

Seduced By Success

Bob Herbold

Kodak

Kodak – 1995

The King of Photography

- The Risks?
- Fuji Film
- Digital Photography

Kodak 1996-1997

- Stock Price: \$90 to \$75
- Problems: profits -25% due to Fuji
- Reaction: Lay off 20,000
- Assessment: “they moved too slowly; meanwhile the competition was eating their lunch”

Kodak 1999

- Stock Price: \$65
- Problems: digital; film prices -70%
- Reaction: Advantix, CEO steps down
- Assessment: “ Advantix was Kodak’s most discouraging failure”

Kodak 2002

- Stock Price: \$40
- Problems: digital replacing film(+30%/year)
- Reaction: Cut dividends -72% to fund digital
- Assessment: “investors have lost confidence that Kodak knows what to do”

Kodak 2005

- Stock Price: \$26
- Problems: digital outselling film 6 to 1
- Reaction: CEO steps down
- Assessment: “the world is changing faster than Kodak can”

Comment by resigning CEO:

“I saw my first digital camera at Kodak twenty years ago. I knew right then that this company was going to transform itself”

Dan Carp, 2005

Sony – 1990's

The King of Consumer Electronics

- Sony Trinitron televisions
- Sony Walkman
- Sony PlayStation game player

Sony – 1998

The King of Portable Music

The Inflection Points

- Hard Drive Capacity
- Digital Music & Video
- The Internet

2001

The Two Hottest Consumer Electronics Products

- iPod music system
- TiVo digital video recorder

Sony's Problem:

- Hardware, software, and music skills all resided in separate fiefdoms
- A product like the iPod requires integration of these areas

The Sony “Connect” Product

- Sony’s response to the iPod
- Software developed by PC group
- Hardware developed by Portable Audio team
- Software didn’t work well with the hardware
- Product finally launched in May, ’05

The Sony “Connect” Product

- Used a proprietary Sony Mini-Disc
- Why no hard drive?
- Head of Hardware R&D “hard-drives are not interesting because anyone can make them”

Sony's Stock Price

- January, 2000 \$130
- January, 2002 \$45
- April, 2007 \$51

Why do we often see this kind of
problem ?

44 Companies Analyzed

- GM, Toyota, Motorola, Boeing, Sony, Apple
- IBM, Agilent Technologies, Nucor, Samsung
- Daimler Chrysler, Fidelity, McDonald's, IBM
- P&G, Coca-Cola, Dell, Microsoft, Starbucks
- Coca-Cola, Unilever, Gillette, HP, eBay, Dell

Success Is a Huge Business Vulnerability

Because It Causes:

- Loss of Urgency
- Pride and Protectiveness
- Entitlement Mentality

What Do These Behaviors Cause?

- Legacy Thinking/Practices/People
- Nine Dangerous Traps

Trap #1

**Neglect: Sticking with
Yesterday's Business Model**

Trap #1: Sticking with Yesterday's Business Model

Face Reality, Then Aggressively
Tackle Your Vulnerabilities

IBM

IBM Vulnerabilities

1993 - Lou Gerstner

- The Management Committee – Consensus Decision Making
- IBM was Confusing to Customers - Inwardly Focused Product and Sales Fiefdoms

Trap #1: Sticking with Yesterday's Business Model

Reapply What Works

Nucor

Nucor – Great Ideas Waiting to be Plagiarized

- Small Electronic Arc Furnaces
- Non-Union Workforce
- Crushed Cars versus Iron Ore
- Abandoned Warehouses
- Small Plant Serving 2 or 3 States
- Lower Wages in Rural Areas

Trap #1: Sticking with Yesterday's Business Model

A Committee/Compromise Process
is No Way to Generate Big,
Distinctive, Disruptive Ideas

Apple

The Apple iPod Design Team

- Tight focus on a specific goal provided by Steve Jobs
- Limit the number of alternatives kept alive
- Build a small, very talented team

Attributes of Team Members

- Cared deeply about the work
- Achieved deep understanding of the need, the product, its materials, its tooling, etc.
- Total secrecy within Apple

How the Team Worked

- Fast prototyping
- Engineering, marketing & manufacturing all represented on team
- Pushed the boundaries of all disciplines

Trap #2

**Pride: Allowing Your Products
To Become Outdated**

Trap #2: Allowing Your Products to Become Outdated

Capitalize on Inflection Points

McDonald's

McDonald's – January, 2000

The King of Fast Food

- 30,000 Restaurants
- 46,000,000 Customers per Day
- The Image: Big Mac and Fries

Fortune Magazine April 29, 2002

“Fallen Arches: McDonald’s Has Had Six Straight Earnings Disappointments. Its Stock is Down 42%. And, We Can’t Even Remember the Jingle. What Happened?”

McDonald's – The Problems

- Missed the Healthy Food Trend
- Slow Service
- Rude Employees
- A String of Bad Ad Campaigns

Popular Movie: Super Size Me

- A Guy Eats Only McDonald's for 30 Days
- Always Gets "Super Size"
- Gains 25 Lbs, Liver Damage
- Nominated for Academy Award

Late 2003

Stock off 70% versus Jan. 2000

Finally: The Crisis is Acknowledged

- New CEO
- “Great” Salads are Launched
- All-White-Meat Chicken Options
- A Good Ad Campaign Launched

McDonald's The Impact Q4, 2004

- Same-Store Sales +11% vs. Year Ago
- Not Achieved in Past 30 Years.

Trap #2: Allowing Your Products to Become Outdated

Uniqueness:
An Absolute Essential

Chrysler

Chrysler – The Power of Unique Products

- The Minivan
- The Sport Utility Vehicle
- The Chrysler 300
- The Hemi Engine

Trap #3

Boredom: Clinging to Your
Once-Successful Branding after It
Becomes Stale and Dull

Trap #3: Clinging to Your Once-Successful Branding

Be Clear and Concise,
But Most of All, Be Distinctive

Harley Davidson

Harley-Davidson: The Power of a Distinctive Image

- “Hard Core Ruffians With Big Tattoos and Bad Tempers”
- Deep, Throaty, Mean Sound of the Engine
- Usually Black and Chrome
- The Harley Owners Group (800,000)
- The Clothes

Break Time!

Trap #4

Complexity: Ignoring Your Business Processes as They Become Cumbersome & Complicated

Trap #4: Ignoring Your Business Processes

Don't Wait for the Crisis

Bank One

Bank One

- 87 Unique Bank Charters
- 7 Deposit Systems
- 3 Clearing Networks
- 5 Wire Transfer Platforms
- All Claimed to be “Mission Critical”

Trap #5

**Bloat: Rationalizing Your
Loss of Speed and Agility**

Trap #5: Rationalizing Your Loss of Speed and Agility

Assign Top Talent to the Tough
Issues and Get Out of Their Way

Nike

Trap #6

Mediocrity: Condoning Poor Performance and Letting Your Star Employees Languish

Trap #6: Condoning Poor Performance and Letting Your Star Employees Languish

Don't Be Afraid of Bringing
in Fresh Talent

Harrah's

Harrah's 1970's & 80's

- Average performer
- Non-distinctive, good reach with 25 casinos
- Nothing unique

Harrah's 1999

- HBS's Gary Loveman becomes COO
- Specialty: data mining related to customer service
- Defied conventional wisdom: casino leaders are supposed to be deep in gambling industry experience

The Harrah's Loyalty Card

- Logged all transactions
- Used at all 25 casinos
- Real time monitoring and rewards
- \$500,000,000 investment

Harrah's Results and Conclusion

- \$15/share to \$81/share
- Loveman: 2003 and 2004 gaming and lodging exec of the year
- Conclusion: Fresh Creative Talent Can Yield Great Results

Trap #7

Lethargy: Getting Lulled into a Culture of Comfort, Casualness, and Confidence

Trap #7: Getting Lulled into a Culture of Comfort, Casualness, and Confidence

Get a Product Edge and Use It to
Overhaul the Culture

Motorola

Motorola: A Glorious Past

- First in Car Radios
- First in Battery Powered Radios
- Invented Walkie Talkie's
- Invented the Cell Phone Business
- 1996 – Launched the StarTAC super small clam-shell cell phone

Motorola: The Late 1990's

- Fragmented Business Unit Fiefdoms
- Customer Confusion: No Single Motorola Voice
- Huge Wasted Efforts on Smart Cards and Power PC Chip

Motorola: The Late 1990's

- Terrible Marketing
- Slow to Move from Analog to Digital Wireless Technology
- Lost \$2.6 Billion on Iridium Satellite Phone(user cost: \$2.50/minute)

Motorola: Q1 of 2001

- Lost \$206 Million; 1st loss in 16 Years
- Stock price: \$17/share(from \$60 two years earlier)
- J. Shimer, VP: “You Couldn’t Make a Decision Without Needing 99 Other People to Make a Decision. It was Terrible.”

Motorola: Q1 of 2004

- At Last: A New CEO
- New CEO Finds RAZR Design Buried in R&D and Starts Reorganizing the Company and the Culture Around It
- By July, 2006 Stock up to \$26
- Early 2007: Huge Marketing/Product Mistakes, Stock Drops to \$17

Trap: #8

Timidity: Not confronting Turf Wars, Infighting, and Obstructionists

Trap #8: Not Confronting Turf Wars, Infighting, and Obstructionists

Assemble a Team You Believe In

Porsche

Porsche 1950's & 60's

- THE thoroughbred luxury sports car
- The rear-engine 911 model

Porsche 1970's & 80's

- The mid-engine 914; Joint effort with Volkswagen
- The front-engine 924: Joint effort with Audi
- The front-engine 928 with a V8

Porsche 1993

- Sales below 12,000 units
- Image suffering
- 120 hours spread over 6 weeks to make a 911
- Seven years to launch a new model

Porsche 1993

- New CEO & management team
- Discontinued all models except the classic 911
- Hired Japanese production experts

Porsche mid 1990's

- Time to produce a 911 model: 45 hours over 3 days
- New model development time: 3 years

Porsche: New Models

- Boxster: 911-like performance, mid-engine
- Cayenne: 911-like performance, sports car of SUV's
- 911 Carrera GT: +200mph, \$440.000
- Cayman: 911-like performance, sport coupe

Porsche: Results of New Team

- Selling over 100,000 units/year
- 300 employees to produce 25,000 Cayenne's
- The most profitable auto company in the world: 17% pre-tax margin

Trap #8: Not Confronting Turf Wars, Infighting, and Obstructionists

Break Up the Fiefdoms and
Launch Your Plan

Morgan Stanley

Morgan Stanley - 1999

- Consolidation Was Happening
- President John Mack: Buy Chase Manhattan
- CEO Phil Purcell: Buy J. P. Morgan & Co.
- Two Warring Fiefdoms

Morgen Stanley - 2001

- The Debate Ends: Chase Manhattan Merges with J. P. Morgan
- John Mack Quits
- Sets Off Two Years of Internal Infighting on What to Do

Morgan Stanley – Dec., 2003

- Board Demands Plan by July, 2004
- Phil Purcell Assigns Team to Generate Proposal
- Buy Wachovia? Debated for 6 Months
- July, 2004 Recommendation: “Improve Current Business”

Morgan Stanley – July, 2004

- Eight Former Execs Call for Purcell Resignation
- Former Execs Run Ads
- Purcell Adds Fuel to Fire!
- Daily Soap Opera in Press
- June, 2005 Purcell Resigns

Morgan Stanley 1999-2005

- Five Wasted Years!
- Why? Not Confronting the Problem

Trap: #9

**Confusion: Unwittingly Providing
Schizophrenic Communications**

Seduced By Success

How the Best Companies
Survive the 9 Traps of Winning

Questions?