AVOIDING THE COST OF COMPLACENCY:

FOUR KEY AREAS TO ADDRESS IN A DYNAMIC ECONOMY

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In 2017, only 60 companies remained in the Fortune 500 that had appeared on the list in 1955[1]. In 1965, the average tenure in the S&P index was 33 years, by 1990 it was 20 years and it is now forecast to shrink to 14 years by 2026. Carpe Diem has never been a more apt phrase.[2]

That this has happened should come as no surprise. In 1942, Schumpeter described a process called creative destruction, calling it industrial mutation. He wrote that it: *"incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism."*[3]

This isn't a new phenomenon, so why is the pace of destruction increasing? What is going wrong in today's companies? Is there an elixir of youth that businesses can take to ensure their eternal life? Some companies re-invent themselves. The IBM of today is completely different from that of 1955. Others are more familiar, but have diversified, such as DuPont. Some broadly operate in the same space with the same product, Coca Cola for example. All, however, have evolved in some way.

Teese and Pisano[4] wrote about the dynamic capabilities of firms. Dynamic refers to the changing environment and capabilities to the organization's ability to cope with that changing environment. There is little doubt that the pace of change is increasing. The average life span of an S&P entrant is testimony to that. It is the complacent company that will go out of business. The difference is that, whereas historically companies lost the battle to survive because of a single reason, there are now more pressures than ever everywhere.

This white paper looks specifically at four areas for companies that are important to review in the everchanging economy. They are: supply chain, routes to market, innovation and the competition.

[1] http://www.aei.org/publication/fortune-500-firms-1955-v-2017-only-12-remain-thanks-to-the-creative-destruction-that-fuels-economic-prosperity/ accessed 30 May 2018
[2] https://www.innosight.com/wp-content/uploads/2016/08/Corporate-Longevity-2016-Final.pdf accessed 30 May 2018
[3] Creative destruction, a term coined by Joseph Schumpeter in Schumpeter, J., 1942. Creative destruction. Capitalism, socialism and democracy, 825, pp.82-85.
[4] Teese, D., & Pisano, G. (1994). The dynamic capabilities of firms: An introduction. Industrial and Corporate Change, 3, 537–556

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Chapter **1**

SUPPLY CHAIN

Managing your supply chain, be that in a services business with people, or in a product business with raw materials, is complex. Today, a business needs accurate forecasts about customer demand and orders. The complexity of this is increasing, as a company's resources (people, material and machines) become evermore distributed and at the same time connected.

For the last decade, organizations have been driving efficiencies across their supply chains. Sloan et al[5] recognized five steps that help to drive real value out of today's supply chain:

1. Hiring the right talent
2. Collaborating internally
3. Collaborating externally
4. Selecting the appropriate technology for each of these
5. Managing change

Hire the right talent

Traditional methods of recruiting are changing. The process that worked 20 years ago is no longer the best away to attract and retain the best talent for a business. The traditional three-stage life experience of education, work, retire is ending.

Lynda Gratton proposes a multistage life[6] where people will have a more flexible approach to work/life balance. The freelancer economy and its adoption by millennials demonstrates this. An employee lifecycle no longer has a beginning and an end. It has become a continual cycle from selection, onboarding, engagement, off boarding, alumni and selection again.

The modern HCM technology is embedded through this employee lifecycle. It needs to deliver to employees the same consumer experience that customers are demanding. That means that the modern HCM needs to include learning management and talent management, as well as integrating into operational systems. In addition, embedding Corporate Social Responsibility (CSR) into the corporate culture, as NetSuite has done with Oracle NetSuite Social Impact, is becoming the new norm.

Collaborate internally

Collaboration internally is not just about communication tools. A common collaboration tool across a company will help as information flows between employees. For example, sales departments are no longer disconnected from customer service teams, warehouses or

[5] Slone, Reuben E., Dittamann, J. Paul, and Mentzer, Jhon T. (2010). The New Supply Chain Agenda: The 5 Steps That Drive Real Value, Harvard Business Press.
[6] https://sloanreview.mit.edu/article/the-corporate-implications-of-longer-lives

accounting. However, communication is only a part of collaboration.

To work together effectively means sharing data across boundaries. It is about the sharing of ideas and knowledge in a constructive and open way. This is where a single source of the truth becomes so important. Companies can no longer afford to have siloed systems with data repositories that do not match each other. The latest business mantra is "data is the new oil." Without that data the business engine that drives performance will seize up.

The emergence of Artificial Intelligence (AI) and data analytics was only possible through the availability of massive compute power, both in terms of the processing capability and access to vast volumes of data. These are vital for next generation business software.

Collaborate externally

The biggest changes to the supply chain are often around sourcing, logistics and routes to market. For many industries the rules have changed. In the modern economy, supply chains are more internationalized than ever before. Sourcing factors are also becoming increasingly important. For manufacturers and retailers, it is no longer just about trying to find the best deal. Sustainability and CSR programs are more important to sourcing than ever before. This means that closer links with suppliers need to be established, at a far greater level of understanding than ever before.

Hakansson and Snehota[7] propose: *"In the network perspective, the more successful the counterparts are, the better it is for the company. The more a company can help its counterparts to develop and become successful, the greater are the chances it will become successful itself. That is not the way a company has traditionally been advised to look at its counterparts."*

The more successful companies don't just buy from their suppliers; they co-create, sharing ideas and innovation to improve their products. This collaboration should also extend to customers. When La Poste, the French postal service, suffered declining revenues they engaged with customers, front of house tellers and managers to discuss and brainstorm on when post offices should open and how they work. The changes implemented from those conversations resulted in customer waiting time reducing by 50 percent and the satisfaction metrics for all parties increased.

Select the appropriate technology

The choice of technology stems from the business case. Without a business case that identifies the outcomes expected, one cannot expect to succeed. There are many technology solutions available today, but there are some features that are critical during selection. The software should be truly cloud-based. True cloud software is simple to upgrade, and cloud vendors can easily keep customers on the latest version.

Flexibility comes through configuration rather than customization. For most business requirements, a cloud solution can be configured to meet their needs. However, if customization is required, these should not inhibit the ability to upgrade the software.

[7] Snehota, I. and Hakansson, H. eds., 1995. Developing relationships in business networks. London: Routledge.

Software should be platform-based, which makes it independent from the underlying cloud system. It allows customers and partners to create add-on pieces of software to add value to business.

Managing change

Change is hard. There are countless books and white papers about the subject. Implementing technology without business change is likely to fail. Sloan et al highlights that it is people that are harder to change, rather than technology. While implementing a new software system is not always easy, getting employees and others to want to use it, and then adopt it, is much harder.

Change also starts at the top. When people in the organization see senior executives spending the time and mental energy to unpack the underlying assumptions that form the foundation for some proposed policy, practice, or intervention, they absorb a new cultural norm. While companies can change an IT system easily, it is a lot harder to change behaviors.

Chapter **2**

ROUTES TO MARKET

The new norm is that there is no norm. Manufacturers are selling to distribution, retailers and to the end consumer. Distributors are opening up *ecommerce* stores and offering drop shipping solutions to retailers and manufacturers if they have the logistics capability.

How is your organization getting to market? Is your market buying through your traditional channels? New routes to market open up through mobile and desktop ecommerce, new geographies and new channels. Buyers expect a consistent first-class consumer experience and multi-channel engagement.

Today, companies need to consider the experience both up and down the supply chain. For example, are they easy to deal with? Business to business experience is just as important today as the business to customer experience. Similarly, interfaces with third-party logistics companies need automation to ensure that vital process steps do not revert to manual processes.

It is therefore important that the systems selected either integrate with, or are part of, a single solution. This is where the platform is critical. It is impossible for a company to deliver everything a business wants. But if a platform marketplace has the apps to support logistics and shipping, ecommerce and EDI, then the choice becomes a lot easier. Importantly, it is not what a company needs now, it is what it might need in the future. Demonstrating a variety of applications ensures that more will come.

Chapter **3**

INNOVATION

This is not just about what start-ups are doing in the sector, but also what emerging technologies are coming. Ten years ago, AI was talked about as the future, but only now when computing power is a utility is it becoming commonplace.

Innovation also starts from within. If all the time and resources are spent on maintaining relationships, fixing or even improving products, where is the next innovation to come from? Companies can no longer rely on the longevity of their product. Arguably they have never been able to. The difference is the speed of change. Just ask Kodak about how cameras were replaced, or Blockbuster how the video became a digital stream.

It does not mean that the focus should be only on innovation. Geoffrey Moore[8] writes "innovation is only valuable if it helps us to achieve economic advantage." Companies should control their innovation spend until they see one that will deliver those advantages. Importantly, innovation leaders need to fail fast and learn from each failure, but then investigate the next potential break through.

This also applies to processes. John Petri, an Orthopaedic surgeon in Norfolk, applied process design to the operating theatres he worked in. The result, for the most expensive resource in the process, was the doubling of his productivity and zero waiting times for patients. While this was a physical improvement, technology can achieve similar results through automation.

One particular area that companies, and especially finance teams, spend time on is the preparation of reports using Excel. Analytics and reporting engines today should automate much of those processes. The reason that people still use Excel is often due to the data being inconsistent and drawn from multiple locations. With a single source of data, that issue is removed. Companies still need to make sure that users enter the correct data, but there is now only one source of the truth. That single source of the truth is also improving in accuracy. AI can identify anomalies and exceptions both during and after data entry and flag this for checking.

[8] Moore, G.A., 2007. Dealing with Darwin: How great companies innovate at every phase of their evolution. Strategic Direction, 23(9).

Chapter **4**

WHAT ARE YOUR COMPETITORS DOING?

Watch and analyze your competitors. Not everyone will make the right decision, but be aware of the success they are having and why they are having that success. Barnes & Noble introduced the Nook and an online book store, but despite their best efforts, the former is failing.

It is not just the traditional competitors that require watching. Just ask retailers about the Amazon effect on their businesses. As more and more retailers are shutting brick-and-mortar stores, the irony is that Amazon is now opening its own physical stores. Those retailers that are thriving are turning to the service economy to deliver revenues.

It is also worth considering what companies are doing outside of one's industry. Companies need to consider which industries they are in; Blockbuster failed because it thought it was in the video rental industry, but that whole industry has disappeared.

Lyft realises that it is in the transportation business. There is an understanding that when autonomous vehicles are accepted their business model will evolve substantially. In time, this will impact other industries, such as parking and car showrooms.

Both GE and Rolls Royce now sell thrust hours to airlines. They no longer sells engines, but instead base revenues on usage. This neatly ensures that all servicing is carried out by their own, or certified, engineers and parts made within their own ecosystem. Other industries that sell high value machinery are following.

In the future, fewer people will buy cars, and as more cars become powered by electricity, gas stations will also reduce in number. This could, in turn, create new opportunities for convenience stores. The next generation of software needs to support these changes. New business models based on usage, subscription or other factors need supporting as businesses evolve.

History is full of companies that disappeared, not because a competitor introduced something better, but because their whole industry changed or in some cases virtually vanished. The New York Times highlighted the case of the buggy whip becoming obsolete with the rise of motor vehicles. History up to the present day is scattered with similar examples.

CONCLUSION

Technology today is more important than ever before. However, 20 years ago companies bought an ERP solution, implemented it, and the business ran itself. Over time, they have modified it, but that has proven costly.

The latest generation of business software needs to meet the challenges of today and tomorrow, without the costs that were seen in the past. Industries are blurring their lines of demarcation. A manufacturer will now use distribution processes and have an online retail store. It may even have outsourced its manufacturing capability, while retaining control of quality and process in different locations and languages. The modern ERP system needs to support these new business models. It needs to deliver a user experience for customers, employees and suppliers that matches the latest consumer technology. It supports processes that cross both industry and national boundaries. Only cloud-enabled platform-based software can easily deliver on this promise.

As the speed of change increases, business can also no longer afford to wait three years to implement the next update, nor spend resources on implementing that upgrade.

Companies need a fully integrated solution that tracks and stores data from many dimensions, employees, products, services, finances, suppliers and customers. That data then provides a single source of the truth that the latest analytics and AI engines can help to deliver actionable insights to help that company grow.

ABOUT THE AUTHOR

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Steve Brooks worked as an IT leader for more than 25 years. He has a wide experience within industry verticals including professional services, finance, manufacturing, recruitment and retail. Beginning his practitioner career as a communications developer, he has worked in most roles in IT. He spent 17 years at Savills PLC where he was appointed CIO. He left in 2012 to complete an MBA at Henley Business School. His dissertation was on the procurement of converged telecommunications solutions.

In the last four years, he has worked as a journalist, analyst and consultant. He was sub-editor at Business Cloud, and is now a joint editor at Enterprise Times. His specialist areas are ERP, HCM, IT strategy, IT procurement business strategy, cloud computing and collaboration. He is a principal analyst for ERP at Creative Intellect Consulting. Steve has also been a guest speaker at several vendor events.

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