

# Three ways to save your business in a digital age

The digital revolution is causing an unprecedented wave of innovation and disruption to wash over the business landscape. **And the bigger your company, the more you have to learn.** Digital businesses do things in a different way – and soon, it'll be **the only way.** It's time to think – and act – like a start-up.

“Start-ups have very little to learn from established companies. These companies, on the other hand, have everything to learn from start-ups”

► **EVERY MORNING SEEMS** to bring a new headline announcing another multi-billion dollar acquisition of a company that didn't even exist five years ago. If you're the leader of a global corporation, the race to stay ahead of your competition – new and old alike – is getting tougher all the time. According to data collected by the consultant Richard N. Foster, the average lifespan of a company on the S&P 500 has dropped from 61 years in 1958 to just 18 years today. The catalyst for this change is digital technology, which has made sustainable advantage a fleeting and rare commodity. Like it or not, this is the new reality.

At the strategy firm where I work, we help some of the world's largest Fortune 500 companies keep up with the relentless pace of change driven by digital technology. As we attempt to help established corporations adapt to this environment, we've been looking closely at what their disruptive competitors do differently. What we've found is that there is a set of values and operating principles within both early stage start-ups and digital juggernauts like Google and Amazon that are fundamentally different from those typically found within more traditional organizations. These values and principles make the organizations that employ them more responsive to changes in customer needs, technologies and competitors. And these responsive organizations are the ones most fit for today's market. They thrive as others die.

Recently we've been translating these operational practices into guidelines and tactics that drive meaningful change at scale within large, complex organizations with decades of history and ingrained ideas about how to run their business. In this work, three significant models have emerged as being both the most challenging to change, and also the most impactful in driving evolution.

## 1. RE-DEFINE THE PRODUCT

One of the starkest differences we've seen between legacy companies and new start-ups is how they define the term “product.” In the world of start-ups, products are broadly defined. In legacy businesses, on the other hand, products are narrowly defined and are usually the exclusive domain of a select few members of the organization. At Visa, the product is the piece of plastic you carry around in your wallet. At General Motors, it's the car you drive. At Target, the products sit on store shelves, customers pick them up and place them in shopping carts, and cashiers scan them at the register.

On the other hand, what's the product at the accommodation booking site AirBnB? The website AirBnB.com? The company's mobile app? The apartments that their hosts rent? What about the interface that enables a host to upload pictures, fill out a description, manage availability and offer their home to potential visitors? Over and over again, when we talk to the people who run these





start-ups, the answer to the question “What’s the product?” is: all of the above.

In responsive organizations, product is a mindset. It’s a new way of looking at all the points where users – both internal and external – interact with your business and of raising your expectations about what kind of value can be created. The next generation of business leaders thinks of a product as anything that offers a complete experience, with a clear start and end. Size doesn’t matter, and more often than not, successful companies have a large portfolio of products nested within each other like Russian dolls. Amazon.com is a product; the “Top Picks for You” feature on the Amazon homepage is a product; the “Customers Who Bought This Item Also Bought...” feature is a product; the algorithm that makes those recommendations is a product; the database that contains all the relevant purchase data that feeds the recommendation algorithm is a product; and so on.

The common thread between these different products is that they all have a user – and their success depends on proving themselves consistently valuable to this user over time.

One of the most significant implications of this development for legacy companies is that they must reorient their internal structure to align with the end user’s experience. Teams organized according to functional discipline – finance, legal, marketing, operations, supply chain and customer service, among others – get flipped on their side. As architects of this organizational change, we begin by looking at how a single subset of cus-

tomers shares a defined need and set of experiences. Dedicated cross-functional teams are assembled to own and deliver both products and sub-products that serve clearly delineated groups of users. And this shift goes far beyond the initial P&L layer. Like the nested products at Amazon, these cross-functional teams need to be replicated over and over inside each business unit to be fully accountable for – and capable of creating – value for their unique set of users.

## 2. SMALL IS THE KEY TO SCALE

The challenge of moving beyond the “matrixed” organization leads me to the second key shift. Large organizations’ biggest competitive disadvantage is their size. For a simple perspective on the inherent complexity of the modern corporation, consider the following equation:

*Number of lines of communication within a group of people*

$$= ([\text{Number of people in the group}] * ([\text{Number of people in the group}] - 1)) / 2$$

(i.e. number of lines for  $n$  people =  $n(n-1)/2$ )

For a group of five people, there are 10 potential lines of communication available at any given time. That’s 10 opportunities for miscommunication, crossed signals, dropped balls and unproductive complexity to creep in. And that’s just with five people. Twenty people? That’s 190 lines of com-

munication. One hundred people? That's 4,950 lines of communication. One hundred thousand people? That's 4,999,950,000 lines of communication. Is it any wonder that global corporations have trouble managing the complexity of their organizations?

Over the past couple of years, we've worked closely with several Fortune 500 companies to restructure key divisions and business units. Inevitably, these efforts quickly run head-on into established organizational structures that no longer reflect the realities of team members' day-to-day work. Employees are organized within certain lines of business yet share customers with other lines of business. Employees are organized by geography yet depend on global supply chains and distribution networks. Employees are organized by function yet their work requires close collaboration across disciplines.

Customers have no sympathy or patience with these internal realities. An organization's internal complexity is not the customers' problem.

So how do you overcome this institutional baggage, and reintroduce agility into a large multinational business? Start small. What we see in today's most nimble and competitive organizations is a steadfast commitment to managing scale by atomizing the organization. Amazon founder and CEO Jeff Bezos famously referred to this rule of thumb as the "two pizza rule" – no team should be so large that it can't be adequately fed by two pizzas. In applying this approach with our clients, we've created a simple standard that we refer to as SLAM teams: Self-organizing, Lean, Autonomous, and Multi-disciplinary. Self-organizing teams are free to decide for themselves who does what and what gets prioritized. Lean teams have seven members, plus or minus two. Autonomous teams have both the authority and resources they need to accomplish their goals without help or oversight. And multi-disciplinary teams have the right mix of disciplines and skills required to see their work through from start to finish.

We've recently begun to implement SLAM teams within one of the world's largest, most diverse and most international corporations. The early results are already showing progress. Projects that would normally drag on for several quarters, as teams waited for the right people to have available bandwidth and for review meetings with dozens of stakeholders to be scheduled and rescheduled, are now being completed in weeks. Teams feel more empowered, focused and engaged in their work. And most importantly, they're moving faster than ever before.

### 3. SPEED MATTERS EVEN MORE THAN MONEY

This brings me to point number three. My colleague Jordan Husney likes to say "speed is the new IP." This has never been truer, and I would go even further and say speed is more important than

money in today's market.

Let's take an example. The crowd-powered product invention company Quirky develops hundreds of consumer products every week. Their public site invites people from all over the world, professionals and amateurs alike, to submit their ideas for new products, and then to collaborate with the rest of the community to develop and refine these ideas into a market-ready concept. Quirky then turns the best ideas into real products, which it sells directly on its own site, as well as through a network of retail partners.

Many of Quirky's most successful products to date have been utilitarian household products. A large corporation like Proctor & Gamble (P&G), whose business is built on successful consumer inventions like the Swiffer line of cleaning products, could spend every day scouring Quirky's site for new product ideas. They're all there in the open. Quirky isn't worried, though. Nor should they be, because no matter how closely P&G is watching, P&G will never be able to keep up with Quirky. By the time P&G schedules their first product concept review meeting with the necessary VPs and managers, Quirky will be shipping the finished product to new customers. Last year, Quirky partnered with General Electric to create a new digitally-enabled air conditioner and took the product from idea to market in 90 days. As you might guess, this is a small fraction of the time it traditionally takes General Electric's appliance business unit to get a similar product to market on its own.

In this new environment, where competitive advantage depends on speed almost more than any other factor, time becomes the most valuable currency. Practically speaking, this means that budgets and investments should become time-based rather than money-based. For example, imagine that you've identified a potential new business venture, and you're deciding what level of resources to invest in exploring the opportunity. A traditional approach would begin by assuming that some amount of money will need to be allocated to the effort. In order to decide how much money is warranted, and to make investors feel confident about their investment, you would assemble a team of business experts and strategists to outline a development plan, the concept itself, a business plan and models for what level of return might be expected. Depending on the size of your business and the size of the opportunity, this planning process alone may take anywhere from a couple of months to a year or more. Meanwhile, a disruptive start-up recognizing the same opportunity will have prototyped, tested, collected feedback from beta-users, learned and iterated on their idea. They will always be several steps ahead and, more importantly, will have already evolved their offering to get closer to what potential customers want most.

**“Responsive organizations are the businesses most fit for today's market. They thrive as other companies die”**

Now imagine instead that as soon as the opportunity is identified, a small team is given a short period of time (let's say four weeks) to prove that the idea has merit. They can do whatever they want and call on any resources they deem necessary as long as they report back at the end of four weeks with new knowledge about the opportunity. As an idea proves itself valuable over time, the timeline increases accordingly. Proven businesses with loyal customers and healthy profits are given long, multi-year timelines. Unproven experimental opportunities are given short sprints measured in weeks and months.

Money is no longer the problem. You can spend USD 10,000 to unlock a USD 10,000,000 opportunity, or you can waste USD 1,000,000 to find there is no opportunity to be had. In either case, money isn't the variable that makes the difference between success and failure; it all depends on time. If you spent two years proving the USD 10,000,000 opportunity, then you've probably already lost out to a faster upstart. On the other hand, if you can learn that the opportunity you thought existed is merely a mirage and pivot to something new in a matter of weeks, it could end up saving you millions of dollars by avoiding wasted investment in the first place.

#### **BACK TO SCHOOL**

When you look at your own company, where do you fall on this spectrum between old and new models? Alarm bells should be ringing at companies that are struggling to adapt. Your time is up. If your organization fails to change – and to change quickly – then you're setting yourself up to be the next casualty on the S&P 500.

If you hear the alarm, and fully commit your organization to becoming as responsive as possible to the exponential change and inescapable complexity that surrounds you, then you have a chance. Your global reach, your deep expertise and even your history can become assets. You can harness these resources, apply them inside new operating models and ways of working that are designed for a digital world, and continue to be successful in this new landscape.

This is today's reality. Start-ups have very little to learn from you. You, on the other hand, have everything to learn from them. ●

#### **ABOUT THE AUTHOR**



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#### **▶ FURTHER READING**

Jan Unkuri & Erik Kruse, 'Moving fast and breaking things', *Ericsson Business Review*, Issue 1, 2014, <http://www.ericsson.com/res/thecompany/docs/publications/business-review/2014/moving-fast-and-breaking-things.pdf>