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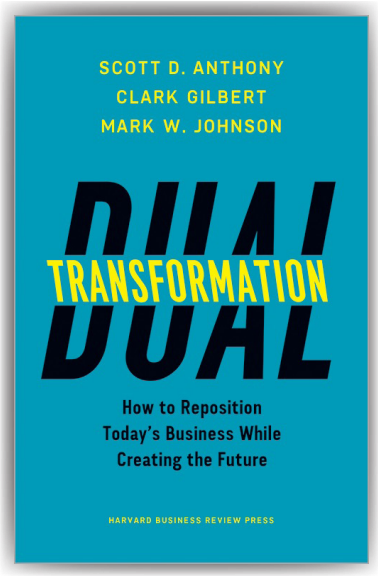
Dual Transformation

How to Reposition Today's Business While Creating the Future

Scott D. Anthony, Clark G. Gilbert, and Mark W. Johnson



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Key Concepts

- *Disruption is the greatest challenge facing leaders today.* It is both creative and destructive, displacing the existing market by offering new solutions to a wider, historically constrained market, often using a different business model.
- *Business leaders should not wait until their businesses are in decline—by then, it is too late.* Instead, they should expect their business models to change, be ever vigilant of innovative upstarts and fringe markets, and have the courage to leap well before the platform burns.
- *To survive disruptive change and potentially emerge stronger, leaders must take the necessary steps to reposition their core businesses (transformation A), while driving new growth (transformation B).* Transformations A and B should share a capabilities link of difficult-to-replicate assets that give businesses a competitive advantage.
- *Transformation A generates the money to fund transformation B, which, initially, will contribute only marginally to a company's bottom line.* Over time, the core business will be eclipsed by the new growth business, which, if successful, will generate a larger percentage of the company's profit.
- *A culture of curiosity, experimentation, and the freedom to fail is needed if a company is to break out of the predictable patterns that led to its success thus far.* Opportunities pursued must, however, be carefully chosen after thorough quantitative and qualitative future-back analysis.
- *Leaders must manage expectations and relations between stakeholders, rallying them all behind a common core purpose.* Transformations A and B should be kept separate, with a bias of resources toward B but A still being made to feel important in driving B and the future of the business. Leaders must also convince doubtful board members and shareholders to stay the course, as it takes years for disruptive efforts to gain traction.

Introduction

No one stays on top forever, and in today's business environment, giants topple and upstarts change the game more rapidly than ever before. In **Dual Transformation** from Harvard Business Review Press, Scott D. Anthony,

Clark G. Gilbert, and Mark W. Johnson teach business leaders how to turn threats into opportunities. *Dual transformation* requires a company to reposition its current business while also creating future business. It is a journey that requires courage, focus, and determination, but if navigated successfully, it can turn a legacy business on the brink of irrelevance into tomorrow's market leader. The authors draw on their own experiences leading teams undergoing transformation, providing case studies of companies who have disrupted the market as well as companies who have reinvented themselves in the face of disruption.

Disruptive Shock Waves and Dual Transformation

Dual transformation describes two parallel change efforts in response to disruptive shock waves: one to reposition the core business (*transformation A*), and the other to unlock new growth in a new market (*transformation B*). These transformations share a carefully stocked capabilities link of difficult-to-replicate assets that give incumbents an unfair advantage over upstarts. The assets may include proprietary technology, stores, brands, patents, or a company's client network.

To clearly delineate transformation A and transformation B, a leader must first define what his or her company currently does and how. The problem a company solves for customers is the *what*, and the way it uniquely solves that problem is the *how*. Transformation A solves an old problem in a new way, while transformation B solves a new but related problem in a new way. *Adjacencies* use existing capabilities to solve new problems, as when a company acquires other companies and their capabilities.

To succeed at the difficult task of dual transformation, leaders must have the courage to choose well before the platform burns; the clarity to focus on a few high-potential opportunities; the curiosity to explore, even in the face of probable failure; and the conviction to persevere through crises of conflict, identity, and commitment.

Transformation A: Repositioning the Core

Deseret Media, Adobe, and Netflix all repositioned their core businesses by solving an existing problem in a new way. (The *what* did not change, but the *how* did.) By finding more effective, more efficient ways to address customer needs, these companies were able to increase their resilience and relevance in the face of disruptive change.

To drive transformation A, an organization must do four things:

1. Define in detail what unique postdisruption job the company can do for its customers.
2. Innovate the existing business model to deliver value against the job to be done.
3. Determine and track new metrics.
4. Implement change aggressively, quickly, and comprehensively.

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If the effort is one of true transformation, relevant metrics will necessarily change. Top-level executives should be heavily involved, and outside talent can also help break down internal barriers to change.

Transformation B: Creating the New

Transformation B is about creating new growth businesses that capitalize on disruptive trends and find new ways to solve different problems. SingPost, the legacy mail carrier in Singapore, went from basic mail delivery to logistics and e-commerce. Amazon.com went from a retailer to an IT services company. Deseret Digital went

from an online replica of the print business to a collection of communities and marketplaces. To identify and pursue transformation B opportunities, an organization can follow these keys to success :

- Identify constrained markets, a problem that a significant number of customers want to solve but have thus far been unable to because of a lack of resources, such as specialized skills, time, or money.
- Break down the consumption barriers that keep cheaper, more convenient solutions out of reach.
- Iteratively develop new business models required to serve the new market and power the future.
- Use partnerships, acquisitions, and new hires to succeed against a new competitive set.

To get ahead of disruptive change, leaders must act long before convincing data has arrived.

Transformation B should involve a more prudent, iterative, test-and-learn approach, as two variables, the what and the how, are changing.

The Capabilities Link between A and B

The benefit that big companies have over upstarts is existing assets of scale. If they can combine these difficult-to-replicate assets with the right amount of entrepreneurism, they can turn the innovator's dilemma into opportunity. Dual transformation is about expanding into markets that were previously difficult to serve, enabled by a capabilities link between transformations A and B. Capabilities must be carefully chosen from A to provide true value to B and actively managed with a bias toward B.

Implementing a comprehensive portfolio management system, exchange teams whose objectives benefit both A and B, and transfer pricing on capabilities will help strategically manage the capabilities link and keep transformations A and B separate and distinct. Top leadership must arbitrate between transformations A and B, with a bias toward B to offset the inherent bias B already faces due to being new and relatively unprofitable compared to A.

The Courage to Choose

To get ahead of disruptive change, leaders must act long before convincing data has arrived. The early warning signs of change come in three stages:

1. Declining customer loyalty and significant venture capital investment create circumstances that favor disruptive change.
2. Policy changes, new entrants at the market fringes, and changing customer preferences and habits are catalysts that signal the beginning of disruptive impact.
3. Impact occurs when a competitor develops a disruptive business model and incumbent revenue growth slows, necessitating cost cutting to protect profit margins.

To spot these warning signs, leaders should look to the fringes of their industries, watch small but rapidly growing ventures closely, and think about the possible future by involving outsiders and assessing the cost of inaction. Netflix, Turner Entertainment Network, and Aetna are examples of companies that chose to change before the need was obvious.

The Clarity to Focus

Strategic clarity involves choosing what to do as well as what not to do. John F. Kennedy set a specific time-bound goal, to send a man to the moon by the end of the 1960s. To identify their "moonshoots," leaders must calculate their *growth gaps* (the difference between current potential and the desired future state), determine

goals and boundaries (who will be served, how, and at what cost), and align on a handful of high-potential opportunities validated as being compelling and feasible.

A *future-back mindset* will help leaders envision what their companies will look like postdisruption. Traditional approaches to strategy are present-forward; they rely heavily on data from the past and as a result envision a business that is similar to today's. In times of disruption, this approach underplays the biggest threats and obscures the biggest opportunities. Future-back has both a quantitative and qualitative component, with the latter being more important. Through a series of dialogues, leaders develop a shared view of what the future will be like, and then ask the question, "When we walk the halls of tomorrow's business, what do we want to see?" This approach opens up strategic options and clarity about where to focus.

The Curiosity to Explore

Most successful companies are organized to deliver consistent, predictable results, but innovation almost always involves missteps, unexpected discoveries, or invention out of necessity. An exploratory approach requires a different take on funding, focus, and failure. In an established company, these three components are usually aligned toward winning as much as possible, at the expense of being risk averse. Exploration focuses instead on emergent learning gleaned from trial and error.

To create a culture of curiosity that opens the door to disruptive success, an organization should create safe spaces for innovation, expose leaders to new thinking, and build curiosity into daily routines. Leaders can push themselves to become more curious by finding inverse mentors (people who offer completely different perspectives); learning new skills, particularly ones used by employees within the organization; and going on "field trips" to observe customers, teams, and other companies. Transparency—namely, being truthful when something fails—is imperative.

The Conviction to Persevere

At some point on the transformation journey, every leader will face three types of predictable crises: crises of c*ommitment, conflict,* and *identity*. The transformation A team needs to be reassured of its importance and foreseeable future, while the B team needs unwavering management support and the continued allocation of resources, even in the face of skepticism and suboptimal short-term results. While dual transformation requires a bias toward B, the contributions of A are critical to operations and should be valued.

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Company leaders must clearly communicate how the essence of the company has changed so that everyone is on the same page regarding the company's emerging identity. A compelling story that explains what is being done and why it motivates human purpose and gives everyone something to rally behind. Transformations A and B must be kept separate yet united by a common purpose, or mission statement, and the carefully managed capabilities link.

Postcards from the Dual Transformation Journey

In interviews, business leaders at Aetna, Arizona State University, the Ford Motor Company, Manila Water, Settlement Music School, and Singtel discuss how they weathered crises of commitment, conflict, and identity on the course of the dual transformation journey. Such examples serve as a reminder that dual transformation is indeed a journey and that transformation occurs over many years, so a long-term view with meaningful milestones is needed and can help maintain conviction when challenges arise.

According to Helen Eaton, CEO of Settlement Music School, "Transformation is a roller coaster ride. You have moments of great highs and lows, moments when you are certain about what you are doing, and moments where you question deeply. It is never easy. If it were easy, everyone would be doing it."

About the Authors

Scott D. Anthony is the managing partner of Innosight, a role he has held since 2012. Based in Innosight's Singapore office since 2010, he also leads the firm's Asian consulting operations and its venture-capital investment activities. His previous books include *The First Mile, The Little Black Book of Innovation*, and *Seeing What's Next* (with Clayton Christensen). Anthony is on the board of directors of MediaCorp and chairs the investment committee for IDEAS Ventures. He is a prolific contributor to *Harvard Business Review* and in 2015 was named a "Light Bulb Thinker" by Thinkers50. He is a member of the Silicon Valley Guild, a collection of 30 international thought leaders and best-selling authors who write about the ideas and trends shaping business and society.

Clark G. Gilbert is president of BYU-Pathway Worldwide, a global education organization with over 40,000 students in more than 50 countries. Previously he was the 16th president of Brigham Young University–Idaho. Prior to that, he served as CEO of Deseret News Publishing Company and Deseret Digital Media, a media group that has been repeatedly recognized for its innovation and digital growth. Gilbert was also an associate academic vice president at BYU–Idaho, helping launch the school's online learning initiative and Pathway program, and a professor of entrepreneurial management at Harvard Business School. He has written several articles on innovation and entrepreneurship in *Harvard Business Review* and *MIT Sloan Management Review*, and is the coauthor (with Joseph L. Bower) of *From Resource Allocation to Strategy*. He has served as an adviser to Innosight since 2001.

Mark W. Johnson is a cofounder and senior partner of Innosight, a strategy consulting firm focused on advising corporations on creating new growth and managing transformation, which he cofounded in 2000 with Clayton M. Christensen. He has consulted to the Global 1000 and startup companies in a wide range of industries and has advised Singapore's government on innovation and entrepreneurship. His previous work includes *Seizing the White Space: Business Model Innovation for Growth and Renewal*, and a number of articles for *Harvard Business Review, MIT Sloan Management Review, BusinessWeek, Advertising Age,* and *National Defense*.

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