When markets transform, they leave some businesses behind while they lift others to new heights. There may be businesses that survive and grow for longer periods than others, but there is a proven single method that can guarantee continuous and permanent success. However, there are common ingredients that if combined into a unique recipe of capabilities can increase the chances of surviving and growing through a market transformation.

This book is about understanding and acting upon strategic market transformations before they arrive, by understanding, anticipating, and designing your business using Strategic Business Transformation principles and techniques. It is about withstanding transformation and leading into it when the traditional anchors we hang on to become incompatible with the new market waves.

No one organization displays all the ingredients of success in a carefully compiled recipe, but many show the key characteristics. Although we all want to rely on the rational research-based analysis, these methods have proven to have limits when the most-studied companies end up failing after the research is published. However, we can explore measures of capability within each of these businesses. Rationale and researching financial models have their place in transformation, but used exclusively without regard to the nonfinancial side of transformation they would present an incomplete picture. The nonfinancial side is about the customer transformation, the value a business can provide that goes beyond competing on the benefits of the product or service provided; it is the opportunity to find new competencies and build a new identity.
with a market before it transforms. The softer side of transformation is the more challenging and least understood part of business transformation.

Strategic thinkers tend to be focused, unemotional, and distanced, almost as if this gives them more intellectual insight into the work to be done. These are good traits, but any good trait overemphasized becomes unbalanced.

To anticipate, understand, and be on top of lasting, powerful, and insightful market transformation, we must see it in context of a set of key ingredients for successful transformation. I have framed them into “sins to overcome.” This book also proposes that the new ways in which business transformation will stick are based on the belief that business transformation will mimic and follow personal transformation. In that context, the principles of strategy transformation must be aligned with the principles of leadership transformation.

Leadership is at the heart of everything that is business. Much has been written about the traits of great leaders, and I will draw on this. I will explore a leadership approach that I call Transformational Servant Leadership, which builds on Robert Greenleaf’s pioneering concept of servant leadership. Applied to the field of business transformation, transformations both in business and society start in one person who sees the world differently, who transforms himself or herself to reflect on and prepare for this event and then instigates, provokes, and lives this transformation before others do. This spurs others to do the same. Like Gandhi, Mother Teresa, and other social and political heroes, it all starts with one among us, and not with one above us. Strategic business transformation is not a top-down and trickle-down process. Yet the top-down approach, if modified, can spur lasting transformation in our businesses.

**Strategy and Strategic Business Transformation**

Strategic business transformation is about developing strategy in anticipation of a dramatic shift in the market, customers, and their desire for products. Since businesses must design their business models to withstand deep change in the markets, what do we use in developing strategy as our “northern star” to guide us when everything around us could be in transition and we have no anchor? Strategic business transformation is not the design of a strategic plan
but the design of the business itself to withstand an anticipated transformation of the markets. It must be done before a strategic plan because the plan assumes that a business and its assets exist in some form. Strategy, transformation, and the elements that strategy stands upon are not the same:

- **Strategic Business Transformation.** The design of your business in transformative times, declaring what you stand for, whom you consider the customers to be, and what you do better than others.
- **Strategy.** The pathway to generating revenue and profits and your view of the landscape for the next five years.
- **Strategic Variables.** The elements in the market and your business that, if changed, would trigger a review of your strategy.

Organizations that have not developed a strong understanding of true commitment to their new markets and customer value transition, that do not understand what they believe in and how to express it, that cannot design their authentic talent into competencies, and that cannot outsmart their competitors with a unique offering will probably fail in the long run.

Strategy is about key directions that drive the positioning and actions of the organization. Strategy is about uniqueness and differentiating value to the customers who will pay for it. Usually driven top-down after input is received from all levels of the organization, strategy is about providing a guide to what makes the organization different with measurable, marketable, and manageable activities. A strategic plan should be elegant, understandable, and actionable. Strategy spans many years, sometimes 10 or more, while objectives run for two to three years measured yearly. But in transforming markets, strategy cannot lock itself into the usual incremental views where what is going to happen today will also happen tomorrow. Furthermore, you may have designed your organization in a form that assumes a state of affairs that may not exist after transformation. You must redesign. When markets transform, the standard compass based on a steady-state view cannot guide us through the storm. We must base our direction on our vision and our belief in what the customers will desire and on our view of who we are and what we stand for, more than the mechanics of today’s business model and how we are making money today.
Possibly the biggest predictor of failure may be having a current streak of success. The philosophy of “keep doing what we are doing” can sometimes work, but it will not work all the time because markets transform. The hints of transformation come many years earlier, but we tend not to notice because we think we will adapt as it comes, just as incremental change is our friend. When dramatic markets shifts come, companies die, people lose their jobs, and markets do not rebound. Competitiveness flattens, and anyone can make it big if they anticipate, prepare, and launch at the correct time with the right insight.

Why Another Book on Strategy?

This is not another book on strategy but a book about how to anticipate transformation in markets and build your business for advantage ahead of time. This book is about how to navigate markets that are transforming structurally, where the unknown unknowns affect an unpredicted shift in the market and where customers do not know what they will purchase because they are disoriented by market changes. Unknown unknowns are changes that we don’t even know exist before they arrive, and when they do, we begin to try to predict their behavior as known unknowns.

John Mackey, cofounder and co-CEO of Whole Foods, expressed it best:

I can prove that by just saying that nobody Googled anything 13 years ago because Google didn’t exist. Nobody had an iPod nine years ago, and nobody had an iPhone five years ago, and nobody was on Facebook seven years ago. The world changes.2

Strategy gurus have defined it in so many ways and have contributed so much to strategy development. Here are a few examples of great work that you might want to review:

- Professor Michael Porter’s work on competitiveness and strategy³
- The late C. K. Prahalad’s (and Gary Hamel’s) works on core competencies⁴
- Professor Clayton Christensen and his contributions to disruptive innovation technologies⁵
• Renee Mauborgne and W. Chan Kim with their work on Blue Ocean Strategy
• Professor Robert Kaplan and David Norton on Balanced Scorecard

These are but a few of the significant authors of strategy who have helped us form a cohesive understanding of strategy formulation. They are rich with insights and practical approaches to creating, installing, and moving with strategic intent for your organization.

Strategic business transformation is the art and science of understanding which markets are transforming and putting together the framework to review strategy regularly. This process is done before a strategy formulation exercise. It frames the strategic guideposts. It has taken over 15 years to develop, as it has been formed through the learning experiences of several organizations. It is an approach that argues that organizations hold key ingredients to success that if not combined into a recipe, will not withstand market transformation. Organizations can use a lot of the learnings found in the great strategy texts, but what seems yet to be discovered is not which ingredients make up the meal but how to combine the ingredients to create a differentiating meal with a great aftertaste.

Furthermore, with the advent of social networking and the force that comes from the power now given for one to change many, strategic formulation and insight are no longer the territory only of the organization’s top leaders. Transforming organizations must master the art of bringing people into the play rather than just handing them a script. These shifts require a new form of strategy formulation and execution that aligns several core aspects of the business.

If Dinosaurs Had Strategy Tools, Would They Have Survived?

Imagine strategic sessions among dinosaurs. Would they have imagined a world without themselves? Could they have used current strategic tools to guide their realization that their world would no longer exist, that the mammals would survive, that small biologically insignificant animals would transform, and that there would be a new form of life that would someday use Facebook? Could they have been guided away from extinction if they had considered that the anchors of their survival would disappear?
Could they have survived using strategic tools available to us today if we advised them? Many organizations have their heads down, assuming that they will be fed for just working hard today. They define the market using their own view of their reality, assuming that the variables that drive their current markets now will drive their future markets. They assume that they are dominant and that the forces that keep them dominant will roam the earth for the next decade.

Tharman Shanmugaratnam, Deputy Prime Minister for the Republic of Singapore, commented at the East Asia World Economic Forum in 2007 that it is not the “known unknowns” but the “unknown unknowns” that we should be concerned about. “Unknown unknowns” was introduced to us in war-gaming decision analysis and project management to refer to events that we cannot predict simply because we did not know they existed before they arrived.

There are the known unknowns we anticipate, but it is the unknown unknowns that will hurt us more. Who predicted the tension in Greek markets, the banking crises, the mortgage crises and the subsequent drop in commercial real estate, or a fight for freedom in Egypt? Who uncovered that the mortgage crises would trigger such a great financial challenge or that the combination of elements created the unemployment in the United States?

Between 2007 and 2010, the following companies were well-regarded businesses, yet they failed:

- American Home Mortgage
- Bombay Company
- CompUSA
- Circuit City
- Lehman Brothers
- Levitz Furniture
- Linens 'n Things
- Mervyns
- Sharper Image
- Wachovia
- Ziff-Davis
- BearingPoint
- Charter Communications
- KB Toys
Overview

• Monaco Coach Corporation
• R. H. Donnelley
• Silicon Graphics
• Hollywood Video

The economy can have a significant impact on large and small businesses. The last few years have confirmed that no one is exempt from demise and that transformed markets are not forgiving to any company regardless of its size or market share. For every one of these companies (this is only a sample list), there are others that took market share from them. The false premise would be to chase after those companies and emulate them. However, it is not the company but the mind-set and behavior that we should try to understand.

Predicting Market Transformation

Can we predict which markets are likely to shift in 10 years? Markets are seldom transformed overnight. Just like a good meal on the stove, it takes time for all the ingredients to come together. The conditions for transformation come in and out of the market until they get into a force that triggers transformation. Then transformation accelerates and speeds through the actions and reactions of the market. At this point, markets are in turmoil and predictions become even worse off than before. With multiple variables, it becomes very challenging to formulate the right strategy if you are in the middle of it all. There is so much noise in the system that you cannot formulate the cause and effect of your strategic actions. Just as you cannot formulate strategy while running from a tornado, you cannot predict where it will land. But you can understand the conditions that might create a tornado and plan your strategy around the notion and remain flexible. Meanwhile, some organizations that have been preparing for a transformed market will instigate the transformation or build a timely and prepared response.

80–20 Reversals

Businesses mastered the art and science of predicting their future using advanced models (both financial and customer) because 80 percent of their future was cyclic. What goes up must come down,
while what comes down will go up. Only 20 percent of the market moves were structural, and hence a sudden shift of the market would not likely impact a business’ plan. But now, when the unknown unknowns are threatening every variable we have counted on, 80 percent of the variables that shift are structural while 20 percent are predictable (see Exhibit 1.1). We cannot use the strategic data used in the past to find our “true north.” Customers may even tell you to stay where you are because they cannot see change coming in their future either (e.g., asking customers whether they would give up their bank teller for an ATM, and they refused to agree to it). Transforming markets have forgotten what got them there and are reforming to the future. We must use new tools and a new approach to understanding the strategic position that we must take by working at a higher altitude in strategy instead of using brute force planning, that is, checking with the markets, figuring the trends, building to customer expectation, and delivering well. Strategic business transformation is about capitalizing upon new principles.

Anticipating Market Transformation

Four key transformation markers are valuable to watch in any market. These markers reveal market vibrations, and at some point the sheer kinetic force of these ingredients tends to drive market shifts that may not return the market to its original dimensions.

Furthermore, the markers are not all needed in transformation, but they may fire in sequence or together. The four markers are:

1. *Is there a trigger to market rethinking value?* Triggers are the forces that make stakeholders rethink the possibilities of change. Skyrocketing prices drive people to consider alternatives.
Deregulation of the markets creates new markets. Increased scrutiny from government or other entities can also start a new force to transformation. We have experienced the gas crises, the financial crises, and the deregulation of the phone companies, and others will come.

2. *Consumers are unaware of the real price and value.* In markets like health care and education, the general public is somewhat unaware of the relationship between price and value. The prices keep going up, and customers seem to be getting less value for what they are paying. Similarly, when prices are subsidized by others or by governments, consumers begin to feel entitled to what they receive. Then value becomes even more distorted. In the education markets, the total cost of education loans has finally exceeded credit card debt in the United States. As of June 2010, Americans owed $826.5 billion in revolving credit while the total for outstanding student loans was $829.785 billion. Currently, the U.S. economic engine is challenged when consumers do not understand value and price equations (i.e., for everything of value there is a corresponding market price). The concept that “there is no free lunch” is still lost in some markets. When prices are subsidized and opaque to the customers, the risk of a revolt to market transformation is high.

3. *Does the market have intermediaries between seller and purchaser?* If this is the case, the value chain can get misunderstood, somewhat misinterpreted, and ripe for optimization of flow and costs. It happened when Walmart created a new way to shop and manage the supply chain. Walmart changed the way manufacturers, brokers, retailers, and wholesalers performed work. It changed the entire business model and activities in the food industry. Knowing what it did well and knowing what its competitors did not know about the consumer brought Walmart to victory with a higher percent margin in the same businesses in which its competitors enjoyed less in margin. The food industry had intermediaries ripe for the picking.

The airline industry has gone through similar transformation. Did you expect this change brought about by the Web? If you had asked focus groups of buyers, they would have told you they would “never” give up on agents because agents helped them deal with the airlines. Banks introduced ATMs
despite similar responses from consumers, yet now we like ATMs for convenience and service. When intermediaries try to control access or manage the customer or the seller, the market is ripe for transformative opportunity. What happens when your customers decide that they can take less value for much less price, and you cannot get there for them? Your market may be shifting.

Consider the Honda Civic, which entered the U.S. market in 1972 with Americans laughing at the offering, as big was best in those days. Since Hondas were vulnerable to salt and rust, recalls were extensive. Yet through the years Honda kept developing and improving its cars. When the oil crises brought attention to the more economically attractive cars, Honda stood tall and grabbed share. Value was migrating not from big to small but from big to economical.

Hyundai was positioned for years as a very-low-option offering for many consumers. Slowly but surely, this South Korean car manufacturer is raising its profile in the midrange and high-end markets by appealing to the rational price-conscious (and not status-conscious) purchaser. Hyundai introduced its first car, the Excel, for $5,000 in 1986, when the market was wide open. With steady improvement and sensitivity to where it did not excel, Hyundai is challenging the high-end enthusiasts. Hyundai introduced a 10-year, 100,000-mile warranty to confirm its quality. Since it understood that some buyers would not buy cars because they were afraid of losing their jobs, Hyundai said that it would accept returned vehicles if customers lost their jobs. This presented a new value proposition to the audience: a manufacturer that cared. Approximately 100 cars were returned. Hyundai was initially about being inexpensive, but is quickly moving to being about luxury at a lower price tag. What if it also attacks quality and service? What will its rivals do? What if less expensive and not outdoing the neighbors becomes a virtue, and not showing your wealth or success in a down economy prevails?

4. Are the leaders in the industry perceived to be enjoying too much success while clients are suffering? If so, transformation, or at least disruption, is approaching. In some cases, the executives may not be enjoying themselves, but it may be perceived
this way. Some markets, like entertainment and sports, do not suffer from this predicament.

If lower-cost, highly efficient disruptors are roaming around, they prepare the market for transformation by introducing rapidly evolving disruptive solutions. Priceline.com and Expedia.com transformed the booking space of the airline industry, while online brokerage firms like Charles Schwab brought new personality to discount brokerages. Amazon.com transformed the world of bookstores, and iTunes changed the music world on the shoulders of Napster, which pioneered the approach. Is industry “data obese” but “knowledge starved” while the customers and buyers want wisdom?

Exhibit 1.2 illustrates some of the industries that fall into this assessment.

During World War II, British forces in Singapore focused all their defenses and artillery toward the sea to the south to guard against attacks from the Japanese forces. Believing that their enemy
would attack from the South China Sea, the British were imbalanced in their strategy. Singapore is connected to the Malayan peninsula to the north via a small, three-quarter-of-a-mile causeway. The Japanese forces, after careful consideration, walked into Singapore via this causeway to capture Singapore.

Many times, strategy and the associated tactics depend on the organizational worldview and assumptions. If the view of the business does not adjust, morph, or transform, the organizations become overrun with challengers who have identified their strategy toward a transformed world. Just as the Japanese were seeking a transformed world, their approach was also transformative and unpredictable to the British.

This story reminds me that the Japanese forces lost the battle in the long run for the very reasons that they won in Singapore. They did not transform as markets transformed; they tried to force their worldview onto a transforming world. The British encountered the same challenge as their worldview imposed on India was also overturned, not by an army but by a single concept found in a single person—Mohandas Gandhi. The worldview of successful organizations seems to reward the market truth that has changed and adapted. History is filled with stories that show losses for the side that does not transform because leaders failed to see a transformation about to happen and led their teams into difficulties. In this sense, leaders must first transform their view of the world before they can lead the team. This transformation is critical to the strategic business transformation proposed in this book and will be explored in detail in Chapter 5.

**What Is Strategic Business Transformation?**

Remember travel agents? Where did they go? How about the banker who visits you? The mainframe computer? Film-based cameras? The typewriter? The vinyl record, or the CD for that matter? All these markets transformed in our lifetime. I remember when I waited in line in Orchard theatre in Singapore to witness and experience the first escalator. I remember the first television we had in our home. The neighbors would crowd outside our windows to watch it with us. And what about the laptop? Will the idea of a large disk on a laptop sustain itself despite cloud-based storage?
Either organizations transform markets or markets transform organizations. When small changes in a market start to change the customer model, the financial model, and/or the business model, then organizations must transform with it or go extinct in the long run. When we speak of transformation strategies, we must have a view of the following transformations, which are a result of the changes we can expect. Namely, the customer’s needs and interests change, the financial model for how you make money may change, and the market may shift:

- Customer model—what customers buy consistently, how they buy, when they consider and what they consider value for a price.
- Financial model—the profit and loss framework of the organization. How is the money that funds the actions of the organization made? How is revenue allocated, and how does money flow as the bloodstream of the business? How is cost allocated, and how are decisions made from this allocation?
- Market model—product, price, promotion/brand, and channels. How are these measured and managed? What are the key business processes, and how do they differentiate the business?

Transformation is different from change in that change is about knowing where the puck is going and predicting positions of the market, while transformation is about finding new arenas with different elements of your assets in a different combination. Change is about predicting and responding to business cycles, and transformation is about finding the new normal. Sometimes markets make structural shifts that make predictions almost impossible. In this situation, market transformations will confuse many of the players. How do you know the organization’s new strategy has the best possibility of success? Let us look at the core differences between change and transformation:

Change is:

- Cyclic.
- 80 percent regression, 20 percent structural.
- What goes up will come down.
• An adjustment in volume.
• Knowing where the market is going.
• Incremental changes in product and service design.
• Speed to market or good response works.

Transformation is:

• Structural shift in how the market works.
• 80 percent structural, 20 percent regression.
• What goes down may stay down.
• A correction or movement to the new market.
• The market is leaving; new markets form.
• Innovation is welcomed in product and service design.
• New business models are welcomed.
• New responses to the existing market and new markets are welcomed.

Transformation is seldom about sudden change, but it may seem that way because several unnoticed changes may happen all at once.

Who could have predicted that Greece would challenge the financial balance of the European markets, creating a ripple effect that would challenge even the U.S. markets?

Toyota was challenged with apparent brake failures and with a brand declaration “moving forward.” An oil spill devastated the southern coastline of the United States. Earlier, Thailand suffered from a coup. All this may seem unpredictable. Businesses can build their futures without anchoring their business model on such events but on anchors that never change because they are based on human behavior and principles rather than market dynamics. Are these changes transformational? Are these shifts tectonic, where the market is restructuring how it wants to be served, or is everything just trends? Add to this the transformation of how people communicate using social media. The information flowing between nations, individuals, and organizations shows no sign of slowing down. Gregg Easterbrook says:

The ancient Greeks had considerable knowledge, though compared to us, little information. For instance, the Greeks believed matter was made from four elements: the latest count is 119. Today’s typical American high school student has at his
or her disposal more facts about science, biology, geography, physics and astronomy than was known to all Greek thinkers combined.

. . . but when information changes from a stream (the Greeks) to a river (the present) to Niagara Falls (the new future), how will we ever slow down enough to achieve knowledge?²¹

Importance of the Transformation Effect

There are three reasons why businesses must watch the transformation effect:

1. We experienced a downturn in 2007 during the banking system crises. The housing bubble burst, and unemployment reached 9.8 percent in November 2010.¹¹ The results of this downturn have been unprecedentedly transformative as forces gaining momentum in the markets will be felt for years to come. Consumers were not spending, and businesses were not borrowing. The fuel of our economy is spending, and this is not growing even though we see positive signs of consumer purchasing goods at year end. Stock market reactions reduced retirement nest eggs, and retirees understand that they have to keep working.

2. Government has decided to engage in the business of business because it believes that businesses are failing the community at large. Now the government is competing and controlling the market dynamics for fear of market failure, and the free-market dynamics seem not to be trusted.

3. Consumers are rethinking their lifestyle and purchases, and so are businesses, which like to hold onto cash in reserve. They are holding on to investments. Maybe we will go back to the spending days of the past as the economy gets better, but since the last downturn, many average consumers are concerned about the future and hesitant about returning for more than financial reasons. They are witnessing a changing world of priorities and are questioning greed as a virtue.

Transformation does not take place once every 10 years but when markets warn you that the strategic variables you used to
define your strategy have been replaced. According to Vinay Leuto, Frank Ribeiro, and Andrew Tippens, “To navigate such a rocky landscape, companies must be ready to repeatedly transform themselves—indeed, to institutionalize the capacity to alter strategies again and again—as business conditions require.” They confirm that the problem is that most companies do not have “an adequately proactive roadmap of transformation.”

**Markets in Transformation Are Re-creating Themselves**

W. Chan Kim and Renee Mauborgne, authors of *Blue Ocean Strategy*, describe markets as expanding. Unlike battle, where most of our business analogies come from, they state:

> Unlike war, however, history of industry shows us that the market universe has never been constant; rather blue oceans have continually been created over time. To focus on the red ocean is therefore to accept the key constraining factors of war—limited terrain and the need to beat an enemy to succeed—and to deny the distinct strength of the business world: the capacity to create new market space that is uncontested.  

They contend that when markets expand, so does our opportunity to capture “blue oceans” rather than stay only in the “red ocean.” Strategic business transformation is about finding those latent opportunities in the ever-expanding market. They continue:

> . . . history shows that industries are constantly being created and expanded over time and that industry conditions and boundaries are not given; individual actors can shape them.

Given that the business opportunity universe expands and contracts over time, what are the ways we can view, diagnose, predict, and identify opportunities? How do we understand not just the trends everyone identifies within a market but also the future momentum that creates new markets?

When Apple introduced the iPad, it revolutionized an existing market of tablet PCs. Just as Apple took the mp3 market to new heights with the iPod, and the phone market with the iPhone, its
iPad is now finding uses in expanding markets. Children use it, teachers use it, and doctors use it.

**Summary and Observations**

If you run a business in an industry that is shifting structurally and you believe that the customers will change, or if you want change because you have found a cause that will enable your company to transform the industry, then you must prepare for this transformation. You should put together a way to view the future and a way to diagnose which variables to watch and which to ignore. How do you find a guiding star when the sky is filled with clouds? Chapters 2 through 9 outline seven attributes to understand, watch, and avoid. I call them “the seven deadly sins” because following them increases the likelihood that your business will be swept away in the coming storms.

These seven are best overcome by turning them into ingredients for success, putting them together and aligning one with the other to create the foundation for an effective strategic direction. They are best deployed in anticipation of a transforming market. In transformation, too much noise is introduced into the system, and one cannot find the key signals that give direction. So it is best to start early, watch for the real signals, and formulate your organization direction. The seven sins provide the warning signs to watch for these signals that will guide us through the noise. Organizations lose their identity before they lose their way. This is about gaining and discovering your organization’s identity, and then your direction.

**Notes**


