

## **Adrian Slywotzky: The Zen of Strategic Anticipation**

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Through a series of books, from *Value Migration* (1996) to *The Art of Profitability* (2002), Adrian Slywotzky and his colleagues at Mercer Management Consulting have developed a complementary model to Gary Hamel and C.K. Prahalad's influential perspective on Strategic Foresight. This model offered an alternate examination of Hamel and Prahalad's case studies, including Swiss watchmaker SMH, American conglomerate General Electric and the Betamax-VHS battle.

Whereas Hamel and Prahalad emphasized an internal focus on organizational learning, Slywotzky preferred an external focus on anticipating inter-firm competition and industry changes. Slywotzky's approach has synthesised the environmental scanning of external actors, lifecycle phases of the competitive environment, and the pattern recognition of different profit orientations. Just as scenarios have flourished in corporate war-rooms, Slywotzky's model has enhanced the executive-level functions of business intelligence and strategic planning in major U.S. and European corporations.

### **Value Migration**

Slywotzky replaced Hamel and Prahalad's 'Strategic Architecture' with a model of Strategic Anticipation. Two key terms were Business Designs (a totality of customer selection, market positioning, business processes and profit capture) and Value Migration (when customers switch their purchasing loyalty from an outmoded business design to a new one, catalysing inter-firm competition and industry changes). (Slywotzky, 1996: 3-4). The latter occurred when customer/product priorities shifted, and followed the familiar bell-curve pattern of '*value inflow, stability or value outflow.*' (Slywotzky, 1996: 3-4). Strategic analysts targeted the 2-3 per cent of 'future-defining customers' that triggered the 60-70 per cent of subsequent change. (Slywotzky & Morrison, 1998: 30). Business design and value migration were the problem-oriented tools which also underpinned the pop success of guru-like CEOs and companies within the business press.

Taking cues from Picasso's artwork and the Gary Kasparov/Deep Blue chess battle, Slywotzky contended that cross-functional teams needed to construct 'a knowledge base of strategic patterns—how they work, why they happen, how to profit from them . . .' (Slywotzky & Morrison et. al., 1999: xv). These teams made *explicit* the *tacit* environment-sensing sub-systems of the human brain. Effective leaders recognised individual strategic patterns, identified the key information for responsive decision-making, and superimposed 'a structure on the chaos.' (Slywotzky & Morrison et. al., 1999: 9). Superior business design combined customer/product knowledge with self-reflective imagination. (Slywotzky & Morrison, 1998: 13). Thus Strategic Anticipation could be anchored during the entrepreneurial phase of opportunity identification, as well as the mature firm's search for new revenue streams.

However Slywotzky rejected the quarterly focus on market-share as chronic short-termism. Many companies gained dominant market-shares only to find profits elusive. Without complementary tools, including ‘business scorecards’ and ‘triple-bottom line’ accounting, managers lacked the metrics to calibrate their business designs within evolving industries. (Slywotzky, 1996: 51). ‘Industry-think’ and unsurfaced group norms narrowed business intelligence-gathering into myopic ‘tunnel vision’. Just as scenarios have challenged ‘received’ mind-sets, Slywotzky’s twenty-three ‘profit patterns’ have expanded the usual ‘tunnel vision’, firstly into a competitive ‘radar screen’ that scans for non-traditional competitors and new entrants, and then into a multidimensional strategic landscape. He noted, ‘you can gain a critical advantage in detecting and tracking them—before they gain critical mass.’ (Slywotzky, 1996: 63; Slywotzky & Morrison et. al., 1998: 330-333).

## Defining Strategic Anticipation

Strategic Anticipation, as defined by Slywotzky, is an ongoing search for ‘general principles that are sturdy enough to fit specific cases.’ (Slywotzky, 2002:10). These general principles have illuminated the problem-oriented dynamics of many business school case-studies. They also reinforced the pragmatic dimensions of the American empirical tradition in futures studies. And they have become popular within financial services companies as a tool for understanding Strategic Risk (Slywotzky & Morrison et. al., 1998: 342).

When the Organization of the Petroleum Exporting Countries sparked an oil embargo, for example, Royal/Dutch Shell responded to this external shock because of Pierre Wack’s scenarios workshops. Consequently Royal Dutch/Shell achieved industry dominance and enhanced its global outreach. Slywotzky contended, however, that while such an external shock was ‘very difficult to predict . . .’ (hence the power of scenarios) such events ‘will create significant opportunities for new business designs.’ (Slywotzky, 1996: 71). Even if they missed the initial lessons of Royal Dutch/Shell’s scenarios-based learning, he noted, the energy conglomerate’s competitors should still have responded to the catalysed STEEP (social, technological, economic, environmental and political) factors. By coupling Scenarios and Strategic Anticipation, Slywotzky suggested, Royal Dutch/Shell continued its meteoric growth in shareholder value. The combination of these two models also overcame resistance from line managers and business units. (Slywotzky, 1996: 277-280).

Hence Strategic Anticipation also had a *responsive* function that made STEEP more multidimensional, enhanced Opportunities-Threats analyses, and could be embedded in business intelligence and knowledge management teams. New entrants, niche players and smaller firms could feasibly close the gap between themselves and dominant leaders, during crisis periods, if they focused on emergent business designs and acted quickly. Shifting customer/product priorities were only the surface ripples of deeper phenomena (one reason why ethnographic and trends-surfing techniques popular in marketing had limited application). Successful firms didn’t always need the mythical ‘first mover advantage’ that was central to other pragmatic models of strategic foresight. But they needed to avoid the common errors made by amateur players, including lack of organisational clarity, target fixation, premature scenario planning, excess modelling and inadequate competitive intensity. (Slywotzky, 2002: 68, 73; Slywotzky & Morrison, 1998: 346-347).

## War of the Management Theorists

The differences between Hamel and Prahalad's strategic architecture and Slywotzky's Strategic Anticipation become clearer when you consider their dissimilar perspectives on major case studies. This also explains why Hamel, in his book *Leading The Revolution* (2002), disavowed the 'profit patterns' methodology, in a fit of 'competitor suppression'.

Hamel and Prahalad argued that Matsushita's success in the 1970s Betamax-VHS wars, for example, was due to an entrepreneurial organizational culture, technical innovation, and licensing agreements. Slywotzky agreed that these were crucial moves but that Matsushita finally achieved 'lock-in' because of access to content and the geographic spread of video-rental stores. (Slywotzky, 1996: 76). Hamel and Prahalad believed that Nicholas G. Hayek's turnaround of SMH was the outcome of strong leadership, an emotive advertising campaign for the Swatch watch brand, and national innovation to save an industry cluster. Slywotzky took this self-questioning process even further (in his "product pyramid" business design): Hayek revolutionised SMH by targeting the global customer's needs, by creating product niches that protected SMH's upscale watches, and by achieving best practice in the manufacture of micro-mechanics and micro-electronics. (Slywotzky, 1996: 129-133). Hamel and Prahalad pointed out that WalMart succeeded through controlling geostrategic locations and space, and by tightly executed supplier chains. Slywotzky added Sam Walton's cost-cutting and county-by-county growth, a case of 'local leadership' business design. (Slywotzky, 2002: 98; Slywotzky & Morrison, 1998: 65).

Sun Tzu and Clausewitz's military paradigms have largely moulded the current thinking on inter-firm competition (Slywotzky, 2002: 108). Slywotzky's twenty-three 'profit patterns' surpassed these influences. His earlier books focused on the Opportunities-Threat stage of business intelligence and opportunity identification (Slywotzky, 1996: 80-82) has evolved into a focus on training executive-level managers in pattern recognition and 'learning how to learn'. Strategic foresight analysts can hone their radar screen by daily study of the business press: 'Any time you read an article in *Business Week*, play with the numbers—the extrapolations, the projections, the implications.' (Slywotzky, 2002: 66). Slywotzky also dropped passing references to David Kolb and Kurt Lewin's learning cycle, David Hilbert's sequential learning style, and how chess grand masters trained. (Slywotzky, 2002: 68, 73; Slywotzky & Morrison, 1999: 395-423).

Such guidance, using pragmatic examples, may help the strategic foresight analyst to 'build the case' for applying these methods, especially in organisations which may be initially resistant and suspicious about their track record. Strategic Anticipation may also be spliced with ongoing initiatives in intellectual capital and knowledge management.

## **Profit Patterns and ‘Thought Leaders’**

Many business case studies have focused on the CEO as the corporate archetype of strategic foresight and long-term change. While pragmatic enough to recognise the ‘lure’ of stellar names, Slywotzky’s ‘hook’ has instead been the power of profit patterns—which ‘charismatic’ CEOs have tapped. The strength of Slywotzky’s writings has been his information ‘chunking’ of these profit patterns and their correlation with well-known case studies. His examples have included the American Airlines SABRE system (‘operations to knowledge’), Virgin and ABB (‘profit to network’), Blockbuster Video (‘channel concentration’) and Hewlett Packard (‘skills shift’). (Slywotzky & Morrison et. al., 1999: 216, 243, 159, 232).

Many of the case studies cited by professional futurists—such as Nokia, Dell Computer, Microsoft, Cisco, or Michael Eisner-era Disney—have been studied by Slywotzky’s team at Mercer Management Consulting, which has identified the multiple ‘profit patterns’ being deployed. An in-depth analysis of Slywotzky’s individual ‘profit patterns’, however, is beyond the scope of this brief introduction; his books have featured extensive checklists and workbooks which are worth studying. Today the ‘profit patterns’ list continues to grow via ‘bottom-up’-driven feedback.

## **Strategic Anticipation and Critical/Epistemological Futures Studies**

Strategic Anticipation, elaborated by Adrian Slywotzky, straddled the buffer between Richard Slaughter’s problem-oriented and critique layers of futures studies. Its attack on ‘incrementalism’ was delivered with more sobriety than *Fast Company*-style revolutionary fervour. Yet Slywotzky’s most recent books have taken a different turn. In *How Digital Is Your Business?* (2000), a book-length study of the ‘conventional to digital business design’ pattern, Slywotzky and co-author David Morrison briefly mentioned intelligence augmentation. In a wide-ranging dialogue between the ‘profit patterns’ mentor Zhao and an executive named Steve, *The Art of Profitability* (2002) finally confronted the self-imposed conceptual limitations of Slywotzky’s earlier works. The chess metaphor, although common in business strategy writings, had largely kept any theory of human behaviour and the role of contemplative traditions out of the general discussion. ‘Interpretation’ had focused on internal mind-sets and the external strategic landscape, rather than the relativist and subjective dimensions favoured by post-structuralists and social constructionists. Slywotzky slyly acknowledged this when Zhao commented on Michel Foucault’s *The Order of Things*: ‘It would take a year, not a week, to read that one.’ (Slywotzky, 2002: 143). This stance kept Slywotzky from falling into the ‘knowledgeable ignorance’ and anti-intellectual trap that has plagued other theorists who have ‘dumbed down’ models or distorted their research for a wider readership.

Just as it complemented Hamel and Prahalad, the Strategic Anticipation model can be complemented by other theorists. Sohail Inayatullah's 'Causal Layered Analysis', most notably encompasses the critique/epistemological layers that Zhao hinted at with Foucault's writings. Don Beck & Chris Cowan's Spiral Dynamics® and Ken Wilber's 'Wilber-4' provide alternate perspectives on patterns of human emergence and values. The emerging school of Critical Realist philosophy embraces the positive power of critique but within a pragmatic context. Just as Slywotzky has 'paced' the development of his model through several books, Strategic Anticipation can be blended with these other models that address the critique and epistemological layers. A 'half-step to 'full-step' ahead of current mind-sets might be what a workshop or organizational culture needs, as an entry point, before exploring these layers.

Critical futurists have noted that the business press focus on social trends and charismatic visionaries, when compounded by market-driven 'knowledgeable ignorance', stifles long-term thinking about critical uncertainties. The business press has counter-argued that most critical futures writing is hyper-referenced and difficult to grasp. While acknowledging its conceptual limitations, Adrian Slywotzky's distillation of Strategic Anticipation bridges this gap, and is remains a useful methodology for professional futurists engaged in corporate interventions, entrepreneurial start-ups and organizational change projects.

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