

John L. Mariotti

THE SHAPE SHIFTERS

Continuous Change
For Competitive
Advantage



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**CONTINUOUS CHANGE FOR
COMPETITIVE ADVANTAGE**

John L. Mariotti

Van Nostrand Reinhold

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The ideas presented in this book are generic and strategic. Their specific application to a particular company must be the responsibility of the management of that company, based on management's understanding of their company's procedures, culture, resources, and competitive situation.

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FOREWORD

Delight the mind of the customer and they will show you the money!

That is the basic principle upon which the best of businesses are increasingly building their strategies. How to build an organization capable of delighting customers consistently, however, is the \$64,000 or \$64 million question for firms facing the hypercompetitive battles of the twenty-first century. You'll be delighted to know that John Mariotti's powerful and practical new book, *The Shape-Shifters*, addresses this critically important question.

I have often wondered how the business books of the future will describe the last two decades of the twentieth century. Perhaps the greatest understatement they will make is that it was an era of change. But change is nothing new—it is the rate of change that has sent a wake-up call to business leaders around the globe. And all members of the corporate rank and file, from CEO to assistant manager, are seeking guidance on how to manage the unknown change of the future.

Past experience alone is no longer the only prerequisite for success in the future. In fact, as the rate of change in society and in the business world increases, the more successful a firm has been in the past, the more likely it is to fail in the future. Why? Because these firms, and often the CEOs who lead them continue to do the things that led to their success in the past.

So where do corporations turn to find new ways to do things? More and more are turning to continuing education and business books for guidance on how to manage in the future. Many years ago I discovered that business books are much like business speakers: They tend to be either interesting or motivational or educational and dull. If you have ever listened to motivational speakers at a national meeting, you may have laughed at their jokes and felt inspired to go forth and conquer. Some of the speakers tell the audience, "You're a tiger; go get the sales!" Despite the motivation of the moment, you quickly realize that the speaker failed to tell you anything very useful about *how* to get the sales. No theory. No techniques. Nothing very practical. I heard many professors in undergraduate and graduate school provide theory and techniques that were truly the most important and practical ideas that a person could possess. Unfortunately, many (but not all) of those professors were also experts at putting the audience to sleep.

The same situation is found in many business books. If this dilemma bothers you, as it does me, I believe you will enjoy *The Shape-Shifters*. John Mariotti writes from his own experience that spanned a number of firms and progressed from entry level to president of major corporations. John goes beyond the perspective of the corporate executive to write as a person who

understands scholarship and the academic literature. The practical, how-to experience solidly based on the insights of other scholars provides a powerful and provocative analysis of what organizations must do to survive in the twenty-first century.

This book is about how organizations must shift their shape to be ready for the future, how they must evolve in the next century. One of the many valuable topics discussed in this book is the issue of value attributes, and the value pentastar provides an excellent way to understand this underlying reality of shape-shifting. While it is still vital to examine how consumer markets are changing and how power in the distribution channel is shifting, we must not overlook the need for new organizational structures to deal with such changes. Some of the most important ideas in John Mariotti's new book are about the shapes of organizations that are preferred most by consumers.

A very substantial amount of literature on multi-attribute attitude measurement exists in academic journals. Most of the academic literature, however, has not found its way into business practice—perhaps because of the style in which it is often written. John Mariotti has built upon this literature, and made it useful in thinking about business. He gives examples most readers can relate to readily. I believe you will like his combination of very strong concepts and theoretical materials presented in a manner that displays his own practical approach to getting things done effectively. I believe you will especially appreciate the way John relates his own, very practical approach to ideas that have proven so valuable to building great businesses.

I believe there is always a better way to do things—bold ideas that make business sense can lead firms of all sizes to successful futures. *The Shape-Shifters* offers insight into new and practical ways on how to do things better.

Roger D. Blackwell, Ph.D.
Professor of Marketing, The Ohio State University,
and author of *From Mind to Market*

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INTRODUCTION

In the world of business, many factors enter into decisions. There are people and organizational decisions, equipment and plant decisions, new product and process decisions, political decisions and, ultimately, strategy decisions. What should we create? To sell to whom? For what? Why should anyone buy ours compared to all the alternatives out there? When we make these decisions, what will determine our success? The answer is: The "configuration" of the chosen business and the *value* it creates and delivers to its customers.

I struggled with these issues as president of Huffy Bicycles for almost 10 years, and then for a couple years more as president of Rubbermaid's multinational Office Products Group. Sometimes I thought I knew the answer. The market usually quickly confirmed whether my answer was right or wrong. Each time the questions arose, another combination of factors — a new configuration or "shape," had to be considered, and a new customer's perception of value had to be understood. Now I am doing it as an advisor to leading consumer product companies, and I find the situation the same.

This book is the culmination of over 30 years of experience, operating in fast-paced businesses, where contemplation lasts only until the phone rings, the next interruption occurs, or the next meeting starts. After all those years business experience in four different industries, and even more research, the inescapable, indisputable conclusion I will try to explain in this book is why and how the "shape" that consistently creates and delivers the best value is the key, *because the best value wins!*

Winning does not mean simply getting the first order. It means fulfilling the succeeding orders and making a profit and return on investment greater than the cost of capital, so there is the opportunity to do it over and over. It means keeping the customer as a long-term partner, too. Understanding and defining value is not the only key, but understanding what sort of value is perceived as better than the competitor's offering allows us to create that value both more effectively and more rapidly. Once understood and created, delivering that value consistently is also essential. It is here that the people issues become pivotal. Developing an organization, leading that group of people, and achieving these goals is what the life of business is all about.

Since the customer's perception of value is always changing, our understanding of value must also be shifting to match or anticipate it. It was with this realization that I thought about the concept of the shape-shifter. In the successful television series *Star Trek—The Next Generation*, a shape-shifter was a being who could alter his or her form at will to the shape best suited for the circumstances or conducive to success in a mission. Thus, *the essence of shape-shifting, is to be able to re-create yourself, your organization, its core competencies, and your business into the shape that can create and deliver what the customers value most.*

The only way to effectively change the "shape of value" is to change what I call the "shape of the business" that creates and delivers that value. Understanding how to continuously shift the shape of businesses to deliver value consistently, when the very definition of value itself is constantly shifting, is the key to long-term success. In *Competing for the Future* (Harvard Business School Press, 1994), Gary Hamel and C. K. Prahalad speak of "getting to the future first." I heartily agree—but only if the shape we get there in (to create and deliver value) is the right one. Make no mistake, getting there first is important, but not only must we get there with the best value, we must also continue to deliver the best value consistently.

Many large companies have dominated markets in the United States over the last four to five decades. They got there first, and grew to incredible size and strength. But somehow the fearsome strength of General Motors, US Steel, even IBM, and Sears are not what they used to be. What happened? Could it be that their shape was no longer the right one for creating and delivering the new customer perception of best value? What will be the future of Wal-Mart, Intel, and Toyota? As the customer's perceived shape of value shifts, will they shift too? Fast enough?

Change is inevitable. But change is difficult. People resist change unless they are part of how it comes about. Then they can actually enjoy it. Capitalizing on change effectively can become the most powerful source of competitive advantage but it all depends on the people and their leadership.

Another condition is just as predictable and inescapable in business as it is in nature: As large organizations grow and mature, they become *less flexible* and are *more vulnerable* to newer, more vigorous, and more adaptive competition. Your journey through *The Shape-Shifters* will help you not only better understand value, but to generate some useful ideas about how to build on that understanding, to capitalize on continuous change, and then to build your organization's success based on that change. But before we begin, let me continue the analogy between change in nature and change in business.

I live on a hill that overlooks a vast expanse of forest. In this forest there are trees of all different species, sizes, and ages. While I looked at this work of nature one day, it struck me that there was a message here that could be applied to organizations, especially business organizations. I began to focus on one tree, great in both height and girth. It was, I assumed very old. In fact, there were no small trees in the shadow of its huge branches. The large tree dominated its part of the forest. Its spread was so impressive that it completely excluded new growth (even its own seeds) from taking root in its shadow.

But all around it, the trees were mostly of the same species, of varying ages and sizes, which obviously grew from the seeds of the great tree. Other plant life, too, flourished outside the tree's shadow, and the diversity was beautiful to behold. As majestic as the large tree was, its setting was only enhanced by the surrounding growth. Alone, it simply wouldn't have been as impressive, because there would have been nothing for comparison.

One day, in the very early spring, a great windstorm swept through the forest. Never before has such a wind blown through this forest. Other strong winds had knocked down the smaller, dead, or dying branches of the large tree, and this natural pruning was healthy for it. But this stronger wind tore at the great limbs and branches of the tree as never before. By virtue of its size and age, the tree was rigid and unyielding, whereas the smaller trees were able to flex in the wind and remain unharmed. As the wind whipped the mighty tree, one of its large limbs broke, with a resounding crack, and fell to the ground. Once a strength, now its huge size and weight worked to its disadvantage.

But soon thereafter, something different and new began to take place on the ground beneath where the large limb had hung: The sunlight and rain fell through and some of the seeds from the large tree that had fallen there began to grow alongside many other plants. This new growth was much different from the rest of the area around the big tree. It was very diverse and flexible; it was also aggressive, growing very fast, often doubling in height in a single year. Still, the large tree continued to dominate its part of the forest. Then another major storm came, and another limb broke off the great tree. It was as large as the first, and it was from a part of the tree near the first break. The very core of the great tree was now exposed.

The first broken branch had lain on the ground for some time, and the burrowing, sucking, and chewing insects had found it. From there they had moved to the healthy trunk of the tree, where they found them access to other old wounds. As seasons went by, some of these infested areas began to rot, and the parasites continued their slow, steady march.

In contrast, the new growth around the great tree continued to flourish, gathering greater amounts of sunlight and moisture. As time went by, the old tree slowly gave way to the ravages of storms and parasites. With each broken limb and fallen branch, more aggressive new growth sprouted around it. The trees that had taken root in the area exposed by the original broken limb were now quite large, and still growing rapidly. They were now competing for the light and moisture with each other and not only the great tree.

Finally, after much of the great tree's strength had been destroyed, it toppled over. Its once proud bulk lay on the ground, in somber, sad repose. A few of its roots remained linked to the soil, and some new growth appeared on its limbs each spring, but most of it was a broken and decaying hulk. The new trees that had sprouted in its space now blocked its meager growth from the sunlight and took the nourishment from the soil. As they grew taller and larger, it became apparent there was no longer room for all of them to become as dominant as the great tree had been. Like their predecessor, they could no longer flex with the swirling, stormy winds. Their upward growth had slowed, too. In such large trees, the sap took too long to get to the top for them to become flexible or grow much taller, although they spread their large, rigid limbs outward in an attempt to grasp more sunlight. Their deep roots had to reach even further down to nourish their large frames and cling to the territory they now claimed.

They, too, were bound by nature to fall victim to the ravages of time, the strong winds of change, and the growth of the young and the flexible. Trees can not grow to the sky, and neither can companies. Their own size, bulk and inflexibility become their limitations. Thus, the "shape" of the forest is constantly "shifting." Old growth matures and dies off, and new growth takes its place. Nature's messages are subtle but powerful. Often, we ignore them. More often, we are simply unaware of the messages because we do not know to look for them. One thing is certain. We can learn from the laws of nature and the story of the forest.

Markets have limits just as the forest does. The wise businessperson picks only a limited area of the "forest" to shape, lest he or she be spread too thin. Like trees, the competitors who can grow yet remain flexible will survive and prosper the longest. Many companies came to mind as I wrote this: Bethlehem Steel, PanAm, US Steel, General Motors, even Sears and IBM, to name some of the best known. These once large and powerful "trees" have met a variety of competition. Some withstood the competition and survived, but not without massive pruning and reshaping. Companies like Nucor Steel, Southwest Airlines, Toyota, Wal-Mart, Intel, and Microsoft are now the large trees in the forest. What will their life cycle look like? When will they succumb to the disease of bigness? How will they have to change, and will they do so? Perhaps the most well known and consistently profitable example of a shape-shift from one area of the "forest" to an entirely different one is provided by General Electric, under John F. Welch's leadership.

In 1981, GE was a behemoth, deeply entrenched in cyclical, big-ticket, heavily unionized businesses. Welch decreed that he would simplify management and stay in no businesses where GE could not be either number one or number two. He bought RCA and NBC, and sold the unprofitable small home appliance business. He sold the consumer electronics business and pushed into financial services. GE currently leads all U.S. companies in market capitalization, and Welch's management has proven hugely successful for GE shareholders. GE under Welch has been termed the world's only \$80-billion growth company.

Even as I write this, Welch is reshaping GE again. Instead of depending on any tree to grow to the sky, Welch is constantly and continuously planting new trees and moving to new parts of the forest, while not abandoning the still healthy old parts. Welch is also bundling services around the products like the new growth surrounding the large tree. As Theodore Levitt so aptly described in his book *The Marketing Imagination* (The Free Press, 1986), Welch and GE are creating "...the enhanced product, the expanded product..."

Only through a journey of constant shape-shifting can businesses capitalize on the changes occurring in the natural environment in which they must compete. In the chapters that follow, I will describe *why* the changes are necessary, *what* defines the changes needed, *how* to get started shape-shifting, and then close with some final thoughts on *where next*. Let the journey begin.

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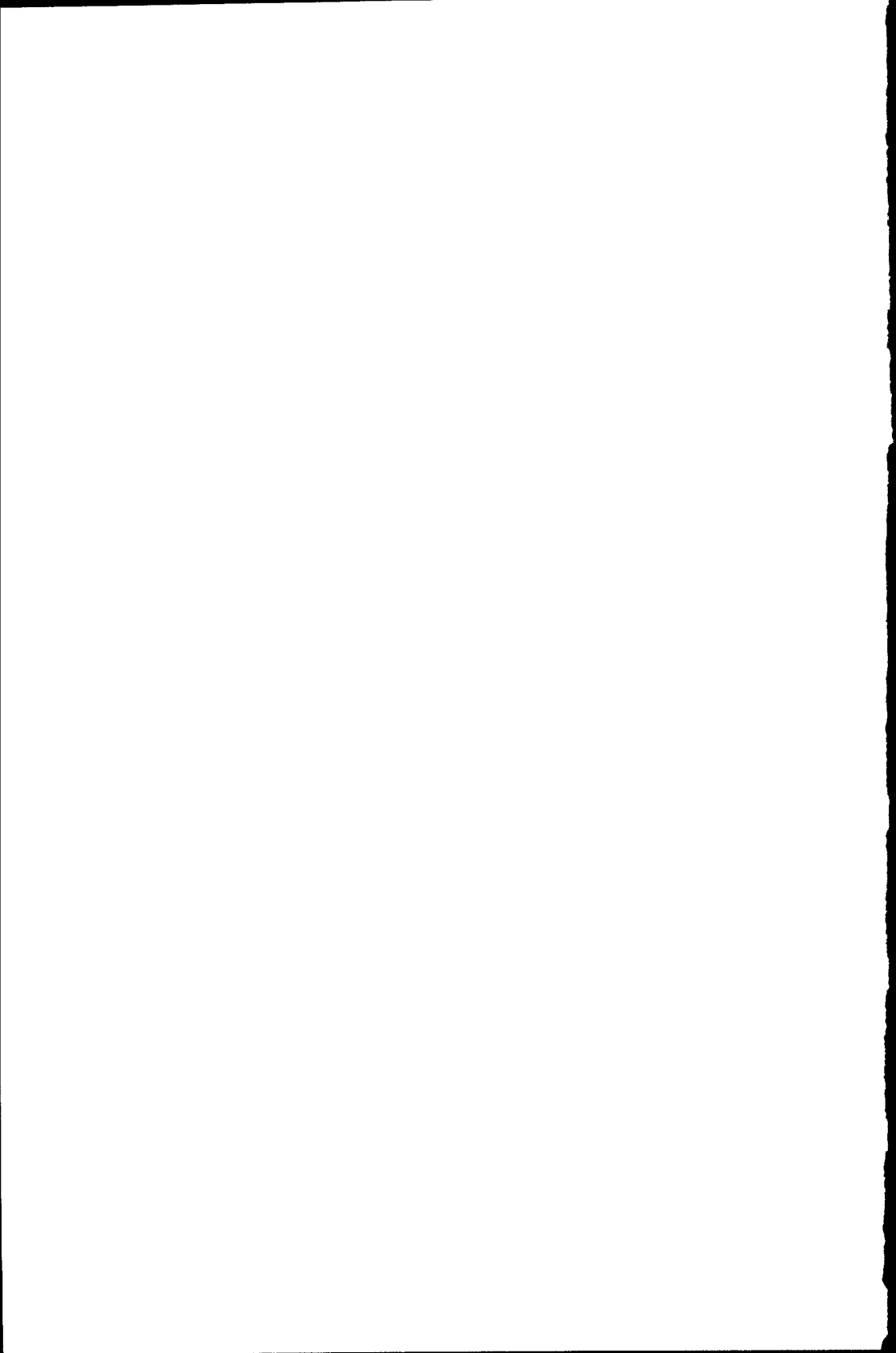
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PART ONE

Why?

**THE WORLD WE HAVE CREATED TODAY HAS PROBLEMS WHICH
CANNOT BE SOLVED BY THINKING THE WAY WE THOUGHT WHEN WE
CREATED THEM.**

– Albert Einstein





1.

Value—The New Mantra

If you deliver unmatched customer value, you will deliver growth and shareholder value.

—Michael Treacy, in a speech delivered at the
EFI Forum, February 1996

Strategy is revolution; everything else in tactics.

—Gary Hamel, "Strategy as Revolution,"
Harvard Business Review, July-August 1996

THE REVOLUTION

Your job, your career, and everything you and your company do is judged by a group of stakeholders. These stakeholders may be superiors within the company, directors of the company, or shareholders/owners. You also face a "jury of peers," whose opinions and behaviors will have a profound impact on your professional success and life. Customers, suppliers, employees, and other business partners all influence what matters to you and your company. The thoughts and feelings of all these groups are impacted by the information they receive, much of it in the business press or electronic media. Consider the following example of what businesspeople are reading in the contemporary media. (Throughout the book, I will include additional quotes from a diverse group of leaders concerning these chaotic, uncharted times to help you gain a perspective on what is going on around us all.) This is from the premiere issue of *Fast Company* magazine, in 1995:

Something is happening and it affects us all. A global revolution is changing business, and business is changing the world. With unsettling speed, two forces are converging: a new generation of business leaders is rewriting the rules of business, and a new breed of fast companies is challenging the corporate status quo. . . . No part of business is immune. The structure of the company is changing; the relationships between companies are changing; the nature of work is changing; the definition of success is changing. The result is a revolution as far-reaching as the Industrial Revolution. . . . Create the vocabulary of the revolution. Identify the values of the revolution. Debunk old myths. . . . The revolution spreads.

The word *value* is included in the title of this chapter for good reason: Much of this book deals with value—defining it, understanding it, creating it, and delivering it; but above all this book deals with *the revolution*. More specifically, it explains the why, what, and how of survival and success for the people and businesses caught up in the revolution. The secrets of this survival and success lie in finding how to deliver the best value but especially in determining how to learn, evolve, and adapt to unprecedented change at ever accelerating speed. This is no simple proposition. Much thought and hard work lie ahead. Many fundamental metrics (other than financial measures) determine how success will be measured through this revolutionary change, and the preeminent among these is value.

VALUE: THE MANTRA OF THE NEW MILLENNIA

Efficiency, output, and low cost were the mantras of the 1960s and 1970s, and quality and service were the mantras of the 1980s and 1990s. Value is the mantra of the turn of the century and beyond. Value is the sum of all the parts of a decision to purchase one product or service over another (or to purchase anything at all). Another definition might be that value is the worth of something in terms of monetary or other sacrifices required to obtain its function or appeal. Gary Heil, Tom Parker, and Deborah C. Stephens, in *One Size Fits One* (Van Nostrand Reinhold, 1997), says that value is "... the equation that balances product or service quality and reliability, delivery time, overall responsiveness, and of course, price...." Whatever the definition, whoever can understand value best, and assume the "shape" to consistently create and deliver the best value "wins" in the competition for the consumers' mind, money, and market share.

The challenge for business is to create competitive advantage by continuously changing the shape of a business to deliver what customers value now, and by preparing to anticipate or influence the future direction of the