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existing
businesses

MASTERING 2020

How to get prepared for the VUCA world with
Light Footprint management

FEBRUARY 2014

Roland Berger
Strategy Consultants

THE BIG 3

in·no·va·tion

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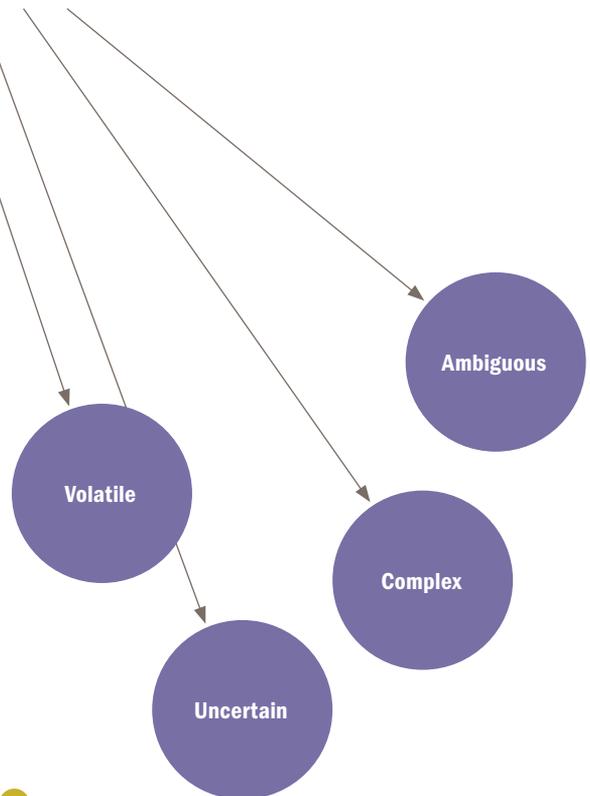
How firms can leverage Light Footprint management – Making the right moves to prepare for the VUCA world

Looking ahead to the next decade, which companies strike you as being ready for the changes that are approaching? More importantly, how did they achieve it? Preparing for the coming years is particularly complex for firms, as they need to make strategic decisions regarding unprecedented challenges. In particular, these are the trend toward digitization, growing uncertainty regarding regulation, the navigation of emerging markets, rethinking the value chain and the need for more organizational agility.

Those most prepared for 2020 are able to answer two main questions:

- > In the run-up to 2020, where is my business sector heading?
- > What should be my aim in terms of value proposition and operating model, and how does that determine what investments I plan and what human resources I allocate?

Briefly put, the most prepared companies succeed in developing a vision both of their business sector and of their firm's place within it. In the following, we take a look at companies that are better prepared than others for the 2020s. And we also explain what you should know about how they do it.



A

VUCA

Originally coined by the US Army War College, VUCA describes the new reality of a fast-changing world. This challenging environment demands agility, speed of movement, responsiveness and efficiency of means.

Why it is vital (but difficult!) to get ready for the 2020s

It is no secret that our world today can be described as VUCA: Volatile, Uncertain, Complex and Ambiguous. The VUCA acronym **A** was originally coined by the US Army War College to describe the world's new reality, which in turn required changes to military doctrine. The US Army thus evolved from the "shock and awe" pattern to the "light footprint" one, which emphasizes agility, speed of movement, responsiveness and efficiency of means deployed.

The point here is not to say that military reasoning should be merely transferred to the business sector, but to highlight one particularly relevant common feature: the challenge of making the right decisions in times of uncertainty.

In a VUCA world, anticipating transformation is more complicated than ever before – but it is also more vital than ever. This is difficult, because events occur more rapidly, trends may come up and stop suddenly, and causes and effects are harder to identify. But it is also essential, as the consequences of inadaptability strike even more quickly than before. These consequences are referred to as the "Kodak syndrome", named after the legendary US film and camera manufacturer. The company slid from a dominant position into a steep decline when it proved unable to adapt to the digital revolution.

As a result, those who still manage to draw a clear vision of their industry and of their role within it enjoy a clear advantage over their competitors. Some firms were "born" with this ability. Zara is a master at spotting fashion trends as soon as they emerge so as to immediately bring them into its stores. Apple visualized, before everyone else, the virtue of "simplicity as the ultimate sophistication" in hardware and software technology. Netflix keeps developing new business segments, from DVD shipping to video on demand (VOD) and now production of content. There is no doubt that this innate ability to anticipate trends fueled the development of the above-mentioned players. Most firms, though, need to acquire this skill. How can they do it?

The need for a Light Footprint approach to business

Just as the US military developed its Light Footprint doctrine to adapt to the VUCA world, business companies need to develop sound approaches in order to be innovative and agile organizations. In other words, they need a business version of the Light Footprint doctrine.

However, this is possible only if companies can develop a vision of their industry in the years leading up to 2020 and take appropriate action:

- > Accelerating the evolution of their existing business model
- > Injecting revolution into their company by launching new business models

In short, firms must avoid the "Kodak syndrome" by  doing two things in parallel. They must adapt their existing business (as does the Walt Disney Company, which constantly transforms its animated movies to keep up with innovation and the evolution in children's tastes) and they must inject revolution into it (as do the meta-winners described above, who constantly revolutionize their models). **B**

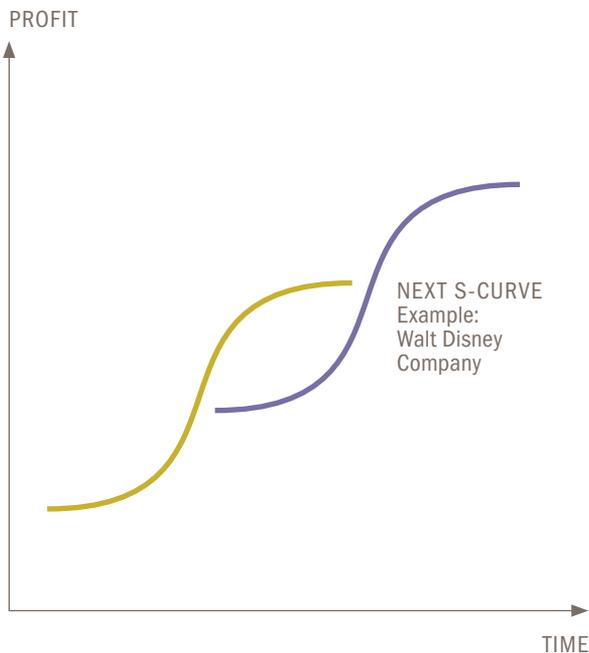
We at Roland Berger Strategy Consultants developed the Light Footprint approach **C** to help firms prepare for the 2020s. After analyzing 50 representative firms in terms of industry and adaptability, we concluded that the backbone of a Light Footprint approach must consist of seven pillars: technophilia, cybernomics, agility, special forces, openness, secrecy and risk mitigation.

Those seven pillars provide a basis for managers to start thinking about how to inject evolution and revolution into their business models. Specifically, how can this work? A close look at three crucial challenges facing companies as they head toward 2020 reveals how the seven pillars of our Light Footprint approach enable a company to gain a competitive advantage in the VUCA world.

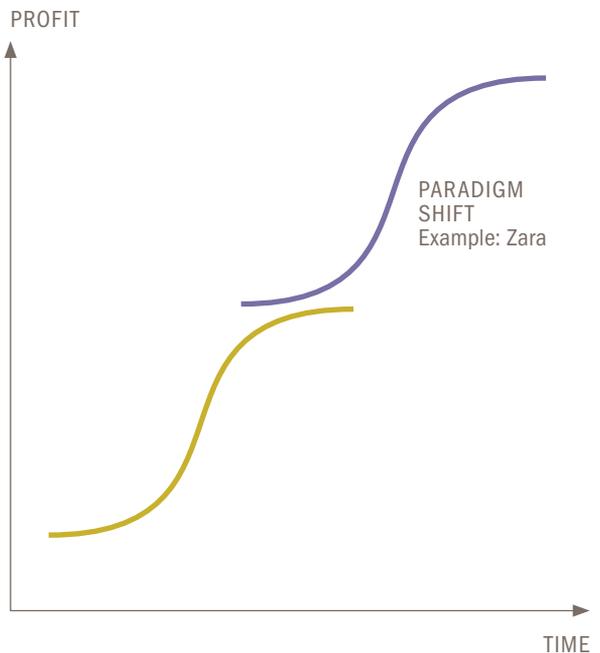
MIXING EVOLUTION AND REVOLUTION

Because trends are volatile and uncertainty is here to stay, firms need to accelerate evolution and inject revolution. Meta-winners manage to do both at once, heading for the next S-curve of profitable growth while looking for a paradigm shift to change the name of the game.

EVOLUTION Upgrading existing businesses



REVOLUTION Developing new models



■ Current activity ■ Upgraded/new activity

Light Footprint challenge #1 Innovation 2.0

Enterprises that are ready for 2020 are one step ahead of their competitors in terms of innovation, due to two Light Footprint pillars.

Technophilia: Inject automation and innovation into your business

The first of those pillars is technophilia: the will to constantly inject technological innovation into business activities. One key trend we identified is service robotics. These robots are customized for complex tasks and possess a degree of autonomy that goes far beyond mere automation. While their use has thus far been confined primarily to military applications and field robotics, they are now spreading to new areas; for instance, medical surgery, domestic tasks or entertainment.

For firms, this breakthrough will have a major impact on the world in 2020. In particular, service robots may considerably reduce the importance of the labor cost advantage, potentially leading to the reshoring of production. And with about 90% of countries still virtually untouched (fewer than 50 service robots for 10,000 industry workers), there is ample room for growth.

Cybernomics: Leverage digitization and social media

The second is what we call cybernomics: the ability to leverage big data, digitization and social media to enhance business efficiency.

Let's take the insurance industry as an example. By 2020, 50% of insurance clients will not go to a physical location to finalize a contract, compared to about 15% today. This will clearly have an effect on customer relationship management. Digital services

will also enable insurance companies to broaden their offerings: connected cars will fuel the expansion of usage-based insurance policies; smart home and health-checking applications will favor the development of more tailored contracts. Similarly, social media data combined with analytics will trigger major transformations, notably in underwriting (e.g. waiving medical exams for some prospective customers for whom social data suggests a healthy lifestyle) and in claims (e.g. improved fraud detection thanks to new tools based on social links).

LESSONS LEARNED

Innovation is at the heart of Light Footprint organizations, which use it to strengthen their competitive edge. It requires considerable investment in technology and profound evolution in terms of employee capabilities, hence the need to think far ahead in terms of targets. In order to keep pace with innovation, firms have to answer several questions:

1. ACCELERATE EVOLUTION. How are technological innovations transforming my company's business? Is my organization "technophilic", i.e. does it integrate external innovations and generate new ideas? Do I fully use the cybernomics tools I already possess – e.g. for utilizing social media? What capabilities should I develop? How should I (re)allocate my human resources?

2. INJECT REVOLUTION. How can I further leverage (internal and external) innovations to invent new business models? Is my organization designed to encourage revolutionary ideas? If not, what are the obstacles to breakthrough innovations?

But innovation is only one issue – the same reasoning is also true of organizational designs.

2 Light Footprint challenge #2 Getting your organizational design ready for 2020

In past decades, organizations favored matrix models, i.e. designs mixing two types of structure among business lines, functions, clients and geographical areas. The challenge today is that this type of design lacks agility, because it multiplies decision centers and creates heavy, unwieldy processes. Getting ready for 2020 means that a firm must not only anticipate how its sector will evolve in the coming years, but also how its organization should transform to adapt. To proactively become more responsive, organizations can investigate options in two new areas:

Agility: Increase immersion in emerging markets

In the past, firms turned to emerging markets mainly for production. But now that demand growth has shifted from developed to emerging markets, the imperative is now to be closer to the new consumers. As a consequence, firms have to increase their agility by balancing centralization and decentralization in their organizational design. They must be centralized enough to ensure quick decision processes, while being decentralized enough to effectively reach local markets.

This requires bold moves. Swiss electrical engineering giant ABB Group relocated its global robotics headquarters to Shanghai, so it could follow a shift in the demand for industrial robots and take advantage of China's economic boom. Fragrance and flavors company Givaudan, also based in Switzerland, built research centers in emerging countries to develop fragrances adapted to local tastes. Both moves were highly rewarding. The success of ABB's robotics development in China is now fueled by an entrenched local

presence supported by its strong R&D capabilities. China became ABB's second largest market after the US, and 85% of ABB's sales in China are generated by locally made products. For Givaudan, emerging markets have proved to be the main growth engine: between 2007 and 2012, its revenues grew in Asia by 31% and in Latin America by 24%.

Special forces: Transforming your organization into a living organism

Firms also need to explore the idea that they are not static entities but rather living ones, constantly evolving in response to their external environment. The firms best prepared for 2020 are those with internal units or entities that can grow or disappear as the environment evolves. The case of Chinese appliance manufacturer Haier is particularly illustrative of this principle. To make the firm more customer-centric, the Group CEO launched a major reorganization in 2005. The company was successfully redesigned around a modular structure made up of nearly 4,000 "ZZJYT" teams (zi zhu jing ying ti: "independent operation unit"), which stimulate the company's agility and innovation.

LESSONS LEARNED

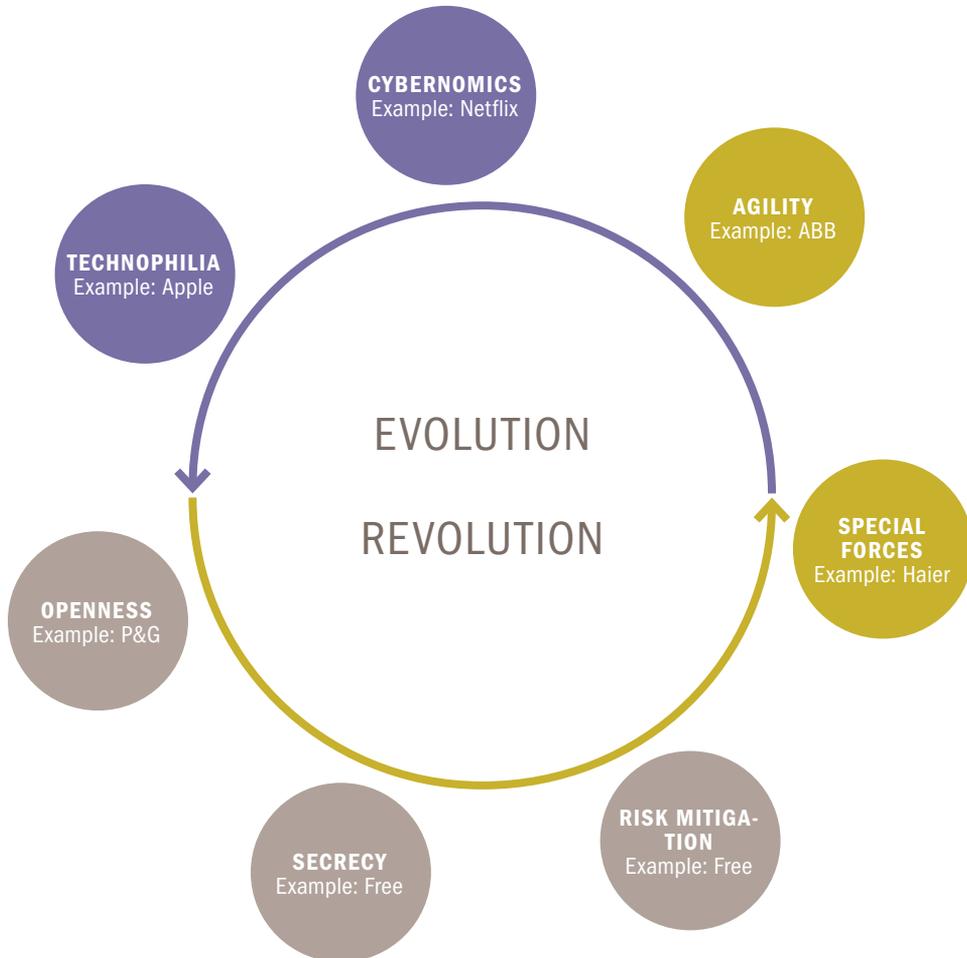
As evidenced here, the organizations best prepared for 2020 are the dynamic, learning ones. But to achieve such patterns, several questions need to be answered:

1. ACCELERATE EVOLUTION. In the run-up to 2020, what will be my company's key markets for production and consumption? Is my organizational design



THE LIGHT FOOTPRINT APPROACH

PRINCIPLES AND CHAMPIONS



Companies that successfully apply the Light Footprint approach can become meta-winners, whose successes force traditional players to adapt – or fall behind. To avoid the "Kodak syndrome" of missed transformation, companies wishing to adapt must adhere to seven principles practiced by champions such as Netflix (innovation), Haier (reorganization) or P&G (collaboration).

■ Innovation ■ Reorganization ■ Collaboration

optimal for moving efficiently toward them? If not, how do I create an organization that is both centralized (to enable quick decisions) and decentralized (to have a real local anchor)? Do I still need "regional layers" within the organization and if so, what should be their role in the future?

2. INJECT REVOLUTION. How can executives foster internal ideas competition to spread agility and develop a learning organization? How can they inte-

grate new "dynamic organization initiatives" into the group (alignment of objectives, control, institutionalized processes, risks of overlaps or cannibalization)? As evidenced here, a firm's organizational design is no longer a purely internal issue. Now more than ever, a firm must integrate external partners. This is why the third important challenge is how the firm is integrated into its environment and how it defines its relationship with other players.

Light Footprint challenge #3 New collaboration models

One of the revolutions of today's capitalism is that it is no longer a zero-sum game (a scenario in which one party loses if another wins). By opening up their external and internal boundaries, firms can achieve win-win situations. As a result, firms ready for the coming years are those that can count on a strong network of partners.

Openness: From a win-lose to a win-win approach

Innovation is one area where this need for collaboration is most visible, as illustrated by Procter & Gamble. At the beginning of the 2000s, this firm faced a difficult situation: although it was spending more and more on R&D, the number of products successfully brought to the market stagnated. To revitalize its innovation process, P&G opened it up to new partners under the "Connect + Develop" program. The firm now cultivates a network of innovation partners: contract labs, suppliers, independent entrepreneurs, scholars. Even customers: The latter can submit their ideas through an Internet portal, where P&G selects certain ideas to develop further. It even occasionally partners with competitors.

In 2002, P&G found itself with a patent to produce more weather-resistant trash bags without selling them. As it happens, its rival in cleaning products, Clorox, owned Glad, a leading brand for trash bags. The two competitors created a joint venture and successfully launched trash bags and plastic wraps based on P&G's innovation and Clorox's marketing strength. This success illustrated a concept of "coopetition" (cooperation + competition), a term based on work by Nobel Prize-winning game theorist John Forbes Nash.

Secrecy: Not sharing everything with everyone

Being open, however, does not imply sharing everything with everyone. On the contrary: successful players remain highly secretive on key issues, especially on innovation, thus preserving their ability to surprise the competition.

One example is French telecom company Free, which has become a master at cultivating an open attitude toward its public, reflecting a real sense of showmanship. It continually holds events to capture the public's interest and its CEO makes regular state-

ments to the press to create buzz. But this does not prevent it from retaining tight control over information about its innovations. For instance, it is constantly reinventing the Freebox (a modem), with new versions coming out every two years. However, virtually no information is leaked before the official release, and its production is kept under the strictest secrecy.

Risk mitigation: Own up to your mistakes

Incorporating more collaboration into the value chain creates dependency and possibly additional risks as well. In 2020, firms can be sure of one thing: they will have to deal with unexpected and unwanted consequences of their actions. Indeed, as complexity increases, it becomes impossible to predict all of the consequences caused by our decisions, so business players must make it part of their strategy to minimize the potential damage.

Here, again, much can be said about Free. Free's strategy is aggressive (low costs, strong rhetoric about competitors), which is bound to have some undesired effects. So dealing with them is part of Free's strategy. In particular, the company owns up to its

mistakes immediately. For example, when its website crashed after the launch of the company's mobile offer, CEO Xavier Niel acknowledged that it was "a catastrophe" – while at the same time arguing that it only proved how eager people were to switch to Free.

LESSONS LEARNED

The P&G and Free cases are indicative of one thing: entities outside the company can be useful partners, but the opening process must be tightly monitored and controlled. Here again, companies have to ask some tough questions as they prepare for 2020:

1. ACCELERATE EVOLUTION. Who are the strategic/non-strategic partners for the future of my company's industry? How should executives effectively manage the flow of information generated by the partnerships? How should they mitigate the risks generated by an organization without clear boundaries?

2. INJECT REVOLUTION. How should executives assess collaboration potential and work with "non-traditional partners" (e.g. customers, competitors, government)? How should they build a collaborative culture within the organization?

The Light Footprint imperative Mix evolution with revolution!

In a VUCA world, it is harder than ever to anticipate where a business is heading. But precisely because trends are volatile and uncertainty is here to stay, firms need to work hard to get ready for 2020. This requires implementing two things in parallel: evolution and revolution.

A firm is ready for 2020 if it can make evolution and revolution coexist in its business model. But as demonstrated by the examples above, the two ideas are complementary, not mutually exclusive. ◆

ABOUT US

Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With around 2,700 employees working in 51 offices in 36 countries worldwide, we have successful operations in all major international markets.

Roland Berger advises major international industry and service companies as well as public institutions. Our services cover all issues of strategic management – from strategy alignment and new business models, processes and organizational structures, to technology strategies.

Roland Berger is an independent partnership owned by around 250 Partners. Its global Competence Centers specialize in specific industries or functional issues.

At Roland Berger, we develop customized, creative strategies together with our clients. Our approach is based on the entrepreneurial character and individuality of our consultants – "It's character that creates impact".

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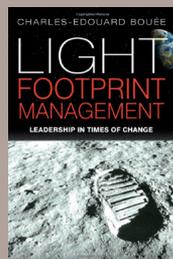


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Further reading



LIGHT FOOTPRINT MANAGEMENT: Leadership in times of change

A consensus is emerging that the business environment has become too volatile, complex and unpredictable for conventional management approaches to handle. In his latest book, Charles-Edouard Bouée suggests that companies can learn how to survive and thrive in the new world from recent developments in military doctrine and a new approach to business management emerging in China.



HOW TO SURVIVE IN THE VUCA WORLD

How can a company prepare for an uncertain future? Authors Charles-Edouard Bouée and Christophe Angoulvant introduce a maturity matrix for the Light Footprint approach and draw lessons in agility from today's meta-winners.

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