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PIVOT TO THE FUTURE

Discovering Value and Creating Growth in a Disrupted World

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MAIN IDEA

Disruption is very much a way of life in every industry today. A multi-year research project carried out by Accenture on more than 3,000 companies showed that at any one time at least 63% of companies will be experiencing disruption, and that 44% of the companies in any marketplace are highly susceptible to future disruption.

So what's the best way to respond to ongoing marketplace disruptions? Ideally, you want to become a disruptor, not the disrupted. To do that, you're going to need to have the ability to pivot again and again:

PIVOT

THE OLD	**Transform your core business** – to drive up investment capacity
THE NOW	**Grow your core business** – to provide capital for future growth
THE NEW	**Scale new businesses at pace** – so you can identify new growth areas

If you can master the wise pivot and keep reinventing your business over and over, you're all set regardless of what happens in the future. To accelerate growth today and establish leadership in tomorrow's opportunities, you have to systematically balance and rebalance your investments in the Old, the Now and the New.

"The only solution to continuous and potentially devastating change is constant reinvention, rearchitecting the business in a way that allowed us to pivot from one opportunity to the next, quickly and efficiently – an approach to business value creation we came to call the 'wise pivot'".
– Omar Abbosh, Paul Nunes and Larry Downes

1. Releasing trapped value . . . . Pages 2 - 4

When you're dealing with markets which are unpredictable, a single one-time large-scale "transformation" of your company just won't cut it. Constant reinvention and multiple pivots from one opportunity to the next and then to the next after that will be required. The aim here is to keep coming up with new and better ways to unlock the value which is trapped within your current business model and then to refocus your business around the right mix of old and new assets.

2. How to make wise pivots again and again . . . . Pages 4 - 8

To make wise pivots, you have to keep rotating through the old, the now and the new all the time. What's new today will become the old faster than you ever thought possible, and the cycle has to keep going to work. Leaders have to constantly and consistently balance and rebalance how much resources you are committing to each stage.

In practical terms, pivoting successfully revolves around the ongoing reinvention of your three core assets – innovation, finance or people. For each of those three assets, you have at least three potential pivot points:

1 Your innovation	2 Your finances	3 Your people
Concentration Centralized vs. Decentralized	**Fixed assets** Own vs. Pay-as-you-go	**Leadership** Operators vs. Entrepreneurs
Control Directed vs. Autonomous	**Working capital** Readymade vs. Made-to-order	**Work** Human vs. Machine
Aspiration Incremental vs. Disruptive	**Human capital** Reskill vs. Redirect	**Culture** One culture vs. Multiple cultures

PIVOT 1 Releasing trapped value

When you're dealing with markets which are unpredictable, a single one-time large-scale "transformation" of your company just won't cut it. Constant reinvention and multiple pivots from one opportunity to the next and then to the next after that will be required. The aim here is to keep coming up with new and better ways to unlock the value which is trapped within your current business model and then to refocus your business around the right mix of old and new assets.

In the early 2000s, Dutch consumer products giant Royal Philips recognized that within ten years, LED (light-emitting diode) technology would become far better, cheaper and more sustainable than its traditional incandescent lightbulb products. Even though Philips had practically invented light bulbs and had harnessed that technology for well over a century, the company made the decision it needed to pivot.

To that end, Philips leveraged its existing assets in manufacturing, marketing and distribution and made short-term investments in an interim technology called compact fluorescent light bulbs. That gave Philips a product it could sell right now even as the company ramped up its investments in LED research and development. Philips also sold off its incandescent lighting assets to competitors while they still had a reasonable marketable value.

Thanks to this pivot, Philips was then well positioned and ready to enter the LED market as a service provider with its proprietary Hue technology once the market had matured sufficiently. Furthermore, Philips was also investing in and expanding its health technologies business which ultimately became its new core. Eventually, Philips largely exited the lighting industry despite one hundred years of experience.

Philips was a textbook illustration of what doing a pivot can achieve. Philips sold its traditional lightbulb business to generate enough resources to invest in next-generation LED lighting and then in turn sold that business to become a high-value health technologies service provider. Balancing investments in three technologies which are at different life cycle stages is tricky to pull off but if you can pivot like Philips, some amazing synergies can result.

"Mastering a wise pivot requires a constant and courageous rotation through the old, the now, and the new. The new eventually (perhaps quickly) becomes the old, and the cycle continues. Over- or underinvesting in any one stage is a constant risk, one that can prove catastrophic. Leaders must revisit the ratios of investment in each, keeping them in balance in the face of sometimes unpredictable disruption from outside. In effect, they create a triangle of balance, pivoting from one to another."
– Omar Abbosh, Paul Nunes and Larry Downes

In every market and inside every company, the arrival of new and fast-improving digital technologies are creating opportunities to unleash new revenue streams from products and services which were previously trapped by market inefficiencies. You have to get to that trapped value before someone else beats you to the punch if you're to have any chance of funding your future growth. Accessing that trapped value is difficult because it requires that you change your old plans, strategies, processes and systems.

Trapped value can arise in four different places:

1. *The enterprise level* – where companies fail to pick up on the fact new technologies can radically improve the mundane parts of their current business. Nike is now working with manufacturing partners who can produce a shoe "upper" in 30-seconds with thirty fewer steps than conventional shoe manufacturing and up to 50 percent less labor. Adidas is working with a company called Carbon to use 3D additive manufacturing technology to print shoes personalized to a customer's foot. This cuts the traditional design process Adidas used to use from months to days. Companies need to update rules and procedures to take advantage of these disruptive technologies.
2. *The industry level* – where technologies which could help all players benefit only a small handful instead. The automotive industry churned out cars which most people buy and then leaved parked for 95 percent of the time. That trapped value has been targeted by on-demand services like DriveNow and ride-sharing companies like Uber and Lyft. Industry experts predict car sharing and autonomous technologies will slow annual vehicle sales growth and that these new entrants will capture 40 percent of that trapped value.
3. *The consumer level* – where customers bear excessive costs that can be reduced by technology. Airbnb is estimated to have released $20 billion in user revenue between 2010 and 2016 generating $2.5 billion in revenue for Airbnb and $100 million in profit. Similarly Alibaba and eBay earned a combined $140 billion between 2004 and 2014 simply by helping consumers shop at home and have their goods delivered rather than going to the mall themselves.
4. *The society level* – perhaps in the form of reduced pollution, improved education and greater health and wellness. Chinese gaming giant Tencent noted consumers didn't have access to efficient and trusted financial networks so it began offering this service. In just a few years, China's mobile payment market has grown to over $5.4 trillion in transactions with Tencent processing more than 40 percent of those transactions and Alibab having a 50 percent share of the market. China's traditional banks have missed the boat altogether.

The reality is opportunities to find trapped value will continue to increase as technologies become more accessible and cost-effective. It's safe to conclude that sooner rather than later, every economic sector and every industry will undergo a global reinvention, even those which have already been remade once or twice by the digital revolution. The imperative today is to leverage the release of that trapped value to enhance rather than erode your own competitive advantage.

"You've no doubt seen the signs of change in your own business. Static supply chains are breaking apart, reforming as dynamic ecosystems that engage every stakeholder, including customers. Legacy products and services, some of which may have enjoyed a century of

dominance, are being replaced by innovations driven by digital technologies. Barriers to entry, whether created by incumbency, high infrastructure costs, or regulatory controls, are crumbling and collapsing. Competitors are finding new partners and new investment models, jump-starting their pivot to the new."
– Omar Abbosh, Paul Nunes and Larry Downes

As disruption changes from a once-in-a-career challenge to a constant cycle, you first have to be aware of the seven obstacles to releasing trapped value which can arise. The seven most common management mistakes around trapped value are:

1. Making your company so lean that you devote all your resources to tweaking a single product which solves a problem customers no longer care about. Groupon keeps improving its product despite the loss of 70 percent of its market value.
2. Having so much debt on your balance sheet that you cannot jump at new market opportunities. Toys "R" Us funded its growth through debt and could not service that debt as it tried to pivot to compete with Amazon and others.
3. Taking visionary entrepreneurs out of their roles too quickly and replacing them with managers. Yahoo was never the same after Jerry Yang got sidelined into an engineering role. Apple realized its mistake and brought back Steve Jobs for an impressive second act.
4. Managing to Wall Street's expectations for strong quarterly earnings rather than being willing to make long-term investments in new technology. Amazon's CEO Jeff Bezos is justly proud of his reputation for spending six hours a year on investor relations. The rest of the time he focuses on creating more value for Amazon's shareholders and customers.
5. Relying on the kind of luck that makes leaders feel invincible. Oculus Rift won "Best of Show" at the 2014 CES show and was acquired for $2 billion by Facebook a few months later. It now has a 4 percent share of the market for virtual reality headsets due to the inroads made by HTC, Sony, Samsung and others. Oculus (and Facebook) mistook its market insights and early momentum for the superpower to shape that market in the future.
6. Serving regulators, not customers. The hospitality industry has fought Airbnb by asking regulators to ban Airbnb outright. You will always create more value by serving your customers than you will in worrying about hastily crafted new rules.
7. Anticipating customers who aren't really all that likely to show long-term interest. When Apple launched its smart watch in 2015, it attracted one million pre-orders, and competitors rushed to the new market. Sales for smart watches and wearable technology then dropped immediately and many of those competitors have disappeared without trace.

These seven wrong turns can sidetrack even the best business leaders and keep them from releasing the trapped value which is accumulating in your industry. To avoid these mistakes, there are seven winning pivot strategies that you might use. These are:

1	Make a technology propelled pivot
2	Make yourself hyper-relevant
3	Become more data driven
4	Be asset smart
5	Become more inclusive
6	Recruit more talent
7	Use the power of networks

1. *Make a technology propelled pivot* – where you master some cutting-edge technology and use that to innovate. Many enterprises have trapped value in the form of "technology debt" where IT systems have been patched up rather than replaced with superior architectures. Companies which are digital natives will instead lease applications, capacity and infrastructure from cloud service providers. To pivot, you might need to commit to building a nimble IT infrastructure. UK insurance broker Towergate committed to a complete IT modernization project which generated an ongoing $5 million a year reduction in costs. As a result, Towergate has grown significantly.
2. *Make yourself hyper-relevant to your customers* – by addressing their evolving needs. Hyper-relevant organizations collaborate with customers to generate personalized interactions which revolve around the customer experience. You can aim to become an integral and trusted part of your customers' lives. CVS Pharmacy pivoted from merely filling prescriptions to providing customized prescription labeling, home deliveries, low-cost telemedicine solutions, personalized reminders about health care appointments and more. CVS works with its customers to improve their long-term health outcomes.
3. *Become more data driven* – generate, share and deploy more data to come up with insights which lead to service and/or product innovations. Data-driven companies make recommendations to try and influence customer behavior as they access trapped value which might be accumulating in data warehouses. South African company AllLife is the first company in the world to offer whole life coverage to people who are HIV-positive – which is nearly 20 percent of the adult population of South Africa. It uses data to come up with terms for a cost-effective life insurance product which also incorporates personalized recommendations for how each customers can better manage their condition.
4. *Be asset smart* – adopt smart asset and management systems which enable you to become more efficient to free up capacity for more innovation. Most companies focus on trying to own as many assets as possible, but Apple is more asset smart. Apple owns very little of the physical infrastructure required to make or distribute its products. As a result, Apple needs almost no outside capital, so it pays no interest to lenders and does not fall under any of their restraints.
5. *Become more inclusive* – adopt a transparent approach so you can broaden stakeholder participation in innovation. Inclusive companies typically work with networked partners to develop more efficient supply chains and to create platforms which consumers and suppliers can use to unlock trapped value. In China, e-commerce giant Alibaba formed a consortium with the country's largest courier companies to improve the country's logistics

infrastructure. The benefits of that collaboration have been numerous, both for merchants and for Chinese consumers. In 2017 alone, Chinese merchants shipped 31 billion packages with those courier companies. Or you might follow the lead of Microsoft which initiated a $25 million program called "AI for Accessibility" in 2018. This program will develop speech-to-text and visual recognition technologies for those with disabilities so they will have improved outcomes in employment, home and social interactions. Inclusivity is a great pivot when you can point to broader benefits to society.

6. *Recruit more talent* – use superior workforce management approaches to attract and retain highly talented people to your enterprise. Every great company has a workforce advantage at the heart of their success. If you pivot to develop a highly adaptable workforce of talented and experienced people, you'll be well positioned for the future. Between 2011 and 2015, Volvo added three thousand new engineers as it pivoted to become a premium car brand. Many of these were software engineers who the company carefully mentored and upskilled. Not only have these new workers eliminated outdated processes, but Volvo is now well positioned for the introduction of autonomous vehicles to the marketplace.
7. *Use the power of networks more effectively* – to partner with others to deliver the best innovations to your customers. Companies that are network powered typically use digital technologies to turn one-time purchases into ongoing services. As more smart products and services come along which are networked, more data will lead to better insights, which will in turn lead to the release of more trapped value. This will see efficiency level boosts in sourcing, manufacturing, distribution, retailing and customer support worldwide. Equipment manufacturer Caterpillar is the perfect example of this. It has developed its Cat Connect platform which gets used by mine operators to better manage their equipment's performance. Using the data generated by Caterpillar equipment networked to Cat Connect, construction firm Strack Inc. is now able to run its machines for forty-eight hours straight while at the same time reducing fuel costs by 40 percent.

In practical terms, these seven strategies are the most likely and most robust pivot points that are likely to be available to you. Using these, you can identify what kind of trapped value you can target and then how to release it. Just keep in mind applying these strategies will take a certain amount of courage, daring and tolerance for early failures while learning.

"Releasing trapped value happens by design, not accident. Like expert skiers, the most successful and sustained value releasers keep turning—fluidly, regularly, and with great speed. And while experts make it look easy, at some point they all mastered the art of choosing when and where to turn, planting their pole in the ground, and using momentum to rotate to the next pivot. Over time, the process becomes automatic. Experts just do it, without thinking about the mechanics of what they are doing."
– Omar Abbosh, Paul Nunes and Larry Downes

"Critical to understanding what we call the wise pivot, however, is the realization that you don't have to attack the gap all at once. There's no need to abandon your core assets, resources, and products prematurely. Instead, as we'll see, you need to leverage them to generate more revenue, applying new technology to restart stalled, older products and accelerate the development of newer ones. Then you'll invest that revenue in building the next generation of your organization, scaling rapidly with new offerings based on even newer technologies."
– Omar Abbosh, Paul Nunes and Larry Downes

"Disruption s no longer a once-in-a-career problem to be dealt with. It's a constant cycle. In every industry we studied, an expanding trapped value gap between what is possible and what is available is appearing and reappearing with greater frequency."
– Omar Abbosh, Paul Nunes and Larry Downes

PIVOT 2 How to make wise pivots again and again

To make wise pivots, you have to keep rotating through the old, the now and the new all the time. What's new today will become the old faster than you ever thought possible, and the cycle has to keep going to work. Leaders have to constantly and consistently balance and rebalance how much resources you are committing to each stage.

In practical terms, pivoting successfully revolves around the ongoing reinvention of your three core assets – innovation, finance or people. For each of those three assets, you have at least three potential pivot points:

1 Your innovation	2 Your finances	3 Your people
Concentration Centralized vs. Decentralized	**Fixed assets** Own vs. Pay-as-you-go	**Leadership** Operators vs. Entrepreneurs
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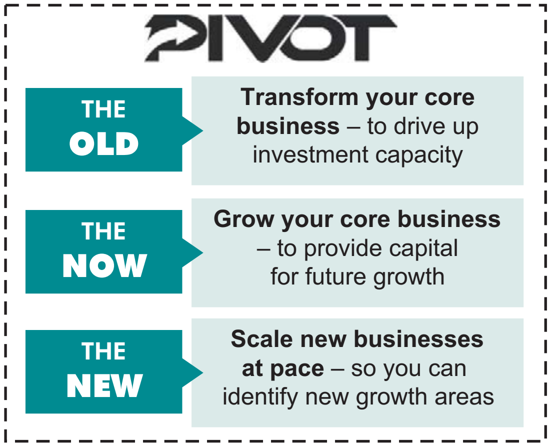
Aspiration Incremental vs. Disruptive	**Human capital** Reskill vs. Redirect	**Culture** One culture vs. Multiple cultures

There's no question the technology revolution is over. Industries are going to continue to be remade over and over in the future in unpredictable ways. Releasing large amounts of trapped value won't be a one-time event but will be an ongoing process. The need to pivot to a dramatically different approach will arise again and again. Therefore, it makes good sense to learn how to pivot successfully and how to make wise pivots, which will improve your current and future earnings year after year.

"A truly wise pivot is one that is repeatable. That means managing core assets not as discrete resources with

diminishing value from creation through to retirement, but as a dynamic investment portfolio, continually rebalanced across the three different life cycle stages we refer to as the old, the now, and the new."
– Omar Abbosh, Paul Nunes and Larry Downes



To make a wise pivot, you've got to continually rebalance what you're doing with your "old" products and services which have reached the peak of their growth, your "now" offerings which are evolving from a focus on innovation to eventual commoditization, and your "new" or emerging parts of your businesses.

"To pivot wisely means embracing a constantly evolving strategy, one that integrates all three stages as you manage your portfolio from one set of assets to the next, growing and reshaping your old core into a new one built with new technologies."
– Omar Abbosh, Paul Nunes and Larry Downes

It sounds somewhat counterintuitive but the essence of a wise pivot is not that you immediately stop investing in your old and now technologies and devote all your resources to scaling up the new technologies you see on the horizon. On the contrary, wise pivoting suggests that you should renew and restart investments in older businesses, even those which you know their days are numbered in their current forms. You invest in your older businesses in order to generate the funds needed to help your emerging new businesses reach scale as fast as possible.

"By carefully planning these turns, we found we could accelerate growth in all three life cycle stages at the same time, creating an engine for repeated and sustainable pivots, squeezing out essential, if diminishing, trapped value from the old and the now to apply as fuel for getting to one fast-approaching new after another."
– Omar Abbosh, Paul Nunes and Larry Downes

In other words, don't lose sight of what has made you successful – today's products and services – in the rush to get into new and emerging markets. Retain and grow today's offerings, today's markets and today's technologies in order to have the revenue required to develop and embrace the disruptive technologies of tomorrow. Do that well and you'll be able to consistently get to the future ahead of your competitors because they cannot take advantage of what you're bringing to the equation thanks to today's competitive advantages.

"Even businesses nearing the end of profitability have the potential for a rich second life if given the right fuel. Likewise, increasing investment in new technologies can leapfrog today's successful product over those of competitors, gaining not just market share but new customers. And in the fast-approaching new, investments in traditional, proprietary R&D may not assure your place in future markets and future products. Instead, you'll need to secure a starting position in emerging industry ecosystems, not just by launching successful new products, but by doing so with the ability and capacity to rapidly scale production and delivery of them when mainstream customers are ready to make the leap—a leap that arrives more quickly all the time."
– Omar Abbosh, Paul Nunes and Larry Downes

NETFLIX

The best way to understand the dynamics of a wise pivot is to look at the example of Netflix, which initially built a business mailing DVDs to subscribers. In 2011, Netflix CEO Reed Hastings correctly realized the growing ubiquity of high-speed internet to homes would spell the end of DVDs. Hastings split Netflix in two leaving the legacy DVD business to largely fend for itself while the company's best employees focused on building a streaming alternative. The DVD business was even renamed Quickster and all of Netflix's capital was applied to its future streaming service.

Netflix's customers revolted and Netflix's share price lost 60 percent as 800,000 subscribers left the company. That prompted Netflix to reverse course and retain and even expand its DVD service. This has been a wise move because even as recently as 2017, the mailing service has 3.4 million customers and generates $450 million in annual revenues. Many of these customers are in rural areas with less reliable broadband services.

Netflix has used the revenue from its mail-order DVD business to fund the implementation and rollout of its streaming services to spectacular effect. At the same time, the company has also made another multi-billion-dollar pivot to becoming an original content provider. This is being funded by the revenue derived from both the mail-order DVD business and the more than 125 million subscribers Netflix now has for its streaming business.

"Like Netflix, the value releasers in our research learned, sometimes the hard way, to avoid premature abandonment of the old. Even when products or services become commoditized or begin to implode, smart leaders buck conventional wisdom and devote financial and technical resources to extend their life span, applying technologies previously neither mature enough nor cost-effective."
– Omar Abbosh, Paul Nunes and Larry Downes

Another company which uses wise pivots to great effect is Google. By the time Google launched in late 1998, the internet search marketplace had been dominated by a succession of players including AltaVista, Excite, Lycos, AOL, Ask Jeeves, MSN Search and of course Yahoo! Google came along with a unique algorithm, which was followed by GoogleAdWords, an auction-based platform for selling advertising.

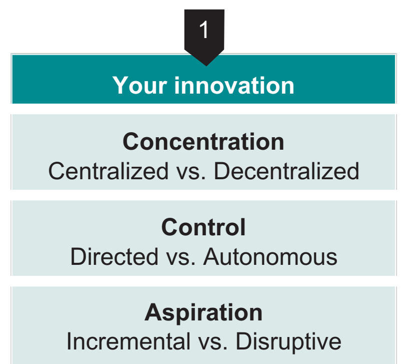
By 2002, Google dominated internet search and advertising, and today it still controls as much as 90 percent of the global search market. At the end of 2018, Google reported $110 billion in annual revenue giving the company a market valuation of $750 billion. Despite that, Google has never taken its market position for granted. In 2007 alone, Google ran 31,584 side-by-side tests of new search experiments resulting in 2,453 separate changes to its core search product.

At the same time Google, or more correctly its parent company Alphabet, invested $16 billion in R&D expenses in everything from self-driving cars to home automation to fiber to robotics and a wide range of other innovations and new technologies.

"Perhaps as much as any other company, Google's strategy embodies the insights we gleaned from our own experience and research. Google has never for a moment stopped shooting for the stars, competing more against itself than any real or imagined new entrant. Google doesn't just attack the trapped value gap, it works to make it bigger, almost as if the company is challenging itself and its competitors to see who can stretch the furthest to close it. In Alphabet's balanced portfolio, each other-bet business is managed with a goal of financial independence. Each has its own CEO, budget, and revenue target established by Alphabet's executive team, with a defined path to profitability. Across all three life cycle stages, more importantly, every investment is tightly related to the company's core product and its long-standing mission to collect and organize the world's information sources and make them available to consumers worldwide."
– Omar Abbosh, Paul Nunes and Larry Downes

So the essence of a wise pivot is to successfully balance your assets and investments across all three life cycle stages. To achieve that, you're going to have to rely on and also reinvent your three core assets – your ability to innovate, your financial discipline, and the human capital of your employees and stakeholders.

Taking each of these in turn:



Managing your innovation pivot requires that you make three key sets of decisions:

1. Do you centralize innovation projects and manage them all from head office or do you allow innovation to happen in each unit and bubble up from the front lines? Which approach will give you the ability to act on the best ideas of each employee and stakeholder?
2. Do you give R&D staff and your corporate venture fund managers autonomy to invest in the projects they think are most promising? That may mean dead end projects end up soaking up resources which could be better applied elsewhere.
3. Do you invest in next generation projects and emerging technologies (moon shots) or should you be investing in incremental enhancements which are reasonably certain to be successful?

"Let's be clear about one thing. There is no perfect setting for any of the levers that applies to every enterprise. Depending on the nature of trapped value in your industry, your innovation portfolio will require greater or lesser scrutiny, autonomy, and risk. Your answer will be based on the kinds of value you target, the new technologies you apply, and the winning strategies you embrace."
– Omar Abbosh, Paul Nunes and Larry Downes

A few observations about these decisions:

- Based on the experiences of the 3,000+ companies in the study, being overly decentralized tends to be helpful in the short run but detrimental over the long haul. You do tend to need someone who will clarify quickly the ideas with the highest potential and then follow through in helping turn them into a commercial reality ahead of competitors.
- Both too much and too little control yields less than optimal results. Many companies are finding success by setting up internal incubators which fund a portfolio of ideas and let a meritocracy based on results drive future investment decisions. Regardless of the amount of control you end up having, specify some common metrics and be very clear about how results will be measured. Keep them simple but have a consistent way to compare different projects.
- The best way to decide on the balance of how you invest in the different life cycles tends to be to do a sober analysis of the trapped value across your enterprise, your industry, your customers and society at large. You can then decide whether to weight your portfolio to existing products and services or next generation technologies. You also have to factor into the equation how rapidly your markets are changing and evolving.

2

Your finances

Fixed assets
Own vs. Pay-as-you-go

Working capital
Ready-made vs. Made-to-order

Human capital
Reskill vs. Redirect

"Sustainable performance in the face of constant disruption is as much a matter of money as it is of innovation. No matter how you decide to adjust the levers of your innovation pivot, successful execution will require an equally rigorous management of capital. Money is the principal fuel that keeps innovation revving across all three life cycle stages."
– Omar Abbosh, Paul Nunes and Larry Downes

Logically you won't be able to make a wise pivot without substantial investment in the new. The three questions you're going to have to work through in this area are:

1. Do you shed your fixed assets now in order to lower your operating costs, reduce the risks of obsolescence and have greater agility in the future? The problem is if you acquire manufacturing, distribution, retailing and technology capacity from service providers instead, you may dilute your uniqueness and also undermine your capacity to develop your own innovations.
2. How much working capital you want to have tied up in inventory? Again, this is going to be a balancing act. Reducing your inventory will probably improve your profitability but having too little inventory will potentially reduce your economies of scale. Furthermore, being out of stock can damage your brand because customers will be unable to buy when and what they want.
3. The human skills of your employees are your ultimate differentiator regardless of which industry you are in. These are also the hardest asset to buy on an as-needed basis. However, maintaining full-time workers is expensive, and helping your employees enhance their skills so they can use next generation technologies is also expensive. As part of your wise pivot, you have to balance investing in your people with the purchase of expertise through part-time engagement or from service providers.

Finances will always have a profound impact on your ability to make a wise pivot. Simply put you won't be able to pivot without substantial financial investment in the new. As a general rule-of-thumb, the bigger the trapped value gap, the greater the need will be to make savvy adjustments to the levers of your financial pivot.

Research has shown just being out of stock due to too little inventory reduces potential revenue by as much as 4 percent worldwide. That means lost sales of more than $125 billion annually in the United States alone. When consumers find a product they really like and start using social media to tell everyone they know, there can be sudden spikes in demand. If you don't have your capital structure right so you're unprepared to meet that demand, you may find yourself selling the one thing everyone wants but no one can get. This is what's termed a "catastrophic success".

"We believe businesses of any size can use new technologies not only to more accurately manage inventory, but also to turn inventory management expertise into a competitive advantage. With ubiquitous communications networks, low-cost cloud-based capacity, and increasingly reusable data sources, companies can have their cake and sell it too."
– Omar Abbosh, Paul Nunes and Larry Downes

"Technology is driving the need to rethink the human capital lever, providing new tools, and new imperatives, for companies embracing the talent-rich, asset-smart, and network-powered winning strategies as part of their wise pivot. Training is moving from classroom to cloud, enhanced by high-definition video and advanced teleconferencing, holography, machine learning, and new human interfaces built with augmented and virtual reality."
– Omar Abbosh, Paul Nunes and Larry Downes

3

Your people

Leadership
Operators vs. Entrepreneurs

Work
Human vs. Machines

Culture
One culture vs. Multiple cultures

"No matter how you balance your financial portfolio in the old, the now, and the new, the successful execution of a wise pivot requires a thoughtful and strategic management of one of your most value assets: your people. As anyone who has ever worked for a business large or small knows, nothing changes if the people don't change first. Creating a balanced people portfolio is not just good business; it's the only way to operate successfully across all three life cycle stages. It is an essential component of our corporate culture and a key success factor in our wise pivot."
– Omar Abbosh, Paul Nunes and Larry Downes

The human equation will play a key role in any successful pivot. The bedrock reality is nothing changes until your people change first. To pivot, you've got to successfully manage businesses in the old, the now and the new simultaneously. That requires uniting people while at the same time respecting their individuality.

The three levers of the people side of your pivot will be:

1. Do you understand and manage the trade-off between leaders who are focused on business creation (your entrepreneurs) versus leaders who are focused on making businesses run smoothly (your operators)? You'll need both and you'll need to be able to distribute your leadership talent across the three life cycle stages. You have to learn how to invest in developing your leaders and then managing their work assignments so you get the right mix of entrepreneurs and operators.

2. There's a lot of discussion nowadays about which tasks should be completed by humans and which can be automated without any loss of quality. To manage your people, you're going to need to discuss this and build consensus for the right balance in your businesses. You also need to focus on making hybrid combinations where technology is used to empower workers to do better rather than replacing them. All of these issues need to be factored in and the right balance struck.
3. To pivot to the new, you might need to adopt the kind of open and entrepreneurial culture which underpins many of the high performers in the information age. There might also be a generational change required, and if your business operates in the global marketplace you might need to have a team of cultures rather than universal operating principles. The balance to be struck here is to maintain what makes your brand distinctive and your shared vision that everyone believes in.

The big opportunity at the moment is to enable workers with more technology rather than replacing them. As artificial intelligence becomes more widely used, it will be feasible to completely automate rote tasks and use that technology to differentiate your offerings. Managing talent as you pivot and navigate between the old, the now, and the new will be tricky, especially if your culture needs to change in sync.

"The underlying assumption is that humans and machines are competitors and that AI, with superior speed, fast-growing processing power, and inexhaustibility, will replace workers at all levels. We don't agree. The more likely future is one in which employees and technology will work together in new ways. We'll still need people, albeit with new, different, and constantly evolving skills. What is true is that AI is already a significant contributor in more nuanced ways to the increasing pace of technological disruption, upending conventional workforce roles, hierarchies, strategies, and leadership styles."

– Omar Abbosh, Paul Nunes and Larry Downes

One of the largest users of industrial robots are the automobile manufacturers, but Mercedes-Benz is also increasing the role humans play on the factory floor. The machines are great for repeatedly performing routine tasks but humans are much better at customization to meet individual customer preferences. Rather than big machines, more and more workers in the Mercedes factories have small, light and flexible machines which enhance the capabilities of the workers rather than replacing them. Many more industries may go down a similar path.

"Fashion stylists, carmakers, and others must strike a careful balance between humans and machines. To achieve "zero distance to the customer" in markets growing more competitive all the time, businesses must close the trapped value gap by becoming hyper relevant, providing customers ever-more granular personalization. But to keep some of the value you release, you'll need to employ technologies, such as AI, that improve worker productivity along the way. When considering possible adjustments to the work lever, in other words, it's still important to weigh the impact of new technologies on work roles, and to do so across all three life cycle stages. Look at them through the lens of the missing middle, however, not the zero-sum game of man versus machine."

– Omar Abbosh, Paul Nunes and Larry Downes

"Achieving a wise pivot requires balance between, and focus on, all three life cycle stages. You can't just abandon the old products and services generating most, if not all, of your revenue. Neither can you jettison the culture that keeps them profitable. Pivoting to the future requires you to blend the best elements of your existing core with the tools and techniques of today's most successful disruptors, along with the new technologies that drive them. That blending includes features of your corporate culture, no matter how old or how different the customers it was built to serve."

– Omar Abbosh, Paul Nunes and Larry Downes

In the final analysis, pivoting to the future will only happen if leaders are prepared to leave their safe harbors of today and have the courage to move towards something different. Three last pieces of advice as you look to make those kinds of pivots are:

1. *Be patient* – always remember you cannot rush the future. You need to look for trapped value without being totally beguiled by it. Run some experiments so you can test the viability of the future before you commit to move there. Amazon did not have the first e-reader on the market but waited until there was the right combination of factors in place and then it moved. Today Amazon's Kindle is a market leader.
2. *Be generous* – as you release trapped value make sure your partners and your customers benefit more than you do. Share the wealth. The companies that give the most away always tend to grow the fastest, so join their ranks.
3. *Be realistic* – and acknowledge that not every pivot will succeed wildly. Instead of planning to hit it out of the park every time, you pivot, acknowledge that unanticipated things will happen. You improve your odds by staying flexible, but don't put all your eggs in one basket. Just keep measuring, fine-tuning, and adjusting as you go along and you'll do fine. Legendary toymaker LEGO found in the early 2000s it was losing ground to a new generation of affordable electronic and digital toys so LEGO pivoted. It released a free digital designer which helped customers plan their creations and remade LEGO blocks into robot building kits and more. As a result, the company has enjoyed double-digit growth in recent years as it continues to pivot to unlock more and more trapped value. That's what pivots can do.