

Organization Development and Change in 21st Century
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Lecture - 02
Coping with Change and Transient Competitive Advantage

So, as we stated in the beginning of this discussion, that there are lot of changes happening, and how to cope up with change is a scary process to begin with – It can be seen from these description such as - lifecycle at the competitive advantage, and the systematic way of harnessing the transient competitive advantage. We can see a science behind the process. We can look at and realize that there is a more predictable process. If we adopt that process, we can tap something which is difficult to predict.

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Strategy for Transient Advantage: Few Examples

- Google's move into phone operating system, Walmart edging into health care, Internet credit provider



Not bound by industry but playing in arena

- Cognizant spelling out on "the future of work"



Setting the broader themes and let people experiment

There are so many case studies. And we are going to discuss case studies where the strategy for transient advantage are very well harnessed by some of the players. Walmart is known for the retail and now Walmart is coming up with the healthcare; they have even launched phone cards. Vodafone has launched m-pesa in Africa for electronic transfer. Vodafone, otherwise is not known as a banking organization, and Walmart is not known as a healthcare organization. They have entered into the field because they have realised a fact that competitive advantage and transient competitive advantage is

not bounded by industry. But we need to identify the arena where we would like to play and then play it.

There is another set of example of the Cognizant and ITC. We know that Indian companies are fast losing out on the labour arbitrage, and that labour arbitrage is coming down, the salaries are going up, and as a result of that either these companies have to move up in the sophistication of their project or they will be out of business because simply labour arbitrage is not going to give them the competitive advantage.

We are going to look at how one organization has dealt with this issue. This example is of Cognizant. Cognizant started an initiative called job of the future. They formed teams focused on some industries. These teams very systematically studied industry and identified the probable changes in the years to come, and its impact on the processing systems of the existing organizations. And after this thorough understanding about the industry, they go to the business organizations in those industry with these studies saying that your industry is going to change in this manner and not going to remain same, and will be operating in a different manner and these are the way it will be operate in future - are you ready for that? And if you are not ready for that, we will be happy to partner to you in this process.

This is an amazing initiative. And as a result of that they are able to build the competency across many industries and have won so many projects in different industries. There is one example of identifying the themes not being varied with few processes which they are expert into.

Another example is ITC. The full form of the ITC is Indian Tobacco Company, first they dropped the full form, and used ITC as the proper noun, not as an acronym. They realised that continuing in the tobacco businesses is not going to remain the same and people are becoming more conscious, and this business by its nature is hurting people, and adversely affecting the health of the people. They use their existing distribution capabilities and they looked at the Agro business as a natural outcome, as a natural progression of their business. And Agro business at two levels: at the retail level wherein they were offering many products and catering to the segments within the FMCG, which were under-served like packaged food.

At the same time, they started the another networking - they were working with the farmers to identify the market dynamic, the environment, the climatic conditions and so many other things, and kind of partnering with the farmers in the agricultural space. So, these two examples suggest that setting the broader theme and let people experiment around them is one of the ways of harnessing the transient advantage.

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Strategy for Transient Advantage: Few Examples

- Brambles in Australia listening and responding to customer to delight them



Focus on experiences and solutions to problems

- Amazon, TripAdvisor, Titan building communities



Building strong network



Another set of examples show a company which is not technically very sophisticated but has to offer something very interesting to learn. This organization is of Bramble in the Australia - they are into the agribusiness. When they looked at what their clients are struggling with and where they can create value, they identified that their clients which were stores, the retail stores – for them unloading and unpacking the material from big containers and transferring those into the smaller containers, was something which was very time consuming. And they thought that if something can be handled around that that will be a great benefit to them.

Bramble did a simple innovation. They looked at the store capacity, they looked at the store dimensions of their retail partners, and they did that packaging of that size in the on the farms itself. So, the retail partners have to just transfer their stuff directly into the store; and the store containers. It was a simple innovation, but they made very deep inroads with the large number of retail stores, and that helped them to establish their initial position.

What it says is that we need to focus on the experiences and solutions to the problems if we have to harness the transient advantage. There are examples of the organizations which are based on building the community. So, for example, there is a software company Intuit, which is not providing the finished softwares, but it is providing the services and enough opportunity for people to do the tinkering, and do the innovation on the organization platform itself.

Another example is TripAdvisor which provides the place for people to interact and the community itself became self-sustainable and the supporting feature. So, building a strong network also is a very important feature of adding to the transient advantage. Now, we see Airbnb is also not only providing the information about the places for state, but they are focusing on building the Airbnb community. And one of the features of Airbnb communities is that if you go and stay with Airbnb partners, they provide you the place which is generally very economical particularly for the large groups of the travellers. They also provide the basic information about the sightseeing, about the convenient ways of travelling, about the places where travellers must go, about the places which may be of the different choice for different category of the travellers.

Now, these are somethings which are difficult to harness from the websites until a person visits that place. And Airbnb is providing that service to their partners free of cost. So, in that way Airbnb is moving beyond just provider or aggregator of this space to being a player which is helping the travellers to get the best experience of their journeys and travels. So, this is one way based on certain principles. When organizations build a strong network, they are able to generate value which is beyond the transactional nature, and that gives them the transient advantage.

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Strategy for Transient Advantage: Few Examples

- Two extreme examples of restructuring; Netflix





Learn healthy disengagement

- Constant ideation in Wipro, 3M





Systematic early stage innovation, iteration and learning



There are ways of disengaging with the business also in a smarter way. So, for example, Netflix, quickly moved out of the video CD businesses and rental businesses, and moved to the internet businesses. There are studies suggesting that Netflix could have done it in a more phased manner, because organizations are not able to shift from one way of this doing business to the another way of doing business. All the customers also do not adopt change in a with a similar speed.

So, the smart players, those who are operating on the transient advantage, do not disengage with the less valuating service or products very quickly, they do it in a phased manner, so that they can keep harnessing the advantage till the time it is available. And at the same time, they keep building the capability to generate business to generate value in different and novel ways, and that helps them to transition from one form of business to another form of business.

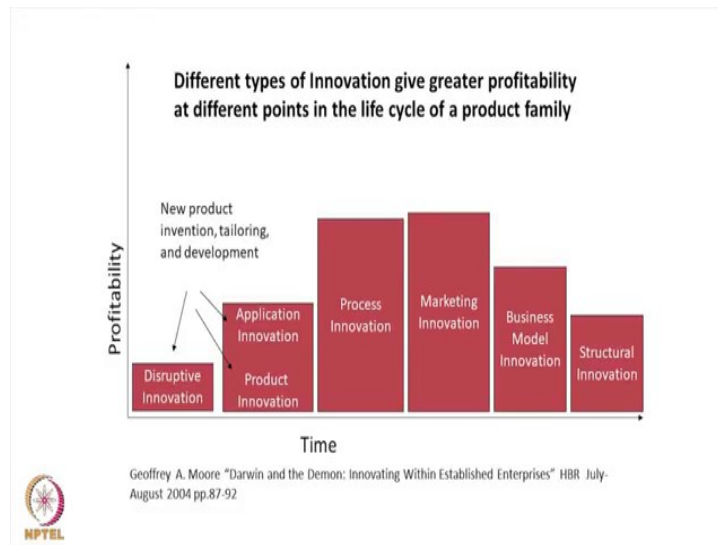
So, organisation need to learn healthy disengagement. Another time tested way, which is not easy, but is found to be the core of any organization - which has not only survived but also thrived in the transient advantage phase is conveyed by examples of 3M and Wipro. 3M is a very oft-quoted example, where we know that they have a simple norm to get the one-third of their revenue and profit from the product developed in last 5 years. So, developing product is not the product project in itself, developing product and processes is a way of doing business.

We see that many organizations get some jackpot, they launch a product and it becomes very successful. Very rarely, it happens that, they launch very few products, and one of them becomes jackpot. Generally, organizations have to keep trying things and keep developing things, and out of that something becomes more beneficial. So, it is not always that one product becomes a hot innovation or one innovation provides high value.

Organizations have to operate on the funnel of the innovation, where innovation takes place at the various levels, at the product level; at the process level; at the business models level. And lot of conversations about innovation happening, lot of initiatives are taken, out of that few initiatives become jackpot and they become very successful, that is how it works for an organization to be innovative in the real sense.

So, systematic early innovation iteration and learning has no substitute. An organization, which is aiming at harnessing the transient advantage has to have innovation not as an initiative, but as a system. There has to be a process for an iteration, and constant learning should emerge from those iterations. An organization like Wipro has a hierarchy not only for the marketing and the product, but they have hierarchy for the ideation as well. There is a chief ideation officer, and there are some ideation committees at different levels, which are the forums where people can submit their ideas about the innovative businesses and products and this scanning happens at the different levels. And the most promising ideas, in fact, get the support of the organization. There are lot of spin offs of these projects, many new companies have started. And therefore it is not surprising, that if we look at diaspora, how many business leaders have come out of Wipro as compared to other software organizations, Wipro stands out in that, and it has provided a large number of CEO to the industry comparing to any other peers in the IT industry in India. So, innovation is not a matter of the project, but it is a matter of culture and the process, that requires a certain types of leadership, which help in building the innovation process, which in turn results in the innovative products and services.

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So here, I would like to explain a different type of innovation, and how it results in greater profitability and productivity. Innovation can happen at different levels. And it has differential impact on the profitability, and the time requirement is different in the different innovation. For example, there are disruptive innovations about new product, tailoring and development of the new product, application innovation, product innovation. The innovation can be in the process; innovation can be on the marketing, business model or more structural innovations. So, innovation is not only about developing a product, but also involves process, marketing, business models.

What this model suggests, and what the study of Moore suggests which was published in the HBR in 2004, that the profitability the investment is generally more in developing new products, whereas the profitability gain is much higher in the process and marketing innovation. If you look at the retail ecommerce revolution in India, it is less of about the offering new product and more about the process. It can be in many other industries, where it is not the product, but the delivery model or the process or the marketing innovation, that has created highest value.

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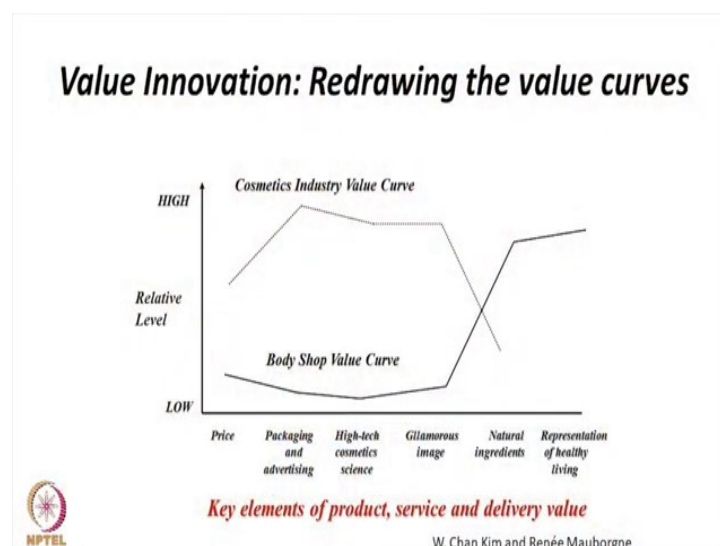
From lab to market to ecosystem ...

PERIOD	FOCUS	WHO ?	LEVEL
60-70	Technological Innovation (DoD, Nasa ...)	"the technologist" "the lab"	technology
80-90	Product Innovation (Automobile, PC, ...)	"innovative staff" "the organisation"	marketing
today	Business Model Innovation (Senseo, Adobe ...)	"management & partners" "innovation-ecosystem"	boardroom



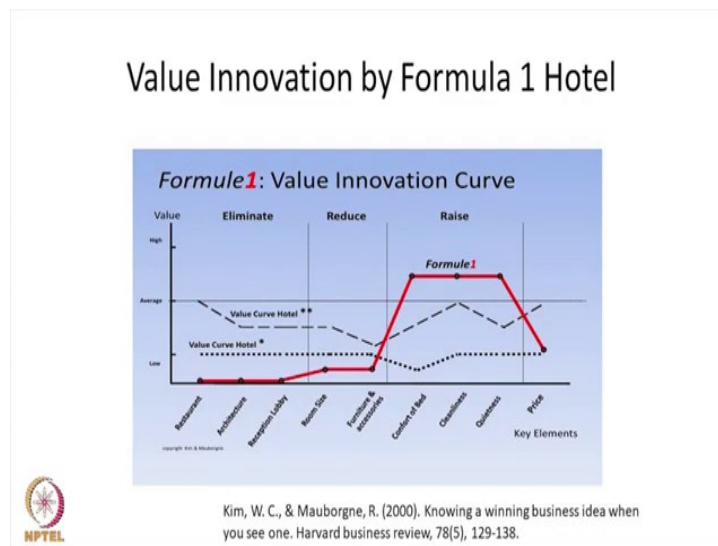
So, from lab to market to ecosystem means, in 60s and 70s, focus was more on the technological innovation, the technologist were doing the innovation and innovations happened at technological level. In 80s and 90s, the innovation happened at marketing level, and today innovation happens at board level. Lot of innovations happen at board level, because it is not only about the new product, but also about the new business model. And when we combine it - and this is like a 10 year old or 15 year old study - if we see today, it is actually again technology combined with marketing and boardroom, which is redefining the innovation space in the in the world.

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There is one another important concept, which we need to discuss in today's class – and that is value innovation. Value innovation is another systematic way of bringing about the change process. Value innovation is based on a logic that innovation should not be focused on an internal strategy and resources, it should be focused on the customers experience. And if we look at any product customer experience is contributed and customer value is created through different factors, we need to look at what are the factors, really valuable for the customer. And if we do innovation on that, the overall strategic innovation and the change becomes very powerful.

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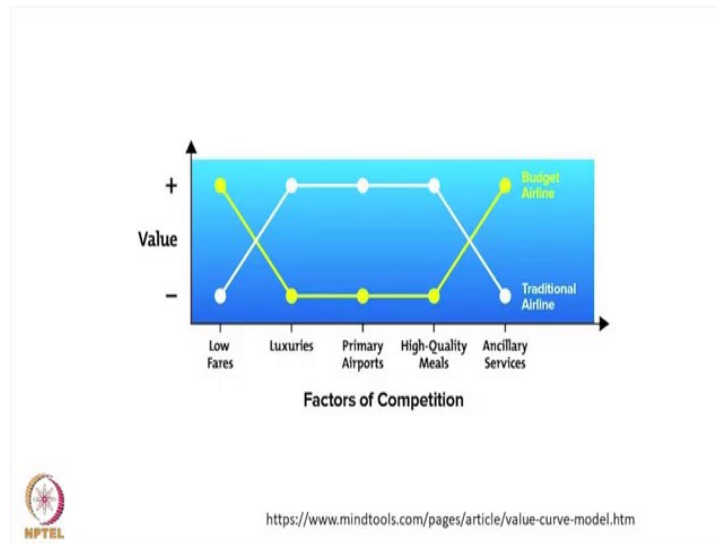


This point will be explained by three examples. Kim and Mauborgne, they popularise this concept, and they call it blue ocean strategy and value innovation. Their book is translated in more than 40 languages in the world, and more than 3.5 million copies are sold till now. So, they give these examples on how organizations can engage in the value innovation, which can become the driver for a successful change.

Another example is of cosmetic industry. If we look at the Body Shop and if we look at the established cosmetic industry player, we will see that, in price, packaging, high technology cosmetic science, glamour image, natural ingredient and representation of the healthy living, they give different level of value - these two players give different level of value to these factors. So, established cosmetic industry player and the leaders were giving more relative value to price, lot of value to packaging, lot of value to the high tech

cosmetic science and almost very small, very less attention to the natural ingredients. Body shop on the other hand gave less attention to price, packaging, cosmetic and the glamour image, and they give most attention to the natural ingredient, and that fit very well with customer's value perception. It fit very well with what customer valued, and as a result of that, Body Shop, became very successful and they were able to give serious competition to established players.

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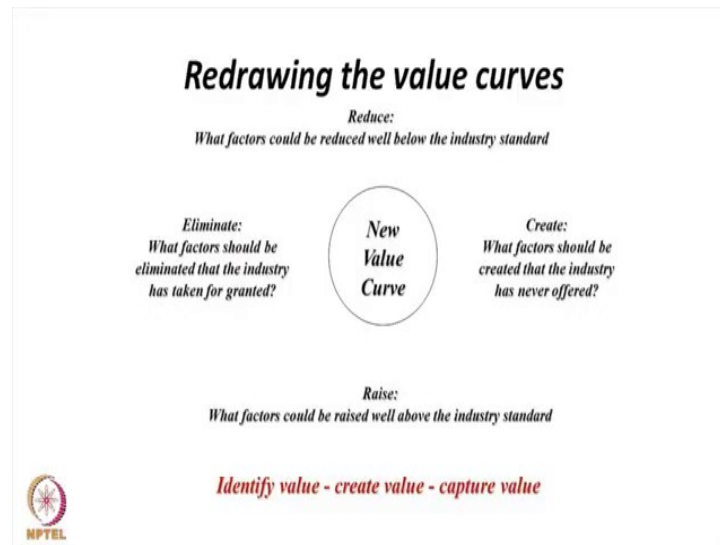
Another example is of budget airlines. When we look at the customer, who travelled through different airlines, for them the factors are low fare, luxury, primary airport, high quality meals and ancillary service. Most of the traditional airlines are focusing on the luxury, primary airport, high quality meals, whereas budget airlines just focused on the low fares, and some ancillary services and gave less attention and investment to luxury, primary airport and high quality meals. Some of them, in fact, stopped providing meals; and later on they started giving meals for some additional cost. As a result of that a new market got created in the process. And now we know that the number of the travellers through the airways have increase a lot in India, because price of air travel fell down significantly. Of course, in economy such as India, government also played its role in making the air travel affordable, but we nonetheless cannot discount what budget airlines have done in terms of the value creation.

Another example Kim and Mauborgne give is of Formula One hotels. These hotels are mainly on the highways, and their main customers were trailer drivers and truck drivers. Restaurant, architecture, reception, lobby, room size, furniture and accessories, comfort of bed, cleanliness, quietness and price; these were factors identified to be relevant for the value for the customers. What Formula one hotel did was this - if their customers are trailer drivers or truck drivers, do they expect great swimming pool in the hotel, or will they go for a very sophisticated restaurant where they can get a large number of dishes? Certainly not; for them, most important things are comfort of bed, cleanliness, quietness and the convenience of getting some quick meals when they arrive to those hotels late in the night. So, the Formula 1 hotel followed this logic. They reduced the cost on restaurant. They provided a very basic kind of restaurant, which would provide sandwiches and some simpler stuff. In fact, they installed the sandwich vending machine, they would self-serve the coffee or tea or sandwiches. They gave less attention to the architecture, reception, lobby. They gave some attention to the room size and the furniture, and they focused most on the comfortable bed and cleanliness. As a result of that, customers found it valuable. And organization created value for the customers and for themselves. So, this is one way, one another way of systematically approaching the value innovation.

In the organizations, people can look at what are the factors, which create value for the customers. We need to study those factors. And the different value curves have to be drawn, in comparison to my organization, how my competitors are giving those, and getting those values. When we draw the comparative value curve, we can identify where the value innovation can be done, and those value innovations can be incorporated systematically.

Value can be created for customers, which in turn results in creation of value for the organization. Out of this whole process - identifying the factors, making the changes, convincing the top management for these changes - which one do you think is the most difficult step in this whole process – it is identifying the factors.

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Actually, the customer insight is the most valuable thing. Why is it so? Because many time customers themselves cannot articulate what they need, what they expect. It requires a deep intimate understanding of the customer, on the part of the marketer to identify the real valuable factors. And once the valuable factors are identified, and once it is identified where we are going to focus upon, we can redraw the value curve.

Redrawing the value curve means, reducing those factors that could be reduced to well below the industry standard - those things can be reduced. Something can be eliminated – those factors should be eliminated which either the industry has taken for granted or which are not valuable anymore. Then we also need to create factors, that should be created – factors that industry has never offered and raising these factors well above industry standard. Identify value, create value and capture value, that is the essence of the Kim and Mauborgne's framework of the value innovation.

Based on these logic, the blue ocean strategy and red ocean strategy logic is built. I hope you must have studied that in your strategic management or strategic marketing case. The basis of the blue ocean and red ocean strategy is the process of redrawing the value curve. So, I will end this session with one example of a retail bank which started in a market, which already had more than 95 percent coverage of the banking population, that market is the US market, and the bank is the Commerce Bank.

Commerce Bank started in USA, in many states of the USA, when there was more than 95 percent population which already had the bank account. Now, you can imagine, how conventionally difficult it is to start a bank, which already has, so very so widespread bank population. They looked at the value innovation identified that the timing and the personal interaction are the most important factors they are going to focusing on.

So, they decided that the banking hours will be longest in whichever market they will operate. So, the banking hours in most of the branches of Commerce Bank were from 8 am to 8 pm, because they identified that as one of the most important factors customer value. They need to have bank when they had time. Generally, most of the banks would be operating when customers do not have time, or are busy with their professional lives. So, this is factor number one, having a time duration which is longest in whichever market, they are operating.

And the second thing was the human service, the service with a smile. When you have these thing as a factors of the value creation, naturally you may not get the most talented people available in the market. So, they have identified some of the very innovative ways of attracting people to join the Commerce Bank. One of the attractive ways and interesting ways is that they have given invitation cards to their employees to be given to anyone through whom they (employees) get exceptional service. So, if you are a Commerce Bank employee, and if you get an exceptional service in the restaurant, and if you are carrying that invitation card, you can give this invitation card to the person who has provided you the exemplary service. This card would have an invitation to consider joining Commerce Bank. So, this is one of the ways they have extended their talent pool.

Secondly, if you have people who have the natural tendency to smile and willingness to serve the longest hours possible, they may not be the most qualified people. They may not be the academically most talented people available in the market. So, they were fine with that.

To cope up with this challenge, they have made their products easiest in terms of explanation. They make simple cards to be given to their employees, and with those simple cards, employees were able to explain even complex products to their customers. If after the lecture, you check the website of the Commerce Bank, you will observe that the Commerce Bank website also is very simple and very simple to navigate. It does not

show us the information about all offerings of the bank. It simply asks, what are you looking at, and accordingly it helps the customers to navigate.

So, people who have natural tendency to serving, serving with the smile for the longer hours, they may not be the academically most talented people, but they were helped by a simple processes and the product descriptions. Note that wherever Commerce Bank operates, they give the worst returns. They give the worst rate for the for the deposits, they give worst rate for the loans – as a policy, but Commerce Bank is a success story, it is not a failure story.

So, this is another example, where they focused on what is being valued by the customer. And they just focused on that. You must have a studied generic strategy in the strategic management course. Generic strategy is cost leadership, differentiation and niche. No player can operate on all the three things, it is very difficult almost impossible to operate as a cost leader, who has a great differentiation, who can also serve the niche. I cannot think about a company other than Google, which has to a great extent been successful in pursuing all the three types of a strategy. For most of the companies they have to trade off, where to trade off, where to make changes, that is what we looked at in the today's sessions.

In the today's session, we saw that changes are inevitable, we looked at how technological factors, societal factors, demographic factors are constantly redefining the business space and the organizations – and this has an inevitable impact on the business models, and the work preferences of the employees. So, we learnt that change is inevitable, but there are two concepts, which can be very helpful to lead the change process more systematically, one is looking at the competitive advantage and the life cycle of the competitive advantage.

We also looked at the concept of transient competitive advantage, no competitive advantage is permanent, so we looked at some of the features on how to sail through the transient competitive advantage and how to assess whether we are ready for the transient competitive advantage. Towards the end we looked at the value innovation is another systematic way. Based on the examples of Formula One hotel, body shop, and the low budget airlines, we conveyed the idea about the value innovation. So, change

management process is focused on the customers, first it is focused on the external customers, and to enable that change we need to focus on the internal customers.

One important factor, which is redefining the business field, and it is going to redefine in a stronger way is the need for sustainable development. There is a growing inequality in terms of the economic, natural environment, and meaninglessness, and these things are also redefining the business model. So, as we looked at how technology and the focus on the customer value is redefining the business model, and that is the first lesson about the change management.

In the next session, we will look at how the sustainability principles, the need for sustainability development is redefining the business models.