RACONTEUR

20/01/15
#0294

RACONTEUR.NET
/COMPANY/RACONTEUR-MEDIA
/RACONTEUR.NET
@RACONTEUR

THIS SPECIAL REPORT IS AN INDEPENDENT PUBLICATION BY RACONTEUR MEDIA

BUSINESS STRATEGIES

Distributed in THE TIMES

Published in association with MCA A POSITIVE FORCE FOR THE ECONOMY

Publishing Manager
Nada Ali

Managing Editor
Peter Archer

Head of Production
Natalia Rosek

Commissioning Editor
Charles Orton-Jones

Design, Infographics & Illustration
The Design Surgery
www.thedesignsurgery.co.uk

Contributors

REBECCA BRACE

Freelance financial journalist and former editor of *Treasury Today*, she contributes to a number of national and trade publications.

TOM FOX-BREWSTER

Freelance journalist covering information security, whose work has appeared in *The Guardian* and *WIRED*, he was named BT Security Journalist of the Year in 2012 and 2013.

DAN MATTHEWS

Journalist and author of *The New Rules of Business*, he writes for newspapers, magazines and websites on a wide range of business issues.

CHARLES ORTON-JONES

Former Professional Publishers Association Business Journalist of the Year, he was editor-at-large of *LondonlovesBusiness.com* and editor of *EuroBusiness* magazine.

Overview

LEARN, ADAPT OR STEAL STRATEGY FOR GROWTH

Image: Getty

Facebook boss Mark Zuckerberg's strategy is to buy up rivals

21,160

Starbucks stores worldwide

Source: Starbucks

$22bn

spent on acquisitions by Facebook in 2014

Source: Mashable UK

3in5

mid-sized firms still not exporting

Source: Lloyds Bank

Effective business strategy can trigger explosive growth and need not always be complex, writes **Charles Orton-Jones**, who focuses on some shining stars

Critics call it whack-a-mole, after the fairground game where you hit pop-up furry critters with a giant rubber hammer. Facebook's strategy to stay the world's number-one social network is based on buying up rivals, no matter what the cost.

Instagram cost $1 billion to whack. A high fee for a firm with zero revenue and 12 employees? With 30 million users, Facebook couldn't take the chance of it developing. WhatsApp cost Facebook $18 billion. Again, this was a pre-revenue firm. With 450 million users it was even more of a threat than Instagram, so it got whacked. Lightbox, Glancee and Oculus Rift have been whacked. A $3-billion bid for Snapchat was turned down.

> Strategy is the fun part of business – it's when the company sets out where it is going and how it is going to get there

The strategy is working. Facebook is valued at $73 billion and hasn't been challenged, yet. That's the golden rule of strategy. If it works, it is a great strategy.

Strategy is the fun part of business – it's when the company sets out where it is going and how it is going to get there. Execution is about sweat, drive and getting up at six in the morning, or as the wildly successful and recently departed boss of Thomas Cook travel agent, Harriet Green, preferred 3.30am. Strategy is about grand visions.

The online gambling industry was originally dominated by one man with a strategy to undercut his rivals. Gamblers are numerate folk, often obsessing about a small percentage advantage. Victor Chandler realised he could control the market by moving his betting firm to Gibraltar and avoiding the 9 per cent betting tax in the UK. Gamblers flocked to him. Chandler is now worth £150 million. Not a bad reward for such a sly move.

Deviousness can play a role. Starbucks boss Howard Schultz uses a "clustering" strategy: opening stores so close together they crush rivals. The strategy became so effective a satirical headline ran "New Starbucks opens in rest room of existing Starbucks". Analysts worried the clustering would not work long term. The stores would cannibalise each other's sales. Mr Schultz responded: "Those who talk about saturation obviously don't understand our business strategy."

The low-cost airline industry is a goldmine of ingenious strategies. Ryanair became Europe's largest airline by slashing fares, and recouping revenue via cargo, traffic volumes, surge pricing (higher prices when demand increases) and unexpected extras (forgotten to print your ticket? There's a surcharge, thank you). Then rival airline easyJet went for business travellers, boomed, and Ryanair is starting to follow the same up-market path. The surge pricing pioneered by Ryanair is now a staple across multiple industries.

FREEMIUM MODEL

The model of the internet age is "freemium". Give away most of the product, but charge for extra services. The *Financial Times* and *The Economist* both use freemium, and both are now making money online. In contrast *The Guardian*, which has no charging strategy, lost £30 million last year and £34 million the year before.

Effective strategy need not always be complex. Swallowfield is a Somerset-based supplier of beauty products for high street brands. It worked with Unilever to create the Toni & Guy premium hair spray range, and created the bottle, carton and caps for actor Richard E. Grant's signature perfume Jack.

Founded in 1876, it has a strong reputation in the industry, proven by the number of awards it regularly picks up. But when the recession hit in 2008, Swallowfield faced stagnant growth. The solution? A new export-led strategy. The firm doubled-up, using local distributors and opening offices in Paris and New York.

Chief executive Chris How says: "Where customers require development and innovation, particularly in mature markets, the direct sales route works much better. However, where customers demand a commoditised product, distributors can be a useful option. The latter has proved very useful in emerging African markets."

Exports now account for 36 per cent of the £50-million turnover. In May the firm announced a deal with Shanghai firm Jahwa United to sell to Chinese middle-class consumers. Swallowfield is now using its war chest to launch its own brand range for the first time. All of this success has come from simple changes to the strategy.

The great thing about these lessons is that you can learn, adapt or steal. Why not price like Ryanair? Uber minicabs pricing model owes a lot to the airline's policy. Or maybe acquire rivals in the same way as Facebook. It has worked for the legendarily acquisitive Chess Telecom, which has bought 80 rivals in the last eight years, building turnover to £44 million and pre-tax profits of £11 million last year, a rise of 49 per cent.

As these firms prove, a bold strategy can be the trigger for explosive growth.

KNOWING WHEN TO INNOVATE

Image: iStock

INNOVATION It is among the most overused terms in the boardroom and a risky business, so when is the right time to innovate? **Charles Orton-Jones** investigates

Here's a silly game. Say a word over and over again until it sounds odd. There's a Friends episode where a stoner guy does this with "tartlets" until he says, "The word has lost all meaning."

The scientific term for this is semantic saturation. The brain can't cope with endless repetition and gives up interpreting the word, leaving only an empty sound.

One valuable word in business is perilously close to this. That word is "innovate".

Everyone wants to innovate. The new Microsoft chief executive on his first day sent a memo to all employees telling them to "prioritise innovation". He's used the word in almost every speech.

In a Dilbert cartoon, the cruel Dogbert tells a meeting: "To survive you must create disruptive innovations which redefine the market." Dilbert replies: "Does that mean the same thing as 'Sell things that people want?'"

The old Technology Strategy Board has rebranded as Innovate UK. There are 32,428 books with "innovation" in the title. There are more than 6,000 examples of "innovative" trousers to be found on Google.

But is the word itself somehow having a malign effect? Is the rush to innovate resulting in risky behaviour? Of course, being innovative and exploring uncharted territory can be risky.

EARLY ADOPTERS

Innovative organisations are early adopters. When the NHS launched the Connecting for Health computer system, it was hailed as innovative in terms of size and design. No one had seen anything like it. It flopped.

Supply Chain
Page 06

House of Commons oversight committee chairman Edward Leigh remarked: "This is the biggest IT project in the world and it is turning into the biggest disaster." Around £20 billion was lost before the plug was pulled. The National Audit Office review said the NHS had no business trying to use untested technologies.

Entrepreneurs are encouraged to be innovative. That's where the glory is. Henry Oakes launched a rival to the National Lottery in his early-20s. His revolutionary idea was a map of the UK, with squares being bought by punters. The draw would select a square at random. He got big-money backing. The idea was totally new. It failed.

He recalls: "Part of the problem I think was that we were too busy trying to be cool. We were putting so much of our attention into being the next big thing in gaming that we lost focus on the fundamentals of what our customers really wanted.

"The real problem with this myth, though, is not that it's a cliché; it's that it's a damaging cliché. It's distorting our view of what it's like to be an entrepreneur, glossing over the difficulties with a romantic veneer. It makes us think that the best way to build a business is to come up with some brilliant, daring idea and make everyone fall in love with it. We seriously need to get a reality check."

Mr Oakes saved his firm Geonomics by moving into gambling software – a much safer sector. He now employs 40, has global clients and last year landed £10 million in investment.

> Being innovative requires a fresh approach to business transformation, enabling agility and knowing when to switch tracks

FRESH APPROACH

Being innovative requires a fresh approach to business transformation, enabling agility and knowing when to switch tracks. Innovation can, and evidently does, enhance responsiveness to meet the challenges of ever-increasing competition in a fast-changing business environment.

However, firms that believe they are innovative can distract themselves from their shortcomings. Ogilvy & Mather's chief innovation officer Mark Lainas says: "Innovation as a word is continuously overused and abused, and is perhaps in danger of overkill. It is a word that firms hide behind when they're yet to work out what business problem it is that they are facing." Clear action needs clear thinking, which requires clear language.

The pressure to be innovative should not, therefore, result in pointless novelty. The London 2012 Olympic logo was declared by brand agency Wolff Olins to be "truly innovative". It was, but arguably at the cost of leaving behind all reference to the nation and city it was representing.

Innovating must not be allowed to confuse customers, not to mention the firm's own employees. Andy Barr, boss of public relations firm 10 Yetis, says big changes make marketers' jobs so much harder. "Going overboard with innovation can lead to a certain complexity which alienates users or potential customers and that's always the risk brands take," he says. "If you have a solid product or service that people have come to rely on and recognise, changing things too drastically or trying to fix something that isn't broken can do more harm than good."

Innovation has its place, but should not be misused. Abandoning the siren call of innovation for innovation's sake means sticking with products you know consumers will buy.

Guinness has used the same recipe since 1759. Drinkers love the fact Guinness never changes and owners Diageo knows the product won't fall out of fashion. The brewers know when to innovate – in their marketing and advertising campaigns, for example – and when to stay true to tradition.

Opening a franchise is probably the least innovative way to start a business. It is also the most likely to succeed. The model is proven. The franchisee provides support. Banks love them. The British Franchise Association reports 92 per cent of franchises are profitable. Sexy? No, but sane.

To be clear, innovation has its place. The world needs Apollo 11 rockets and driverless cars. But it should also be OK not to innovate – to know when not to innovate – and to be open about that. The trick, though, is to know when the time is right for a new approach.

Q&A

QUESTIONING INNOVATION

Mat Shore is an innovation consultant with Outside In, helping brands such as Coca-Cola, GE, Philips and Citrix develop new products. **Charles Orton-Jones** asked him why he's so sceptical about innovation

Q What's your problem with innovation?

A Although I am an innovation consultant, I spend most of my time trying to kill bad innovation or persuade companies to do less. And here's why. Big companies tend to see innovation through a very narrow lens, essentially creating news by launching stuff – anything and everything. Doesn't matter about the quality, it's about being seen to do something.

Q Do you have an example?

A I once was training a very large global company and one of the participants said his work plan required him to "launch seven things by the end of the year". When I asked him what other criteria would be applied to those innovations, he just said that they had launched. His colleague sitting next to him then said something very profound: "In this company it's very easy to launch something. What's nigh on impossible is to stop something launching."

I always tell the story of when I was asked to consult on a wireless iron. The iron stored your e-mail and phone number; if you left it on, it called you at work and told you to drive home and switch it off. When I asked them why they were launching such a ludicrous innovation they replied, "Because it's the only internet-connected iron in the world", as if that was justification to bring such a doomed and over-engineered solution to market.

Q Why are firms making these mistakes?

A Companies tend to launch innovation because they get bored. They get bored of their existing products and they post-rationalise that, as a result, the customer is bored too. Most often, the customer hasn't even heard of the existing solution. Awareness is still low, penetration and trial lower, yet despite this and in order to give themselves something to do, the product managers and R&D conspire to launch something else.

Q How should it work?

A I always say innovation is like light from a star. It takes a long time to travel and reach your eye, and the light you see today finished a really, really long time ago. And so it is with innovation. Just around the time that the customer is getting to hear about it, is just about the time the product team is getting bored and pulls the plug.

Some big companies in fast-moving consumer goods haven't changed their fundamental technology for 50 years – think Corn Flakes and Dove bar soap. However, they view innovation through a broader lens. They see renovation, positioning, packaging and communication as a legitimate form of innovation. They talk about the same product to new audiences or in a new way and the result is it feels new.

Just look at the Dove "Real Women Renovation" or Persil "Dirt is Good" as evidence of how billion-dollar brands can grow more through talking in a new way about an existing thing than constantly confusing the market by launching new things.

Automation

WILL THE LAST WORKER PLEASE TURN OFF THE LIGHTS

Could the evolution of automation result in the total removal of humans from the equation? **Dan Matthews** offers some comfort for creative minds

The more supply chain processes that can happen without the involvement of a human being the better. People are slow, emotional and prone to error; they are also expensive, take holidays, sleep and so – compared to well-oiled machines – are laughably inefficient.

Consider this example: the value of global trade will be about $36 trillion this year. Managing only the financial transactions involved in moving all that money around the world would take even the cleverest people forever without the help of software.

"Add to that the physical and virtual activity involved in moving the raw materials, part-finished and finished goods, and you quickly start to appreciate that, without automation in the supply chain, consumers the world over would not receive their goods on time," says Boris Felgendreher, director at GT Nexus.

Worse, if it were suddenly down to us alone, the whole system would collapse. Without machines and software, global trade would shrink to a fraction of its size, containers would get lost, orders missed and jobs forgotten; the resulting recession would make the credit crunch feel like losing small change down the back of a sofa.

BUY AND SELL

Software tells the money markets when to buy and sell, and can even execute trades in milliseconds to earn business millions of pounds. In retail, Amazon is investing in drone deliveries and in robotics to speed up the pick-and-pack process. Apple uses automation to execute sourcing, manufacturing and distribution to its network, as well as financial, sales and warehousing components of its business.

In fact, ever since Britain's industrial revolution, factory owners, logistics operations and the suppliers of raw materials have looked for ways to make procedures more efficient, usually by cutting out human intervention wherever possible.

Fast-forward a few hundred years and that process seems to have been largely successful, with the robot-to-person ratio in some firms stacked heavily in favour of the former. Where will it all end? At this rate, people will disappear completely from the supply chain in a few decades.

Well not quite, says Dr Sir Peter Cochrane, co-founder of Cochrane Associates, business angel and consultant. Automation is good for making repetitive tasks happen quickly, he says, but throw up an uncertainty or a decision and the whole thing falls apart.

He adds: "Supply chains are boring and highly repetitive, requiring focus and resilience to tedium. Without robotics and the automation of these chains, human populations would be smaller, and lives would be diminished by lower-quality food, clothing, products, and with the grinding working experiences of the 1950s.

"But there are still a lot of things robots cannot do. People are much better at dealing with the unexpected, the highly variable, creativity and problem-solving. However, the well-defined, repetitive, precise and the boring are increasingly the domain of machines, and we are generally happy to hand over that responsibility."

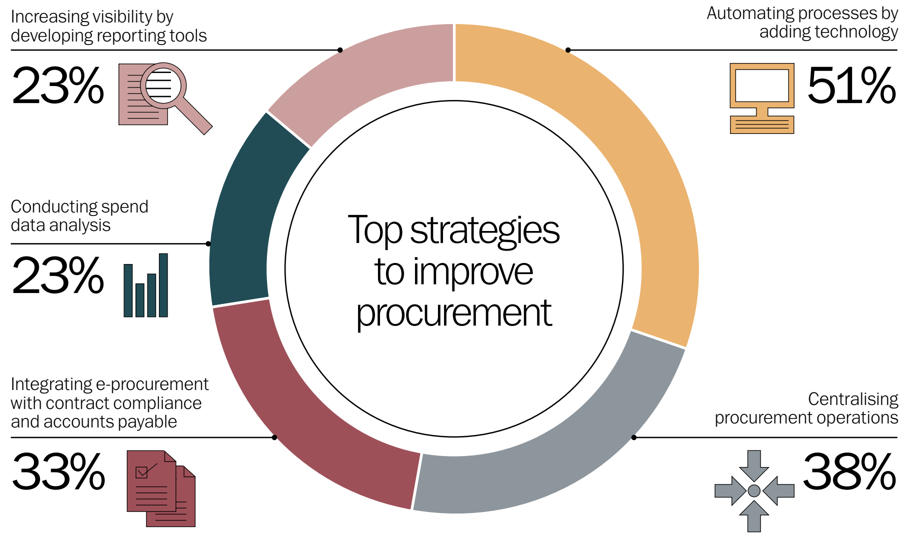
HUMAN FACTOR

Meanwhile, Ian Foddering, chief technology officer for Cisco UK and Ireland, points out that automation is useless without human influence to make sense of it.

"While technology holds obvious advantages for data collection and process automation, critically it is humans who will analyse the data and provide unique insight that will drive innovation," he says. "The internet of everything is described as the connection of people, processes, data and things; it is simply not enough to just connect processes or things together."

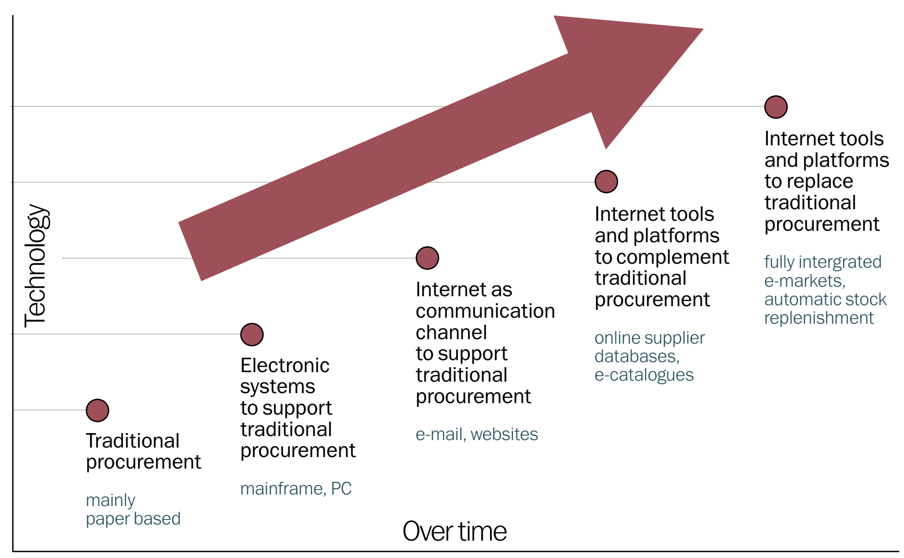
Automation is more relevant in some industries than others, admittedly. A large-scale manufacturer can load it in at every stage, stripping out people willy-nilly; whereas a media agency must take a fresh approach to each new

INFLUENCE OF TECHNOLOGY IN PROCUREMENT PROCESS

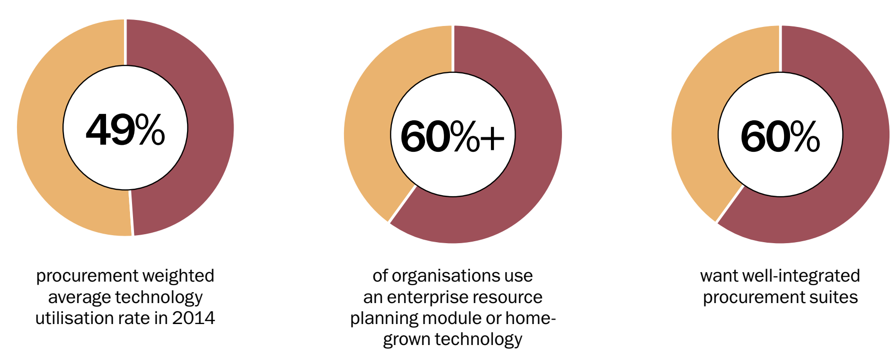


Source: Aberdeen Group

E-procurement context



Source: UN



Source: *Pulse of Procurement 2014*

$8.9bn

procurement software market in 2013

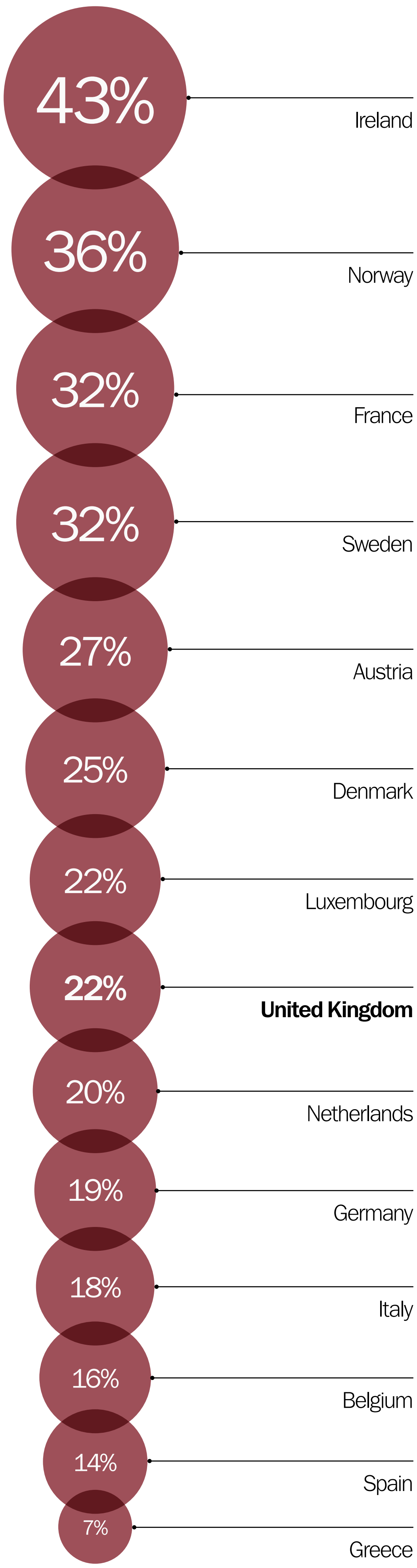
Source: Gartner 2014

30%

reduction in costs forecast when e-procurement becomes mandatory for all EU public entities in 2016

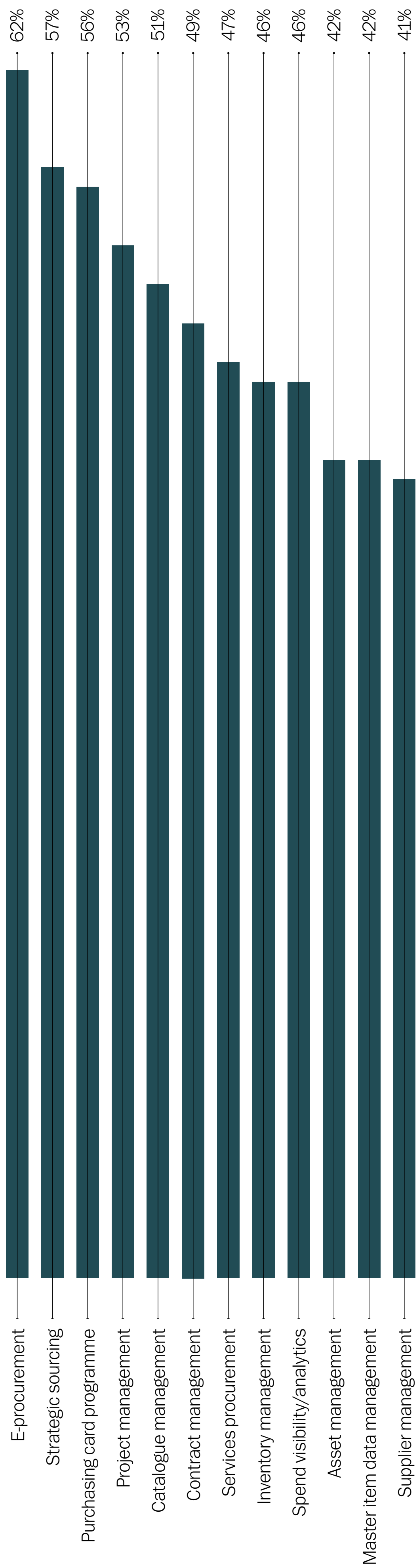
Source: Gatewit 2013

Enterprises using procurement technology systems



Source: Eurostat 2013

Global procurement technologies in place



Source: Aberdeen Group 2012

client, coming up with ideas and delivering something different each time.

Companies that benefit from automation are those with high volumes of sales activity, including retail, distribution, technology and manufacturing, to name a few. These have fewer people pound for pound than large law firms, for example.

But even the latter example benefits from supply chain efficiency. While not part of its core offering, a law firm couldn't function without its catering, cleaning, IT infrastructure, transport, utilities and a whole lot more. That's why, even in a case like this, human employees will continue to lose out to their silicon servants.

According to Professor Martin Spring at Lancaster University Management School, it is this trend, combined with increasingly powerful consumer technology, that will create opportunities for further supply chain innovation, potentially at the expense of people.

CHIPS ON EVERYTHING

"The increasing ubiquity of smaller, lower-cost computation devices makes it evermore feasible to have 'chips on everything' and hence be able to track items, get them to communicate with each other, and have much more data-intensive processes throughout the supply chain," he says.

But, although the "human face" of the supply chain is changing, employees do not necessarily lose out every time. It isn't necessarily true, for example, that process automation takes jobs away from blue-collar workers and hands them to statos, geeks and quants.

"Humans will increasingly do what humans are good at," Professor Spring says. "That means relationships, activities that involve co-ordination with other humans, negotiations between firms, innovation and service development."

For the foreseeable future at least, qualified people will need to be on-hand in warehouses because occasionally even routine tasks, such as picking disparate items in warehouse operations, can be too much for befuddled robots, he adds.

Vasu Rajagopalan, head of supply chain at Xchanging, agrees. "Over-automating or trying to replace intrinsically human activities, such as creativity, lateral thought and in-the-moment problem-solving, with machines can have the opposite effect to that intended – as we're reminded by the classic comedy sketch 'computer says no' – and is a potential drawback," he says.

So what does the future look like? It's true that some human jobs are at risk. Michael Minall, director at supply chain specialist Vendigital, points out that some of Australia's long-distance freight trains are becoming automated, because of a dearth of willing drivers. He says safe careers are those based upon human interaction.

Business Planning
Page 11

"Although the roles humans play will change dramatically, it's unlikely they will ever be completely removed. Instead they will be focused on creating relevant software and technology to ensure these future supply chains run as efficiently as possible. We will also see more specialisation and segmentation of jobs as automation in the supply chain increases," says Mr Minall.

JOB OPPORTUNITIES

Better still, Sandeep Kumar, head the business consulting group at IT solutions company ITC Infotech, says the changing environment is likely to throw up a host of employment opportunities.

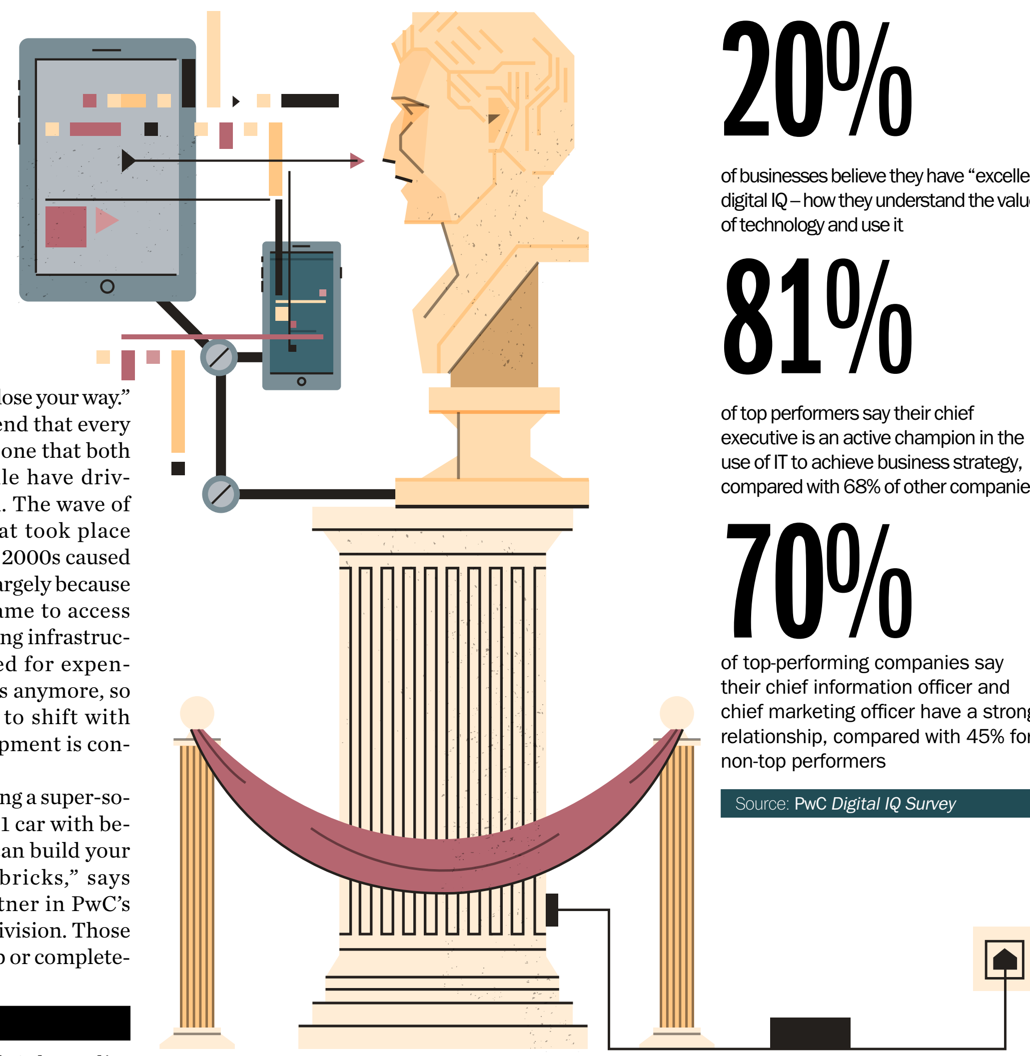
"We are living in interesting times," he says. "The innovations and technological shifts in use of mobility, and the rise of digital commerce will push the boundaries of supply chain even more in the coming decade.

"Emerging areas of interest will be supply chain risk management, sustainable supply chains, global integrated planning capabilities, and use of instrumented intelligence that will help drive better visibility and enable quicker turn-around on key processes."

The rise of the machines is on hold, at least for now. But students planning a career in supply chain professions should take note of the skills that will stay in demand long term. In this industry, like others, many of the jobs they plan to apply for won't even exist in just a few years' time.

> People are much better at dealing with the unexpected, the highly variable, creativity and problem-solving

SEEKING PERFECTION IN THE DIGITAL AGE



What would the perfect business look like and does it help, when formulating a strategy, to know?
Tom Fox-Brewster finds out

Entrepreneurs can be sure of one thing, whatever business they're building, they will never achieve perfection. It's a chimera. "If anyone tells you their business is perfect, they're lying. It's a constant work in progress," says Alastair Mitchell, chief executive of British collaboration software provider Huddle.

Yet this doesn't mean organisations shouldn't seek perfection. Many successful businesses have held grand ideologies, however nebulous they might be, and stuck by them. Phil Libin, chief executive of Silicon Valley productivity tech vendor Evernote, has big ambitions for his company. "We want you to achieve the best work you've ever done using Evernote. Current products are indifferent – a typewriter doesn't care what you're writing on," he says.

> It's a futile pursuit to go after digital strategy – you need a single strategy for the digital age

Perfection, for Mr Libin, is more about brand than it is about the precise features of his company's products. "I want Evernote to be Nike for the mind. That's the North Star for us; that's where we're pointing."

Mr Mitchell too believes in having a single vision and sticking to it, while understanding that there will be distractions that might cause a business to adjust its strategy. One of the biggest distractions for Huddle was the social craze.

KILLER FEATURES

The rise of Facebook caused many makers of collaboration tools to add social functionality, which would comprise the real killer features of their apps. The likes of Yammer, later purchased by Microsoft, became hugely popular, but Mr Mitchell chose not to follow the crowd. He from those who put all their chips on social.

"When we started, we were trying to create a platform for people to work together on the web," he says. "This was the late-2000s, there were different tensions – everyone saying social [was the way forward], e-mail is going to die. But we stuck to files and content because we believed that's where the real work is done. Social was going to be a trend, but not the be all and end all. You can't get distracted by momentary trends."

He cites the example of Apple, a company which thrived in the early days of computing, then nearly died out before the return of Steve Jobs and the focus on user-friendly design. "They lost their way, but then rediscovered it – so it even happens to very big companies," says Mr Mitchell. That original aim – to create whatever the company believes to be perfection – is vital, he adds. "If you lose that, you can lose your way."

But there is one trend that every business can't avoid, one that both Evernote and Huddle have driven: the rise of digital. The wave of innovation in IT that took place during the 1990s and 2000s caused massive disruption, largely because of how cheap it became to access high-quality computing infrastructure. There's no need for expensive, bespoke systems anymore, so changing strategies to shift with technological development is considerably easier.

"Rather than building a super-sophisticated Formula 1 car with bespoke features, you can build your IT car with LEGO bricks," says Carlo Gagliardi, partner in PwC's strategy and digital division. Those bricks are often cheap or completely free, he notes.

DIGITAL FIRST

Businesses shouldn't keep digital as one strand of their overall strategy, it should be core to every single organisational goal, says Mr Gagliardi, who has been driving the message that businesses can and should reinvent themselves at speed as part of PwC's World in Beta campaign. He thinks this requires organisations of all sizes to embrace a startup mentality with the ability to adopt new business models as fresh competitors bring them to the market.

"You need to have a very clear idea of what products and services you're providing, but be prepared to be flexible as things change a lot more quickly now," he adds. "It's much better to adapt to the future; it's a futile pursuit to go after digital strategy – you need a single strategy for the digital age."

It is likely to be trickier to maintain the culture of a business than it is to stick to product ideals, given how many stakeholders are involved. Mr Mitchell has tried to keep Huddle's together, despite significant expansion in the United States as it seeks to take business away from Microsoft. "Sure cultures change and they have to become more disciplined, but you will still find [the best firms] will have a shared DNA and vision. It is one of the things you have to work hard at," he says.

Evernote's Mr Libin thinks culture should be far more malleable and transformative. "It's a mistake to think about preserving culture. I don't think you can preserve it. If you try to preserve it, you get something that becomes very brittle. That's a cult, not a company," he says. "Culture is going to change – it's the CEO's job to help change the culture."

His other big ambition is to have Evernote become a "100-year startup", one that creates a culture that helps employees and customers accomplish more of what they want to achieve. "When does a company become a startup and become something worse?" he asks. "When people are just doing work and they don't understand why."

However a business's culture changes, entrepreneurs can still keep chasing their dream. "We wanted to do something sufficiently epic – we're thinking about how we do more," Mr Libin adds.

20%
of businesses believe they have "excellent" digital IQ – how they understand the value of technology and use it

81%
of top performers say their chief executive is an active champion in the use of IT to achieve business strategy, compared with 68% of other companies

70%
of top-performing companies say their chief information officer and chief marketing officer have a strong relationship, compared with 45% for non-top performers

Source: PwC *Digital IQ Survey*

Opinion

CEO CHALLENGES IN THE NEW YEAR

Chris Cooper, president of the Management Consultancies Association, and founder and head of Challenge Consulting, sets out priorities for business leaders in the year ahead

Trying to predict the top challenges for chief executives in 2015 is a question many might want to pass on until we're well into the year – and who can blame them given the level of change and uncertainty in 2014.

We started last year with generally consistent and confident views on global growth, inflation and something approaching a journey back towards "normal", that is normal in terms of historic trends for interest rates, growth, inflation and market behaviour.

What we got instead was an oil price down 30 per cent, any rise in rates pushed well back probably into 2016 (don't quote me on that this time next year), and a general sense of "hmm, that wasn't where I'd hoped we'd be by now".

So, with this background, what is any chief executive supposed to think or do beyond hoping that 2015 will deliver "better" results for their business than 2014?

Actually, I think that we can do better than that. As president of the Management Consultancies Association (MCA) and, like my fellow board members, a leader in the consulting profession, I am constantly engaged in discussions with our clients on this question and those that flow from it.

And it is precisely the volatility, uncertainty and ambiguity that gives me the confidence that there are the following clear priorities for chief executives in the year ahead:

1 STRATEGY

I hear many voices pleading with chief executives that "strategy is dead – life is now too uncertain – we just need to focus on delivery and results". I say to those chief executives, don't you let them get away with it. Having clarity about what you stand for, where, why and how you'll get there will, even more than usual, separate the high achievers from the pack. What strategy looks and sounds like has to adapt, but it isn't dead.

2 INNOVATION AND THE CUSTOMER

In the MCA's *Year of Digital* we have already understood and shared great insights to how digital is driving real innovation across industries. For "innovation" though, it has not always been the case. In fact, it must count as the most over-used and under-realised wish for business leaders in the last five years. This year, chief executives must finally demonstrate they can deliver innovation with and for the customer. Who can they look to for inspiration? Why, Ryanair's Michael O'Leary, of course, who famously conceded late last year: "If I had known that being nicer to our customers was going to result in higher load factors [higher seat sales per flight], I would have been nicer years ago." More, please, this year.

3 OPERATIONAL EXCELLENCE

In the rush to cut costs during and immediately after the financial crisis, many chief executives have been grateful they have achieved even that. But, if you keep on just cutting cost, you may end up with something the customer doesn't value anymore. Operational excellence, in all its forms, will therefore come to the fore as a challenge for chief executives.

4 AND FINALLY, REPUTATION

Whether in retail, banking or pharma, reputations have taken a knock in 2014. In 2015, leaders will need to view the management, protection and enhancement of their brand reputation as a top challenge.

Commercial Feature

Shifting focus to strategic solutions

Laura Doughty, director of strategy and operations consulting, and **Hilary Jeffery**, director of workplace strategy at AECOM, discuss moving on from austerity

Competition drives businesses to improve quality and speed to market, while reducing costs. Recent years of austerity have seen two evolutions of focus, the first-generation approach being getting fitter through cost reduction, largely through headcount reduction and tackling expenses. Once envisioned savings had been largely realised, many businesses moved to the second-generation approach of getting smarter, becoming more agile, doing more with less, and improvements through staff and industry engagement.

The benefits obtainable by getting fitter and getting smarter have now been largely realised albeit, in some cases, not to the extent expected.

> Becoming strategic involves whole-system thinking, underpinned by robust diagnostics to find the true problem

Business A cut their innovation R&D programmes, then lost market share to competitors with stronger products. Company B made staff use up annual leave, reducing morale and performance. Business C stopped colour printing for deal books, and deal-closing dinners, impacting client relationships and return business.

Furthermore, first and second-generation efforts can leave businesses poorly prepared to return to growth. Recruitment firms are reporting a growing level of demand, but many firms have frozen or reduced salaries. In a recovering market, many staff will look to move elsewhere, resulting in recruitment costs, and the loss of knowledge and client relationships.

SHIFTING THE CONVERSATION

It's time to recognise the limitations of the first and second-generation approach, and expand to how the business operates, its culture and purpose. A third-generation approach, becoming strategic, shifts the focus to driving value, getting to root causes of inefficiency and providing integrated, business-wide solutions.

The difference is marked – for example, for many, workplace agility has resulted in a reduction in real-estate costs and improved collaborative working. However, focusing on only real estate and working styles can neglect wider changes needed to gain full value.

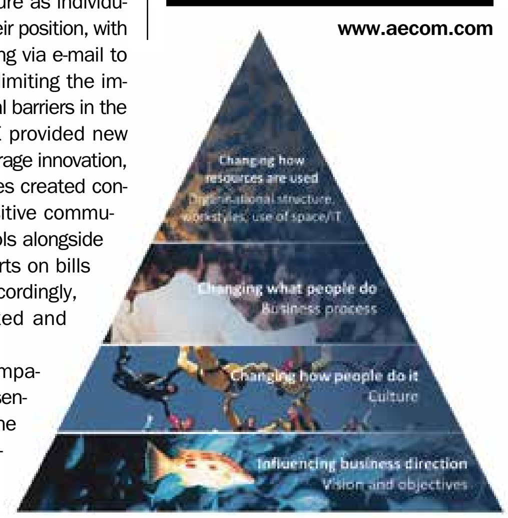
Company D had not seen the productivity gains promised by greater collaboration. But their objectives included rewarding high-performing staff, manifesting in a blame culture as individuals sought to protect their position, with communication occurring via e-mail to create an audit trail – limiting the impact of reducing physical barriers in the workplace. Business E provided new tablets to staff to encourage innovation, but conflicting objectives created confused messages – positive communication on the new tools alongside monthly "shame" reports on bills and stringent rules. Accordingly, tablet usage was mixed and benefits limited.

Third-generation companies create a route to senior leaders to present the case for a more strategic approach – linked to business goals and backed by diagnosis to understand root causes. Solutions are delivered by integrated teams with a thorough understanding of the business and a range of technical expertise, including processes and behaviours.

Business F started with a pilot, triggered by the challenge of delivering a step-change in a particular product. The transformation team, led by the owner business and staffed with secondees from HR and ICT, delivered a model spanning organisational design, ways of working and processes, workplace, and IT. The new product was delivered faster and cheaper, through increased informal collaboration, quicker information-sharing and decision-making, and failing smarter and faster.

Becoming strategic involves whole-system thinking, underpinned by robust diagnostics to find the true problem, delivered through integrated teams that address people, processes, space and technology. First and second-generation efforts can improve the performance of a business's component parts, but only third-generation efforts can address the sum of the parts.

www.aecom.com



Commercial Feature

Insurers must wake up to the digital revolution

The internet is revolutionising the way in which consumers interact with financial services companies, but many in the insurance sector still haven't fully taken advantage of these changes, says **Andy Roberts**, group chief executive of business process services and software provider **Innovation Group**

Andy Roberts
Chief executive
Innovation Group

If you want to be reminded about how digital technology is changing consumer-facing businesses, just think about the last time you booked a holiday, took out a new credit card or loan, looked for a restaurant table or checked house prices in your area. It's almost certain that at some point you went online.

You did your own research, you compared providers and then you made your purchase. And if you didn't like the price or the service you received from a company, you might well have expressed your feelings in a forum, with a tweet or on the company's Facebook page. Your customers are doing the same, of course – and this revolution has only just started.

I believe, though, that there is one sector that is not responding quickly enough to the digital revolution – and that's insurance. It is the silent giant of business, the last bastion of the old world. Consumer behaviour, meanwhile, has changed far more quickly than that of policy providers opening a gap between the consumers' expectation and the reality of the service they receive.

Ultimately, the industry is ripe for disruption. With change happening faster than ever, policy providers need to be ready to adapt not just to these new trends, but to continuing changes within the market.

Today's consumers are "always on". They discuss, research, analyse and purchase online. They're digitally dexterous and socially savvy, and they expect their insurer to be too. They expect to develop sincere, long-term relationships across multiple channels, off and online, with their providers. Policy providers, meanwhile, need to be ready to develop and manage these relationships.

Thanks to consumers' use of social media, and their access to consumer feedback sites and forums, their buying decisions are increasingly influenced by the comments of the many, rather than the few. Yes, of course price is still important, but increasingly experience and service are driving policy sales. Loyalty to a particular provider is fast becoming a thing of the past. In particular, insurers are at risk if they can't engage effectively with younger people.

According to a report by Deloitte, checking their smartphone is the first thing that more than a fifth of under-25s do each day. More than a third (37 per cent) of smartphone users aged 18 to 24 will visit social networks before anything else and they'll check their phone more than 50 times a day.

Critically, as they go through the usual life stages, acquiring assets, these younger consumers represent the future for insurance providers. Those who don't engage with them now will miss out badly in the years to come.

> Price is still important, but increasingly experience and service are driving policy sales

As the industry changes more rapidly than ever, we're helping our clients to prepare for the future – whatever challenges and opportunities it might bring. For us innovation can be defined as fresh thinking that creates real value. As our business has grown, we now handle more than four million incidents a year, managing 1.5 million car repairs and around half a million property repairs.

As markets, customer requirements and technologies change we make sure that we're in constant dialogue with our clients. We know from these conversations that today's insurers need to be able to rely on robust but lean and cost-effective processes that offer true operational excellence, and that's what we've been creating over the years for our growing portfolio of customers.

In addition, we offer a state-of-the-art integrated suite of software for the requisite policy processing, claims handling, financials, billing and reporting. These are delivered via advanced social media capabilities with self-serve web portals, automated processes, pre-built content and analytic tools.

They are supplied across multiple devices and channels including smartphone, tablet, website, agent portal and/or via a call centre. This provides tier-two and three insurers a cost-effective means to acquire similar capabilities as the tier-one providers enabling them to compete effectively in today's always-connected market.

With competition fiercer than ever and greater opportunity to tell the world about their experiences, poor customer service is no longer tolerated by increasingly demanding and fickle consumers. Policyholders expect a quality experience for their premium and they're not afraid to vote with their feet if they don't receive it.

These trends are set to accelerate over the coming years. This might be a frightening thought for some in the insurance sector, but these changes also offer opportunities. We get great satisfaction at the Innovation Group from helping forward-thinking, rapidly evolving insurance providers to become "future ready" by offering them consulting, design and delivery of both the technology and business processes they will need to service the customers of the future.

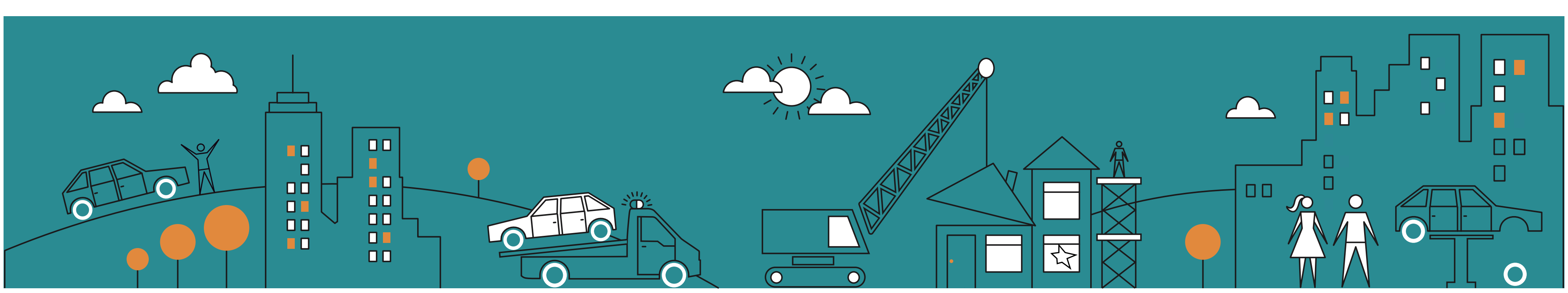
We're very proud that our managed networks of body shops (of which we have thousands) and suppliers work in partnership with us to provide clients with best-quality workmanship and are able to keep all parties updated on progress through the use of digital technology.

Yes, this period of rapid change is challenging, but the rewards are there for those ready to adapt and make the most of new opportunities as they arise.

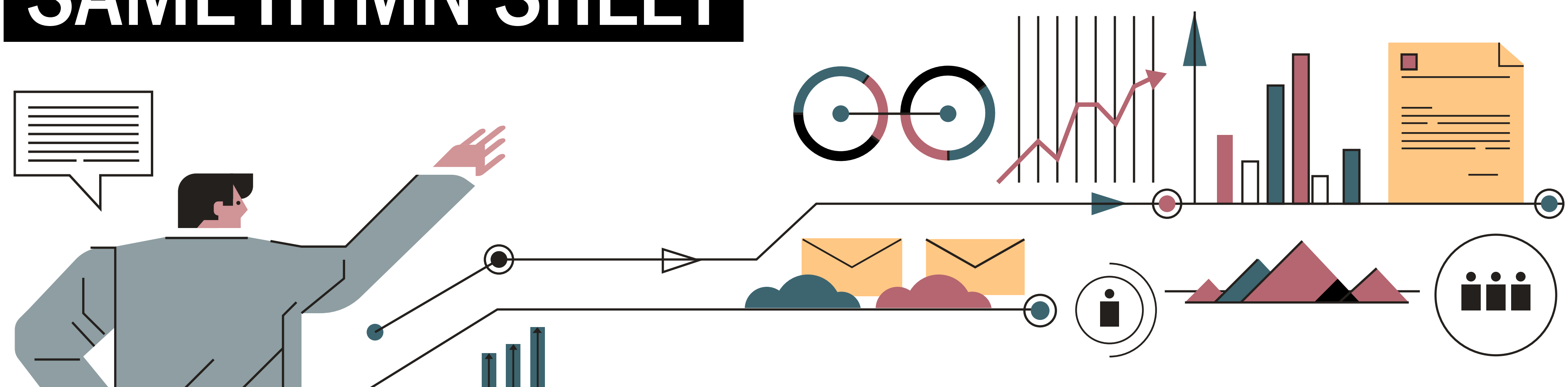
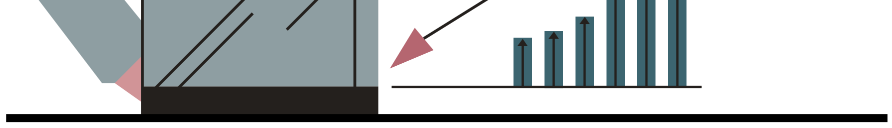
ABOUT INNOVATION GROUP

Innovation Group (LSE: TIG) is a global provider of insurance software solutions and business process services. With revenues of £209.8 million and adjusted profit before tax of £27.5 million in 2014, it employs more than 3,000 people across the UK, North America, Europe, Asia-Pacific and South Africa, and works with 15 of the top 20 global insurance markets, 75 per cent of the top 20 global property and casualty insurance companies, and three of the world's top five fleet and lease management companies.

www.innovation-group.com



SINGING FROM THE SAME HYMN SHEET

How to draw up a company strategy and business plan may vary, depending on the organisation and individuals involved, but the aim remains the same, as Rebecca Brace reports

Having a defined business strategy and plan is crucial for every company, from startups to multinational corporations. In order to grow the business, the board, employees and relevant stakeholders need to understand what the company is trying to achieve, and how it plans to get there.

A strategic plan sets out these objectives in a consistent way. Typically the plan will include the company's mission statement and goals, as well as details of target customers and the key performance indicators that will be used to measure success.

Other essential components include financial projections, an operational plan and analysis of the industry in which the company operates. From the strategic plan, the company can then create a business plan which sets out how the company will achieve its strategic goals.

Established companies rarely create a business strategy from scratch; the strategy is usually drawn up when the business is first set up. However, the strategy needs to be reviewed regularly to make sure it remains relevant to market conditions and the company's capabilities.

"Strategy should only be written seriously every three years," says Allan Gasson, strategy partner at Deloitte. "You can't change organisations fast enough to merit rewriting strategy from scratch more often than that."

Companies typically write a five-year vision statement, which is used as the basis for a three-year strategy. This is then used to generate a one-year business plan, he says.

Other triggers may prompt this strategy to be reviewed or refined, such as market disruptions, regulatory changes or concerns regarding the company's performance compared to its competitors. A change in chief executive or a new acquisition could also prompt a strategic review.

PROCESS

Rob Law, chief executive of children's travel products company Magmatic, which produces the Trunki brand, says there are always ideas bubbling over within the business that are brought up in monthly senior management meetings or even at board level. "But once a year we go through workshops with the team to identify the new goals for the year, which forms a micro strategy," he says. "That process is captured on a bit of software that we review once a quarter."

Any sizeable organisation will include input from multiple sources when creating or refining its strategy document. Jacqueline Windsor, strategy partner at PwC, says two groups of people should be involved: those who shape the strategy and those who provide insights. "The group actually doing the strategy is a smaller group – it doesn't have to be the top team *per se*, but the leadership team that represents different parts of the business," she says. "Clearly this will include the CEO, but companies should also include multiple lenses: customer, trading, supply chain/logistics and financial."

Developments in technology are making it more feasible for geographically dispersed teams to work together remotely. "We use various online applications where people around the world can input information using their iPads," says Mr Gasson. "You can do that so quickly, with people in Australia and New York coming together, and then you can collectively look at the results and start building a consensus around what the strategy is and what needs to be done."

For other companies, having everyone in the same room is essential to the strategy-building process. Some spread the process out with a series of workshops over the space of a couple of months, while others opt for a more intensive approach.

Estelle Rowe, director of Dot Dot Consultancy, says some companies might seek "splendid isolation" and lock themselves away for a week, although she points out that, if the process is too stifling, tensions can arise. "It's important to introduce an element of space so that people can take time to think about what they've heard," she adds.

Meanwhile, Emma Warren, managing director of business advisory firm Portfolio Directors, advocates an "open and closed gate" process. "You open it out, data gather, close the gate and bring it all back in," she says. "You can then draw some conclusions and share the next stage with everybody in order to get their feedback."

NEXT STEPS

Having a consistent and informative strategy document is important, but equally important is what you do with it next. There's little point in creating a strategy which is going to sit on a shelf gathering dust for the next year.

As well as feeding into the business plan, the strategy needs to be communicated to the management team and filtered down to everyone in the organisation so that everyone understands their role in helping the company achieve its strategic goals. This is illustrated by the story of the NASA cleaner who reportedly told President John Kennedy, "My job is to help put a man on the moon".

Not everyone will receive the full strategy document – different sections may be circulated to different people, depending on their job function or relationship to the company – but all communications should present a consistent story. "How you communicate it can vary depending on the audience, but ultimately everyone needs to be telling the same story and singing from the same hymn sheet," PwC's Ms Windsor concludes.

TOP 5 TIPS

STRATEGIC THINKING

1. Make sure the people involved in creating the strategic plan are fully engaged in the process
2. Take into account the company's belief sets and values as well as factual data
3. Bring insight into the process; for example, by visiting retail stores with a video camera in order to capture customer stories
4. Own the strategy – the chief executive and board should be fully committed
5. Get buy-in from the whole organisation - everyone needs to understand what the strategy means for them

Source: Aberdeen Group

Expand Heathrow and watch British business take off.

Building a new runway at Heathrow is by no means the biggest construction project in the country.

But it will go a very long way towards cementing Britain's business recovery.

And here's why.

The world's fastest-growing markets are in Asia and South America. By 2050, nearly half of global GDP will be generated in these emerging markets.

Research has shown that direct flights to long-haul destinations build twenty times more trade with them.

But, for that to happen, you need a hub airport: with the critical mass of passengers, high-value cargo and connections to make direct long-haul flights to all these markets viable.

As a recent CBI report points out: "hub airports serve on average nearly three times as many destinations as point-to-point airports."

Britain has one hub airport: Heathrow.

Right now, 4 in every 5 long-haul flights from Britain fly from Heathrow, via 82 airlines, carrying 73 million passengers a year.

Heathrow also carries £182 billion of exports and imports each year: including 26% of all UK exports, and two thirds of all air freight.

That's why 120 global companies have their European headquarters in the M4 corridor (and why this area has the highest full employment rate in the UK).

As Britain's hub airport, Heathrow is a magnet for global business; and a powerful engine of the British economy.

The problem is, if we don't expand it, we can't give British businesses the chance to take advantage of all these opportunities in new destinations.

The CBI describes the UK's lack of hub capacity as a "ticking time bomb".

And, if we don't do something about it, our competitors happily will.

France, Germany and The Netherlands have hub airports too. They also have the ambition (and political backing) to expand them. And they would love to take the growth that could – and should – be Britain's.

As the Airports Commission recently confirmed, a new runway at Heathrow will bring as much as £211 billion of economic benefits to the UK (not to mention up to 180,000 new jobs).

Every month we don't do it costs the British economy £1.25 billion in lost trade.

That's why we think it's time to stop talking. And get down to business.

Heathrow

—Taking Britain further—

heathrow.com/takingbritainfurther

#TakingBritainFurther

Sources: Goldman Sachs Global Investment Research, 2012; Frontier Economics, "Connecting for Growth", 2011; CBI, "Boosting capacity where it matters most – the nub is the hub", September 2014; Official Airline Guide; HMRC; Civil Aviation Authority; Freight Transport Association; Companies House; ONS Annual Population Survey; Airports Commission, "Heathrow Airport Extended Northern Runway: Business Case and Sustainability Assessment", November 2014; Frontier Economics, "Missing trade opportunities: The impact of Heathrow's capacity constraint on the UK economy", November 2012.