

Tomorrow's Competitors Ain't What They Used To Be

Kenneth A. Sawka

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Yogi Berra, a baseball player famous for his malapropisms, once said, "The future ain't what it used to be." As the struggling economy starts to show early signals of a looming recovery, one thing is certain: tomorrow's competitors ain't what they used to be.

If there's one thing that's certain about low points in the economic cycle, it's the survival-of-the-fittest, natural selection process that occurs at the cycle's depths. Weak companies, unable to withstand long bouts of economic contraction, are naturally supplanted by nimbler, more innovative companies offering their buyers a better value proposition, be it new products or services, increased efficiencies and lower costs, better customer service, and so on. Today's combination of economic upheaval, accelerating technology proliferation, and other factors is setting the stage for one of the most tumultuous rounds of "creative destruction" we have ever seen.¹

While the current recession is severe enough to force many an established company out of business in favor of newer and more creative rivals, the rapid acceleration of technological innovation makes this recession very ripe for a wholesale restructuring of many industries. Look no further than the technology industry itself for examples of the impact of the combination of recession and technology proliferation.

Following on the heels of the popularity of smartphones as replacements for PCs among technophiles who use the devices for their multimedia hobbies, social networking, and even some business tasks, corporations are starting to think about trading PCs for similar hybrid wireless devices known as thin clients, according to a recent article in *Business Week* ("Will Thin Clients Replace Office PCs?" July 29, 2009). Thin clients look like notebook computers, but some are designed to connect with a smartphone and share its operating system and software applications. As a result, the thin client doesn't require its own internal processing or storage capability.

Companies like this approach for two reasons: thin clients are cheaper than full-service laptops, and corporate IT departments can exert much stricter control over the software these machines run.

The implications for suppliers of corporate computer hardware, such as HP and Dell, are enormous. The question, of course, is, what exactly will be the impact of thin clients, and how soon will PC manufacturers recognize it and respond accordingly? In many such cases of the emergence of substitute products, the full effect can take years to materialize. By the time it does, the supplanted companies' hopes of devising a strategy to counter the substitutes have long since been crushed. Unless, of course, they were prepared for it.

If the combination of severe economic recession and rapid technological innovation will create the conditions ripe for mass substitution in many industries, what's a strategic planner, product manager, or competitive intelligence analyst to do? To be sure, waiting until the threat of substitute products fully manifests itself is not an option. Companies need to be examining right now the strategic implications of the possibility that they, or a competitor, could be "creatively destroyed" by one or more substitutes.

Companies ought to be building scenarios and generating options for a strategic response should a substitution threat develop. Doing so requires little more than some dedicated time, the application of analytic models such as wargaming and Porter's Five Forces, and the an indicator-based business early warning system.

Or, to cite someone perhaps a bit wiser than Yogi, "chance favors the prepared mind." (Louis Pasteur)

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¹ The concept of "creative destruction" was first introduced by the Austrian economist Joseph Schumpeter, and describes the process of transformation that accompanies radical innovation. In Schumpeter's view of capitalism, innovative entry by entrepreneurs was the force that sustained long-term economic growth, even as it destroyed the value of established companies.