Illustration by Dave Cutter

The hard choice:
when to fundamentally change strategy?

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Summary

Significant business advantage is rarely sustained. As Steve Ballmer, the former Microsoft CEO once said, most successful companies "are one hit wonders, if they are lucky two". Excess margins derived from advantage encourage imitation, and offerings become commodified. It's an inevitable part of economic evolution, just as it is with evolutionary biology and what is referred to as the "Red Queen" effect (Van Valen, 1973).

"It takes all the running you can do, to keep in the same place" *- Lewis Carroll*

To sustain advantage the only solution is through business model innovation, which is hard. In many ways, companies with a current market leadership position are disadvantaged because they face the "innovators dilemma" (Christensen, 1997), where change may require them to cannibalise their primary revenue source. Failure to change leaves companies vulnerable to new entrants, or other existing entities with fewer legacy constraints to innovate.

All businesses will face at some point the most crucial of choices – "*should we persist with our current business strategy or should we fundamentally change*". This decision is one of the most challenging any business will face, because it will need to:

- Take a position on the long-term external future which is inherently unknowable
- Adopt a different operating DNA when their success is rooted in a previous culture
- Endure short term pain for long term gain when executive incentives are mostly short term

Successfully navigating business model change is challenging and sometimes insurmountable. Some business will not be able to make the choice and will either succumb to evolutionary pressures or continue a slow decline. Others will make the choice, but fail because they pursue a poor model, get the timing wrong or mismanage implementation. But some will choose to change and will flourish.

This paper explores the inevitability of the choice to fundamentally change strategy (or not), and the forces that make this so challenging. By examining these forces, we can identify tactics to help make the best decision and increase the chances of success in implementation.

Ultimately, the decision to persist with the current business model or change will be made by the most senior custodians of the business. This decision will typically be based on both aspiration (*is the change worth it?*), and a realistic analysis of current positioning (*do we have a good chance?*) – ultimately weighted heavily towards the intuition of the key decision makers.

"It is by logic we prove, but by intuition we discover." *- Henri Poincaré*

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The inevitable strategic choice: should I stay, or should I go?

When faced with the prospect of long-term deterioration in performance, perhaps the most important decision any business entity can make is whether to continue with its current strategy and double down on improvement, or to make fundamental change and face the significant risks that this entails.

There is no easy answer given the conundrum that competitive advantage can only be achieved through extreme focus and specialisation, whereas shifting forces within the economy, along with and imitation, ultimately erode the advantage of most (if not all) existing business models.

Businesses that are successful long term get the direction and timing of strategic change right. Microsoft shifted from software solutions to cloud-based platform and services, Amazon shifted from book seller to on-line warehousing and distribution, and Apple shifted from computer manufacturing to consumer electronics and services. In manufacturing, Sandvik started as a steel maker, and is now a dominant supplier of automated mining equipment.

"When you're through changing, you're through." *- Martha Stewart*

The opposite is also true. Failing to change in the face of external forces can be terminal. Kodak is a prime example where it led the creation of digital imaging formats but was unable to transition from its dependence on the film-based media. Blockbuster Video saw the future of streaming early but could not shift from its DVD rental business ahead of start-up competition such as Netflix. In resources, Peabody was too slow to transition from coal to other forms of energy, in particular gas, and entered chapter 11 in 2016.

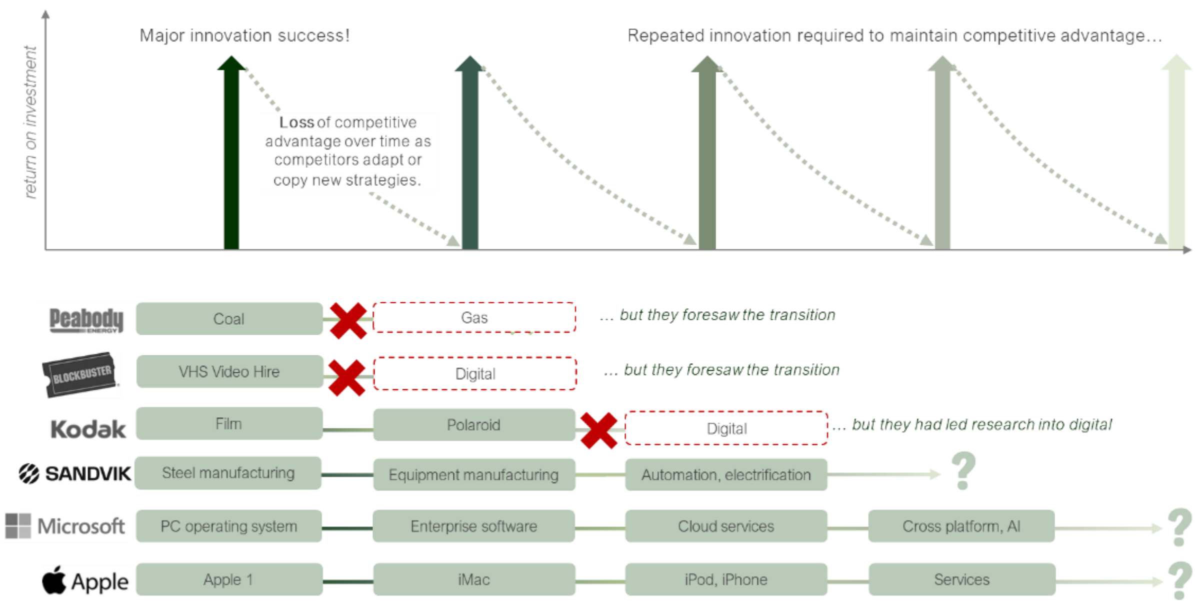

Figure 1: Continuous business model innovation is integral to long term business success

The difference between success and failure when faced with the decision to change business model can come down to a few easy to identify but hard to address questions.

- ***What makes the decision so hard?***
  Understanding the forces which work against effective strategic decision-making enables organisational mechanisms to be put in place to ensure that the optimum path has the best chance of selection.
- ***When is the right time to move?***
  Being far too early can be both costly and impede efforts to re-visit later as leaders become reticent, however being too late can be terminal. Being a bit too early is probably about right!
- ***How should the change be approached?***
  Moving from a long-established strategy to one which is very different is likely the most complex change effort that an entity will face. It will require commensurate volition and skill.

Defining the form of the new business model is of critical importance. However, it is usually not the ability to see the potential for a new model that ultimately causes business failure, but it is the inability to fully commit to the future envisioned and execute effectively before competitors.

What makes the decision hard

Making the optimal decision on whether to change business model is challenged by a range of powerful interrelated forces:

- *Financial risk* in changing business strategy is high. When investing we feel the pain of loss twice as much as the pleasure of gain, so risk perception is a big barrier.
- *Future uncertainty* means that the value case for change is also uncertain and therefore can be hard to establish and defend.
- *Human biases* inevitably impact decision makers, and if they are not recognised and counterbalanced can adversely influence outcomes.
- *Cultural DNA* inherent in successful mature businesses will be an anchor both in terms of decision making, and in the transformation process.

Financial risk

The risks associated with business model change are wide-ranging. They start with the capital deployed to develop an unproven strategy at a scale that will meaningfully impact revenue. For example, Meta's investment in augmented reality is approaching US $70bn with the outcome showing some positive signs, but the payoff is far from certain. From 2020 to 2024, BP spent ~ US $20 billion on green energy investments before changing strategy to focus back on its traditional business of oil and gas. In Australia, iron ore producers collectively spent several billion in the early 2000's (10's of billions in today's dollars) on iron metallic production before discontinuing.

The ability to fund attempts at new business creation usually relies on robust current revenue sources. However, existing business can be impacted adversely if they are perceived as assets which are being harvested with attention turning elsewhere, as investors, customers and employees lose faith. Not only can current business performance be impacted through shifting focus, but broader damage to reputation can result. Business reputation is key to maintaining support for plans, and for raising the new capital these plans need.

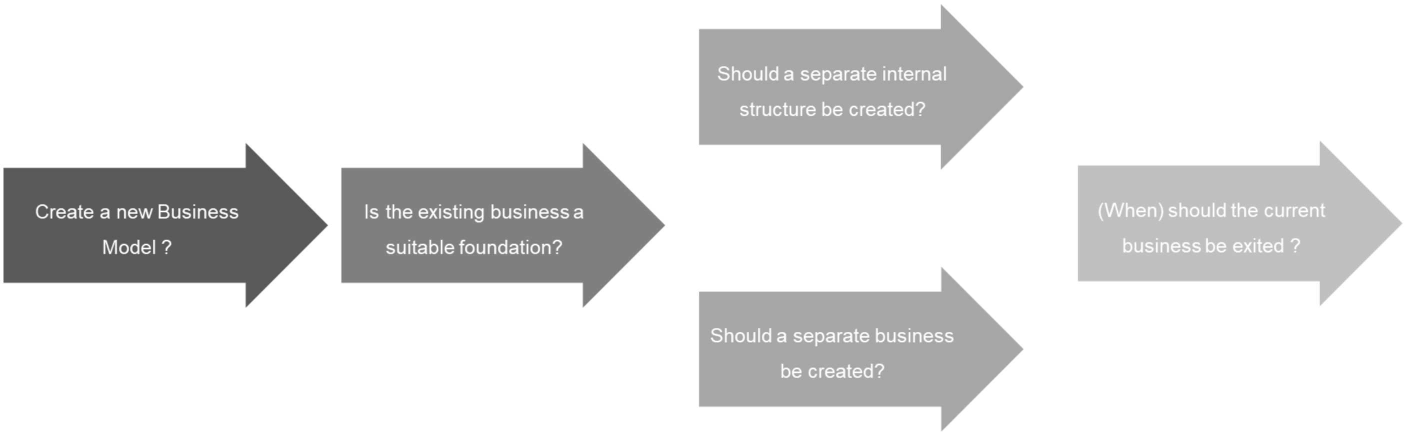

Figure 2: Structuring the new business in relation to the existing organisation

The implication of these risks means that hard questions should be asked before committing, the first being: is the current enterprise best placed to create the envisaged new model? It may not be, given the relative competency and incentive of others. If the current enterprise is well placed to proceed, the next question arises: should the new model be housed in a fully separate structure? Separation may be necessary to build focused capability, facilitate partnerships, attract investors, and provide clarity in performance accountability. Ultimately, if the new model is attractive, the question should be asked whether the existing businesses should be exited sooner, rather than later, to mitigate the risk of their degradation as focus shifts, and to increase the imperative for the new business to succeed by removal of a safety net which can dull motivation.

Future uncertainty

Moving to a new business model will necessarily require a strong future value case, given the risks associated with transformation. However, the value case will be based on assessment of an uncertain future, often out a decade or more, which increases the tendency for decisionmakers to over-discount proposals and stick with what they know.

In assessing the future, a sound starting point is to recognise the limitations we have as forecasters. Firstly, the economic future is unforecastable beyond a few months, as statistical techniques based on historical data then tend to a "random walk". Our only current option is to use scenario planning, where plausible futures are created and probabilities assigned to those futures. Simulation can then be used to understand the potential implications of each scenario and assist with decision-making.

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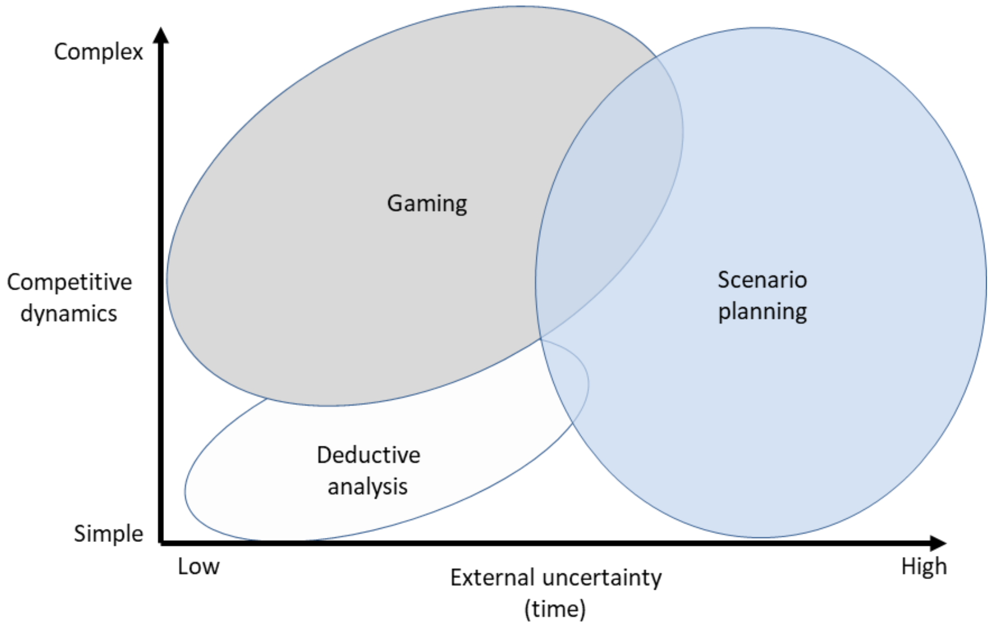

Figure 3: Approaches to forecasting in uncertainty

While scenarios can be used to make a strong business case, this approach is still often met with scepticism by decision makers for two main reasons. Firstly, the natural human tendency is to extrapolate from the current and to underestimate future change, so even when scenarios which ultimately prove to be prescient are put forward, they can be met with disbelief. Secondly, most people are uncomfortable with uncertainty and do not naturally think in probabilistic terms preferring deterministic analysis.

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction." *- Bill Gates*

One technique to put the risk of maintaining the status-quo in perspective, is to examine the current strategy through the lens of future scenarios. We have used this approach in resource company growth strategies, where initially high-growth market scenarios created to examine value opportunity were viewed as "unlikely" and did not garner support for change (these scenarios ultimately proved to be conservative). However, when the current plans were assessed against the same future scenarios, the potential drift to much diminished market relevance galvanised change commitment far more powerfully than the pull of opportunity – the CEO termed the status quo market projections the "*Magic Slide*" given its catalysing influence.

"If you don't like change, you're going to like irrelevance even less." *- Erik Shinseki*

Another approach to create strategic movement is to facilitate "visceral" exposure of decisionmakers to both future external scenarios and potential new business models through tactile experiences of adjacent industries, technologies and environments. Our experience in strategy formulation is that once the future is seen it cannot be un-seen and business leaders are more inclined to form accurate perspectives of the value of future options, as they are pulled towards what has been internalised as an inevitable future.

“The future is already here – it’s just not evenly distributed.” *- William Gibson*

Human biases

A broad range of natural human biases will likely impact effective strategic decision making. Our experience is that several biases have an outsized impact…

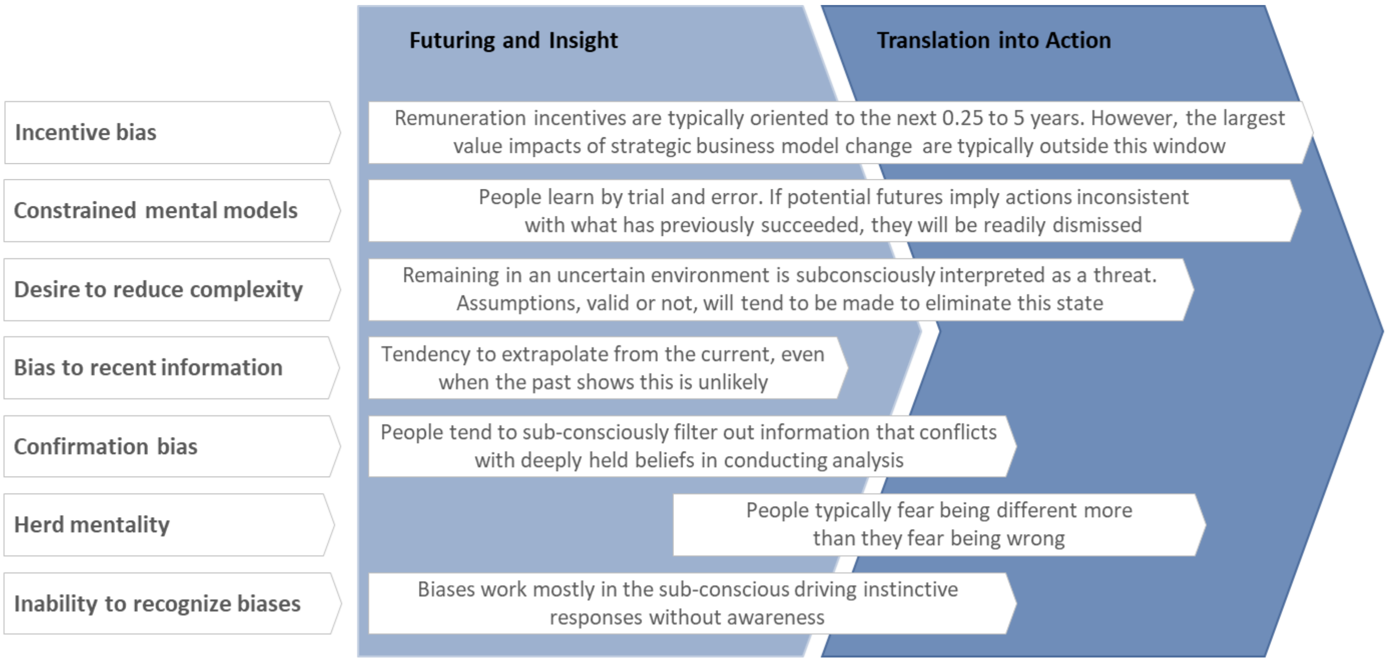

Figure 4: Human biases impacting strategic decision making

Incentives fundamentally impact decisions. Most executive Long Term Incentive Plans (LTIPs) vest over a relative short term of three to five years (Mercer, 2022). Furthermore, the median CEO tenure in a public company is about five and a half years (Spencer Stuart, 2023). Given the large risks associated with business model transformation, and that the bulk of the tangible pay-off is typically outside executive tenure, it is not surprising that even high value long term strategic change options are sometimes not well supported.

“Show me the incentive and I’ll show you the outcome.” *- Charlie Munger*

Constrained mental models are also another challenge. We build our worldview through experience and evaluate forward options according to this lens. Executives and board members are typically very experienced in the current business model and are not necessarily well placed to make objective relative evaluation between current and future models. Constrained mental models are not only a matter of experience, but also a consequence of natural cognitive limits, information availability, and time limitations faced by even the most intelligent and objective people.

Recency bias is another human limitation which can adversely impact effective strategic decision making. We weigh recent information more highly and then tend to extrapolate this forward in a linear manner. These tendencies work directly against effective strategic decision making in an environment where economies are chaotic systems and subject to external disruption. Looking back at least as far as the forward horizon being contemplated is one effective remedy, where current decisions can be balanced against the full context.

"History doesn't repeat itself, but it often rhymes." *- Mark Twain*

Dealing with human biases in decision-making teams starts with the foundations of transparency and balanced perspective. Transparency in decision roles, methodology, process and assumptions help biases to be surfaced, challenged and managed. A decision-making team which is well balanced across experience with current vs future models, and across a predisposition for risk taking vs aversion, will go some way to limit anchoring on the status-quo. From a technology perspective, the combined fields of optimisation analytics and artificial intelligence will increasingly provide tools to support decision making.

Cultural DNA

Successful businesses have strong culture. Business culture is built over time through a process of rewarding behaviours which contribute to success (leading to their propagation), with behaviours that are not desired and reinforced being eliminated. The same process occurs in relation to the myriad of unauthorised systems that comprise the business. However, when it comes time to shift business models, what was a strength can quickly become a weakness – and in some cases, a terminal threat.

"The most important thing is to be ready at any moment to give up what you are for what you might become." *- Charles Du Bos*

A major threat associated with strong business culture is the subconscious early discounting of emerging external drivers and consequential business models where they are not consistent with current norms. It is not that the drivers will not ultimately be recognised, and strategy changed accordingly, it is just that that the realisation could be too late to fend off significant competitive threats. If leadership is perceived as being consistently surprised and reactive to external forces, this can lead to demoralisation and a flight of human capital, further compounding competitive disadvantage.

The question is not whether cultural inconsistencies between the current and a requisite new business model exist – they inevitably will. The pertinent questions are:

- What is the extent of cultural inconsistency, and what risk will this present to seeing and implementing necessary change?
- In deciding to change, what must be done to build the required business culture from the start?

Answering these questions objectively is challenging and demands the ability of leaders to take an outside in perspective with clarity, with a willingness to engage the views of people outside the business who have achieved proven success in the new sphere of interest being considered. Too often, challenging views are sought, noted and parked when uncomfortable.

Navigating the "what, when and how"

With collective volition to change, successful transition will be heavily determined by:

- *Business model design*. How competitive the chosen model proves to be will determine success. Poor implementation can potentially be rectified, but not poor design.
- *Timing the change*. Being too early can be damaging and dilute financial and stakeholder capital. However, being late can be terminal.
- *The change method*. Changing business models is literally transformational. The method needs to be simultaneously skilful and bold.

Business model design

Business model quality is critical to ultimate transformation success, and there are at least three primary tests that can be applied when screening designs.

"When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact" *- Warren Buffet*

Test 1: *Is the proposed model aligned with, and geared to benefit from, the technology drivers that will change the economy over the next two decades?*

This is both an offensive (competitive advantage) and a defensive (threat to status quo) question. In heavy industry, the technology forces which are accelerating and will likely re-shape competition include:

- Artificial intelligence, which will enable faster, better decision making across supply chains and across timeframes.
- Energy technology, which ultimately determines heavy industry cost structures given its dependence on materials transformation and logistics.
- Biotechnology, which could unlock fundamentally new processes, materials and potentially industries.

When looking out a decade or more in business it is hard to overemphasise the role of technology, which Robert Solow, the renowned economist, captures succinctly:

"It turned out that by far the largest contribution [to economic growth] came from something that can't be explained by population growth, a labour supply increase or a growing stock of equipment... the largest contribution comes from technological innovation." *– Robert Solow*

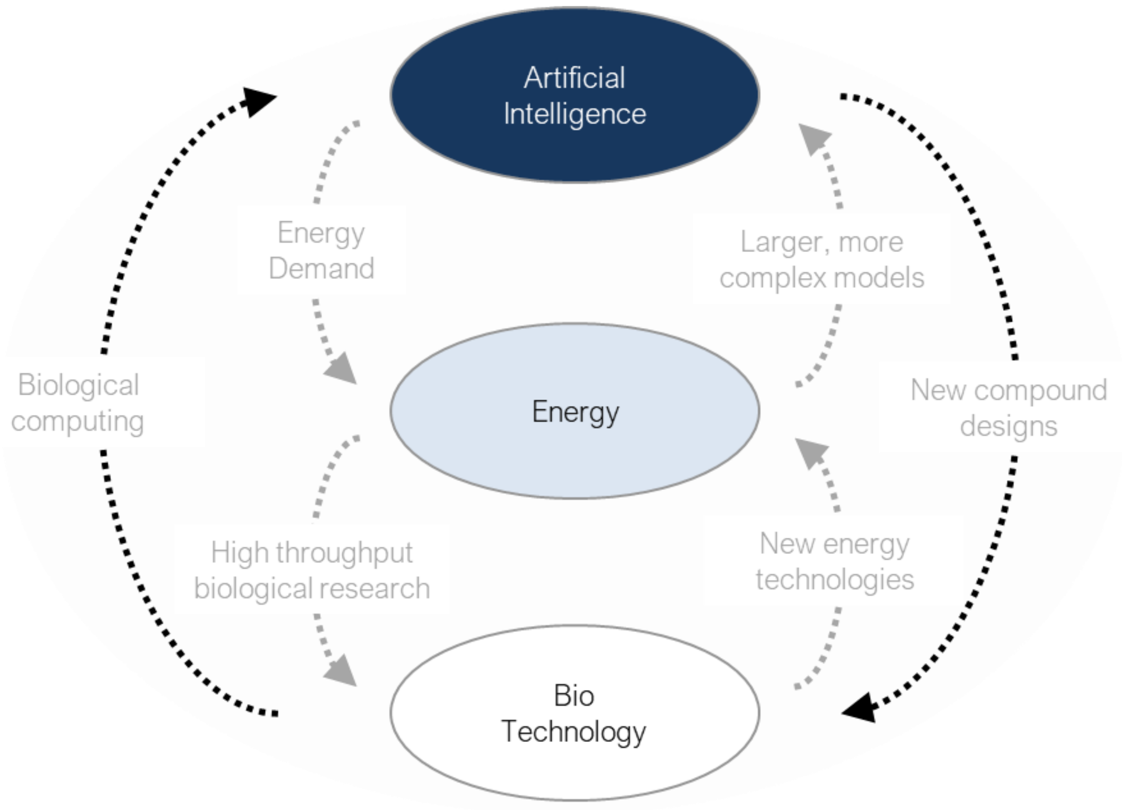

Figure 5: Major technology drivers and their feedback effects

<u>Test 2</u>: *Will the proposed model thrive in, and be resilient to, global economic growth patterns and geopolitical developments?*

Major forces we will see in the next two decades are:

- China's economic transition from peak infrastructure (including peak steel) investment to a technology and services economy, all while the population is ageing and reducing.
- India's emergence as a major economic and geopolitical force, with a large and young population and a highly skilled workforce.
- The geopolitical transition from US dominance to a multi-polar world in which China plays a dominant role, with the consequential shaping of trade flows and supply chains.

<u>Test 3</u>: *Is the new model building on some inherent advantage possessed by the existing entity?*

This test is a conundrum when changing business model, but the extremes are clear:

- Too much reliance on current capability, and the existing cultural DNA will either pre-emptively discount adoption of the new model or cripple its implementation.
- Starting with minimal capability advantage in the new model will result in the risk of failure being high, given there are no limits to sources of external competition.

The key in dealing with the dilemma of building on the past without being held back by it, is to develop options independently of the current business structure, and to subsequently evaluate which capability components can be extracted from the current business for advantage. Only those capabilities that are essential for advantage in the new business should be brought across, with the rest being established through a clean-sheet build. Building options out from the current business, while potentially providing early protection for the new model, will typically lead to incrementalism.

Modelling for evaluating competitive advantage is an ongoing topic of research. Porter's 5 forces (Porter, 1980) is one of the seminal early models, while more recently Helmer has put forward his 7 Powers of Strategy theory (Helmer, 2016).

Scale Economies	Simultaneously pursue a business model that creates Scale Economies (larger volume lowers unit costs), while at the same time offering up a product attractive enough to continue to gain relative share.
Network Economies	The value of a product increases with the number of users, creating a reinforcing loop where more users attract even more users. Ultimately scale economies eventuate.
Cornered Resource	Secure the exclusive rights to a rare and non-substitutable resource on attractive terms. This often comes from having developed that resource originally (e.g. research patents, talent, supply chains).
Branding	Over an extensive period, make the consistent creative choices which foster in the customer's mind an affinity that goes beyond the product's objective attributes.
Counter Positioning	Pioneer a new, superior business model which incumbents cannot copy without creating collateral damage to their existing business.
Switching Costs	First attain a large customer base (potentially via Scale and Network Economies) which face high costs (money, time, effort, risk) in switching providers.
Process Power	Evolve new complex internal processes which are difficult to replicate in a reasonable period, and which offer significant advantages over a longer period.

Figure 6: Deploying Hamilton Helmer's 7 powers of strategy

Timing the change

Moving too early with a new business model, even if in time it proves to be the right option, is problematic. Large amounts of capital can be lost, competitors can be alerted and mobilised, technology platforms can be installed which become obsolete, and business reputation can be damaged. Perhaps the most problematic aspect of moving too early is that the business owners and stakeholders will be reticent to approve subsequent moves when the timing is right.

While the pitfalls of moving early are significant, being late is worse – it can be terminal. Once a competitor establishes a market position and accelerates, even superior products can fail to succeed. History is rich with examples that demonstrate the power of being first: Coca-Cola was the first to build soft drink brand reputation (1886); Mars was the first to mass produce chocolate bars (1923); Google was the first to use page rank algorithms (1998); Nvidia was the first to market with GPU's (1999); and Apple was first with the seamless touch screen phone (2007).

"There are three ways to make a living in this business – be first, be smarter or cheat. And although I like to think we have some pretty smart people in this building, it sure is a hell of a lot easier to just be first." *- John Tuld (Margin Call)*

Given the asymmetry in outcomes of acting early verses being too late, and that timing will always be uncertain, biasing to early action is the sound choice – provided the downside is recognised and mitigated. Measures to support strategic timing and to mitigate risk include:

- *Scenario planning and gaming*
- *Investing in low regret options, and*
- *Stake-holder conditioning.*

Scenario planning and gaming

The value in scenario planning is not in the elegance of the scenarios – creative teams in most businesses are more than capable of recognising the wide range of plausible futures, particularly given the state of current knowledge creation and dissemination technologies.

The challenge remains the ability to recognise the signposts that indicate a scenario's probable realisation, and triggering action plans that have been internalised prior. A re-occurring failure in business is seeing the potential futures but either discounting them or failing to act.

"I didn't get where I am by thinking about it or dreaming about it. I got there by doing it." *- Estee Lauder*

Signposting scenarios is a practiced skill, and a potential source of advantage. For example, the China-driven iron ore boom of the late 2000's was seen as early as 2002 by the logistics industry when shipping construction orders spiked, but major miners did not even contemplate expansion until 2005 at the earliest. More recently, the massive growth potential of semi-conductor companies such as Nvidia, was signposted well in advance with the introduction of powerful parallel computing GPU technology in the mid 2000's.

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Figure 7: Typical reasons for transformation failure

Gaming and internalisation of contingency plans associated with scenarios has several benefits.

Firstly, it increases the likelihood of movement simply because the business is prepared, and therefore unsurprised and confident to move when the opportunity arises. The 1973 oil crisis is a seminal example, where Shell had previously considered a scenario where OPEC constrained supply, and moved while its competitors were paralysed.

Secondly, if coupled with the prudent deployment of prior options, the lead times of response plans can be compressed significantly. An example is when during Operation Warp Speed (2020), the US government funded parallel manufacturing capacity for multiple COVID-19 vaccine candidates before knowing which would prove successful in clinical trials.

Internalisation of scenarios, signposts, and action plans needs to reach well beyond the strategic analysis team. The task of broad-based strategic conversation within an organisation is key both from a mobilisation perspective when change is required, and an important source of signpost identification and response creativity.

Take Options

Prudent investment in options can have an outsized impact on the ability to flourish when external conditions shift. The best options are those which are efficiently acquired (inexpensive and/or low regret across all scenarios), have very high value in significant probability external futures, and enable the future business model to be accelerated yielding competitive advantage.

Option taking can be in the form of investments in assets or capability – ideally both. Notable examples in the resources industry include extensive iron ore lease acquisition by FMG (beginning in 2003) pre-empting the China boom while larger competitors were rationalising assets, and BHP’s acquisitions in the Stuart Shelf province of South Australia via Olympic Dam (2005) and OZ Minerals (2023) which position for energy transition pathways through Uranium and Copper. In mining services, Sandvik, who lead the supply of underground diesel equipment, purchased Artemis (2019) a leading innovator in electric mining equipment – anticipating the electrification transition now underway. In information technology, Microsoft was a first-round investor in Open AI (2019) which is now the leading AI tool measured by website traffic.

Strategic option design and execution is an underrated topic for business innovation. Successful businesses with an abundance of capital need to guard against overpaying for options that do not provide future advantage, and smaller businesses need to guard against believing that they do not have the capability to compete through innovation given their capital constraints.

"Innovation is born from the interaction between constraint and vision."

– Marissa Meyer

Condition strategic stakeholders

Ongoing conditioning of stakeholders is vital to being able to move when the timing is right. Alignment has two key objectives:

- *Support for ongoing investment in options*. This can be viewed as a combination of necessary investment in the next business horizon, and a form of insurance vis-à-vis competition. Investment performance of options should be measured over the longer term (decades) and as a portfolio (not as individual options).
- *Support to move decisively when the timing is appropriate.* Given the gravity of a business model change, in the absence of strong pre-alignment, a likely outcome of typical decision-making processes will be no decision and stasis given risk concern.

In most public companies, the critical stakeholder group remains the board. They have ultimate accountability for business performance, and full accountability to the wide range of external stakeholders, including investors, clients, regulators, employees and the public. However, typically about 25 - 40% of board members have specific governance tasks via risk committees (Deloitte, 2014), and all have governance accountability, so resistance to change will likely be high if unprepared.

"Because I control our company, I have the benefit of not having to convince the board not to fire me ... basically, the CEO just tries to ... convince the board to let them have their job and pay them more." *- Mark Zuckerberg*

While investors are naturally an important stakeholder group, business model change will typically result in investor profile realignment. A proportion of current equity holders will likely seek to divest, and new investors will be attracted, inevitably leading to transient share price volatility that will need to be endured. A wide range of perspectives will shift the attractiveness of a new strategy to investors, including growth vs income, return vs certainty, ESG vs legal trade, and so on.

Aligning key stakeholders with the potential for business model change is a nuanced activity. Over-communication can alert competitors and build pre-emptive internal resistance, while under-communication can lead to being under-prepared when the change is timely.

The change method

Implementing a new business model is a specific category of transformational change that has the advantage of not having to bring all the "old business" along. Parts can be, and ideally should be, built from a "clean sheet" without the constraints of legacy. Change management focus can be directed to the elements of the existing business that are essential to underpinning competitive advantage in the new model and therefore must be prepared or transformed.

Beyond the broad range of change management advice well-articulated in business literature, two principles stand out as critical in the case of implementation:

- *Fully commit to the new model (don't hedge) and,*
- *Set up for self-sufficiency from the start*

"Burn the boats... because if we are going home,

we are going home in their boats." *- Hernán Cortés*

Fully commit

The energy required to both create a new business model and to escape the natural pull of the status-quo is all consuming. If leadership conveys mixed signals regarding commitment, the broader business will detect this and will not be compelled to innovate and do the hard things required for success.

Conditional commitment is perhaps a higher risk strategy than not changing at all. It can result in the new business being a hybrid of the past and future, which is uncompetitive and will therefore fail or demand retreat. Significant and potentially business-threatening levels of financial and stakeholder capital can be consumed in the process of "soft" commitment to change.

Set up for self sufficiency

For the new business to reach its potential it should be set up for self-sufficiency, which means the ability to raise external capital for accelerated growth, form strategic partnerships advantageous to achieving its goals, set its own human resources policies and internal culture, adopt its own set of operating systems (not withstanding standard financial reporting), and shape its own external brand.

Structural separation from the existing operating business is typically the starting point for self-sufficiency. However, the pull of existing centralised structures can be challenging as they instinctively see a new adjacent business as a threat unless it is "controlled". Typically, the central financial controller will see the new venture as risky, the central human resources organisation will see a divergent culture emerging that needs to be aligned, the existing operating business will see an unnecessary diversion of capital from their own needs, and the central business systems groups will see disruption to the integration they have been long planning.

"Whenever you take a step forward you are bound to disturb something."

– Indira Ghandi

The level of initial capitalisation invested in the new business is an important decision. Too little, and the business can either be stunted or forced to raise funds which are overly dilutive. Too much, and with the inference of more to come, and the new business will bias to seeking subsidy from its parent versus innovating to win in the marketplace when challenged.

Ultimately, successful implementation of the new business will rest with Board-level judgement in knowing how much support to provide in launching the new venture, in knowing when to insist on self-sufficiency rather than continue funding, and in knowing how to distinguish between internal advice which will enable the future versus hold it back.

Drawing from parallels in life

"Adapt or perish, now as ever, is nature's inexorable imperative." *– H. G. Wells*

In business as in life, entities aim to survive and prosper for as long as they can; and just like living creatures, businesses are fighting for survival in a complex and constantly changing world, where many of the forces acting upon us are beyond our individual control. In either world, there are a range of survival strategies available…

Some may survive by **sheltering** in stable environments where there is little threat posed by competition or disruptive change. In the natural world, this is demonstrated by the ancient inhabitants of the deep ocean, such as lobsters, whose threats have not changed for millions of years. In reality, there are few niches stable enough to deploy this as a business strategy (and in fact, even the lobster population is currently under threat from overfishing and rapid ocean warming). Possible exceptions may be found in artisan crafts such as writing, acting, or painting, which have been around in some form for tens of thousands of years longer than agriculture or banking – though perhaps not in a commercially competitive mainstream way.

A more realistic survival strategy involves **leveraging symbiosis,** offering up something in order to gain access to a more powerful arrangement. In nature, clownfish enjoy a symbiotic relationship with the anemone they shelter in, receiving structural protection in exchange for nutrients. In the world of commerce, companies that provide significant staple goods and services (e.g., food, water, healthcare, financial services, and critical infrastructure) are generally protected from major market disruption by sheer size and necessity, though can of course face competition on a more micro-level. In this case, they can use tactics to make their businesses appear more beneficial, and therefore worth protecting.

Others survive through sheer **robustness**; they cultivate the ability to survive in a wide range of conditions and environments, even when under direct threat. A classic example is the tardigrade: a resilient creature that can survive radiation, temperature extremes, and up to 99% dehydration. Consequently, tardigrades can (and do) survive in every environment, from the deepest oceans to the International Space Station. Analogous businesses may include forms of labour contracting where adjustable margins and widely deployable operating model gives the ability to withstand short-term market pressures. In the face of threatening conditions, such enterprises may adopt a low-profile business-as-usual strategy, or retreat to a less appealing (and therefore less competitive) but survivable market for a time.

Another survival strategy relies on **having the sharpest teeth**. Apex predators like crocodiles and sharks use their hunting abilities to dominate their sections of the food chain. They're aided by their energy efficiency (allowing them to survive a long time without eating) and their ability to handle a variety of environmental conditions and food sources. Commercial apex predators enjoy the lion's share of their market: think social media giants, mining multinationals, or online marketplaces. Such businesses can continuously manage threats by absorbing smaller businesses before they have a chance to grow into serious competitors. They can also apply significant pressures on the market conditions themselves to prevent threats (e.g., regulatory restrictions) from emerging.

The final and most important survival strategy is **adaptation**. Adaptable organisms can readily evolve their traits to suit new sets of conditions and open up new survival pathways. For example, humans' natural plasticity saw us evolve larger brains and social tendencies, eventually granting us the ability to pass knowledge on to each other and develop rapidly as a species. In the business world, successful companies often adapt or innovate to changing market pressures, as demonstrated by Amazon's journey from an online bookstore in the 1990s to a multinational online marketplace and technology company with numerous subsidiaries today.

The exact strategy taken by each group depends on their specific set of traits and conditions, though ultimately most rely on adaptation to a large degree. Humans face many forms of adaptation, from an individual's journey through life and career phases, to societal revolutions based around industry, technology, or culture, and of course, physiological and genetic evolution on a species level.

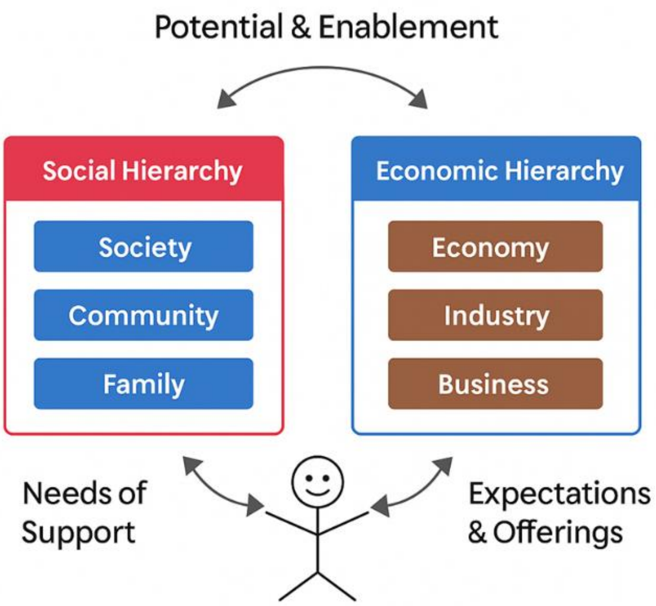

Figure 8: People as entities in the social and economic eco-system

At this stage of the technological revolution, most businesses are still run by people, be it individuals, business partners, or families. It is natural, then, that the journey taken by a particular business might mimic that of a typical person's life: an enterprise is born, nurtured, and grown, with the quality of its foundational years contributing to its prospects of surviving to adulthood. Upon reaching maturity, however, the growth does not stop. Just as people continue to explore new interests and aptitudes, businesses often research and develop into new areas. The average person makes three to seven major career changes in their life, so why should long-lived businesses be any different? Still, it seems many businesses demonstrate less faith in their ability to adapt than the individuals they are composed of. And just as the individual who resists a risky career move in their thirties

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could find themselves stuck in a long, humble retirement corridor, businesses who wait too long to decide whether to adapt could find the choice made for them.

***"Failure is not fatal, but failure to change might be." -** John Wooden*

There is, of course, a cost to adaptation. For one, the adaptee sacrifices their previous tried-and-trusted traits, just as the prevalence of artisanal skills were sacrificed for the industrial revolution. The act of adaptation is also resource intensive, just as turning a ship requires more energy than continuing in a straight line. During this time, nonproductive energy consumption can put the organism at risk to specialists, so it's critical to shore up reserves and operate leanly where possible in the lead up to a major change. There is also the very real risk that the transformative change undertaken will be mismatched to the emerging set of conditions, leaving an entity in an evolutionary cul-de-sac from which there is no productive path forward. Identifying this situation is non-trivial; just as it takes time for eyes to adapt to the light, it will take time for businesses to adapt to change, and understanding the difference between natural teething issues and a serious misstep can make or break businesses trying to sail the stormy seas of change.

In our lessons from nature, one thing is very clear: disruptive change *will* occur. In fact, this is a known physical law: the entropy (i.e., disorder) of a system will always increase over time. Effort is always required to resist entropy … equipment requires maintenance, employee training requires refreshing, and products require updating. In nature, the effort exerted to resist entropy is often subconscious. In business, it can be carefully designed or even targeted to harness the entropy affecting the rest of the market. Like the early explorers setting sail for new lands, businesses that can see disruptive conditions as an exciting opportunity rather than being paralysed with inaction or doubt are best set to thrive in the new world.

Conclusion

Facing the choice to fundamentally change strategy or business model will always be a leader's biggest conundrum.

On one hand, a business can make the decision to move, which puts at risk the existing cash flow which sustains the business, places a bet on external environmental outcomes that are unknowable, and commits to building a model where the ability to deliver is uncertain given legacy constraints.

On the other hand, a business can opt to shore up its existing business model, knowing that its margins will inevitably be eroded by competition, the best talent will ultimately go elsewhere in search of greater opportunity, and its ability to adapt in future to disruptive forces will atrophy if not practiced.

It's a hard choice, with the right answer being shaped by:

- the *true ambitions* of the business custodians, and
- an *objective perspective* of the current state positioning of the business

Ambition to change will be determined by the real business objectives, which are heavily influenced by business ownership structure and incentives. For example, a business which is privately held by a family where the head is both capable and focused on dynastic sustainability, business model innovation will be seen as an indispensable part of long-term success. However, if the business is instead a large public company with a conservative investor base used to steady returns, then business model change could well be seen as high risk and unattractive.

An objective perspective of the current position will be shaped by an assessment of both need and capability. For example, a visceral realisation of a lack of competitiveness of the current business model, coupled with confidence in the capability of the business to deliver the envisaged change, will combine to create an imperative to move. However, if either need or capability are perceived as weak, maintaining the status-quo is likely.

This aim of this paper was to raise awareness of the difficulties in facing the strategic change decisions, and through this awareness suggest approaches that can give an edge in out-playing and ultimately out-lasting competitors.

Our recommendations are thus: ongoing preparation is critical, which means making regular scanning, scenario planning and wargaming practiced parts of the business norm (and not just in the strategy team). When the time comes to change strategy, having the right business model (through good design), knowing when to move (better to be slightly too early), and implementing effectively (starting with unequivocal commitment) are critical. And as always, a little luck never hurts.

"In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing."

- Theodore Rosevelt

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