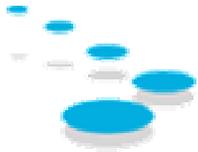*SparkPartners*

*Igniting Breakthrough Strategies*

# *The Phoenix Principle<sup>TM</sup>*

## *Re-Inventing Success: Managing Lock-In to Succeed in an Uncertain World*

**Adam Hartung**
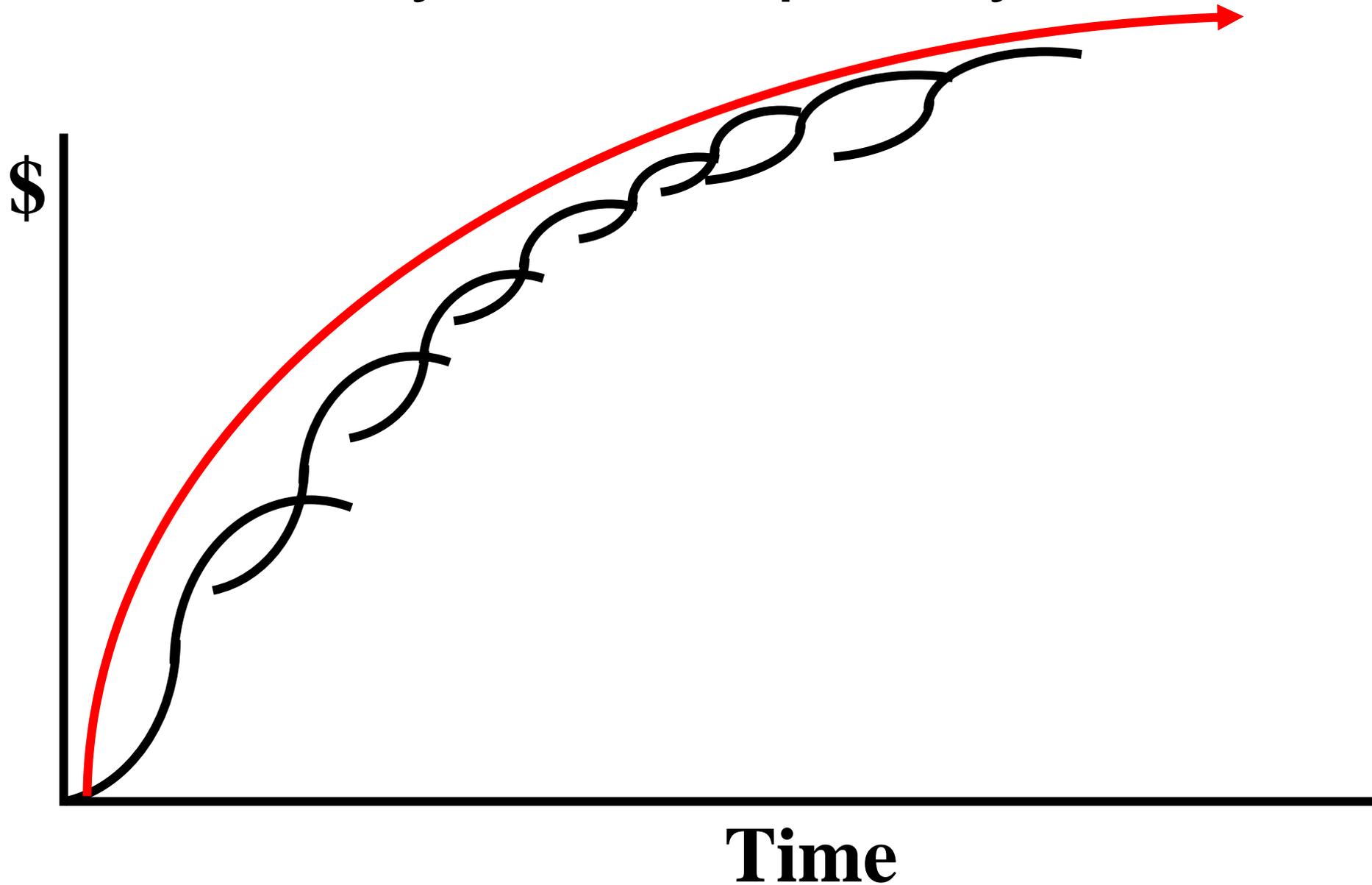Managing Partner

VISTAGE™

better leaders – decisions – results

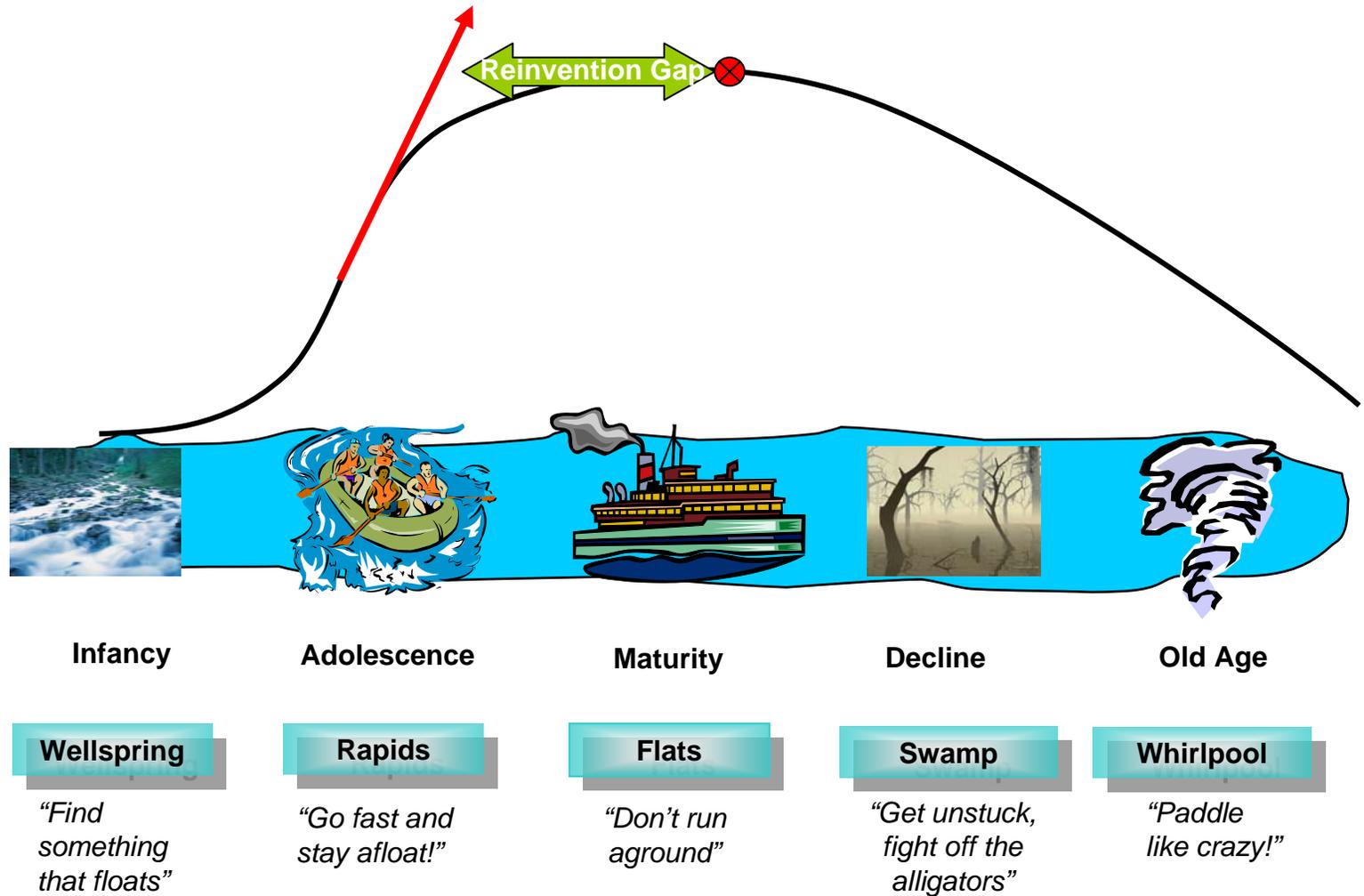Adam@SparkPartners.com     847.726.8465

# Today's Agenda

- Phase I – Why old approaches to strategy don't work
  - What are Success Formulas and Lock-In?
    - Why do we Lock-in?

- Phase II – A new approach for Strategy
  - How can we manage Lock-in and Success Formulas?
    - How do we create organizational agility?
  - Why are Disruptions important for attacking Lock-in?
  - What is White Space and why is it critical?

- Phase III – Manage Strategy, Innovation and Long-term Success
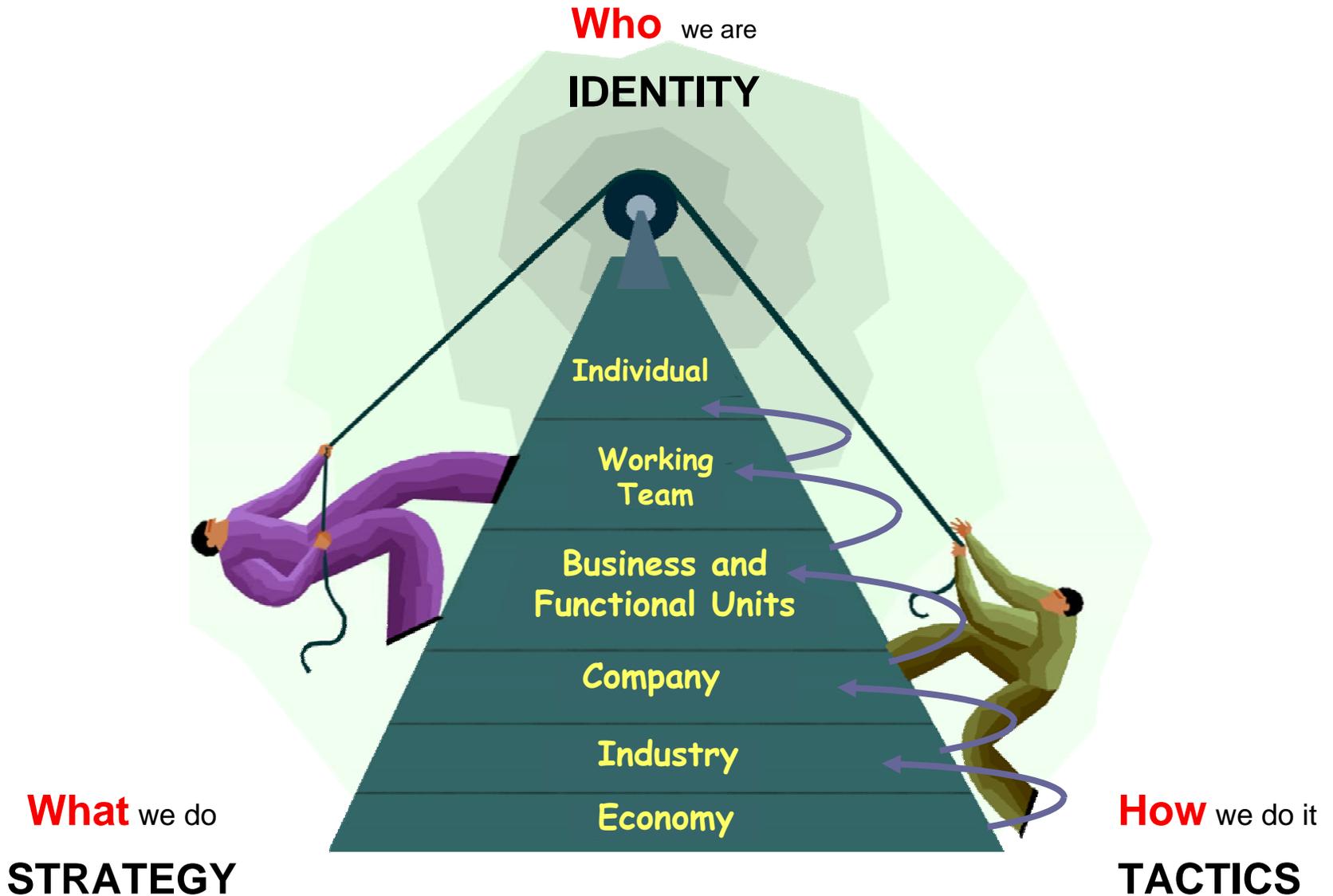  - Can you embed strategy and innovation capability?

# Myth of Perpetuity



$ (vertical axis)

Time (horizontal axis)

# Lifecycle Reality



Reinvention Gap

| Infancy | Adolescence | Maturity | Decline | Old Age |
|---------|-------------|----------|---------|---------|
| **Wellspring** | **Rapids** | **Flats** | **Swamp** | **Whirlpool** |
| *"Find something that floats"* | *"Go fast and stay afloat!"* | *"Don't run aground"* | *"Get unstuck, fight off the alligators"* | *"Paddle like crazy!"* |

# Success Formula Pyramid

**Who** we are

**IDENTITY**

Individual

Working Team

Business and Functional Units

Company

Industry

Economy

**What** we do

**STRATEGY**

**How** we do it

**TACTICS**

# 3 Types of Lock-In

**Behavioral**

**Structural**

**Cost**

# Behavioral Lock-in

- Rigid adherence to **historically defined market**
- Proliferation of "**sacred cows**"
- "**Not invented here**" in new product development
- Punish explorers, reward farmers
  - **Scapegoating**
- **Slow decision making**
  - **Hierarchy** requiring multiple approvals keeps all decisions close to historical model
  - Focus on **maintaining assets** (keep the plant busy)
  - Avoiding conflict (**political correctness – avoid boat rocking**)
- Profits from **financial machinations** and M&A
  - Repurchase shares
  - Sell product lines
  - Acquire competitors or "synergistic" products
  - Change the accounting rules (depreciation, goodwill, charge-offs, tax deferrals, etc.)

*NO!*
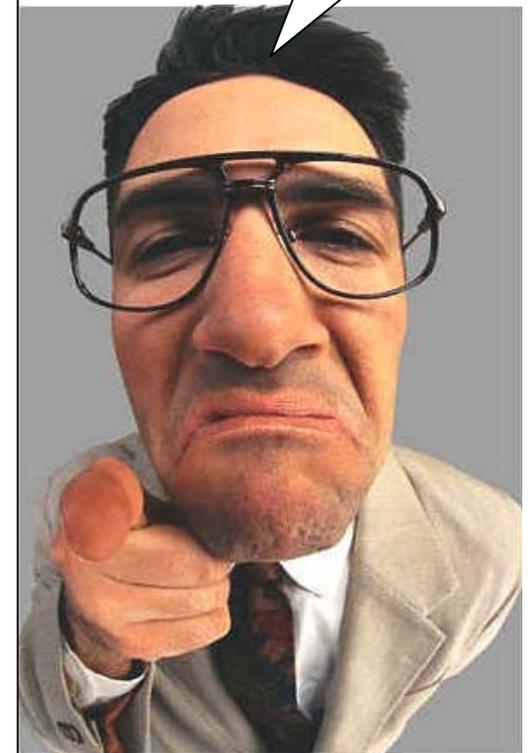
**STATUS QUO POLICE**

# Structural Lock-in

### Strategy
- Biased toward easily quantified, traditional actions and against more speculative ventures

### People
- Command and control
- Hiring freezes, layoffs
- Difficulty recruiting young people
- Evaluation inflation (everyone outstanding)

### Architecture
- Tightly integrated, rigid systems and processes
- Growing IT backlog
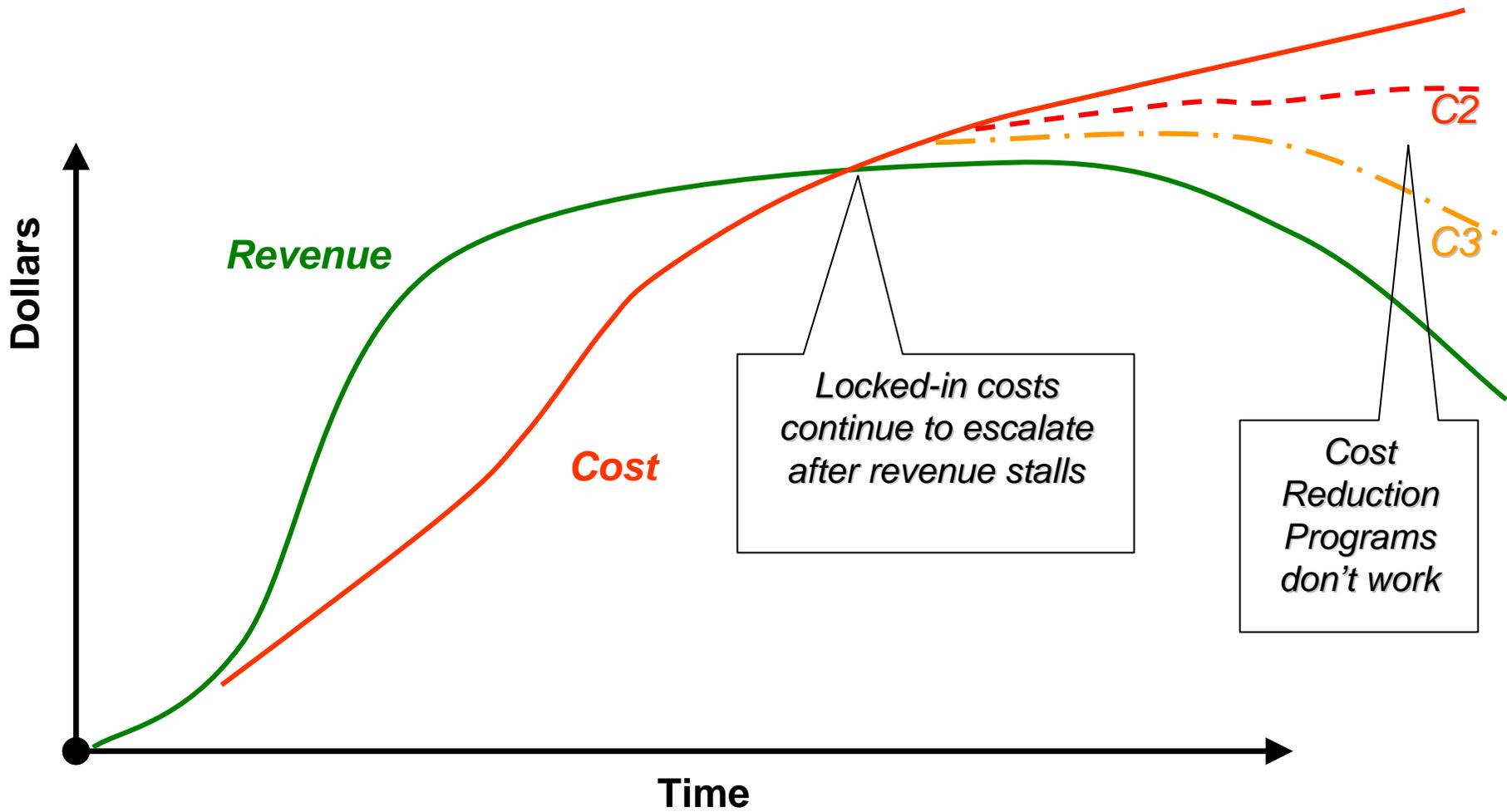- Expensive "monuments"
- Obsession with best practices

### Resources
- Large asset monuments
- Obsessive cost accounting
- Stringent ROI approval process
- Long-term supply chain deals
- Creative financial reporting

### Knowledge
- Immobility of internal experts
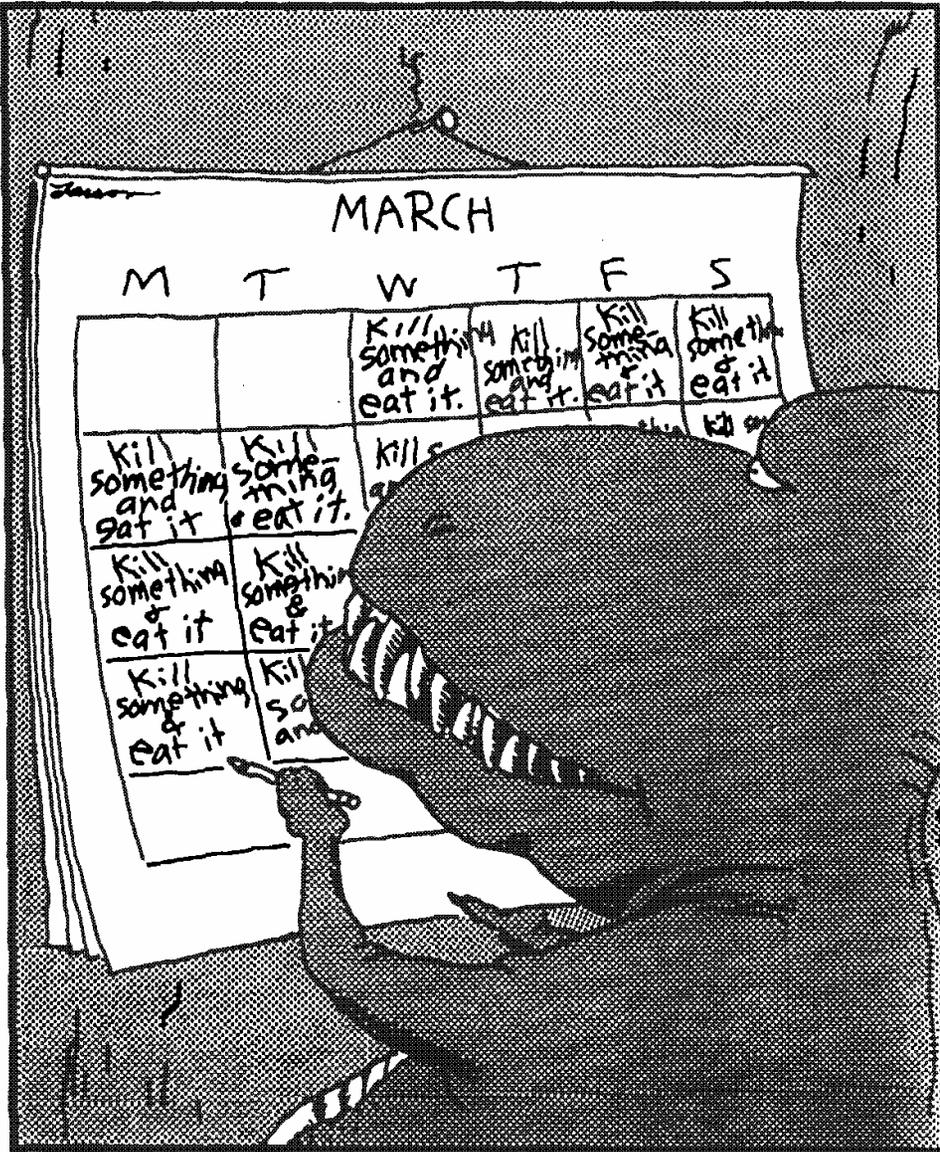- No information sharing
- Fragmented customer data

# The Revenge of Cost Lock-in



**Dollars** (vertical axis)

*Revenue*

*Cost*

C2

C3

*Locked-in costs continue to escalate after revenue stalls*

*Cost Reduction Programs don't work*

**Time** (horizontal axis)

**Costs Always Go Up!!**

# *Success Creates Repetition… Which Creates Lock-In*



Jurassic calendars

# Defend & Extend Reinforces Lock-in

**SONY**

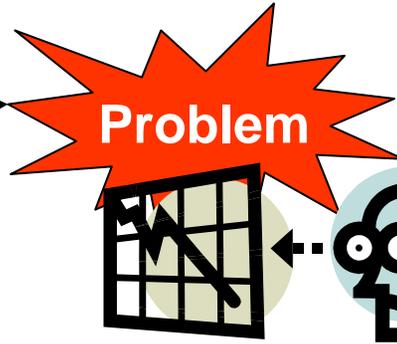**VIVENDI UNIVERSAL**

**Problem**

Generates

napster

**Challenge**

*Avoid It*

*Tweak It*

**Success Formula**

**Defend**

**Extend**

Preserves Locks-in

*The EMI Group*
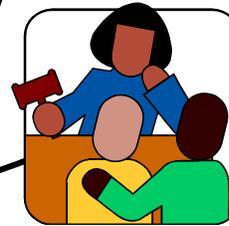
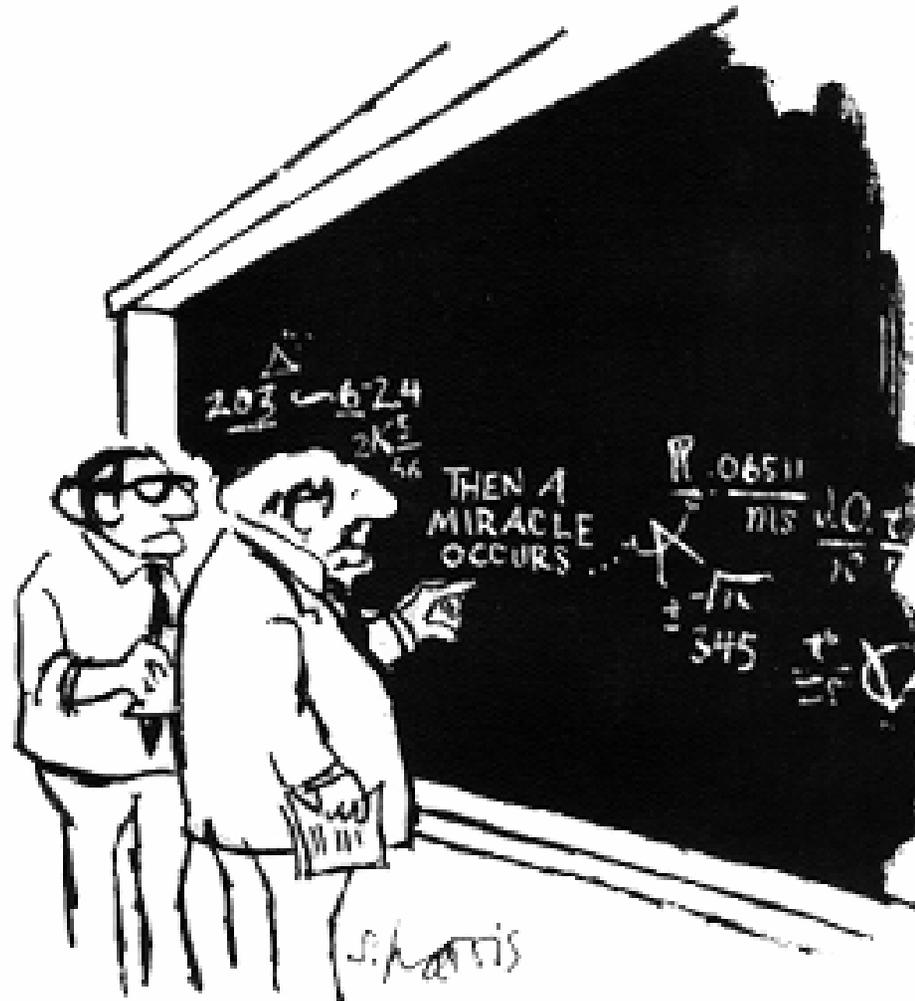**AOL Time Warner**

"I think you should be more explicit here in step two."

# The Phoenix Principle

Step 1: Don't Defend and Extend

Step 2: Attack Competitor's Lock-in

Step 3: Disrupt Yourself

Step 4: Create and Maintain White Space

**Create**

    **and**

        **Sustain**

            **Success**

# Step 1 - Don't Defend & Extend

"It is change, continuing change, inevitable change, that is the dominant factor in society today.

No sensible decision can be made any longer without taking into account not only the world as it is, but *the world as it will be*."

## -Isaac Asimov

"I skate to where the puck will be."

## -Wayne Gretzky

# Step 1: Don't Defend and Extend

**Spyglass**

# Step 2: Attack Competitors' Lock-in

**Stall competitors whenever possible**



*Lock-in*: Customers care about the internal workings of the watch



*Lock-in*: Customers care about the quality of the pizza



*Lock-in*: Customers care about hose quality



*Lock-in*: Customers want local staff, long-term relationships and development methodologies

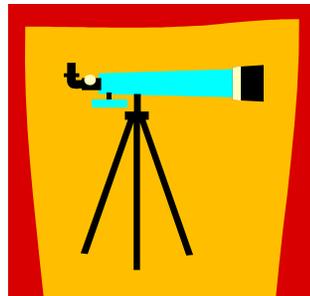**Stall competitors whenever possible**

# Step 3: Utilize Disruptions to Drive Needed Change

Disruptions are "pattern interrupts" to the existing lock-in (mind-sets, behaviors and structures)

Disruptions **stop** the status quo by ***exposing and attacking Lock-in***

# Powerful Disruptions

***Disruptions Neutralize the Status Quo Police and make an historical Lock-in obvious and acceptable to violate***

- A CEO who tells Directors that all new funding ideas go directly to his office for evaluation and determination of investment by his team of consultants
- A CMO who mandates that all conference attendees compete to launch a new project based upon the learnings of the conference
- A CIO who allows users to set the performance metrics for applications
- A CTO that mandates implementing one new technology per year in mission critical systems
- A CFO that allows the marketing department to determine the proper risk adjustment to utilize for all new products
- A CIO that assigns every IT Director a customer they have to report on quarterly
- A V.P. of print production that outsources all graphics production

# Step 4: Create White Space

Disruptions create
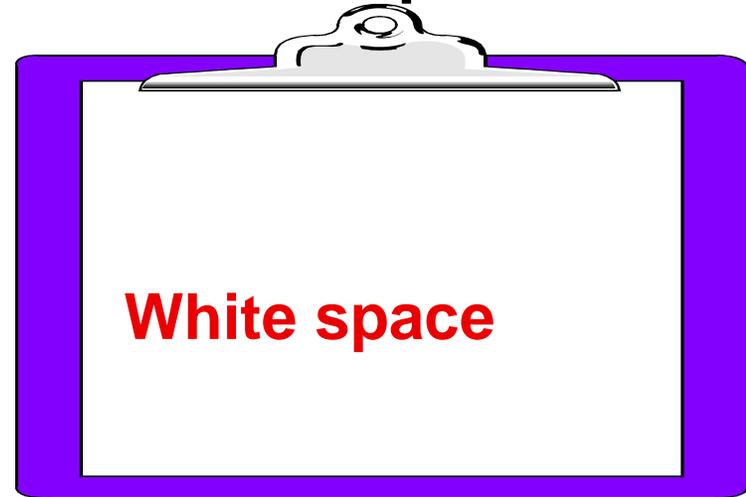
**White space**

**Involve new people**

**Involve new customers**

**Involve outsiders**

**Effective White Space COMMITS both *permission* and *resources* in advance**

# Maintain White Space

*Embedding White Space, and managing multiple projects, creates higher profits and growth*

- Track the implementation and status of White Space projects.  Make both the activities and results visible
  - White Space is not a "skunk works"
  - White Space must have stated goals and be measured against those goals
- White Space teams need to have a mix of Explorers, Adapters and Stabilizers
  - People have to learn how to manage White Space
    - Everyone must participate – White Space is not just for "oddballs"
  - Teams must be committed to Success
    - Failures must be tolerated – learn from them so as not to repeat (debrief)
- White Space is not an event.  It needs to be part of "business as usual"
  - Track resource commitments in D&E and White Space
  - Maintain a Market Challenges function reporting to the organization
  - Make Disruptions part of normal operations

# Companies That Manage White Space Increase Market Value
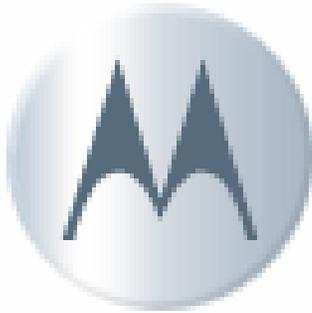
# Conclusions (1 of 5)

*Managing Success Formulas is the Key to Long-Term Success*

- Few Success Formulas produce above-average returns

- Success Formula half life is surprisingly short

  - And even shorter for new businesses

- Entrepreneurs spend too much energy "selling" Success Formulas

- Managers spend too much time Defending & Extending Success Formulas

# Conclusions (2 of 5)

*Success Formulas are Locked-in by:*

– Assumptions

– Business plans

– "Good" operating practices

  • Six Sigma, Efficiency, Operational Excellence

*Lock-in Leads To:*

– Market blinders

– Insufficient Agility

– Poor returns

**FAILURE**

*You Cannot Directly Change a Success Formula*

– You first must Disrupt the Lock-in

– Disruptions are a Key Success Factor for managing Lock-in

  • A Culture of Disruptions creates the opportunity for Evergreen success

*Innovation and Long-Term Success is Created in White Space:*

- White Space must be separated from operations

  - It must be imbued with permission to develop new Success Formulas - outside the Lock-in

- White Space must have resources

  - Money, people, executive time

  - Some of this has to be dedicated - not virtual or part-time

- White Space should be happening in all companies, all the time

# Contact Information

Slides at:  www.Sparkpartners.com

---- Public Speaking

----- Presentation Downloads

------ Vistage

For an interactive BLOG on sustaining success:
*www.ThePhoenixPrinciple.com*

For more on presentations, workshops and growth services:
*www.SparkPartners.com*

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