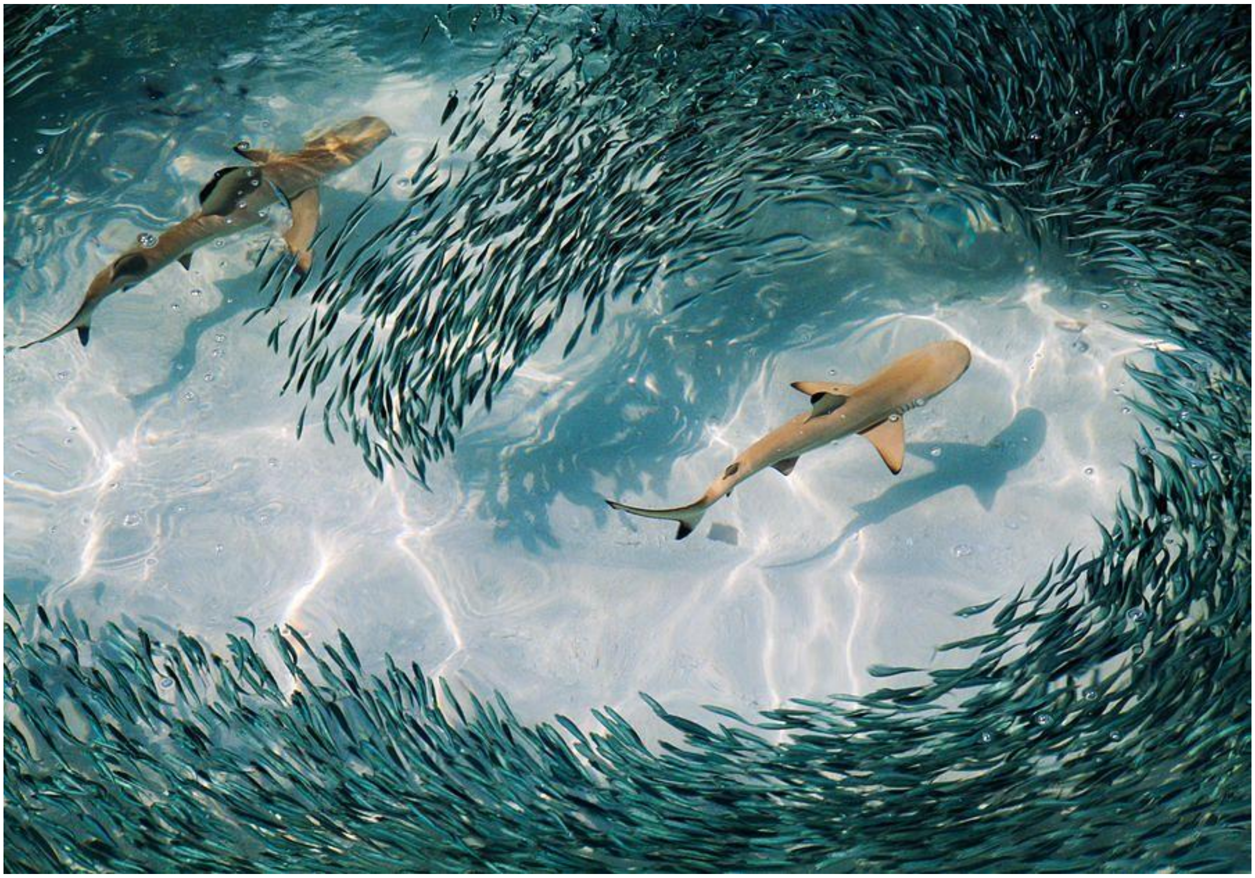
Complacency to Irrelevance

5 Warning Signs of Impending Disruption

by Fred Schonenberg | 3.12.19



You're hitting your quarterly objectives. Not growing spectacularly, but your investors, the board, The Street and your consumers seem to think you are doing just fine. So, you stay the course. Double down on the status quo. Welcome to the first sign of your company's future irrelevance. We studied companies that have been erased from the S&P 500 since 2000 in order to identify 5 warning signs that signal the precipitous drop from corporate complacency to complete irrelevance. First, some stats:

- 80% of executives think their current business models are at risk to be disrupted in the near future.
- Since 2000, 52% of the Fortune 500 has been displaced.
- Nearly 50% of the current S&P 500 will be displaced over the next ten years.

So, what warning signs can help you identify this potentially terminal corporate illness before it's too late? Executives who can detect these 5 early-stage markers of impending disruption, can prepare and adapt.

1 - No New Competitors

If you think the person that will disrupt you is your long-entrenched rival, you won't see the disruptors at the gate until it is far too late. Most large competitors you have been fighting and know as well as you know your own business. These aren't the disruptors to fear. Take the beer business. There are 2 major US players, several medium-sized competitors, the small craft brewers (a huge threat 10 years ago) and tangential competition from spirits and wine. That's a fairly consistent competitive set for the past several decades. The beer titans know and are prepared for this fight. But disruption isn't in the rear-view mirror, it's the blind-side. Perhaps, in this example, it's the cannabis industry and cannabis-infused drinks. Or perhaps the emerging consumer lifestyle changes toward healthier products and less alcohol consumption as consumers start to socialize outside of bars and put a premium on healthy lifestyle. Could growth and threats come from non-alcohol products? What business are they in? Is it the business of bringing friends together to enjoy each other's company or selling beer?

Diagnostic Questions:

- Who are our new competitors? – if none, get nervous.
- What adjacent businesses serve our same customers? Are they rapidly gaining market share?
- What completely unrelated businesses are serving our same customers in a new and different way?

2 - Aging Consumers

If your existing consumer base is aging, trouble is at the gate. Not because you shouldn't respect and serve your current consumers, but that someone else is serving the younger demographic that should be aging into your product. You need to adapt your product and marketing of that product to attract the new audience. For instance, on Super Bowl weekend, as billions of brand dollars competed for the aging NFL audience, Fortnite launched a live concert within their video game with the artist Marshmello performing to over 10 million+ live views with VERY little pre-promotion or traditional marketing dollars (full story here). Look at the financial advice industry that is laser focused on the wealthier generations and built their services for their lifestyles. Their current consumers have families and want to make investment decisions during the work-day and often in person. Yet, the younger consumers who are rapidly accumulating wealth and are the future consumers, are working too hard during the day to spend corporate time on personal financial decisions. They make their decisions at night, on their laptops when there is no-one at the financial advisory office to serve them, answer questions. While serving the existing, and more valuable consumer, they are missing the opportunity to build and cement a relationship with the next generation's consumer.

Diagnostic Questions:

- How old is our current consumer? Is that age trending younger or older versus previous evaluations?
- Who is serving the next generation/younger consumer better than we are?
- Where and how are they solving the problem we solved for their parents?

3 – Any Friction

Spend a day in the life of your customer. See the world through their eyes. Try to buy your product as a first-time consumer and then use your product devoid of all that you know about it. Be a newbie. Is there ANY friction in the process? The next generation of consumers are being trained everyday not to tolerate any friction in any part of their lives. They speak out loud of what they want, and it is delivered to their door instantly. They open the box and start using the product – no instruction manuals needed. They expect your product to be easy to buy, consume, understand and use. ANY friction in that process will hurt you today, and most certainly kill you tomorrow.

Diagnostic Questions:

- How easy is it to buy our product? Can we make it easier and faster to buy?
- How easy is it to find our product? Can we make it easier and faster to find?
- How easy is it to use your product? Can we make it easier to use?
- How easy is it to share your product? Can we make it more shareable to spread word-of-mouth recommendations?

4 - Beholden to Intermediaries

Is there anyone between you and the person that consumes your end-product? If so, stop reading this and go make some big changes. At first it is a mere irritant as you don't get ever valuable first-party data. Then you realize you don't own the relationship or dialogue with that consumer and are beholden to the scale, buying clout of this third party. Which means the third party co-creates the experience of buying your product as much as you do – which is a precarious position to be in. Of course, these intermediaries have been built over generations of efficiencies and drive huge volume for you. They shouldn't be discarded but make no mistake the disruptors aren't going to spend time building up these complicated infrastructures. They are going directly to your consumer. They are going to shave off costs, increase efficiencies and deliver hyper-personalized communication at scale with the direct relationship and data they are obtaining.

Diagnostic Questions:

- Can our consumer buy our product directly? Do they?
- Do we own the data on our consumer? Can we talk to them directly?

5 - Status Quo Navel Gazing

Change is most challenging when everything is going well enough. When the disruptors are at the gate, it's easier to motivate risk-taking, life-saving action. But it's very tempting to take the wait-and-see approach when moderate results are being delivered, especially for executives who believe the changes needed will take longer than their tenure at the firm. So you double-down on what is working and assume what got you here, will take you there. You start navel gazing. After all, your company has a strong and proud history of invention, innovation and breakthrough products. With that success comes institutional ego, a flavor of corporate hubris that suggests you needn't look outside of your own walls for new solutions. To assume your team has cornered the market on new solutions is statistically irresponsible. No one doubts you have the best team, and the best thinkers in the world, but you must augment them with the millions of startups and new technologies launching every month around the world. There are brilliant people outside your walls that are working on your problem. They have a huge advantage, that problem is the ONLY thing they are working on. They don't have to run your company and then in their 10% time, focus on this problem. They are 100% all-in and unencumbered. They will move faster, try more things and tackle this problem from every conceivable angle. They are solving this problem to survive. Wouldn't it be nice to take the field of people that are tacking this problem as entrepreneurs AND take your best thinkers and bet on both simultaneously?

Diagnostic Questions to ask yourself:

- Is our innovation pipeline filled with existing product line extensions? Simply new flavors of our old tastes?
- Are we partnering with startups and new technologies globally? Are we getting outside thinking and perspective infused into our organization consistently?
- What portion of our budget is being spent on unique test & learns beyond incremental innovation?

Over the long-haul, every business must constantly evolve and reinvent itself to keep up with changing consumer behavior. The cautionary tales of Kodak, Blockbuster, Borders, Sears, Compaq give us a playbook for the risks of complacency. They each had incredibly dynamic, smart executive teams – many of whom trumpeted internally the need for transformations. But the status quo is predictable. And investors are steadied by predictable. Their complacency towards change led to their inevitable irrelevance. Look outside of your walls. Embrace disruptors as allies. Grow with them rather than being unseated by them. Serve your existing customers, and tomorrow's customers simultaneously. Look for new channels, new partners, new ideas and, in the process, continue to reinvent your business to grow.

Want to learn how to transform innovation from a disruptor to a catalyst? Read part two in this series, Complacency to Hypergrowth and contact us for a free, 20-minute consultation.

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