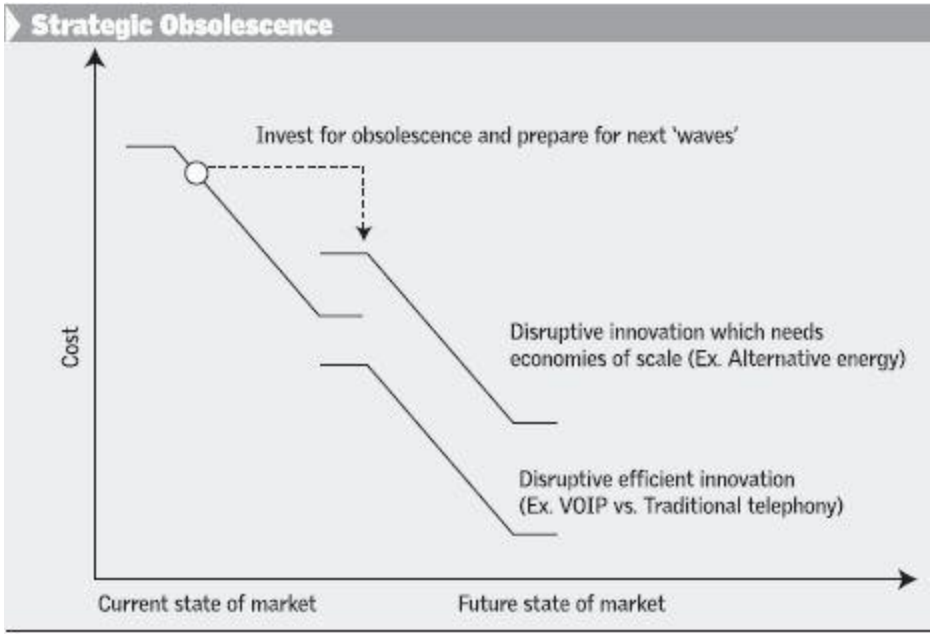
Business Line
Business Daily from THE HINDU group of publications
Monday, Nov 23, 2009

The New Manager - Management

Why becoming obsolete should be part of core strategy

A firm not only 'exists' but is a living, breathing entity.

It is important to view extinction as a given and thus not get too attached to the idea of a product line that remains static and oblivious to changes in the environment.



Mohit Kishore

Stories in this Section
Why becoming obsolete should be part of core strategy
Learning from the Indian experience
Blinkered leaders can be ignorant

A major cause of the failure of most organisations is their inability to foresee their own obsolescence and remaining stuck in their old ways of doing things.

In this article I argue that every organisation must actively plan for its own obsolescence, and work in parallel on future opportunities. In other words, becoming obsolete should be part of the core strategy of a firm.

This entails taking a flexible view on the core purpose of the organisation. Not surprisingly, most firms tend to ignore the possibility of extinction until it's too late. This is because most of firms' energies are involved in improving upon past metrics, and very less energy is devoted to the future that is emerging.

Studies show that the average Fortune 500 company only exists for about 40 years. This means that even the largest, most well-managed organisations, are woefully short on vision when it comes to evolving with the marketplace.

Model of innovation

The accompanying graphic demonstrates the implications of strategic obsolescence. Every new industry begins with an early wave of innovators or market creators who create a new market.

First movers have the freedom of pricing and tend to use this to their advantage by skimming the market. As more and more players get in, efficiencies increase and prices fall further as a result. At one point, the market is saturated and prices and efficiencies plateau out. At this point, in most industries the incumbents begin looking for growth by setting up subsidiaries in new markets, and doing more of the same.

Meanwhile, some new innovator may introduce a disruptive product that may act as a perfect substitute to the current product and still be just as competitive on all dimensions. Alternatively, another innovator may be working in a direction where future Government policies are headed (example Green Energy). This is when large, bulky incumbents are taken by surprise and end up facing the possibility of extinction.

A company that invests in its own 'strategic obsolescence' will start aggressively investing for the future at every downward slope of the Z depicted in the graphic (similar to the S-curve concept commonly used to depict innovation). Incidentally, the downward slope of the Z also indicates a transition from innovative product to commodity.

Examples

A number of industries demonstrate a lack of planning towards strategic obsolescence. American automakers who have always resisted green/ hybrid vehicles may have well found themselves at the cusp of a lucrative new opportunity had they invested in that opportunity many years back. Instead, they face imminent bankruptcies.

Similarly, the conflict between traditional electric utility companies and new green technologies is likely to play out in a similar manner as Governments invest in and incentivise these new technologies, while the existing players may lobby for their own self-preservation.

A lot of technology companies understand this idea quite well because the rate of obsolescence of technological products is far higher than any other sector (the 'Z' in their case would be more like a steep step).

These firms have entrepreneurial teams that are constantly working on determining what the next wave is likely to be, and iterating new innovations to meet the challenges of the future.

An alternative approach seen today is the acquisition of early stage ventures that are already working on disruptive ideas, and incubating those ideas (even if they turn out to be failures in the future).

While it may appear counter-intuitive to invest in one's own obsolescence, it must be kept in mind that other firms working on disruptive innovations are already doing so. The options then are to either invest for obsolescence or face unexpected extinction.

In conclusion, it is important to view extinction as a given and thus not get too attached to the idea of a core product line that remains static, and oblivious to the changes in the environment. In other words, the firm not only 'exists', but is actually a living, breathing entity that is constantly 'becoming'.

Being indicates *status quo*, while becoming indicates a vibrant, creative outlook that is open to an ever-changing environment.

(The writer is a management professional and can be reached at mohit.kishore@gmail.com)

More Stories on : Management | Insight

Article E-Mail :: Comment :: Syndication :: Printer Friendly Page