THE ELEMENTS OF TRANSFORMATION STRATEGY

Fall 2009
The Elements: formed under pressure during the Internet tsunami…

In 2002 I had returned to a management consulting career that began at Harvard Business School in the ‘70s. My consulting work had focused, whenever possible, on providing strategic counsel to leaders in transformational settings. I had worked on energy and the environment, on telecommunications…then in the ‘90s I had been recruited to join the Postal Service’ leadership team to create electronic businesses to respond to the coming challenge of the Internet.

I had the chance to write about my experience for the Harvard Business Review and “When a Turnaround Stalls” was scheduled for the February 2002 issue. Then at the last minute the editors asked me to summarize the Transformation Truths, the lessons learned. They were written quickly, under pressure, the product of our raw experience…
4 Transformation Truths\(^1\)
Emerged From Our Experience -

- **Timing**
  - *Don’t miss your moment*

- **Innovation**
  - *Connect change initiatives to your core business*

- **Strategy**
  - *Don’t mistake incremental improvements for strategic transformation*

- **Collaboration**
  - *Be realistic about your limits and the pace of change.*

...the need for urgency, change, strategic decision making and a modern management style: the critical elements of transformation.

Best Seen as the Interactive Parts of an Integrated Cycle

The four “truths” should be seen as parts of an integrated cycle, a story of erosion, decline, renewal and ascendance.

High mountain challenges: false peaks, insecure trails, speed of ascent and other choices all test a climber’s resources and navigation skills and require a strategy.

For leaders today, understanding the dynamics of the 4 truths and their interconnections is critical to building a stable and sustainable Transformation.
Sustainable Transformation

Transformation Strategy differs from traditional strategic planning because it tilts toward innovation.

Transformation can no longer be seen to be a one-time event if it is to be sustained.

The dynamics of the modern, networked marketplace will erode even the most secure foundation.

The continued ascent must be sustained by selecting new paths.

Fortunately, the modern networked marketplace continually yields new opportunity to effective collaborators.

*Sustainable transformation is a pro-active, ongoing process built on a foundation of innovation and collaboration...*
Timing

- Without transformation, even the most stable business model will be challenged
- Customers have been empowered to buy strategically
- Competitors have been given the means to backwards engineer success and to “sample” its best parts – overnight
- For leaders, the challenge will be seeing the turn and having the courage to call it.

Choosing the right metric is illusive

Calling the turn is tough

The Dynamics of the Downside are the compelling reason to stay the course
2000 Forecast (Strategic Plan) vs. Actual Mail Volume
The Mix Change:
Shift from First Class Mail to Standard

[Graph showing the shift from First Class Mail to Standard over the years 1999 to 2008]
The investment in innovation needs to be seen as critical by the entire enterprise.

Launching investments is a crucial control that can work both positively and negatively.

The concept that innovation requires investment which in turn has opportunity cost must be broadly understood.

Understanding the characteristics of risk, investment cost, payoff and potential for acceleration is essential to managing the innovation program.

Success must be shared widely to create a win-win mechanism of support.
The Innovation Inventory: Evaluating New Symbologies That Carry More Data

Creating the Innovation Portfolio Displayed with Investment Concepts

Disruptive Technology¹

Traditional Markets
Kiosk Services
Intelligent Mailstream
Partnerships
Pricing
New Delivery (same day)
Hybrid (electronic-paper) mail

Blue Ocean²
Mobile Service
Certificate Authority
Post

Traditional Tools

Strategy

- Strategy should be allowed to be emergent in a networked, complex market

- Nonetheless, the strategy must guide the Transformation or risk being defined by the competition

- Focus on three critical events will be important
  - Initiating Investment
  - Managing the tension between the new and the traditional, and
  - Launching new services
### Transparent Decision Making

- To analyze market strategy alternatives we would create a matrix that compared investment options with strategic decision criteria.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Option #1</th>
<th>Option #2</th>
<th>Option #2</th>
<th>Option #4</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
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From the market research and analysis we would create marketing “objectives” that are specific and measurable. Strategic Decision Criteria.
## Democratized Analysis

- Finally, we would use an “even swaps” decision analysis to compare the multiple outcomes.
- Alternative investment options
- Multiple decision criteria or objectives

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<tbody>
<tr>
<td>Objective #2</td>
<td>High</td>
<td>High</td>
<td>Med.</td>
<td>Low</td>
</tr>
<tr>
<td>Objective #3</td>
<td>High</td>
<td>Low</td>
<td>Med.</td>
<td>Low</td>
</tr>
<tr>
<td>Objective #4</td>
<td>Low</td>
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<td>High</td>
<td>High</td>
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</tbody>
</table>

Step 1: Eliminate columns by determining which options are dominant and which are subsumed by others.

Step 2: Rank the rows that determine choice with an even swaps methodology.
Collaboration

- Of the four transformation truths, the concept of collaboration has evolved the most in the years of research that followed publication of “When a Turnaround Stalls”

- The impact of Web 2.0 and the growth of the networked economy turned the final step from modest retrospective to understanding that sustainability will require collaboration.
Web 2.0 technologies

The Social Media

- Blogs
- Wikis
- Social networking
- Social bookmarking or tagging
- Media sharing services
- Syndication services
- Mashups
- 3D / Virtual Worlds

BibSonomy ::
A blue social bookmark

1. Source: IBM 2.0 Development Team, Department of Energy Project
The Goal of Sustainable Transformation

- Developing a roadmap to guide transformation along a secure pathway

- The forces that compelled transformation
  - technology change,
  - escalating customer demands,
  - global competition

Now demand new collaboration in the democratized enterprise

*To sustain transformation the four elements must be balanced.*
The 4 Truths Each Have Their Own Role in the Process

- **Timing**: You have to call the turn…
- **Innovation**: and back a future vision
- **Strategy**: Balance old and new to establish
- **Collaboration**: Sustainable Transformation
## Transformation Action

**Timing**
- Create a Balanced Change Coalition
- Establish persuasive urgency and call the turn
- Making Transformation Interactive

**Innovation**
- Communicate the Transformation Vision & Listen to its Reverb
- Enable Innovation
- Generate short-term wins and share them

**Strategy**
- Seize Emergent Strategy and Magnify it
- Communicate success, celebrate heroes
- Manage the Tension by Creating a Win-Win Framework

**Collaboration**
- Review the Story by Leading from the Side
- Consolidate Gains and revise to Produce Sustainable Transformation
- Creating the Transformation Culture
The Elements of a Sustainable Transformation

Strategies will be most successful when they are founded on a balanced model of sustainable Transformation
Inflection Points and the Questions You Should Ask

The framework of Transformation Truths first outlined in “When a Turnaround Stalls” is perhaps not surprising. Basically it forces you to ask:

- **Timing**: Are you reaching an “inflection point!” in your industry’s familiar pattern of growth where transformation of your business model is essential?
- **Innovation**: Do you have a portfolio of innovation choices that can help you create a “second curve” of sustainable future transformation?
- **Strategy**: Can you create a transparent strategic decision process for making choices as you invest in innovation that will allow you to establish a creative balance between the traditional and the innovative?
- **Collaboration**: Will you establish a culture of partnership among the constituencies of the enterprise, a democratized enterprise?

This is like asking is change necessary and urgent for you? Do you have a pathway along which change can proceed? In a purposeful manner to create a better future? That is sustainable for the dynamic elements of the enterprise?

The Next Cycle:

• The speed of the market has accelerated the erosion of even the best market positions.

• Leaders will have to find sure paths that balance innovation and tradition in a time of technology change.

• The next cycle could have many starting points:
  - New Rivalry among existing competitors
  - New Entry from new Global Competitors
  - New Substitute Technologies
  - Changing Customer Relationships
  - Changing Supplier relationships

• One illustrative cycle that will affect everyone will be the transformation to a low carbon economy forced by Climate change policy.
Five Forces – Professor Michael Porter’s Model

For a generation – since Professor Porter first published his article about competitive strategy in 1979, business leaders and strategists have framed their understanding of competitive market dynamics in terms of five forces.

Analysis of the mail marketplace in the 1990s revealed that there would be a severe strategic challenge to mailers and the postal service.

Likewise, analysis of the pending green revolution also shows the way in which these forces will require businesses in multiple industries to transform.

<table>
<thead>
<tr>
<th>The Internet's Challenge to the Mail</th>
<th>The Five Forces Model</th>
<th>The Low Carbon Transition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition between USPS and customers and mail service providers</td>
<td>Rivalry Among Existing Competitors</td>
<td>Price changes (electricity and gasoline) different for individual firms, facilities</td>
</tr>
<tr>
<td>Foreign Posts and FedEx and UPS</td>
<td>Entry of New Rivals</td>
<td>Competition for Lower Carbon Alternatives</td>
</tr>
<tr>
<td>Electronic Services provide alternative to hard copy mail</td>
<td>Threat of Substitute Products and Services</td>
<td>Alternative Power Supplies; Electronics Services; Credits</td>
</tr>
<tr>
<td>Customers get to track and trace their mail through system</td>
<td>Bargaining Power of Customers</td>
<td>New Preferences for “Green” Products and Services</td>
</tr>
<tr>
<td>Labor, Technology Providers, Pre-sorters</td>
<td>Bargaining Power of Suppliers</td>
<td>Need to manage supply chain carbon use</td>
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Applying the Elements in a Green Transformation

- Each of the steps involves challenging management problems
- Command and control management no longer works
- Democratization of data and new transparency

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<td>Policy decisions will determine future costs – Cap &amp; Trade vs.. Regulation</td>
<td>Technology developments (e.g. battery technology &amp; smart grid) to come</td>
<td>Multiple parties, demand for transparency, need for verification and accountability</td>
<td>Multi-party and multi-skill teams may be facilitated with social media</td>
</tr>
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