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Escaping from a Successful History

Henry Ford was misquoted.

The quote most often attributed to the irascible automotive revolutionary is *history is bunk*. But what he actually said was a little more nuanced: "History is more or less bunk. It's tradition. We want to live in the present, and the only history that's worth a tinker's damn is the history that we make today."

In fact, for many companies, history – especially a successful history – is a *trap*. No company illustrates this fact better than the Ford Motor Company. At the beginning of the twentieth century, Ford successfully created the modern motor industry through a meticulous approach to standardization and mass production, even including the paint: "Any color you want, as long as it's black." But when General Motors began appealing to customers' need for individuality through different models and options, Ford was trapped by its historic success and could not react quickly enough to maintain its leadership.

Fast forward to the end of the century and we find Ford and its Detroit-based competitors entering a similar trap, as they begin earning more and more of their profits from trucks and truck-based SUVs. Their car businesses received much less investment and attention. Not surprising, since they were actually *losing* money on many of these vehicles.

Escaping from a Successful History was written by **Stuart Jackson**, Vice President of L.E.K. Consulting and author of *Where Value Hides: A New Way to Uncover Profitable Growth for Your Business* (Wiley 2007).

By jumping with both feet into the SUV/truck business, Detroit had discovered a competitive space where it could still beat most imports. SUV sales jumped 81% between 1992 and 1997, and by another 56% between 1997 and 2002. Success!

Then, starting in 2004, the world began to change. Gasoline prices doubled over the next four years – including a 39% surge in 2008 alone, when gas reached $4 a gallon. Meanwhile, consumers were becoming increasingly concerned about global warming and other environmental issues. The results? In May 2008, for the first time, Asian automakers sold more cars in the U.S. than Detroit, with the Toyota Prius (48 mpg) capturing the imagination of Car Nation. GM announced plans to close four of its North American truck plants, and disclosed that it would sell or discontinue its hulking Hummer brand.

The real tragedy here is that *Detroit knew what was coming*. They knew that the profits from their truck and SUV businesses of the 1990s and early 2000s were unsustainable, but they were trapped by their past success. I normally avoid sports analogies, but I'll invoke one here. Think of the football coach who is ahead at half time, but knows that his running game offense that put all the points on the board earlier has taken a pounding, and is starting to sag. In business as in sports, the hardest thing for a leader to do is to abandon a winning strategy.

Let's look briefly at two industries in which key players sized up their world, and decided that they had to embrace a new strategy proactively. What did they do, and how did they do it?

The first example comes from the rarified world of military aircraft. For decades, established defense contractors like Northrop and Grumman (merged in 1994 to create "Northrop Grumman") relied on sales of increasingly sophisticated fighters and bombers to the Department of Defense. But critics both within the military and the halls of Congress objected to the soaring prices of these tactical aircraft, and also began questioning their relevance to future military conflicts. Northrop Grumman's B-2 Spirit heavy bomber (popularly known as the "Stealth") became an uncomfortable case in point. In the late 1980s and early 1990s, Congress cut the B-2 fleet from 132 to just 21. This didn't help the per-unit price, which by 1997 averaged more than *$2 billion* a plane, all in.

"When we looked at our business base," Northrop's sector vice president of Air Combat Systems told *Aviation Week*," we certainly saw the cliff."

So how did Northrop Grumman escape from history? On May 27, 1999, it announced the purchase of San Diego-based Ryan Aeronautical – a leader in the then-arcane field of "unmanned aerial vehicles," or UAVs – for $140 million. At the time, skeptical industry analysts suggested that Northrop had paid between two or three times what it should have for Ryan. In short order, though, Ryan began generating *annual* revenues many times its acquisition price. The wars in the Balkans, Afghanistan, and Iraq – so different from conventional warfare – turned out to be ideal for UAVs, and clearly pointed toward the future. In 2004, Northrop signed a $1.04 billion contract with the government to develop a next-generation UAV "drone" that would sell for a modest $10 million to $15 million each – and, not incidentally, keep U.S. pilots out of harm's way whenever possible. UAV success on the front lines also has led the armed forces to explore whether additional applications – such as the high-altitude, long-endurance surveillance currently performed by an aging U-2 fleet – could be taken over by UAVs.

Our second example comes from a very different world: corporate travel. What do you do if you're Marriott International, and your most profitable customers – executives on expense accounts – figure out a way to do their global business without ever leaving headquarters? In recent years, some 350 major U.S. companies have outfitted something like 2,300 offices with high-end "telepresence" suites supplied by Cisco, Hewlett-Packard, and others, thereby allowing multi-site remote teleconferencing. As these technologies get better and better (and the best are already spookily good), the incentive to go out on the road – and rent a room from Marriott – declines precipitously. In fact, the only missing ingredient, in many cases, is a similarly high-end system on the other end of the line.

Enter Marriott. The hotelier has retrofitted a number of its conference rooms worldwide as telepresence suites, which it rents out to corporate customers at a princely hourly rate. Early indications are that companies are using this resource to conduct early-round discussion with potential suppliers, customers, or acquisition targets in an economical way, and that they tend to follow up on successful discussions in-person. And when they do finally get out on the road, not surprisingly, they tend to rent rooms from their proven local accommodations partner: Marriott.

How can we escape from our histories – especially our *successful* histories? Here are some ideas:

- Paint the alternative reality. Before it's too late and while business is still perfectly fine, assign a team to the task of describing what the alternative scenarios look like. What does $4 a gallon look like? What does "nobody flies to optional corporate meetings anymore" look like? (Make sure that the members of this team are smart, aggressive, and diplomatic enough to get the job done without driving everyone crazy.) Then make it the responsibility of a broader base of people to figure out how to keep succeeding in those alternative realities.

- Make it a regular occurrence. Looking at the alternative realities on a predictable schedule not only keeps you away from the cliff edge; it also gets people in your organization thinking about that challenge on a near-continuous basis. They start to look at challenges and opportunities differently.

- Set the Outer Limits very far out. Start with the worst scenarios and the most bizarre solutions, and then constrict the circle as necessary. Here's one: NASA is trying to figure out its future, which may or may not include manned space flight, including manned expeditions to Mars. If based on the Apollo program model – fly up, look around, fly home – such expeditions would be enormously expensive and complex. In 2008, a 21-year NASA veteran – retired engineer Jim McLane – made a radical proposal: *If your pilots don't insist on coming home, everything gets easier. So, ask for volunteers for a one-way mission to Mars.* Will NASA do that? I bet it won't. Has having that idea thrown into the mix made for a more productive, far-ranging discussion? I bet it has.

- Get outside perspectives. Don't just rely on your own team's opinions. Solicit open-ended input from customers, distributors, end-users, consultants, and leaders in analogous industries. Even if your own team comes up with many of the ideas, remember that changing a successful strategy is extraordinarily difficult. If you want ideas to be taken seriously, you will need validation.

I began this column by quoting Henry Ford on the value of history. The recently concluded "cash for clunkers" program provides a clue that Henry Ford's company may – just may – have a shot at once again escaping from the trap of its successful history. The car most often traded in, under the auspices of that program? The Ford Explorer (combined mileage 16 mpg), which is often credited (or blamed) for igniting the SUV craze in the first place back in 1991. And the car that the humbled, disgraced Explorer was most traded-in for? The Ford Focus (combined mileage 27-28 mpg).

What did Henry Ford say? It's the history we make *today* that counts.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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