



Leadership Creates the Future
VMI Leadership Series® No. I



Vanguard Marketing International, Inc.



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Breakpoint and Beyond: Mastering the Future Today*

Abstract

Companies that want to stay ahead of their competition must continually demonstrate leadership through leading-edge vision and the ability to execute the pursuit of new opportunities. Vanguard Marketing International works on an ongoing basis with many of its clients to ensure that they address changing market needs, capitalize on important industry trends, and maintain brands, which clearly differentiate their company and innovations throughout the investment community and prospective markets.

Introduction

Often we confuse goals with metrics; we consider growth as a goal but in reality it's simply a metric. Instead, our main goal is progressive leadership based upon multiple elements, including double-digit growth. In order to achieve profitable growth, our leadership goals are driven by what's next, so we can capture the market before its realities come into clear view.

If a corporation's sole mission is growth for growth's sake, it will ultimately remove long-

term vision and reduce opportunities for sustainable growth. Its outcomes are examined in *Breaking Point and Beyond* by Land & Jarman:

"Measurements actually become the mission. A spreadsheet mentality takes over and numbers begin to drive the organization. People in the company lose their focus on why they are there. The motivation to be a part of providing a product or service needed by customers is replaced by short-term bottom line results."

We Believe...

The Issue: Metrics are a readings on a meter taken at a particular point in time along a journey. They tell us how different areas of our business model are performing and, when placed into proper contexts, metrics provide *insights* to advance our interests in the future. Metrics are backward looking, they evaluate the past but are essential to improve our business; metrics examine our performance and provide us with objective evaluations that we use to plan ahead, for the future.

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Solution - Strive for Leadership: Leadership creates the future; it is not about trying to mirror it, *nor is it trying to maintain status quo*. Successful leaders believe that the best way to predict the future is to create it.

Leadership is not a position; it is an action. How many times have we heard a company referred to as a market leader due to their market share? Being the largest market shareholder means a company *was* a leader in the past, but this does not necessarily mean the company is a leader today or in the future. In fact, in some cases that company is *no longer* a leader.

In their book *The Discipline of Market Leaders*, Michael Treacy and Fred Wiersema discuss three roles a leader can play:

1. **Operational excellence** as demonstrated by delivering a combination of quality, price and ease of purchase that no one else can match
2. **Product leadership** as demonstrated by providing the market with creative and highly useful leading-edge products whereby a company relentlessly pursues ways to leapfrog its own latest product
3. **Customer intimacy leadership** where companies don't pursue individual transactions, but instead cultivate long-term relationships.

In today's world, we believe that Leaders must cultivate all three of these elements to succeed in our rapidly evolving future. In addition to Treacy and Wiersema, we believe Leaders must extend their relationships and

become a *Trusted Advisor*.

We define a Trusted Advisor as: those people and companies who are completely fluent in the goals, trends, issues, implications, and competition facing customers AND who can work with customers to craft a common vision of leadership.

For example, when the customer initiates collaboration with you in order to solve a problem, or to talk about "what if scenarios", you are in the realm of a Trusted Advisor. When the customer discusses possible solutions with you prior to writing the requirements document, you are in the space of Trusted Advisor. But when the customer dictates requirements, issues information requests or controls access, you are just a supplier... and suppliers have limited means of differentiation.

A supplier works hard to show how their capability matches the requirements of the customer. Suppliers differentiate themselves on functionality, delivery or price. **But a Trusted Advisor collaborates with the customer to craft requirements that match their capabilities.** This shaping is not due to unfair influence, but rather is due to your knowledge and valued insight into the market as a result of your ability to see what's next – be what's next.

How many times have you come to the realization that a competitor was able to shape the requirements to match their capabilities while you struggled to show how your capabilities matched the requirements? We oppose this method of inactive leadership, and



our Trusted Advisor leadership creed is passionate and proactive.

The Map and Compass

Being a leader in customer intimacy was once considered the pinnacle of market relationships. To achieve such status, a company needed to offer not only total solutions, which could be specifically tailored to meet customer needs, but it also needed brand integrity and a depth of professionalism within senior management. IBM was once the icon for this customer intimacy model. Today, while these elements are still important, many companies offer customer intimacy: the bar has been raised. Customer intimacy has been relegated to an expectation rather than a differential advantage.

The new paradigm for evolving a leadership position is based on the Trusted Advisor roles: Integrity and depth of senior management professionalism serve as the *foundation* from which the relationship will spawn, and leadership becomes the differential advantage for the customer. Leadership is about advising your customers to grow and excel their specialties and markets.

Seeing What's Next

Leaders know all things are created twice: first as a mental creation (seeing what's next); and second as a physical creation (being what's next). So let's begin with seeing what's next...

Seeing what's next equates to obtaining per-

sistent, current and accurate intel and insight into a complex set of positions by the customer, the customer's leading edge customer, as well as the competition. All of these positions must be taken into context of developing trends specific to a company's market along with macro-level trends that affect broader issues, such as the economy or legislation. We define *trends* as the manifestation of converging forces, each traveling at varying speeds resulting in a continuously changing market.

The key to identifying trends is the ability to understand the underlying challenges that everyone in your sphere of influence must deal with, including:

- What are some *issues* your customers will be dealing with as they compete in this changing market?
- What are some developing *unmet needs* of your customer's customer?
- What *challenges and opportunities* are your customers facing and what do they need in order to be highly successful as they proceed forward?
- What are *implications* of the trends on your company and of the competition?

How can you leverage these trends in order to shape the future to your advantage?

A Fusion of Creative Solutions: Analysis & Synthesis

Two ways of viewing and processing information exist and each inevitably leads to a different end result. Basically we *analyze* informa-



tion and we *synthesize* information. When we analyze information, we break it down into individual components and then we deduce to produce a clear understanding. Alternatively, when we synthesize information we take various (and sometimes unrelated) components and concentrate them together to form a new nucleus. Analysis leads to understanding, while synthesis or horizontal thinking leads to creative solutions.

Creative Thinking Example

Thirty plus years ago, Muhammad Yunus earned a doctorate in economics from Vanderbilt University and began teaching at a university in Bangladesh. The country was in the midst of a terrible famine and each day he would walk out of his classroom only to see a grim view of skeletons all around ... people were just waiting to die. He felt that whatever he had learned and whatever he had been teaching was all philosophical inaction and that his teachings made no real impact. So he began to find out how he could make a difference. He abandoned his detached bird's eye view and instead assumed a worm's-eye view, by examining the problem more closely, by smelling it, touching it and seeing if he could do something to help.

He decided to visit the village next door to the university campus, and see how people there lived. He quickly found a woman who made beautiful bamboo stools, but earned only two U.S. pennies each day. In talking further with this woman, he discovered that since she didn't have the money to buy the bamboo necessary to make the stools, she had to borrow from the bamboo trader. The trader imposed the condition that she had to sell the finished

product to him alone, at a price he decided. She was virtually in bonded labor to the trader simply because she didn't have the money to buy the bamboo. How much did the bamboo cost? About twenty cents!

Dr. Yunus then debated over the idea of giving the artisan twenty cents, but came up with a different idea. He decided to come up with a list of other people in the village who needed a small amount of money to be successful. He went around the village for several days and came up with a list of forty-two such people. When he added up the total amount they needed, he received the shock of his life. The total came to twenty-seven dollars! He then proceeded to give the people the money under the condition that it was a loan.

From this humble beginning, the Grameen Bank (literally, Bank of the Villages, in Bengla) and one of the most astounding innovations of the century was born – the micro loan. The bank now works in more than 69,140 villages across Bangladesh, through 2,185 branches and over 12,000 staff members. Each year, the bank lends more than \$4.5 billion, most in the range of twelve to fifteen dollars, to 6.4 million people, 96% of whom are women. They even lend to beggars to help them come out of begging and start selling.

We will continue to visit the micro loan and its impact on the world in future papers, but just think ... the innovation of the micro loan came from an economics professor who saw a common problem through a different lens, and found a revolutionary and creative solution that is already having a profound impact around the world – one whose real impact will not be known for decades to come. This is an



example of creative thinking and social entrepreneurship.

Imagine if Dr. Yunus had taken an analytical view of the situation, what conclusions might he have drawn? *"These people are really poor and the Government needs to establish programs to help subsidize their businesses."* or *"We should pass laws against such behavior."* or he could have written an academic thesis on the problem with impressive charts, graphs and pictures. But by synthesizing the information, Dr. Yunus was able to come to a conclusion where he could act help millions of people worldwide.

Now that we have seen how one person, when focused on a challenge followed by a flash of brilliance, can accomplish great things, let us move on to focus on how to develop high value innovation on a regular basis.

Market Trends

Traditionally, a market is where we sell and purchase goods and services. It is made up of market constituents, such as suppliers (you and your competitors), customers (demand), regulators, investors and influencers – all buying, selling, watching, governing, and benefiting from the flow of goods and services.

Market trends are best understood when viewed from a number of different positions and directions. Just as you don't get a clear picture of even the simplest thing until you pick it up, hold it, examine it, turn it and observe it in action, you can't understand market trends unless you examine the market thoroughly from all sides and perspectives. Imagine trying to understand what your car can do

by just looking under the hood. Looking under the hood won't tell you how many passengers the car can carry, how fast it can go, how many miles per gallon it gets, what kind of emissions come out of the tail pipe, or how many power outlets are inside. Additionally, you can speak to a technician, an expert in this particular market, and gain insightful knowledge founded upon the basis of comprehension information acquisition. Looking under the hood might be an interesting thing to do, but it is not particularly informative.

In order to spawn creativity as we endeavor to see what's next through the lens of market trends, we need to assemble as many different viewing angles and synthesis points (or guides) from the most knowledgeable and insightful personalities we can find and trust.

Topical Communities®

The most important market personalities, or guides, are the leading opinion shapers and visionaries from across a wide variety of industries. We refer to these people as a *Topical Communities* – and it is through a combination of their insights (as well as yours) that you are able to spot and interpret trends, unmet needs, emerging innovations, ideas and players. While most people try to decipher trends within a narrow context, *Topical Communities* offer strategically selected observation points with different viewpoints. The advantage of this is while a trend within its original environment represents a single and limited view, if you place it into a broader context you will find that it represents great insights. The base insight is that the trend may be new to you; but in fact it has already presented itself and played itself out in one or multiple industries



prior to its appearance on your radar. Granted, the time and dynamics may have been different, but we can assure you there are also many similarities. With the proper logic, the trends of the past present greater insights into the future – that's part of '*seeing what's next*'.

Vision

As community insights and perspectives are captured and synthesized, they need to be persistently and constantly tracked via a *Moving Market Map*® Process. Succinctly, the Moving Market Map provides you with means to monitor continuous insight as to what has happened and is happening in the market as a result of market- and macro-trends, along with actions by you, your customers and of course, your competitors. Instead of setting strategy as part of a one-time annual planning session with periodic score-keeping throughout the year, the Moving Market Map provides you with the ability to project, shape and execute strategy and tactics well before the competition even recognizes action. Our approach demonstrates that strategy, tactics and measurements are a fulltime activity against the true goal –Leadership, not *just* metrics! This then sets the stage to transform these insights into breakthrough products, services and business models, thus enabling you and your customers to '*be what's next*'.

Being What's Next, Vision to Reality

Now let's move to the second half of the Leadership equation - *being what's next*. Being what's next means consistently identifying,

creating, adopting and adapting innovation capable of disruption in the market, regardless of origin. A key element of identifying an innovation is in the understanding of its potential for disruption and the ability to improve the position of its customers.

Basically when we think of innovation we place it into two broad categories; continuous innovation and discontinuous (or disruptive) innovation. Continuous innovation is the act of constant improvement of an existing process or product, while disruptive innovation offers a new way of thinking and solving challenges. The iPod would qualify for a continuous improvement of the MP3 player, but Apple's inclusion of the iTunes music download service to its business model created a truly discontinuous innovation.

As an example, take the device previously known as the cell phone. The cell phone has become an amazing platform of continued synergistic thinking, where we have the convergence of multiple business models and technologies while support comes through strong continuous improvement. Think of how this device has evolved from its earliest days as a source of frustration and outrageously-priced, static-filled phone calls to today with its integration of voice, digital imaging, mobile email services, high-speed Internet access, interactive games, video and even music on demand... all at relatively affordable rates. And amazingly, additional innovations are lining up for inclusion as part of this amazing wave of convergence.

The micro loan, the Internet, the IBM Personal Computer, the digital camera, Lasik Surgery, eBay, Amazon.com, VoIP, WiMax are just a



few business models and technological innovations that have and will represent major disruption across existing markets while at the same time creating new unprecedented markets.

When thinking of disruptive innovation, leaders need to have a vision across opportunities, and think in terms of goals, strategies and tactics to greatly enhance the position of their current and future customers; this is best done by redefining and greatly expanding existing markets while creating, shaping and leading new markets.

Integration of Innovation into the Business Model

Company culture plays a major role in your ability to create, identify, adopt, adapt and leverage disruption in the early stages. The culture must be one of a visionary or early adopter of ideas, simply stated; one that embraces new thinking. This type of visionary culture continuously supports the notion of new innovation and understanding how to leverage it to their customers benefit.

However, merely having a culture that is imaginative and open-minded does not guarantee that a company will 'be what's next'. A highly adaptive business model that is capable of adopting change quickly while experiencing minimal disruption must support our visionary culture of leadership.

If we take an example from technology development, we find that open technology architecture usually offers the fastest and most efficient way to move from an idea to a low cost, first to market, highly valued product. In this example, a product is broken into a num-

ber of modular (or functional) areas with standard interfaces between all of the functions making up the product. Then as a function is improved, it is simply a matter of removing the old module and inserting the new version with minimal disruption to the new and improved product.

A proper business model should also be thought of as a highly modular system based on an "open architecture" approach, whereby allowing the introduction of new and better ideas to replace ones that are no longer effective. This is at the heart of our ability to routinely *operationalize* innovation by efficiently transforming creative ideas into breakthrough products, services and business models. This in turn allows us to create and quickly deliver viable differential advantages and satisfy new or growing unmet market needs.

Why is the notion of routinely *operationalizing* innovation so important? In the late 1970's, a recently retired Air Force Colonel named John Boyd was working on understanding such problems as: why throughout history have vastly larger and superior armies lost battles and even wars to much smaller and lesser equipped forces? Why tactics such as the blitzkrieg were so effective? And why some pilots were successful in air combat while others were not?

By applying horizontal thinking methods and synthesizing the information, Col. Boyd developed the now famous concept of the Observe – Orient – Decide – Act cycle, or OODA Loop. By understanding this seemingly simple but actually highly complex model as applied to the adversary, Col. Boyd demonstrated that he could unravel the competition. Once inside the mind and decision cycle of the adversary, a



Intel Chief Orders 'Wholesale' Review After Bleak Profit News

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SAN FRANCISCO (Dow Jones) -- Amid declining market share and a slumping stock price, Intel Corp. will embark on what Chief Executive Paul Otellini called a "wholesale" review that would streamline the world's biggest chipmaker.

After the markets closed Wednesday, Intel (INTC) of Santa Clara, Calif., reported net income tumbled 38%, hurt by weaker demand for its computer chips as it faces stiffer competition and slowing PC sales growth.

The company has taken its knocks this year as smaller rival Advanced Micro Devices Inc. (AMD) has grabbed market share. Last month, Intel was forced to slash its first-quarter sales forecast because of weaker PC demand.

Intel Announces Management Changes

SANTA CLARA, Calif., July 20, 2006 – Intel Corporation today announced that it is making a number of senior management changes focused on improving the company's structure and achieving faster and better decision making. The company also announced that two senior executives will be retiring.

"As part of the thorough analysis of Intel begun in April, we have examined the focus and structure of our top management level, including our use of 'two-in-a-box' co-managers," said Intel President and CEO Paul Otellini. "The moves announced today will help us speed decision making and bring new resources to bear in critical areas, while allowing me to spend more time on key strategic issues."

commander is able to achieve victory by operating at a quicker tempo than the enemy.

A prime example of a company who initially mastered but eventually lost control of the OODA loop is Intel. For decades, Intel enjoyed supremacy over its archrival AMD and the result was market share leadership, high profit margins, great stock price, a reputation enjoyed by only the most respected companies ... and then something happened. Intel lost its ability to execute within its notable fast paced OODA cycle, while at the same time AMD showed itself ready and capable of taking control. The results have been amazing to observe.

We contend that companies compete in relation to culture and business models, while at the same time keeping score through sales. So the question then becomes did the Intel culture become too complacent, did the leadership of former CEO Mr. Barrett fail or did AMD just out-master the master? After looking at the time between Observe and Orient to Decide and Act (15 months) its clear that Mr. Otellini is correct, Intel needs help in shortening its decision making time. But you do have to wonder why it took 15 months to conclude that a "two-in-a-box" co-manager structure was an impediment to fast decisions. Ultimately Intel lost sight of what was next in the market, and thus stumbled in trying to be what's next.



In our situation, to be a true leader it is necessary to be able to operationalize and continuously improve the business version of the OODA Loop model, thus seeing what's next – being what's next.

Leadership Engine Performance Metrics

After reading the previous paragraphs, ask yourself what is the average amount of time it takes your company to transform creative ideas into reality? When was the last time that happened? Can you do it as a matter of routine? The answers to these questions will provide some insight as to your ability to see what's next, to be what's next and to measure the time between the two. Basically this is a time to market and adoption rate exercise where the 4-2-1 rule applies: The first to market acceptance captures 4 times the market share as the second; the second to market acceptance captures 2 times the market share as the third.

In this case, we are proposing a new set of **leadership** metrics that would include:

1. Frequency and quality of creative ideas and early stage disruption
2. Time between idea identification and idea implementation
3. The success rate of the resulting implementation (product, business model change, etc)
4. Impact on your customers' business. Ask yourself, is your customer more successful today as a result of your innovation?

As we walk through these metrics, another

important consideration is the 80% rule ... of all growth initiatives 80% fail and only 20% are successful. This is an extremely hard fact of life especially when you consider Las Vegas odds for Slot Machines are 32%, and for Roulette 47%.

But the 80% rule often comes with an overdose of caution. When faced with this rule, managers tend to make the "new idea gating process" more stringent, requiring more signatures, more committees, more red tape to try to ensure that every idea that comes to fruition will be a not a risk, but a highly potential success. The real result of this "hyper-vigilant" laborious process is high amounts of frustration and very little, if any, foreseeable results. This in turn makes the second, third and fourth metrics (time to implementation, success rate and customer impact) of little or no consequence: they become erroneous. Another result of this hyper-vigilant gating process is that the company becomes nothing more than a status quo market share defender.

Rather than allowing such a result, the rule should encourage better alternative strategy planning, better metrics and better insights that are continuously applied; new ideas and extraordinary products must support your company into the future.

Conclusion

Creating the future through leadership begins with your ability to alter thinking of recognized and respected market visionaries, while at the same time allowing your thinking to be influenced in return – the Trusted Advisor leadership concept is based on your ability to



consistently analyze and synthesize new ideas within the context of communities of influence resulting in your ability to see what's next.

The other side of the equation thus rests on your ability to operationalize innovation that you observe through customer success results. If you can consistently demonstrate customer value through creative collaborative thinking coupled with innovative solutions that make a difference based on apt leadership, then metrics such as growth (revenue and market share) must inevitably follow.

Note: These questions, along with how to achieve Leadership by "Seeing What's Next – Being What's Next" will be addressed as part of the continuing series of white papers in the Leadership Series

Readings

As a follow-up, the reader is encouraged to review Vanguard Marketing's website and published white papers on selected topics related to Vanguard's core competencies at www.e-vmi.com

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