestimate their knowledge of contemporary business practices and management concepts. The same is true for journalists. Many of them are fully up to date on current business issues.

At the same time, we can acknowledge the value of extending certain business practices and management concepts developed in the US to other business environments. For example, many of the social trends, demographic shifts, and technological directions taking place in the US will probably extend to many other national cultures and business environments. People in those countries can get a sense of their own futures but observing the effects of these trends on the American culture. They can become more conscious of the choices to be made, and begin thinking about the possible consequences of those alternative choices.

The sheer size of the American economy means that there will inevitably be more research and development, more experimentation, more trial and error, more entrepreneurial activity, and more published knowledge than in any other country, at least on an absolute scale. This enables business leaders from many other countries to monitor developments in the American environment and to selectively import those they find valuable. It’s no accident that American book publishers find willing partners to translate business books into other languages. It’s also no accident that any major industry conference in America will have a sizable contingent of people attending from all over the world.

One important characteristic of America and Americans in general, charitably stated, is their relative ignorance of what goes on in other countries. I am always startled to discover how much people in other countries I visit know about America, its politics, and the current scandals going on there. While many business executives in Australia, for example, can easily name not only the President of the United States, they also know the vice president, top congressional leaders, and key members of the President's cabinet. Conversely, few Americans could name the prime minister of Australia, and fewer still could identify any other national figures except famous golfers, athletes, and a few entertainers.

But for all of its agonies, its self-flagellation and its soul-searching, America is still the place to go for ideas. Those who are in the business of importing ideas into other countries have learned how to sort through the raw material and make good use of those parts that do travel well across national cultures and business environments.

Chapter Notes (1)

1. Albrecht, Steven. *Crisis Management for Corporate Self-Defense.* New York, AMACOM, 1996, p. 13.

2. Grove, Andrew S. *Only the Paranoid Survive: How to Exploit the Crisis Points that Challenge Every Company and Career.* New York: Doubleday, 1996.