

CHIEF EXECUTIVE



August/September 2004

Are You Ready?

Three years
after 9/11—and
in the face of new
terror threats—
CEOs may be
less prepared
than ever.

Plus:

Toyota's
Growing Pains

Can Schwab
Save Schwab?

CEOs and
The Health
Care Crisis

www.entrepreneur.com

How to Anticipate Wrenching Change

CEOS CAN AVOID BEING BLINDSIDED IF THEY HEED KEY SIGNALS. BY LEONARD M. FULD

How long can you wait to change your company's strategic direction? How long before it's too late? These haunting questions have more relevancy today than ever before. Fortunately, they now have glimmers of an answer.

Industry *tsunamis*, or major shifts in the competitive landscape in the form of disruptive new competitors or technologies, may seem to appear overnight, but in reality usually evolve quietly over a number of years. CEOs usually have enough time to adapt to the shift once they observe uncertainty creep into the competitive picture—but only if they embrace the changes.

One of the most notable cases of a company being overtaken by a *tsunami* involves Eastman Kodak's failure to adjust to the beginning of the consumer digital camera revolution. It is now playing catch-up by slashing dividends and pouring money into a digital initiative.

The wave that engulfed Kodak began way before the first digital cameras appeared in the mid-1990s; it was in 1979, according to Minoru Ohnishi, CEO of archival Fuji Photofilm. This was when silver prices (silver is a key ingredient in film) temporarily jumped to stratospheric levels, raising doubts about silver's long-term viability for film.

After the furor died down, Kodak went back to business as usual. Fuji, however, sensed something fundamental occurring, and became convinced of it a few years later with the arrival of Sony's first low-resolution digital camera, the Mavica. Fuji caught Kodak napping, and last year at this time, Fuji had nearly 5,000 mini digital processing labs in chain stores throughout the U.S.; Kodak had fewer than 100.

Sun Microsystems also failed to recog-

nize important signals well over 15 years ago, nearly from the time the company was founded in the mid-1980s. The signals included small, less-expensive, more powerful workstations, followed by open-source software and cheaper RISC chip alternatives that undercut Sun's proprietary Java-based systems and proprietary chips. These changes allowed so-called industry lightweights, such as Dell, to push past Sun.



Here are three ways to avoid being overwhelmed by inevitable change:

1. Learn to appreciate—and internalize—the fact that major changes in your industry are inevitable. Analyze potential changes on the basis of certainty and impact. For example, a group of senior managers at a certain health care company told me recently that of the many trends swirling about the pharmaceutical industry, the matter of whether new delivery technology will replace some of their company's therapies is both uncertain and potentially high impact to their business. This means it is worth watching but not necessarily acting on. This was exactly the

position that executives at Kodak and Sun found themselves in—facing an uncertain yet potentially high-impact trend.

2. Use an early-warning system to create different futures, different worlds, in which your company may find itself. The best way to understand my point is to compare how a professional baseball game looks on a television screen, from a two-dimensional perspective that mostly shows a pitcher versus a batter, and then from the three-dimensional view of a box seat, where you can also see the coaches giving their signs, the fielders positioning themselves and the base runners taking their leads. Suddenly, the game becomes richer, and more complex. Most strategic plans envision a two-dimensional world, one obvious set of rivals governed by certain predetermined industry forces. But companies that use an early-warning system see the whole field, and make the necessary adjustments.

3. Identify legitimate but clear signals that will forewarn of change taking place. Early-warning scenarios don't just appear, they emerge relatively slowly. Executives learn to catch the signals by acting out scenarios, such as via carefully orchestrated war games, and thereby learn to appreciate the intensity of approaching *tsunamis*. In Kodak's case, silver prices and the early application of digital-imaging technology were all signals. RISC technology and open-source software were two signals indicating rapid change for Sun.

At the end of the day, you need to believe in uncertainty to act upon it. Count on an uncertain future and, most importantly, plan for it. ♣

Leonard M. Fuld is president of Fuld & Co., a Cambridge, Mass.-based competitive intelligence research and consulting firm.