CONSULTING

HOW WOULD YOU HANDLE A SIGNIFICANT STRATEGIC SHIFT?

Surviving Strategic Shift

Strategic upheaval doesn't just affect industry sectors and large organisations. Individuals are impacted too. Here are three ways you can prepare to use that kind of change as an opportunity to progress.

1. Expect change. The last few decades have seen enormous strategic shifts in pretty much every sector. These changes are likely to accelerate, rather than slow, during your working life. Knowing this can help you position yourself to benefit from the changes, rather than suffer their effect.
2. Anticipate change. Nothing lasts forever! Keep an eye on the periphery for signs of change. Many organisations disappear after ignoring or overlooking the often subtle warning signals of game-changing strategic shifts coming from the coalface.
3. Prepare for change. Focus is essential for efficiency, but it can also cause rigid thinking and reduced mental agility and flexibility. Don't just wait until you're forced to think more flexibly. Instead, regularly exercise this critical mental capability so that it's fit and strong and serves you well in challenging times.

What would you do?

Imagine for a moment that you've built an incredibly successful technology business over a couple of decades. It's counted among the most successful in the world and you're the CEO. As might be expected in this lucrative sector, your company has successfully fended of increasingly fierce challengers. Strategically, that's come from winning enough rounds in the expensive, resource-sapping technology slugging match that is the marketplace.

Staying power is in no small part due to a market leader position. Deep enough pockets help avoid the knock-out blow, when one of the competitors (that come and go) wins a round of the battle through superior technology enhancements. A few proven beliefs of how to win in the sector, "as strong as religious dogmas", guide mostly winning decision making at all levels. Also, a portfolio of less important products sustains your company when core business is down.

Suddenly, there is enormous interest in one of your secondary products. This is good, since the primary business is struggling. Global demand for this secondary line is voracious. Demand far outstrips the entire industry supply and customers fight for a place in your growing backorder queues. The only way to benefit from this unexpected new opportunity, which appears insatiable, is to invest heavily in ramping up production capability of this secondary line. This includes building new facilities.

Then, even more quickly than it started, demand dies. Suddenly and unexpectedly! Your order backlog evaporates "like spring snow". But, initially unaware the change is to become permanent, inventory balloons. When you call the production halt, shutdown is very much slower than market slide. Warehouses are filled with expensively produced but largely unwanted inventory of a secondary product. Compounding your problem, the primary business continues its steady decline. The dramatically changing strategic landscape demands action. As CEO, what would you do?

Strategic inflection

This is where Andy Grove, CEO of the world's largest memory chip producer Intel, found himself in the last quarter of 1984. Importantly, Intel didn't just produce memory chips, it invented them! Two deeply embedded strategic mantras reinforced near-absolute focus on the memory chip.

Just as Intel-founder Gordon Moore predicted earlier in 'Moore's Law', memory chips had grown exponentially more powerful. Fitting more transistors onto the same silicon chip meant greater capacity but the same fixed cost. Price fell sharply and volume became vital to profitability.

The memory chip market changed over time, from low volume, high margin products to lower priced, high volume commodities. A leaked memo from a formidable international competitor with state backing painted a bleak picture of the context: "Win with the 10% rule…Quote 10% below their price…If they requote, go 10% again…Don't quit till you win".

Intel's secondary product, that soared then sank quickly, was a microprocessor chip, then a poor cousin of the memory chip. Although different in purpose, it was also built out of transistors placed on a wafer of silicon. After the collapse of the market for that first generation microprocessor, Intel followed its two strategic mantras and primary focus returned to the memory chip.

The moment of truth

But, in the months that followed, Intel's share of memory market continued its sharp decline. None of the strategic levers that had worked previously made any difference. The need for a suitable memory strategy, "to stop the haemorrhage", became critical. Grove describes how meetings to find a way forward became filled with "bickering and arguments, resulting in nothing but conflicting proposals".

By mid-1985, there was a lot of upheaval but little progress. The desperation led Grove to ask Gordon Moore, Intel's Chairman, the following profound question: "If we got kicked out and the board brought in a new CEO, what do you think he would do?" Grove writes, "Gordon answered without hesitation, 'He would get us out of memories.'"

After momentary numbness, Grove knew that was the right strategic thing to do. Market forces had changed the memory market so profoundly that Intel could no longer compete. They had to look elsewhere or perish.

Making the strategic shift

The memory chip strategy was so embedded that Grove initially had difficulty talking about the profound changes that were needed. He recounts how it took months to clarify his position and even then, was confronted by champions rusted on to the old strategy. After more costly delays they finally settled on a new focus, microprocessors. This strategic change not only saved the business, it propelled Intel to lofty new heights.

Grove highlights the critical role of Intel people much closer to the customer interface. They had seen the changes coming and slowly reallocated resourcing to the more profitable lines. It initially kept the company alive. Then, it made the strategic switch a whole lot easier, since parts of Intel had already been developing the new core capabilities needed to succeed moving forward.

UGM Consulting Pty Ltd, GPO Box 314 North Sydney, NSW 2059
Phone: +61 2 9964 9861 | E-Mail: info@ugmconsulting.com | Subscribe at www.ugmconsulting.com