Ashridge Strategic Management Centre

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Pointing you to articles of interest to strategists in leading publications

In this edition: ***McKinsey's recommendations for what to do right now to manage the impact of COVID-19, new forms of disruption, why companies often don't spot disruption coming, managing a portfolio of businesses in a disruptive time, when data will create advantage, when AI is (and isn't) helpful, and BCG's view of the bionic company***

COVID-19: Implications for Business

Matt Craven, Linda Liu, Mihir Mysore, and Matt Wilson. McKinsey.

McKinsey has established a briefing page on COVID-19, which it plans to keep updated as the outbreaks develop. (The current briefing deck, which is excellent, is here.) They review three scenarios for how things could evolve. The base case envisions a global slowdown, with China recovered by Q2 while cases persist elsewhere. In this scenario, consumer confidence is dampened during Q2, and possibly potentially Q3, but a global pandemic and recession with financial-market contagion – McKinsey's worst-case scenario – is averted. The authors review sector-specific impacts and set out a specific action checklist for firms, with a focus on protecting people, ensuring liquidity, stabilising the supply chain, maintaining customer relationships and practising the plan.

The New Disrupters

Rita Gunther McGrath. MIT Sloan Management Review

Rita Gunther McGrath, professor at Columbia Business School, sees a new pattern of disruptive innovation emerging. Recall that, according to the late Clayton Christensen's theory of disruption, fast-moving disrupters with cheap, low-quality goods could undermine incumbents: the incumbents didn't deign to respond to the newcomers, but continued with their long-term innovation plans – and lost their market, failing to recognise the value customers saw in the new offerings, and recognising too late that the entry of disrupters was decreasing overall customer willingness to pay for their own premium offerings. Today, McGrath says, disrupters' goods and services are no longer low quality: they are cheaper, more convenient, and every bit as good as existing offerings, and disrupters compete on the basis of customer experience. (For example, US spectacles-maker Warby Parker and the Dollar Shave Club offer high-end products on a subscription model that offers more convenience than store-based shopping.) The four characteristics of the new kind of disruptive company? They rely on access to, not ownership of, assets. (Think AirBnB.) They co-create with customers. They are always on, and they are mobile – B2C sales are not restricted by time or place. And, finally, they are light on capital: they outsource much of their operations, and share infrastructure by using platform-based ecosystems. More

The Lies Leaders Tell Themselves About Disruption

Scott Anthony, interviewed by Paul Michelman. MIT Sloan Management Review Podcast

Why do so few companies recognise disruption when it's on their industry's horizon? In this podcast from the MIT Sloan Management Review, Scott Anthony, co-author of the upcoming MIT Sloan Management Review article "How Leaders Delude Themselves About Disruption", believes four mistaken beliefs are to blame. First, senior executives rely on their biggest and most profitable customers as their best source of information (instead of diversifying those sources of information to pick up weak and peripheral signals). Secondly, companies build their picture of the future by extrapolating from historical data (Nokia, like Blackberry producer Research in Motion, saw years of increasing returns and profits.) Thirdly, companies believe that, in the face of uncertainty, the least risky thing to do is to double down. Fourthly, leaders believe that their shareholders won't invest in something new if it puts current returns at risk, and tell themselves that their duty to maximise shareholder returns means that they shouldn't act (instead of following through on the second of what Anthony describes as the leader's two fundamental tasks, delivering today and creating for tomorrow). Audio & transcript

Portfolio Choices: Back-to-Basics during Disruption

Les Baird, David Harding, Andrei Vorobyov and Shikha Dhar. Bain & Company

How should companies make portfolio acquisition decisions in today's strategic environment, which combines low growth and disruption? This article's authors advocate a back-to-basics approach, with

two themes. First, have a clear route to leadership in your market segment. At L'Oreal, for example, the acquisitions programme is tightly integrated with the corporate strategy, and acquisitions are used selectively to build up regional leadership. Secondly, focus on whether you will develop a compelling capability footprint when you combine your company's capabilities with those of your targets, whether those capabilities be managerial, technological, financial, operational or cultural. As the authors remind us, when going beyond your traditional business, a unique, defensible capability profile is key to success. The other side of using acquisitions to foster strategy, however, is using divestitures to keep your strategy on track. In Bain's research over the past decade, 90% of outperforming companies that actively manage their portfolio used divestitures in addition to acquisitions. For example, Axel Springer transformed its business from traditional to digital media through about 100 acquisitions and approximately 80 divestitures over the past decade. More

When Data Creates Competitive Advantage

Andrei Hagiu and Julian Wright. HBR

Data often rewards analysis, but there's no point simply collecting as much data as you can in the hope that it might be useful to you down the track. The authors of this HBR article provide a guide to when, and how much, data to collect. Their seven rules: (1) How much value is added by customer data relative to the stand-alone value of the offering? The more data adds value, the more it is worth to collect it. (2) How soon will you reach a point where additional customer data no longer enhances the value of an offering, as determined by willingness to pay? That guides you as to when to stop collecting data. (3) How quickly does the data become obsolete? (4) How quickly can insights from the data be translated into products? If it's a long time, even though the data itself may not be obsolete, it won't translate to an edge in speed to market. (5) Is it easy to copy, reverse-engineer or purchase the data from elsewhere? This diminishes the use in collecting it yourself. (6) How hard is it to copy product improvements that are based on the data you've collected? You won't create lasting competitive advantage with easily copied advances, even if the underlying data is proprietary. (7) Does the data collected from one user help improve the offering for that user (creating customisation that locks the user in) or for a larger set of users (creating more value)? More

Where AI Can Help Your Business (And Where it Can't)

Phanish Puranam. INSEAD Knowledge

Not all business problems can be solved by applying AI. In this article, INSEAD professor Phanish Puranam offers five principles for determining whether a problem might yield to AI. (1) The data you've collected must be representative for the problem you're trying to solve. However, (2) even representative data does not necessarily mean there is an authentic underlying pattern – to find signals rather than noise, the author advises prioritising projects in domains where the difference in decision quality between experts and novices is significant. (3) Patterns must be stable – so using machine learning won't be helpful in situations where the underlying fundamentals have changed. (4) Review your algorithms to ensure they're not perpetuating socially undesirable processes (famously, Amazon had to stop using machine learning for hiring once it realised its AI algorithm had taught itself to give less weight to applications by women). Finally, (5) review algorithms for accuracy, and try to use AI in those parts of your business where the returns in incremental increased accuracy are steep. More

The Bionic Company

BCG multimedia site

The successful company of the future will blend human and technological capabilities, says BCG, which has developed this multimedia page as part of its Winning in the 20s series. An example of a "bionic company"? Zappos, which combines a sophisticated retail platform with a focus on empowered customer service. In BCG's view, a bionic company can articulate its purpose, competitive advantage and value creation proposition clearly, has joint decision-making that draws on AI and human inputs, has a modern, modular technology stack and architecture, has a platform organisation with a modular, agile workforce, and has skilled staff that upskill as needed to form talent ecosystems. A company designed like this will be better able to respond to change, and BCG predicts significant gains in personalisation of customer-facing value, effectiveness and efficiency of operations, and, remarkably, a 50% reduction in R&D cycle time. Multimedia landing page | article