



Destiny's CHILD

Will your strategy lead you to the promised land of enduring competitive advantage?



By Nigel Lake

Why did Columbus sail to the Caribbean? In the fifteenth century, once you left the coastline behind, you could only reliably sail east or west. Travelling north or south was fraught with navigational danger, as the clocks of the day weren't accurate enough to allow you to navigate precisely. So Columbus sailed south along the coast of Europe and Africa to the well-established port on Gran Canaria in the Canary Islands. From there, he followed the trade winds westwards to see what he could find. After a five-week journey, the expedition spotted land, a small Caribbean island now called San Salvador, discovered for no other reason than it lay more or less due west of the starting point.

Similarly, have you ever wondered why anyone arrived all those years ago at the location now occupied by Fremantle? It's a small, vibrant port on the vast west coast of Australia.

In the early seventeenth century, a series of Dutch voyagers explored what we know as the South Pacific. With no Suez Canal, the only way to get there was to follow southwards in the footsteps of Columbus, continuing to the very bottom of South Africa and around the Cape of Good Hope. From there, having replenished supplies at Port Elizabeth or Durban, they sailed due east, hoping to find land (the trade winds blow east in the Southern Hemisphere).

As early as 1504, the French navigator Binot Paulmier de Conneville claimed to have landed at a land east of the Cape of Good Hope, having being blown off course, although this was eventually shown to be Brazil, not Australia. Other explorers made a truer course, arriving at what are now Fremantle and Perth, located at two river estuaries that offer a safe harbour and fresh water for seafarers.

In the above examples, the travellers simply arrived at the best safe harbours (indeed, more or less the only natural harbours) that you find if you follow the trade winds west or east from their original ports of departure. So each of these destinations was an accident in relation to where those journeys had started.

How often is this true of companies? How many organisations have a market position, business model, and strategy which is no more than an accident of history? And when that history is an illustrious one, it is almost impossible to imagine a future for the organisation in question that is not rooted very firmly in its past.

Think about airlines for a moment. The world's great airlines of the postwar era were located at the end of the world's major air routes, many of which emanated from the UK in the dying days of the British Empire. British Overseas Airways Corporation and British Caledonian operated romantic long-distance routes in the 1950s and 1960s that stopped in locations now hardly visited at all by longhaul travellers. As a child, I lived in Bahrain, once one of three or four stops on the all-important long-distance journey to Australia. Bahrain was then a vibrant meeting point, visited by travellers from many nations travelling east and west.

Then, in 1970, the 747 was born. This was the world's first wide-body jet, and has remained in service ever since. The first variant, the 747-100, had a range of 9,800 kilometres, just long enough to fly from London directly to Bangkok. In 1975, the 747SP was introduced, with a range extended to 10,840 kilometres with a full load of 331 passengers, and significantly more with lighter payloads. This allowed nonstop flights between London

and Hong Kong. Bahrain's role in longhaul international travel ended almost overnight—it was no longer needed as a staging post on the way to Asia.

Australia's national champion, Qantas, was once at the terminus for one of the world's key air journeys, the Kangaroo route from Sydney to London. But in an environment where the winners are located at the hubs of long-distance travel, Qantas now suffers from being at the end of a long spoke that leads to nowhere but regional Australia and New Zealand. How can the business ever build a successful longhaul airline when it only naturally serves a local customer base of some 28 million people, compared to the six billion reached by Emirates or Etihad?

By its own admission, Qantas needs to start from somewhere else. It has partnered with Emirates from Dubai, effectively exiting from the routes to Europe, leaving behind nearly a century of corporate history, and is exploring new hubs in Asia. But then what does it bring to those hubs and consumers in those countries? It has to pack its corporate bags, get on its own longhaul flight, and set up in an entirely new market, serving entirely new customers, armed only with its experiences and excellent safety record. Make no mistake, Qantas may achieve this, but to succeed on this journey requires a board, management, and employees that can adapt to very different markets.

This highlights the second critically important message for any leader. A strategy is nothing more than a choice of compass bearing—it is a way of describing the course that you are plotting for your company or government. When the adventurers of old set off to explore the New World, it was a voyage into the unknown, with the end destination determined by factors entirely outside the navigator's control. Similarly, if all you have is 'strategic direction', you may well have no real idea where that direction will lead over the next decade. This is especially true

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in the many industries that are affected by the accelerating rate of innovation and technological change. Few shareholders in modern companies are looking for adventures this extreme, yet in truth many companies have nothing more than a compass bearing to guide them.

Imagine you are on a long-distance ocean-racing yacht, sailing up to the start line for a 5,000-nautical-mile leg across one of the world's fiercest oceans. If you ask the captain where you're going, she'll give you the name of the port at the end of the race. She certainly won't tell you that you're on a course of 243 degrees making your way towards a navigation mark. She also won't tell you that you're in a tacking duel with your fiercest competitor to secure the most favourable line to the start. Both these things may be true, but neither of them is your destination.

Many companies have some kind of aspirational vision—to be the biggest or the best in some way or other. Nearly all have strategies for building their businesses and attempting to be more successful than their current closest competitors. But all too few have a clearly enunciated destination. In other words, they can't say where they are actually going over the medium to long term. Nor will they necessarily ever know when they have arrived, or notice radically new competition emerging from an unexpected direction. And in a world that is changing more and more rapidly, the status quo is simply not an option. As Groucho Marx famously said, "The problem with doing nothing is that you never know when you're finished."

Strategic direction without a purposeful end destination is a tremendously dangerous basis for running a company. Companies such as Nokia, Kodak, and Polaroid clearly had strategic direction, but this didn't save them from ignominious destruction by the winds of change. So when I hear companies talk of their long-term strategic objectives in vague directional terms, the alarm bells ring.

Think of companies that have excitedly talked to shareholders about their 'Asian growth strategy'. For many, this simply means that they have recognised that economies in Asia are growing more rapidly than economies in Europe and North America, and that they'd like to increase the proportion of profit that they make in the Asia region to differentiate themselves from their peers. These companies seem to ignore the fact that Asia comprises dozens of countries, with radically different cultures, climates, and geographies, not to mention very different competitive dynamics and customer needs. Building small market shares in a selection of these countries is nothing more than the ill-fated 'flags on the map' strategy adopted by so many large British companies in the second half of the twentieth century. So 'Asian growth' is little more than an after-dinner craving for something sweet. It isn't a strategy and it certainly isn't a destination.

Companies must set out a clear strategic destination—the end point that they are trying to reach. And they must be very, very clear how and why this destination will deliver them lasting competitive advantage. Without this, they may well arrive at a destination which proves incredibly inhospitable—just like the early explorers who headed east from Australia and were never seen again. •

About Nigel Lake

Nigel is Joint CEO of global advisory firm Pottinger, and is an entrepreneur with a passion for diversity, innovation, environment, and action. He is author of *The Long Term Starts Tomorrow*. Follow him on Twitter at @Nigel_Lake

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Very few businesses can rely on incremental growth to ensure long-term success. The safety of the status quo has been consigned to history by technological innovation and the accelerating pace of change. In Flashpoint, we explore potential disruptions and inflexion points in major industries, and provide tools to help leaders guide and support their teams through this environment.