Seeing Around Corners: How to Spot Inflection Points in Business Before They Happen

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Dave's Reading Highlights

Some years ago, Andy Grove introduced the concept of strategic inflection points in his landmark book Only the Paranoid Survive. A "strategic inflection point," he observed, "is a time in the life of a business when its fundamentals are about to change." And that is how many of us experience inflection points — as a single moment in time when everything changes irrevocably. When you look at the true nature of strategic inflection points, you see a different story. It is similar to the way in which Hemingway's character Mike Campbell in The Sun Also Rises responds to being asked how he went bankrupt. "Gradually," he says, "then suddenly."

As you will see throughout this book, weak signals of an impending shift — when recognized early enough — can give you a head start to prepare to take advantage of it. Right now is exactly the moment when companies interested in entering the over-the-counter hearing aid business should begin preparing and making plans. Not investing in a huge big bang, mind you, but investing in preparations. An inflection point occurs when a change — what some people call a 10X change — upends the assumptions that a business is built on. When the moment of crystal clarity arrives, that is the moment to mobilize the troops, bring focus, and bear down hard on preparing the

organization for the post-inflection world, just as Bose, Samsung, and others are doing in the over-the counter hearing aid (sorry, not hearing aid) space.

There are four basic stages in the development of inflection points: hype, dismissive, emergent, and maturity. These are similar to the phases in the Gartner Hype Cycle methodology used to understand how technologies are commercialized.

Like a Greek tragedy, the hype stage almost always ends in disaster — sometimes dramatically. This brings us to the dismissive stage in the life cycle, in which those who sat out the hype take an “I told you so” perspective, saying, “That’s never going to happen.” This stage, however, is often where the real opportunities lie. In the dismissive stage, a few of the initial entrants will have survived the shakeout and begun to set the foundation for major growth.

The central idea here comes from Andy Grove’s prescient observation “When spring comes, snow melts first at the periphery, because that is where it is most exposed.” Evidence of an emerging inflection point doesn’t present itself neatly on the conference table in the corporate boardroom. It is the people who are directly in contact with the phenomenon who usually notice changes early. It is the scientists who see where a technology is going and when it might shift. The salespeople who are talking to customers each and every day. The people on the customer service calls who are learning firsthand what’s on customers’ minds. The people who sound the alarm about something that is broken in a system. The people who have an uneasy feeling about the implications of an impending decision down the road. These are the people — maybe you are one of them — who see it first and most clearly.

BEING PRESENT AT THE EDGES If snow melts from the edges, it behooves you to have mechanisms in place to see what is going on there. This is a prescription widely made by futurists, such as Amy Webb in her brilliant book The Signals Are Talking. And yet, when I consider how many executives I work with spend their time, getting to the edges is one of the last things on their agenda. Citing the

pressures of the day-to-day, the need to deliver to the current quarter, or even a lack of concern because of tremendous ongoing success, they stay safely at headquarters and surround themselves with internal team members. Consider, then, the following eight practices that can help you make sure there isn't something brewing at the periphery of your organization that could have an explosive impact on the company before you realize it.

Create Mechanisms That Direct Information Flows from the Corner Office to the Street Corner

Organizations looking for the early warnings of an inflection point have practices in place that allow the information and trends bubbling up far away from headquarters to be seen and heard. One practice is the deliberate creation of information flows that reach directly from leaders' offices to the front lines of the business. This can take many forms. When Lou Gerstner was running IBM, he spent his first months in office visiting customers and talking to frontline employees to get a feel for what was really going on. In a very hierarchical system, he drove staffers crazy by organizing "deep dive" sessions to which participants were invited depending on how much information they had, regardless of their hierarchical level.

2. Make Sure You Are Leveraging Diversity of Thought

Ask yourself: Am I inviting diverse viewpoints into our discussions? Are we listening to people whose life experiences and views are different from our own? Are we all homing in on one scenario to the detriment of even being able to imagine others?

3. Balance Type 1 and Type 2 Decisions: Empower Agility but Create Balance

4. Instrument the Edges: Foster Little Bets

5. Get out of the Building Whatever their motivations, it is relatively clear that what might have begun with good intentions on the part of the data marketing firms has had any number of unintended

consequences. I would assume that Facebook never intended its targeting to extend to political manipulation or tyrannical citizen suppression. But the inability to see how things work "in the field" creates blind spots that can be readily exploited by bad actors.

Another example of this pitfall is an executive from a wireless telecom company who attended one of my classes. At the time, the company was famous for spotty coverage and generally poor network performance in many parts of the country. He mentioned to me that one of their executives from headquarters (which happened to be in Europe) was going to be coming to the United States the following week. I asked him, "How do your executives react to the poor quality of the service here in the States?" He responded, "Oh, they don't have those problems. We know their itineraries, the routes they take to get from place to place, and where they'll be working. Our technical guys always make sure that the signals they get are nice and strong and that they don't have those problems. After all, they have work to get done while they are here." Once again, a deliberate, if unintentional, decision to shield decision-makers from the reality of how their organization feels to its customers.

6. Create Incentives That Reveal Useful, If Awkward, Information
Given that Facebook's business model relies on selling personal information, it isn't surprising that reports that this process was deeply flawed were not exactly welcomed with open arms. Facebook executives simply did not want to listen. These executives brusquely dismissed questions regarding privacy, arguing that users "gave their consent."

7. Avoid Denial While there is no shortage of evidence that something is seriously wrong at Facebook, the company's public statements continually downplay just how bad things are. From its comments denying that anyone could think the platform could have influenced the 2016 presidential election to a later defense of the right of Holocaust deniers to spread their stories on the platform, there seems to be little genuine willingness to take responsibility for the use of Facebook for immoral, if not illegal, ends

8. Talk to the Future That Is Unfolding Now According to a quote widely attributed to science fiction writer William Ford Gibson, "The future is already here — it's just not very evenly distributed." One of my colleagues at the consultancy Innosight, Scott Anthony, has turned this concept into a practical prescription: Identify the places where you could go to talk to representatives of the future. For instance, if you want to know how the twentysomethings of ten years from now will be looking at the world, you can be absolutely certain that you could have a conversation with the ten-year-olds of today. If you are interested in cutting-edge developments in almost any sector, there are bound to be conferences at which people present their ideas at an early stage.

Snow melts from the edges. The changes that are going to fundamentally influence the future of your business are brewing on the periphery. To avoid being taken by surprise by an inflection point, you need to be exposed to what is happening at the edges. The upheavals created by major strategic inflection points usually take quite some time to unfold. They are also not "complete" when you first see them. But if you are paying attention, you can begin to see the implications of their trajectory early on, when it is still possible to influence them. Eight practices can help you make sure you are seeing what is going on along the edges. 1. Ensure direct connection between the people at the edges of your company and the people making strategy. 2. Go out of your way to include diverse perspectives in thinking about the implications of the future. 3. Use deliberate decision-making processes for consequential and irreversible (type 1) decisions. Use small, agile, empowered teams for reversible (type 2) experimental decisions. 4. Foster little bets that are rich in learning, ideally distributed across the organization. 5. Pursue direct contact with the environment — "get out of the building." 6. Make sure your people are incentivized to hear about reality, not the reverse. 7. Realize when your people are in denial. 8. Expose yourself and your organization to where the future is unfolding today. You do not need to be a CEO to see how an inflection is likely to unfold. In fact, you are probably more likely to see it the closer you are to the external trends that make your business possible.

The reason weak signals represent strategic opportunities is that the earlier you can spot an inflection point in progress, the more easily you can design your strategy to deal with it effectively. I am fond of an analogy to driving: When you can see far ahead, you can adjust your trajectory with a small move of the steering wheel. But when you see only after the inflection point is upon you, it requires a big jerk of the steering wheel.

A lagging indicator is an outcome or consequence of some activity that came before. Many of our most utilized metrics in business are lagging indicators. Profits, revenues, returns on investment, and even earnings per share are all lagging consequences of decisions made at some previous time. Many companies I work with are strongly biased toward using lagging indicators to make their most important decisions, which itself can create incredible blind spots. Despite research that shows that even seemingly unambiguous metrics such as accounting numbers are influenced by personal preference, we have an almost magical belief that numbers will not deceive us. Thus, we are systematically biased to prefer lagging indicators in our strategic decision-making, which is problematic. By the time an inflection point has handed you a new reality, it's a tad late.

Current indicators give you data about the current state of things. One reason so many real-time systems are popular is that it is valuable to know exactly where you are — a bit like a directions app showing your location and how long it will take to get to your destination. Entire industries — from sensor-linked monitoring to enterprise resource planning (ERP) systems — have been built on being able to answer the question, What is going on right now? Many current indicators are based on the proven recipe for success in a given business — that is, on conditions at one point in time. Managers learn to pay attention to these indicators. Analysts are trained to study them. Employees and leaders focus on them. And they are often simply taken for granted as predictors of what will drive success in the future.

Leading indicators represent things that are not facts yet in your business. They have the potential to lead to facts later on, but at the

moment you're looking at them, they are only suppositions, conjectures, and assumptions. They are often qualitative rather than quantitative. They are often told as narratives and stories rather than in meticulous PowerPoint charts. For that reason, executives are often wary about basing important decisions on them. This can be folly of the highest order in a world of strategic inflection points, because the leading indicators are where ideas about the future are to be found. Lagging Current Leading Customer churn Customer satisfaction Employee engagement Employee turnover Employee engagement Management effectiveness new products Customer usage "Customer love"

As a third example, consider the tack taken by Satya Nadella, who replaced Steve Ballmer as CEO of Microsoft in 2014. Rather than continuing to focus on Windows-driven profits that characterized the Ballmer era (and which Blank so roundly criticized), Nadella has framed his leadership entirely around leading indicators. As he said in a 2015 interview, "We no longer talk about the lagging indicators of success, right, which is revenue, profit. What are the leading indicators of success? Customer love."

This brings us to the critical notion of building an intelligence system to detect early warnings. As we've already seen, you don't want to be making big strategic moves when the signal-to-noise ratio is very high, or too early on. You also don't want to wait until the facts are plainly obvious to everyone. Instead, you need a way to get information with respect to what is sometimes called the period of optimum warning, around the middle of the chart, as shown in Figure 3.

In the Swiss system, an apprenticeship is considered as valuable as a college education for the establishment of a good life, and college is meant for those who have careers (such as law, medicine, or accounting) that genuinely require advanced classroom instruction. A great many participants in the American system are not being well served. Many students are taking on debt they will struggle to pay off. Employers can't find the kinds of employees they need. Opportunities are closed to millions of people who could quite adequately perform

a particular work role. And all because we continue to use a degree as a proxy for other things we really care about — soft skills, the ability to write cogently, the ability to interact with technology, and so on.

The current state of higher education institutions today reminds me of the integrated steel mills that suffered a major disruption at the hands of mini-mills, particularly when I think of large research universities. Clayton Christensen has, of course, been talking about this issue for some time and published his ideas in the book Disrupting Class. As in the integrated steel mills, the economics of higher education exist because there are few alternatives. Students in the United States feel they have no choice but to attend college in order to access opportunities, just as steel customers had few alternatives to buying from integrated mills. Students must take a full slate of courses, some of which are required, regardless of whether they are interested in the topics or not. Professors are not rewarded for being inspired curators of the social learning process, but rather for their research prowess. Teaching in many of our institutions is seen by many professors as somewhat of a nuisance. For instance, with respect to research in business schools, Michael Harmon of Georgetown University wrote a delightfully titled article, "Business Research and Chinese Patriotic Poetry: How Competition for Status Distorts the Priority Between Research and Teaching in U.S. Business Schools." In this piece, he fiercely criticizes the business of producing scholarly research in business schools, which has "obliterated any evident connection between research productivity and the furtherance of any praiseworthy social, practical, or intellectual values." More recently, my colleague Steve Denning took business schools to task for offering obsolete lessons to their students. Normally, when a system doesn't create results for its constituents, it goes out of business. The university system, however, is buffered by its dominant control over that all-important credential, the degree.

As this change starts to have an impact on more universities, several outcomes are likely. The first is the shrinking of the research-based model for faculty deployment and incentives and the shift to what we might think of as the celebrity model. Schools are already relying

more heavily on adjunct faculty in their classrooms at an increasing rate. As a result, popular instructors are more likely to be in demand than those who focus on scholarship. Another effect, which Christensen predicted, is that the “brands” of universities may well become less important than the “brands” of individual superstar professors. It may well matter more in the future that you have a credential attesting to the completion of Christensen’s course on disruption or Lynda Gratton’s course on organizational design than that you have a degree from Harvard or London Business School. Similarly, we may well see rankings and accreditation drop to the level of individual course modules or programs. So rather than ranking the “best business schools” overall, journalists and observers may instead rank individual educational programs. The Thinkers50 biennial ranking of thought leaders in management has already demonstrated a version of this. The group identifies and ranks management thinkers whose ideas have had a major impact on the understanding of management and presents awards for distinguished achievement in specific categories. Notably, Thinkers50 salutes individuals, not the institutions from which they hail.

In my book The End of Competitive Advantage, I suggest several early-warning signs that an advantage is likely to be on the decline. How many of these do you think your organization’s leaders would be likely to agree with? I don’t buy my own company’s products or services. We are investing at the same levels or even more but not getting margins or growth in return. Customers are finding cheaper or simpler solutions that are “good enough.” Competition is emerging from places we didn’t expect. Customers are no longer excited about what we have to offer. We are not considered a top place to work by the people we would like to hire. Some of our very best people are leaving. Our stock is perpetually undervalued. Our technical people (scientists and engineers, for instance) are predicting that a new technology will change our business. We are not being targeted by headhunters for talent. The growth trajectory has slowed or reversed. Very few innovations have made it successfully to market in the last two years. The company is cutting back on benefits or pushing more risk to employees. Management is denying the importance of potential bad news.

Even more infuriating for customers who subscribed to both services, they would have to establish two queues for the two services. The fallout was so severe that by October of that year, reports with headlines such as “Netflix Facing a Fight Against Obsolescence” began to appear. Some 800,000 customers defected from the service. The Qwikster concept was quickly dropped, and Netflix returned to a bundled price. You can think of this as a case of moving too quickly in anticipation of an inflection point. Yes, streaming was likely to be an important and essential way in which the job of accessing entertainment and content on demand would be met in the future. But trying to force customers to give up convenience, flexibility, and an affordable price to do it generated nothing but anger on their part

Netflix was not the first to venture into the production of original content, but relative to others, it had one enormous advantage: fifteen years of incredibly rich data on what customers enjoyed watching. With the decision to enter the world of creating original content, Netflix managed to pull off an amazing feat — content so desirable that reportedly 75 percent of all US households now subscribe to the streaming service. The company’s mission today reads as follows: We strive to win more of our members’ “moments of truth.” Those decision points are, say, at 7:15 pm when a member wants to relax, enjoy a shared experience with friends and family, or is bored. The member could choose Netflix, or a multitude of other options.