

SEEING AROUND CORNERS

How to Spot
Inflection Points in Business
Before They Happen

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Introduction

Some years ago, Andy Grove introduced the concept of strategic inflection points in his landmark book *Only the Paranoid Survive*. A “strategic inflection point,” he observed, “is a time in the life of a business when its fundamentals are about to change.” And that is how many of us experience inflection points – as a single moment in time when everything changes irrevocably.

When you look at the true nature of strategic inflection points, you see a different story. It is similar to the way in which Hemingway’s character Mike Campbell in *The Sun Also Rises* responds to being asked how he went bankrupt. “Gradually,” he says, “then suddenly.”

An inflection point is a change in the business environment that dramatically shifts some element of your activities, throwing certain taken-for-granted assumptions into question. Someone, somewhere, sees the implications, but all too often they are not heard. That someone might be you!

This book will help you see the opportunities represented by strategic inflection points and help you, your team, and your organization take advantage of them. There are three major ideas to grab hold of here.

- What you experience as a big, dramatic inflection point has almost always been gestating for a while.
- This creates opportunity: if you see it early – or even better, spark it – an inflection point can be a strategic boon.
- You can use tools from the discovery-driven growth playbook to maximize your opportunities.

Let’s take a concrete example.

Imagine a sector that effectively serves only one in five potential customers. Now imagine a massive change that would allow competi-

tors to capture all that unmet demand in a highly profitable way and without taking on a lot of risk. Imagine that the sector as it is generates about \$8 billion in revenue annually. The post-inflection point sector could be five times that size, meaning that some \$40 billion or so in revenue could potentially be unlocked for those competitors adroit and farsighted enough to be at the right place when the inflection point does its work.

Though they are often depicted as disruptive destroyers of existing businesses, inflection points create vast new spaces even as they destroy outdated technologies and models. Famed economist Joseph Schumpeter said it decades ago – incumbents in a sector are always vulnerable to the “perennial gale of creative destruction,” which sweeps away the old and outdated, and introduces the new and more desirable.

CAN YOU HEAR ME NOW?

The sector I just described actually exists. It is the business of manufacturing, prescribing, and fitting hearing aids. Judged by the standard of making sure people who need the help get it, the sector is doing a terrible job. According to researchers, 80 percent of adults between the ages of fifty-five and seventy-four who might benefit from a hearing aid don't have one, and many who do have one don't use it. Anyone who has ever tried to persuade an older person whom they care about to get help with their hearing (and who hasn't?) is all too familiar with the negative aspects of how this corner of the healthcare market is organized.

For starters, hearing aids are expensive. In 2017, the *New York Times* reported prices ranging from \$1,500 to \$2,000 or more per ear. Medicare does not cover hearing aids. Barbara Kelley, executive director of the Hearing Loss Association of America, reports that “the number one complaint we get in phone calls every day is, ‘I need help, I can't afford hearing aids.’”

But that isn't the only problem. The traditional hearing aid business is regulated by the US Food and Drug Administration (FDA), and access to the technology is tightly controlled by incumbents. Audiologists, their lobbying associations, and the few (six – actually, soon to be five) companies that manufacture hearing aids have strictly limited

the options available to patients. The incumbents insist that what all patients want is the “gold standard.” As one observer described it, this involves buying a hearing aid only after a thorough diagnostic evaluation that includes otoscopy and bone conduction testing, speech-in-noise testing, real-ear measurement/speech mapping, aural rehabilitation, and hands-on hearing aid fitting. Even if they have the means, for many people this seems like overkill.

Finally, we have the social stigma factor. People don’t want to wear aids for fear of looking “old.” Despite strong evidence that they could use the audible help, admitting it is tough. The often ugly, obvious, and occasionally noisy traditional hearing aids are whatever is the opposite of cool.

I know this firsthand. When I asked my mother-in-law about a whistling noise I heard at a family gathering, I didn’t realize that she had finally started to use her hearing aid and that it was the source of the unfamiliar noise. She yanked it out of her ear, stuck it back in a drawer, and didn’t use it for the rest of our visit. Sadly for her (and distressingly for me), the benefit of using an aid to fully participate in the conversations she craved was no match for the “embarrassment” of wearing the device. Had I only known that this was a common feature of hearing aids, I would have kept my mouth shut!

This is serious stuff. A study by Frank Lin of Johns Hopkins found that hearing loss is associated with an increased risk of developing dementia, of social isolation, and even of an increased risk of falling. Uncorrected hearing loss makes it even harder for eventual treatment to be successful and increases the cognitive load on the brains of people struggling to make out what others are saying. Clearly, this is a social and health problem of epidemic proportions.

THE GATHERING INFLECTION POINT

Problematic as it is, the hearing aid business model has remained more or less the same since the FDA classified hearing aids as medical devices in 1977. Before then, hearing aids were generally treated as a consumer product, with some hilariously bad and misleading advertising and celebrity endorsements to go along with that positioning.

Meanwhile, in-ear hearing aids – which needed to be fitted to individuals’ ears – were often sold by audiologists, and that became the norm. Due in part to misleading claims and some shoddy practices, interest groups began to raise alarms about hearing aids, prompting the FDA to classify them as medical devices with extremely strict protocols for their manufacture and dispensing.

The current inflection point for the highly regulated (and profitable) hearing aid business had its roots in two citizen petitions filed with the FDA in 2003. An FDA citizen petition is a process that was originally intended to allow individuals and community organizations to make requests for changes to healthcare policy. While the petitions themselves had no immediate impact on the way hearing aids were regulated, they were early markers of a shift in sentiment that would move these devices toward the same over-the-counter access currently available for “reading glasses” – corrective lenses that can be sold without a prescription.

The incumbents aren’t eager to back down. No less than the American Academy of Audiology suggests that any device that amplifies sound should be subject to FDA regulation. Taken literally, this position could be seen as requiring such regulation for everything from earbuds to headsets.

The academy aside, the cost to consumers and the intransigence of incumbents have led to an odd coalition of bedfellows determined to change the system. In 2017, for the first time, the regulatory structure that the academy has been trying so hard to preserve began to be dismantled. In a classic Clay Christensen-style disruption, new technologies are proving to be “good enough” and are expanding the pool of consumers who might benefit from an improved ability to hear. This is what Christensen has often described as “competing with non-use.”

THE DISRUPTERS EDGING INTO HEARING ASSISTANCE TERRITORY

Although they are not – heavens no, absolutely not – selling *hearing aids*, there is no shortage of companies offering what in the industry are called “personal sound amplification products,” or PSAPs. These

products are not regulated by the FDA and are readily available over the counter to anyone who wants them. And even more worrisome to the conventional hearing aid manufacturers, in many hearing assistance applications, PSAPs do just as well – or even better.

For instance, Bose, the iconic manufacturer of speakers and noise-canceling headphones, is making a product it calls Hearphones that sell for around \$500. Despite advertising that makes it sound an awful lot like the product is directed at people suffering from hearing loss (“We want to help you hear every word of your conversations”), at one point, Bose was emphatic that these devices were most definitely *not* hearing aids, thus avoiding FDA oversight. In 2018, however, the company received approval for an over-the-counter version of a self-fitting hearing aid. Other heavyweight players are crowding into the market, including Samsung with its Gear IconX earbuds and Apple with its AirPods – wireless earphones that can allow you to listen to music, time exercises, and, incidentally, connect to hearing aid apps on a phone or other device. In addition, dozens of new companies are piling into the aid space, with aids like Fennex, PetraleX, and Here One. And on the startup side of things, a product called Eargo took its inspiration from fly fishing to create an actual hearing aid that you fit yourself, buy over the Internet, and charge the way you might charge one of your more familiar electronic devices.

YOU THOUGHT \$8 BILLION WAS A BIG NUMBER?

But, really, all this excitement and energy about a market that hasn’t historically been seen as all that interesting? Well . . .

Experts have projected that even under the existing regulatory regime, the hearing aid business could be an \$8 billion business by 2019. Some say that by 2023 it could be in excess of \$9 billion. This is an interesting aspect of strategic inflection points. When something that used to be complex and expensive becomes convenient and cheaper, one result is often an explosion in demand. If we extrapolate from the statistic that only one in five people who could use help with their hearing have hearing aids today, the market size in short order could

be five times greater – perhaps as big as \$40 billion – after the inflection point that allows anybody to get a discreet, self-adjustable hearing device.

Moreover, you might even see quite dramatic changes in the use case for hearing devices, along the lines of how the smartphone changed the way people use mobile phones. People might find themselves purchasing more than one device, as they now do with glasses. Perhaps one look and functionality for a Friday dinner out, something completely different for the Sunday afternoon sports game, and maybe even something else for watching TV at home. Once something becomes inexpensive enough, the possibilities are endless.

As you will see throughout this book, weak signals of an impending shift – *when recognized early enough* – can give you a head start to prepare to take advantage of it. Right now is exactly the moment when companies interested in entering the over-the-counter hearing aid business should begin preparing and making plans. Not investing in a huge big bang, mind you, but investing in preparations.

An inflection point occurs when a change – what some people call a 10X change – upends the assumptions that a business is built on. When the moment of crystal clarity arrives, that is the moment to mobilize the troops, bring focus, and bear down hard on preparing the organization for the post-inflection world, just as Bose, Samsung, and others are doing in the over-the-counter hearing aid (sorry, *not* hearing aid) space.

GRADUALLY, THEN SUDDENLY

Inflection points can take a surprisingly long time to unfold. Wilbur and Orville Wright made their first twelve-second historic flight near Kitty Hawk, North Carolina, on December 17, 1903. The first mention of their accomplishment in the *New York Times* appeared three years later. In fact, it wasn't until May of 1908 that serious reporters began to pay attention and the public realized that manned flight was not (as an expert predicted in 1902) too far in the future, but that it had actually arrived. In short order, industries as varied as passenger

travel, consulting, logistics, and even defense were fundamentally altered forever.

Inflection points create dramatic shifts in the competitive dynamics of a functioning system. They have the power to bring about exponential change. Perhaps 10X larger, 10X cheaper, 10X more convenient, and so on. The sources are seemingly endless. Some common triggers for an inflection point can be found in:

- Technological change
- Regulatory change
- Social possibilities
- Demographic change
- New connections (among formerly isolated elements, common to digital disruption)
- Political change
- And many others

Inflection points have the power to change the very assumptions on which organizations were founded. Changes in the environment in or around organizations can create new, entrepreneurial opportunities – and result in potentially devastating consequences for those still operating under the old model or assumptions. The effects are often compounded because institutional rules typically lag what is possible.

For example, if you look at companies that have navigated inflection points superbly in recent years (Amazon, Aetna, Cognizant, Adobe, Fujifilm, DSM, Gore), you don't see huge, wrenching reorganization for the most part. That takes place in companies that recognized the changing circumstances too late (IBM, A&P, Sears, Hewlett-Packard, Dell). And when an inflection point goes the wrong way, the entire organization can crumble or become irrelevant (Toys "R" Us, Blockbuster, RadioShack).

The progress of inflection points, moreover, is not linear. They proceed in fits and starts, and while they are emerging, it is normal for reasonable people to disagree about their importance and likely impact.

The great entrepreneurs and innovators, however, don't just allow

an inflection point to happen to them. They connect emerging possibilities, deepen customer insights, and explore new technologies to spark the changes that can get them – and keep them – on top.

THE FOUR KEY STAGES OF HOW INFLECTION POINTS UNFOLD

There are four basic stages in the development of inflection points: hype, dismissive, emergent, and maturity. These are similar to the phases in the Gartner Hype Cycle methodology used to understand how technologies are commercialized.

In the earliest stage of a likely inflection point, the most productive thing you can do is to identify early warnings of what might be important and to pay attention. It is still too early to make big bets.

As things progress, the early stage gives way to the *hype stage*. At this point, pundits will start proclaiming that the entire world order is likely to be completely overturned. The result is often a bubble – believers invest heavily and a “land grab” mentality takes hold. The 2013–2016 run on blockchain currency like Bitcoin is a good example. Everybody charges into an emerging arena, each hoping for a small share of what they assume will be massive growth.

Academics who have studied this stage call it “capital market myopia.” In a famous 1987 case study, William Sahlman and Howard Stevenson showed how dozens of entrants into the then emerging Winchester disk drive industry blew through a mountain of investment, each hoping for a small share of a vast market. Such phenomena occur when players make decisions that are individually sensible but fail to take into account the collective consequences of everybody making the same decision.

Like a Greek tragedy, the hype stage almost always ends in disaster – sometimes dramatically. This brings us to the *dismissive stage* in the life cycle, in which those who sat out the hype take an “I told you so” perspective, saying, “That’s never going to happen.” This stage, however, is often where the real opportunities lie. In the dismissive stage, a few of the initial entrants will have survived the shakeout and begun to set the foundation for major growth. They will be building viable busi-

ness models, finding new customer needs to address, and potentially even beginning to make money. At this point, you should be thinking about some toehold investments, exploring where there might be opportunities, and giving the inflection point some emergent attention.

Dismissal is often followed by the much quieter but more “concrete” *emergent stage*. In this stage, those who are paying attention can clearly see how the inflection might change things. This is the point at which you need to generate lots of options that position you for whichever model will eventually emerge.

Finally, the inflection point comes into its own in the *maturity stage*. It is now obvious to everyone how it will change the world. Those who are not prepared will see their businesses go into decline. Hopefully, your organization will be well positioned to take advantage of the growth opportunities this stage represents.

Post-inflection, the change is incorporated into everyday life assumptions. Indeed, by this point there are plenty of people who have completely forgotten what things were like before the inflection took place. Your agenda now is to make sure you jettison resources that are no longer relevant and enjoy the growth that successfully transitioning through an inflection point can yield.

HOW THIS BOOK IS ORGANIZED

The first part of the book is about “seeing” inflection points coming. It describes how organizations can create the early warnings of a pending inflection point and then organize to take action on those insights. Chapter 1 builds on Andy Grove’s observation that “snow melts first at the periphery” to describe how agile, responsive organizations create fast, horizontal flows of information so that decisions can be made quickly and responses to environmental challenges can be processed in real time. Chapter 2 describes how you can create your own early-warning system, which can help you not only spot a pending moment of inflection but also decide when the right time to act is, a key strategic decision.

Chapter 3 offers a point of view about the elements of strategy creation and its integration with the innovation agenda of an organization.

It also shows how people at every level in the hierarchy can provide value to the creation and execution of a strategy. Given the pace and speed of change, strategy creation is no longer an activity that is confined to the executive team. Rather, it is an effort to galvanize the entire organization to act around a common point of view about the future.

The second part of the book explores how organizations can create opportunity in the face of a major inflection. Chapter 4 describes mechanisms to home in on customer arenas, which are often invisible to those hemmed in by traditional industry-focused logic. An arena consists of a customer's "job to be done" at a specific time and location and shows how you can become the provider of choice to help customers succeed, and do so at a profit.

Chapter 5 shows how you can release constraints on customers that keep them stuck in an unsatisfying experience, allowing them to flee previous solutions and flock to yours. Chapter 6 illustrates a way to plan ahead to the capture of opportunities by generating many hypotheses and dismissing many of them quickly. In this chapter, you will learn the critical importance of falling in love with a problem faced by your customers, rather than settling on a particular solution. In design terms, this is the difference between helping people who are tired of standing and designing a chair. The first concept allows far greater room for your imagination.

The third part of the book is a general guide to personally managing in high-velocity, high-uncertainty environments full of potential inflection points. The challenge is often not seeing a change coming. (*Fortune* called out the potential of Amazon in 1996!) The challenge is doing the transformational work required to rewire the organization. This is equivalent to the "innovator's dilemma" – the very systems and processes that served you well pre-inflection point can be the biggest barriers when you need to transform.

Chapter 7 describes the way in which organizational systems resist responding to a nascent inflection point and what levers change agents can use to shift them. This chapter also examines how imminent failure, or actual failure, can coax an otherwise unwilling organization to make the changes needed for its own self-preservation. Chapter 8 focuses on the behaviors of leaders in ambiguous and uncertain environ-

ments and offers examples of how you need to get beyond the “command-and-control” mindset and move toward a very different kind of leadership behavior.

Finally, Chapter 9 ties the idea of organizational and systems inflection points to how you can leverage them for your benefit in your personal life. It makes the point that an inflection at the level of society or a large organization has ripple effects that touch your personal life in meaningful ways.

Although it is quite normal to be apprehensive about a strategic inflection that changes major aspects of our lives, my hope is that as you proceed through this book, the excitement and opportunity of a major inflection point will also shine through.

Onward!