

PROLOGUE: THE NEVER-ENDING RACE TO SUCCEED

On an early Sunday morning stroll through a city I was visiting, I saw three individuals in jogging shorts running toward me in the middle of the street. They were fleet, lithe, vigorous, and impressive. I was intrigued. There were no cars on that street, which meant that traffic had been diverted. After the group passed me, I saw another small cluster of runners—six or seven people—exerting strong effort to catch up with the first group. I turned around as they huffed past me, to see that the back of their T-shirts advertised a corporate charity run.

A few minutes after the second group passed, I saw a huge pack of runners slowly approaching. It was a massive group whose members, jammed together, were plodding along in a slow, occasionally fitful way. Minutes passed. Eventually the group jogged by, jostling each other, sweating, and straining with effort, the difficulty of the race visible on their faces.

But it wasn't over yet. After a short while, I saw another group heading my way. This group was a smaller array of people who had given up any semblance of competing, or even running. They were walking; some were chatting with each other.

Apart from the good deed these people were doing, they provide us with a good metaphor for today's business reality. In every industry, a very small number of organizations are fast, fit, healthy, and clearly at the forefront. They are followed by a few pretty good wannabes nipping at their heels. These groups are clearly ahead of "the pack"—that large, undifferentiated bulk of companies of all shapes and sizes that don't stand out and don't draw the kind of positive attention from customers and investors that they'd like.

As in that charity run, the runners stuck in the corporate pack are struggling to stay in the race, but they are well behind the leaders in key metrics such as profit margins, stock value, cash flow, market "buzz," and customer loyalty. Many are falling farther behind despite their good intentions and strong exertions. Finally come the complete laggards, who, for all intents and purposes, are pretty much out of it. They might not even know that they're out of it, but their customers and investors do.

This book helps you guide and lead your organization to break away from the pack—and stay ahead of it. I offer you a winning blueprint for the race that your competitors (especially those who are mired in the pack) will find puzzling or will deride as crazy. If you take this book's injunctions seriously and have the courage to act on them (I give you advice on that, too), you will be able to help your organization achieve genuine market leadership and sustained competitive success.

First, a little more about "the pack." No metaphor is perfect, and I must emphasize a few caveats. Typical races, whether Olympic trials, NASCAR heats, or corporate charity runs, have one defined endpoint and one linear path toward victory. In business, there is no finish line. Having market advantage today doesn't mean you can relax and remain the star runner for the next decade. The mechanical rabbit stays in front of the greyhounds forever, and the lead dog doesn't necessarily remain in the forefront. For decades, powerful AT&T owned the telecommunications space in the U.S. In 2005, after hemorrhaging in a deregulated environment, AT&T was finally devoured by its Baby Bell offspring SBC. As I demonstrate repeatedly in this book, nothing stays the same.¹ Those who can't evolve, or who believe that they're too big or powerful to need to evolve, fall behind quickly.

Not only is there no one "end," but there is no linearity in the race itself. That's great news for you because that means there's no one prescribed path to victory. Think of today's competitive arena as a

big bubble within which competitors constantly maneuver. In the global race, the winners are those who have figured out that while everyone else is dutifully running the race on the same track at the same speed in the same direction (a.k.a. industry conventional wisdom), there is no rule mandating it. And that means that any organization can successfully burst out of the round-and-round-we-go pack-mentality bubble, and do so in any direction, as long as that direction has a radically compelling value proposition, hard economic logic, and fast efficient execution.

Any one or more companies can break away from the pack and win with alternative paths that contribute to their victories. IBM, Dell, and Apple began as hardware computer companies that morphed into three entirely different and successful business models: e-business services at IBM, low-cost manufacturing and distribution efficiencies at Dell, and media/fashion/entertainment at Apple. Nickelodeon, Marvel Entertainment, Electronic Arts, and Pixar Studios are all in the business of animation, but with vastly different approaches and products. All are very successful. Wal-Mart, Nordstrom, Target, and Zara are all successful retailers with quite different business philosophies and value propositions.

Again, that's good news: no one strategy for success, no one winner, plenty of opportunities to push ahead in a variety of directions. The bad news is that in a global free market, with these sorts of opportunities, the pack is bigger than ever before—and continues to get bigger as the race progresses! In every industry, more players from more countries are jumping into the race—especially in markets that appear to be lucrative and fast growing. With technological advances, waves of global capital seeking better returns, and myriad possibilities for networks and alliances around the world, conventional barriers to entry are becoming less relevant, even in more capital-intensive businesses. So the pack grows, more players run earnestly, the racers constantly check each other out, and they mimic each other's movements. As like-minded leaders of diverse organizations generate “me-too” strategies, the organizations become tepid, unexciting, and overly cautious. They also become indistinguishable from competitors, as perceived by customers and investors. All that, in turn, pushes them into mediocrity and raises serious adverse consequences for profits, earnings, customer loyalty, market buzz, employee innovation, and investor confidence.

The result is what I call the Copycat Economy, an arena marked by “me-too” mimicry and lots of commoditized products and services.

As a leader, helping your organization stand out and win in a Copycat Economy is the most important strategic challenge you will face during the remainder of this decade.

If that's not challenging enough, the race itself has become increasingly unruly and unpredictable. Business guru Tom Peters has described the business world as "a brawl with no rules." That is too extreme a characterization, especially in the post-Enron environment of ethical caution and increased public and governmental scrutiny. But it's safe to say that it's becoming increasingly futile to try to predict the outcome of the race through rational strategic planning and statistical linearity. Boeing and Airbus have each made enormous bets in fundamentally different directions about the future of global air travel, Boeing in favor of the middle-market, middle-size (200- to 300-seat), long-haul 787 Dreamliner, and Airbus with its enormous two-story, 555-person A380. You could easily make a case for either strategic choice. In 2005, Airbus and Boeing booked 1,055 and 1,002 new orders, respectively. With the aid of these new products, Boeing and Airbus enjoyed a combined, record-breaking 2,057 orders, a sum that leapt over the industry's previous best record of 1,631 orders (set in 1989).² Will one company ultimately prevail? That's hard to say, especially since it might take up to ten years before real profits from current sales come through. There's nothing certain or predictable in today's business climate.

In today's market environment, chaos often trumps predictability. Rich Walker, Executive Vice President of the American Architectural Manufacturers Association, told me, "Two years ago, our companies never anticipated the Asian challenge we face today." Lee Raymond, the recently retired CEO of ExxonMobil, confesses that, in spite of the mammoth sums that ExxonMobil has traditionally spent on predictive modeling, he basically gave up trying to predict oil price fluctuations.

In the marketplace of 20 years ago, there was more stability, predictability, and routine: finite and known competitors, customers with limited choices and options, long-standing and accepted "rules of the game," and entrenched good-old-boy networks for raising capital, distributing goods, building sales, and so on. All of these "givens" are under assault today. Industries and value chains are in upheaval. The assault on the norms of doing business will only accelerate over the next 10 years. That's what happens when you have global free markets, new media for commerce such as broadband and wireless, and billions of dollars in fresh capital seeking good ideas every day.

It is nearly impossible for us to delineate exactly who will be the market leaders in ten years, what products and services will be seen as value-creating, what the global environment will look like (currently, half the world's population earns, on average, \$2 a day, and less than 30 percent have immediate access to a telephone), and what jobs will be up for grabs. Executives I consult for tell me that well over 50 percent of the jobs needed for competitive success in 10 years haven't been invented yet.

In your business, therefore, the race is very real, very unruly, and very unpredictable. Breaking from the pack to create your own economic destiny is a bigger imperative than ever before.

Who Breaks From the Pack?

In the corporate race I witnessed that Sunday morning, I could safely predict that the athletes leading the procession would not fall back into the pack. But in business, frontrunners frequently fall behind and fail.

In 2003, the Krispy Kreme doughnut empire was lauded as *the* coolest brand in the U.S. By 2005, the company's share price had plummeted by 80 percent due to changes in consumer eating habits, corporate overexpansion, financial mismanagement, and ethical questions about the company's top executives. During those same years, the once highly acclaimed Blockbuster fell back into the pack as its entire videocassette rental business model was ravaged by a slew of copycat local rental shops, coupled with new competitors in online rentals of DVDs, discount retailing of cheap videocassettes and DVDs, video-on-demand and pay-per-view services, and digital video recorders. In today's environment, no one is safe—not even current leaders.

In such uncertainty lies great possibility. In the corporate charity race, I could have been completely confident that nobody from the center of the pack would have been able to break through to join or overtake the leaders at the front. Fortunately, that's not true in the real race for business success.

In 2003 I could have ridiculed Motorola as a tired, buffoonish, red-ink giant doomed to large-scale mediocrity and a devastating legacy of having stuck to its familiar analog technology way too long, while lauding the nimble, highly focused Nokia as a company that

took the honors in digital innovation, engineering quality, and financial metrics. Yet between 2003 and 2005, even as it clung to its number one position overall in the handset business, Nokia lost up to 20 percent of its market share in Europe; its global revenues dropped, and its share price at one point sank by nearly 40 percent. Why? Other players, including Sony Ericsson, Samsung, and, yes, Motorola, broke from the pack with more compelling innovations in design and features, product customization for corporate carriers, and a willingness to exploit a vast middle market of consumers. Nokia has struggled to maintain its leadership position, while a big—but leaner and more focused—Motorola is the high-momentum bigger margin company, with the “gotta have it” Razr and Slvr handsets, the elegant Q smartphone, and a new no. 1 position in Latin America. All this within two years.

So don't panic if your organization is currently stuck in the pack. You can break from it. I used to believe the old adage “If you ain't the lead dog, the scenery never changes.” I don't anymore because in today's volatile environment, there's no “never.” You can overtake today's lead dogs. Superb, courageous companies do it all the time. *Break From the Pack* shows you how. If you've already broken from the pack and are enjoying a market leadership position, I show you some very specific ways to maintain—and increase—your lead.

And for you personally as a leader, I will show that to help your organization break from the pack, you've got to act like a leader: change-driven, contrarian, passionate, courageous, committed, disciplined, inclusive, optimistic, honest, and performance-focused. This is especially true if your company's numbers are good today. Remember, your organization's numbers today are a scorecard of what you did yesterday. Obviously, if your numbers are bad, it's clear that important changes are in order, and you've got no choice but to aggressively pursue them, or else it's back to the back of the pack. On the other hand, if your numbers are good today, then after you celebrate and people feel comfortable and smug, you've still got to act like a leader: change-driven, contrarian, passionate, etc. Remember that good numbers today mean that you were smart enough, and lucky enough, to have made some good decisions yesterday. To take an attitude of “stay the course” or “why fix it if it ain't broke?” assumes, disastrously, that yesterday will be the same as tomorrow. It won't even be the same as today.

Rich Teerlink, ex-CEO of Harley-Davidson, said it best when he warned an executive team I was working with that it's not competitors

who bring a company down. It is the fault of the company itself, specifically, the leaders' "complacency, arrogance, or greed."

The great historian Arnold Toynbee noted, "Civilizations die from suicide, not from murder." The same is true for organizations, which is why I am intrigued by Motorola CEO Ed Zander's self-proclaimed management philosophy: "Whack yourself before somebody whacks you."

Today the charge to differentiate and break from the pack with some new self-imposed whacks is essential if you want your organization to be positively regarded by customers and investors, regardless of whether you're publicly traded or privately held, regardless of whether you're for-profit or not-for-profit. This book tells you why you need to do it now, and how.

This book is divided into three parts. Part I (Chapters 1–4) is called "Resisting the Pull of the Pack." Here you're introduced to a place called Commodity Hell, the 10 things you're probably doing now that actually keep you stuck in the pack, a few critical lessons on success from Madonna and Willie Nelson, and why you should aim your organization toward a highly disciplined level of curiosity, coolness, and craziness. Consider Part I to be rigorous, pre-race training, to give you the mental and leadership conditioning you need to break from the pack.

Part II (Chapters 5–10) is called "How to Break From the Pack." It offers you six courses of action that you can take to copy-proof your organization and propel it beyond the pack. Here you're introduced to why and how to *dominate* a market; how to create a "higher cause" for your organization that will inspire and mobilize customers, employees and shareholders; how to build a "defiant" pipeline of cool, compelling products, regardless of the industry you're in; how to take your customers well beyond a place of "satisfaction" to a place they thought impossible; how to innovate in supposedly "dull" areas such as cost-efficiencies and supply chains; and how to avoid destructive mergers and instead "consolidate for cool."

Part III, "How *You* Can Lead the Pack," consists of one chapter that lays out a frank "12-step" recovery program to show you the kinds of behaviors you must demonstrate and the kinds of personal competencies you must possess if you want to lead the charge to help your organization break from the pack. Follow the 12 steps in this chapter and you'll also help your own career break from the pack.

As you now settle back to read, let me give you a couple assurances. First, I believe you will appreciate the practical nature of this book. Even as it challenges you to adopt a new mindset for transforming your organization and business, nearly every chapter is studded with specific actionable “do’s and don’ts” that will squarely address the question of “what do I do Monday morning?” to make it all happen.

Yet even though this book is not an ivory tower tome, I also want to assure you that you are not reading a simplistic cookbook that was prepared in an intellectual vacuum. The content of this book, including all the “to-do’s,” is grounded in a foundation of validated theory and empirical research as well as my documented observations and investigations within many organizations around the world.³

In other words, even though what you will read in the subsequent chapters will occasionally sound outrageous or insane, I can assure you that every prescription I make has been battle tested in the field by leaders who have successfully navigated the treacherous waters of the Copycat Economy.

Bursting From the Bubble

Each chapter of this book presents an element of the “Break From the Pack” framework illustrated in Figure 1. This framework organizes the remainder of this book in a way that will help you understand the Copycat Economy and create an everyday action blueprint to capitalize on its opportunities.

As you can see, the circular “bubble” arena is the space where “the pack” of competitors in your business resides and competes. It’s typically a space where convention and orthodoxy reign. It’s a space where competitors share a common mental model of their business, where they “understand” the rules of the game and play by them. These attributes effectively keep rivals within the so-called “safe and familiar” boundaries of the bubble, and hence mired in the pack.

The bubble is anchored by the realities of the *Copycat Economy*. The roots of the Copycat Economy are *The Irrelevance of Time and Distance*, *Glass House Transparency*, *Customer Superpower*, *Cost-Crushing Technology*, *Fragmented Mobs of Competitors*, and a “Zeitgeist” (or *Climate*) of *Irreverence*.

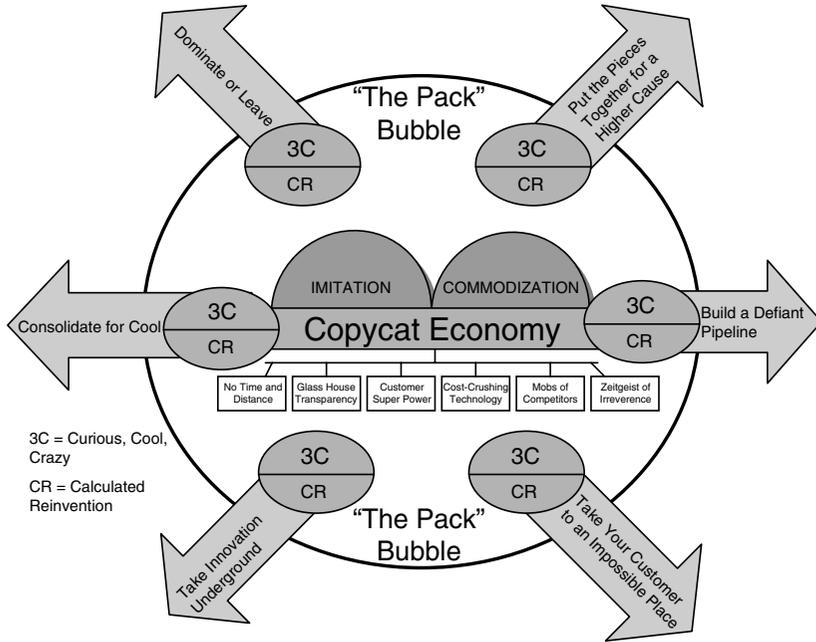


FIGURE 1 Break From the Pack conceptual framework

The Copycat Economy manifests itself with *Imitation and Commoditization*, both of which are spawning at an accelerated rate in today’s marketplace. Today, the pervasiveness of imitation and commoditization is the primary strategic challenge for any leader and organization. Yet that same pervasiveness also gives the leader a precious opportunity to help his or her organization burst out of the bubble—that is, to defy orthodoxy and convention and break free of the straightjacket constraints of imitation and commoditization—and thereby *Break From the Pack*.

To break from the pack requires a metaphorical launching pad. That launching pad is a culture of disciplined *un-orthodoxy* where key decisions and actions that affect the organization’s front-end (products, customer care, and value propositions) and back-end (cost efficiencies, operational effectiveness, and supply chain excellence) fit the “3C” criteria: *curious, cool, and crazy*.

The launching pad must be fueled by the mix of entrepreneurial spirit, foresight, and discretion necessary for *Calculated Reinvention*,

or *CR*. The six launching pads can then propel the organization in six strategic directions: *Dominate or Leave*, *Rearrange the Pieces for a Higher Cause*, *Build a Defiant Pipeline*, *Take Your Customer to an Impossible Place*, *Take Innovation Underground*, and *Consolidate for Cool*. Each of these strategic choices generates its own set of specific action steps for optimal execution and achievement. As I'll note later, it is unlikely that any organization will excel in all six directions. However, the better the organization performs in each of the six paths, the more likely it will distance itself from the pack, and the more sustainable its advantage will be.

Keep the Figure 1 framework in mind as you read this book. It will help give meaning and urgency to the action blueprints that follow. It will also facilitate your adopting the habits of "break-from-the-pack" leaders described in the 12-step recovery program in Chapter 11.

At all times, remember this: It's not easy to guide your organization to break from the pull of the pack. Per the upcoming discussion in Chapter 2 you'll be continually seduced by the false and expedient lure of conventional-wisdom decisions that will most likely keep you mired in the pack. But also remember this: Breaking from the pack, no matter how difficult it is, is eminently doable, and it's absolutely necessary if you wish to add sustained value to your customers and investors. And as you'll see, it's personally rewarding for those of you who are striving for a richer and more lucrative career.

The "Break From the Pack" Attitude

It all begins with attitude. After a phenomenal career as a boxer, Oscar de la Hoya is building Golden Boy Promotions, a business whose mission is to clean up the corruption in the sport, rebuild its cachet with a new breed of products (fighters) and ethical promotional packages—and make some serious money in the process. Why build his own business? Why not join one of many already existing marketing and promotion organizations that would salivate to sign him on at a fat salary? For de la Hoya, the answer is simple: Boxing has been in a steady decline for years, and the conventional wisdom (here's how we've always done it) that grips existing "boxing organizations" is a big part of the problem. De la Hoya says, "Why am I going to be part of the bunch?" That's the attitude you want to begin with as

you turn the page and begin your own quest for market leadership and competitive advantage.

Endnotes

¹ The notion that nothing stays the same was given fresh meaning by the fact that after swallowing AT&T, SBC changed its name to AT&T, and then attacked another former Baby Bell, BellSouth. More on this later.

² Of course, these numbers reflect orders for all types of planes, but the buzz is about the new products: the 379 orders for the Boeing 787 and the 159 orders for the Airbus A380, as of mid-2006. A side note: Throughout 2006, new orders for the 787 accelerated while those of the A380 declined, causing deep concerns for Airbus and suggesting that Boeing's view of the future might be correct. But who really knows for sure?

³ For those of you who are interested, I lead a fairly schizophrenic professional life, with one leg in the world of university research and the other leg in the proverbial "real world" of business and leaders. In preparing this book, I put on my professor hat first. I sifted through the academic literature on competitive strategy. Likewise, I reviewed trends, cases, and analysis in a variety of daily and weekly business publications. Like a miner panning for gold and discarding the gravel and fool's gold, I eliminated the material that was inconsequential, irrelevant, banal, outdated, or arcane. I kept what I believe is the real gold—the material that clearly directs organizations to competitive advantage in today's unique market environment.

I then added the relevant highlights of my personal experiences with some of the most successful leaders and organizations in the world. To this I added the relevant information of my own consulting projects, survey data, interview data, field notes, client documents, and published works.

Lastly, I integrated and reshaped all the above pieces to create a new conceptual "break-from-the-pack" framework which forms the basis of this book.

