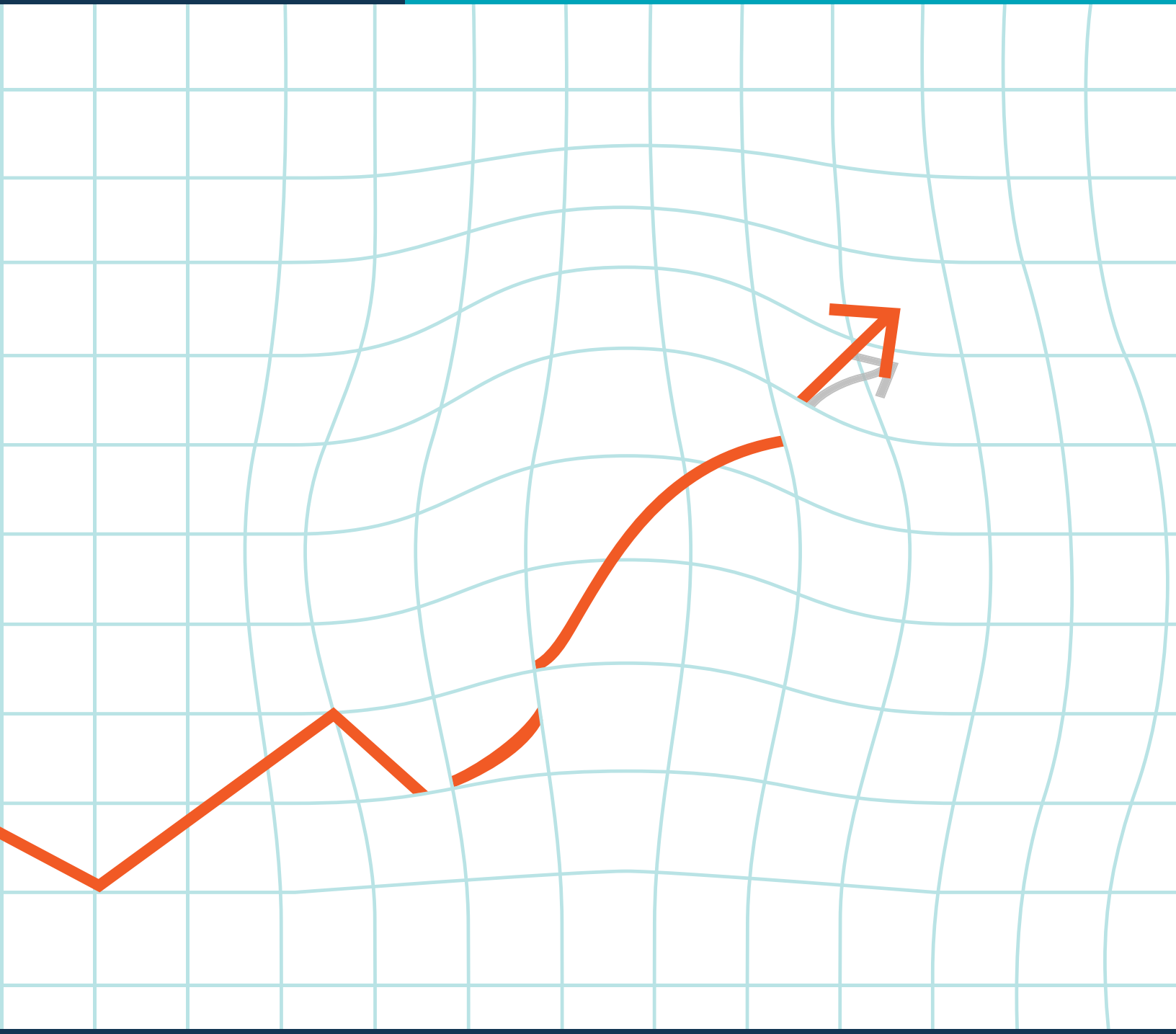
Forbes INSIGHTS

# CHALLENGE OR BE CHALLENGED

## HOW TO SUCCEED IN TODAY'S BUSINESS ENVIRONMENT



IN ASSOCIATION WITH: Gap International Partners In Exceptional Growth

Forbes INSIGHTS

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"EVERY ORGANIZATION NEEDS A PLAN TO GET TWICE AS GOOD EVERY TWO YEARS. EVEN IF YOU GET THE DIGITAL EVOLUTION THING RIGHT, YOUR WORK IS ONLY HALFWAY DONE. NOW YOU MUST PUT YOUR ORGANIZATION ON A CULTURAL EVOLUTIONARY PATH."

—**Rich Karlgaard**
Publisher,
Forbes Media LLC

# FOREWORD

Digital technology changes everything. It is like a Death Star. First it pulls your industry, company and career into its orbit. Then it wipes out your old, tired (but, alas, nicely profitable) business model. Then it imposes its own laws on how you must run your business. Transform, or you die. Play by the digital rules, or you die. Not just one time, but again and again.

Think of Walmart, a global colossus with 11,500 stores, 2.3 million employees and $482 billion in revenue. Walmart was founded in 1962, but canny Sam Walton used digital technology—barcode scanners to collect data and mainframe computers to crunch data—to blast past Sears, Kmart and other discount stores that were too slow on their digital uptake. Walmart can't rest, though. Its future growth is threatened by Amazon, Alibaba and companies born as digital disruptors.

The digital death star evolves at the pace of Moore's Law. It gets twice as powerful every 18 to 24 months. So when the digital death star sucks you into its orbit, you have a hard choice: evolve your company at the pace of Moore's Law—get twice as good every two years—or fall behind.

So here's the hard truth: every organization needs a plan to get twice as good every two years. Even if you get the digital evolution thing right, your work is only halfway done. Now you must put your organization on a cultural evolutionary path.

A senior executive at Walmart, terrified of Amazon and Alibaba's disruptive powers, explained: "We're really good at technology and capturing data. It's the culture that worries me. Teams get too big around here. We're slow to act on our data."

Gap International has been studying executive teams, organizational culture and transformation for decades. What's unique about Gap's approach is its focus on changing mindsets to change performance. High-performance cultures, Gap believes, get that way by cultivating the individual genius of each employee.

This idea of building high-performance cultures one human building block at a time is catching on in various forms. Marc Benioff, the co-founder and CEO of Salesforce, believes in the power of personal coaching and achieving a mindful state. Satya Nadella, CEO of Microsoft, urges his 94,000 employees to adopt a "growth mindset" as defined by Stanford psychologist Carol Dweck.

We live in a turbulent world. Opportunities abound, but only for organizations with great digital nervous systems and action-oriented leaders who know how to tap the best within themselves and their colleagues.

**—Rich Karlgaard**
Publisher,
Forbes Media LLC

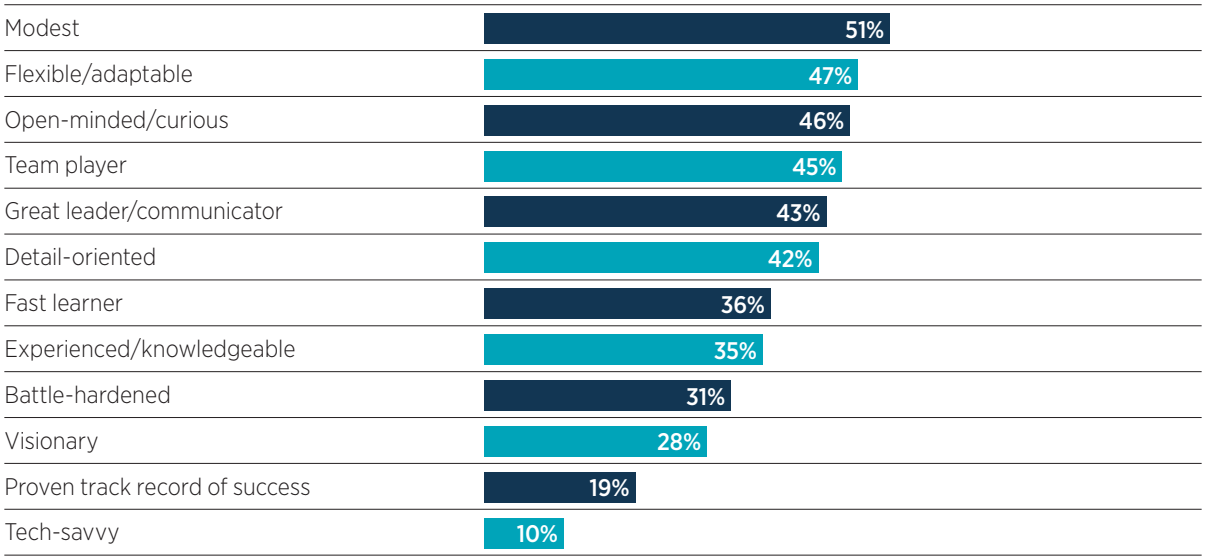
# INTRODUCTION: BUSINESS IS NOT AS USUAL. IS YOUR THINKING?

Today's business environment is unyielding and fast-paced. Falling behind is not an option. A Forbes Insights survey—developed in collaboration with Gap International—of 400 top global executives reveals that 95% believe business is not as usual and 90% do not think the current environment is business-friendly. These sentiments persist in the aftermath of a contentious election and a now uncertain political climate. Yet at the same time, half of these top executives believe today's environment is fast-growth- and expansion-driven.

Today's leaders are thus hit with a double whammy: they feel pressure to grow and expand in an environment that is neither friendly nor predictable. "Today's [business environment] seems increasingly capital-intensive and competitive. It's not getting easier, it's getting more complex," says John Venhuizen, president and CEO of Ace Hardware Corporation. "At least in retail, it's an absolute war."

This demanding and shifting business environment requires a change in how leaders think and act. While change isn't easy, and it may be a painful proposition for a leader who has been running a successful business, the biggest threat is a leader wedded to past successes and traditional thinking. Old ways will no longer work. Executives who do not continually reframe their mindset to fit the times will be left behind. The pace of change is only accelerating, especially with the emergence of the fourth industrial revolution and technologies such as machine learning and cognitive computing.

**Figure 1: Most important characteristics in a leader**




Fortunately, executives recognize this need for change. When asked about the most important characteristics in a leader today, the majority cite flexibility, open-mindedness and curiosity over other factors, including experience and a proven track record of success.

Adam Goldstein, Royal Caribbean Cruises' president and chief operating officer, underscores the dual mindset leaders must now adopt to succeed. "You need to keep in mind what your business model is and what your customers want from you. But at the same time, you need to be flexible in an ever-changing environment, be ready for the unexpected, and have a Plan B and Plan C if necessary," he says.

This extraordinary report, which is based on research and in-depth interviews with executives at many of today's leading brands, looks at how leaders need to continuously change and evolve themselves, and their organizations, in order to deal with today's business climate.

WHEN ASKED ABOUT THE MOST IMPORTANT CHARACTERISTICS IN A LEADER TODAY, THE MAJORITY CITE FLEXIBILITY, OPEN-MINDEDNESS AND CURIOSITY OVER OTHER FACTORS, INCLUDING EXPERIENCE AND A PROVEN TRACK RECORD OF SUCCESS.

# KEY FINDINGS

## INNOVATION

Faced with the enormity of a competitive environment, demanding consumers, fluctuating customer needs and the acceleration of competitive threats, innovation is the key to achieving market share in a world devoid of natural organic growth.

## TECHNOLOGY

Technology is increasingly becoming a multifaceted enabler in effecting change. Nearly three-quarters (72%) of respondents are already seeing tangible results from digitization in the area of market share increase, and 66% are experiencing tangible results from digitization in the area of product innovation.

## DISRUPTION VIA DISINTERMEDIATION

As competition mounts, companies are rethinking their corporate structures—eliminating the middleman and sizing up smaller competitors. Seventy percent of global leaders say they are "extremely concerned" or "somewhat concerned" as to whether their company will still be relevant and competitive in two years. More than half of respondents (51%) report that disintermediation is having the biggest impact on their business. And 57% of leaders view startups from the same industry as greater competitors than enterprise-sized companies.

## THE NEXT-GENERATION CUSTOMER

Technically savvy, well-informed and firmly planted in the driver's seat, today's consumers demand consistent and 24/7 service across multiple channels. In fact, 56% of business leaders describe their customer base as well-informed and/or empowered. Only 26% of business leaders believe that customers—more fickle than friendly—are loyal, and 62% say the very concept of loyalty is almost or fully obsolete—a perspective that's particularly present in large enterprises.

## CULTURE COUNTS

Seventy percent of leaders cite having a unified culture as "important" or "extremely important" to achieving business goals. Helping shape this culture are millennials—nearly 60% of CEOs report that their culture is changing due to the millennial generation. In response, many businesses are expanding social awareness initiatives as proof that, by leveraging purpose, companies can gain a competitive edge.

## DISMANTLING THE HIERARCHY

Inspired by new corporate structures, savvy business leaders are shedding their corporate powers for new paradigms. More than one-third (37%) of leaders say they are transforming their business by reorganizing reporting lines and replacing old hierarchies with more-flexible arrangements that encourage collaboration and empower employees.

## BREAKTHROUGH PARTNERSHIPS

Faced with growing competition and economic uncertainties, many companies are forming revolutionary partnerships and alliances. More than half (52%) of business leaders say they are transforming their organizations by collaborating with third parties. Forty-nine percent cite forming alliances and partnerships, and navigating the ecosystem of partnerships and alliances, as having the biggest impact on business. And a sizable 61% are forming alliances with leaders in the field to handle issues and areas that are new.

## ECONOMIC VOLATILITY

The vast majority—80%—of business leaders believe the impact of socioeconomic inequality on their organizations has been "significant" or "very significant." Sixty percent agree that the economy will continue to be volatile and unpredictable. And 59% cite the economy, income inequality and financial markets as having the biggest impact on business.

"IF YOU ARE NOT PARTNERING, YOU ARE MISSING KEY OPPORTUNITIES TO EXPAND THE BRAND."

**—Joe Guith**
President,
Cinnabon

# FORMING PARTNERSHIPS, FOSTERING CULTURE

## CORPORATIONS ARE NOW ECOSYSTEMS OF ALLIANCES THAT DEMAND A NEW TYPE OF LEADER

To change how an organization performs, its leaders must change how they think. This begins with shuttering the age-old notion of a world dominated by buyers and sellers. The lines separating key competitors are blurring as businesses increasingly relate to one another as a single, sustainable ecosystem. As competitive pressures mount, new partnerships and unexpected alliances are forming—intricate networks composed of employees, contractors, consultants, partners and even customers.

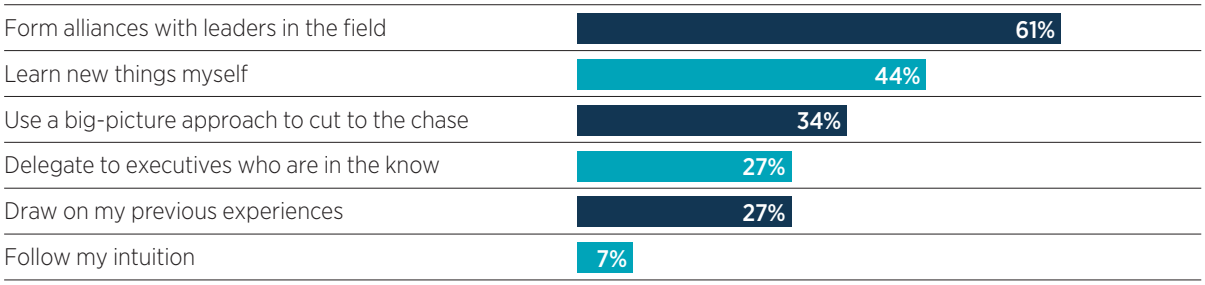
For business leaders, embracing these new joint ventures is more than a mindset shift. It's a clarion call for greater collaboration among disparate parties. The workforce of the future is not a rigid structure with hierarchical reporting relationships; it's one aligned business with multiple factions working together to guarantee one another's success.

In fact, more than half (52%) of business leaders say they are transforming their organizations by collaborating with third parties. Forty-nine percent cite forming alliances and partnerships, and navigating the ecosystem of partnerships and alliances, as having the biggest impact on business. And a majority (61%) are forming alliances with leaders in the field to handle issues and areas that are new. That's in sharp contrast to the 44% that would prefer to learn new things on their own.

"If you are not partnering, you are missing key opportunities to expand the brand," warns Joe Guith, president of Cinnabon, an American chain of bakeries and kiosks. "A key to success for Cinnabon is allowing the brand to travel into other channels and product formats via our licensing partnerships. This diversification has allowed us to outperform in terms of brand awareness and relevance."

A perfect example is Cinnabon and Taco Bell teaming up to create Cinnabon Delights—bite-sized Cinnabon holes filled with frosting—which Taco Bell distributes across 7,000 of its fast-food restaurant locations. Other joint ventures include a partnership with Keurig Brewers to deliver a Cinnabon bakery-inspired coffee blend, dubbed Cinnabon Classic Cinnabon Roll. And most recently, Cinnabon rolled out the brand's first line of fresh bakery treats in single-serve and multi-serve channels, including grocery and convenience stores as well as university campuses.

**Figure 2: How do you handle issues and areas that are new to you?**




"The key to the success of Cinnabon is that we've allowed the brand to travel and expand in different ways," says Guith.

But with less than a quarter (22%) of business leaders saying they have forming alliances and partnerships "all figured out," many executives are drastically breaking from tradition, testing new corporate structures. The results are promising.

For decades, Royal Caribbean Cruises relied on its C-suite executives to dictate the global cruise company's customer experience. But a changing competitive landscape convinced the company to take a more collaborative approach to business operations. Today Royal Caribbean serves as "the hub of a tremendous ecosystem of distributors, suppliers, employees and customers that is constantly evolving over time," says Royal Caribbean's Goldstein.

From partnerships with famous chefs to branded entertainment projects with animation giants such as DreamWorks Animation, Royal Caribbean now places "a much bigger emphasis on collaboration than what you would've seen from us in the past," says Goldstein. "And it really extends almost everywhere you look."

## New landscapes call for new leaders

But for meaningful change to occur, it must begin within. Which is why it behooves business leaders to explore different approaches to leadership. This often requires leaders to shed their corporate powers for new paradigms. For instance, a growing number of organizations are replacing straight reporting lines with more flexible arrangements. In fact, more than one-third (37%) of leaders say they are transforming their business by reorganizing reporting lines.

"I don't like organizations that are hierarchical," says Guith. "By design, that encourages my team to be the same way. By not embracing levels, you're actually able to move faster. I believe cultures with hierarchical thinking can stifle creativity and productivity. I challenge my team members to act similarly. With this view, we are empowered to make informed decisions more quickly and be more collaborative."

One way Cinnabon has accomplished this is by physically altering its corporate headquarters to accommodate greater collaboration. "Although I'm the only one on our team who had an office, I changed that to a shared meeting room," says Guith. "Now our environment is wide open with more space to collaborate. We even offer standing desks so that employees have more flexibility. This increases opportunities for collaborating, which facilitates a culture of speed." And it's precisely this speed and agility that enable companies to quickly adapt to changes in consumer preferences and survive global economic fluctuations.

## Culture for hire

Another way organizations are supporting new partner ecosystems and alliances is by growing their people and leadership. "The business environment is moving so quickly. To be successful, organizations must invest in their most important differentiator—people," says Beth Ford, chief operating officer of agricultural cooperative Land O'Lakes, Inc.

Charles Shaver agrees. Chairman and CEO of Axalta Coating Systems, Shaver recognizes the critical role internal talent plays in driving growth and gaining a competitive edge. Indeed, 60% of executives cite talent and capabilities as priorities they put the most weight on.

"While we value all our external relationships, in a very fundamental way our employees are our most important asset and resource," says Shaver. "We can strive to have great partnerships with stakeholders outside Axalta, but we will only succeed if we have strong, talented and motivated people across the entire Axalta organization who own those relationships."

One of today's most sought-after labor forces is millennials. Having surpassed baby boomers as the nation's largest living generation—as reported by the U.S. Census Bureau—these tech-savvy twenty-somethings are challenging leaders to rethink their approach to attracting, retaining and managing talent. A staggering 61% of CEOs cite millennials as contributors to the success of their company. That's a sizable demographic leaders must learn to satisfy.

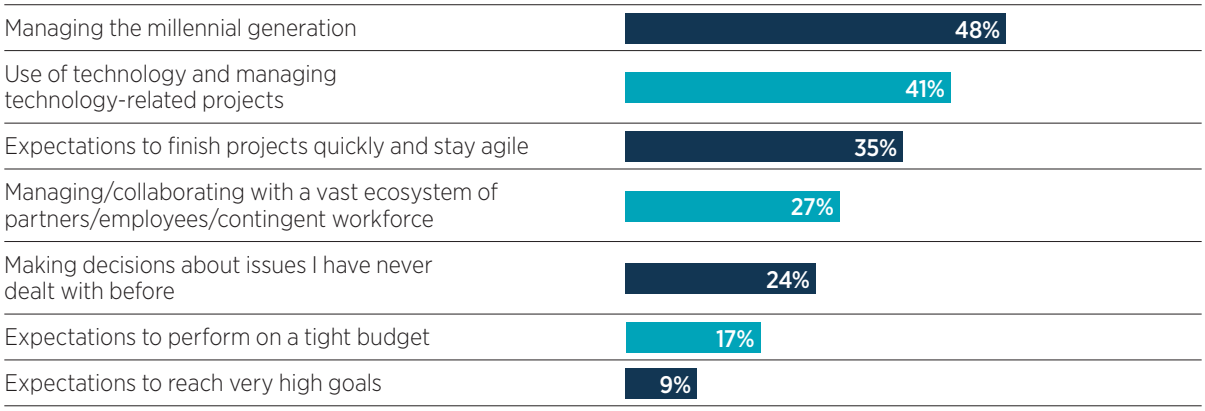
Yet nearly half (48%) of executives today say managing millennials is a top management challenge. That's double the number of respondents that find making decisions about issues they've never dealt with before as the biggest obstacle.

It's not enough anymore to simply offer young, new hires stock options and yoga classes. Millennials, in particular, crave the opportunity to operate within a bigger context than a corporate vision or mission.

"TO BE SUCCESSFUL, ORGANIZATIONS MUST INVEST IN THEIR MOST IMPORTANT DIFFERENTIATOR—PEOPLE."

**—Beth Ford**
Chief Operating Officer,
Land O'Lakes

**Figure 3: What are the top management challenges you face?**




"MILLENNIALS REALLY DO CARE MORE. THEY ARE MORE GIVING, AND THEY WANT TO BE ASSOCIATED WITH COMPANIES THAT GIVE BACK TO COMMUNITIES AND MAKE THEM FEEL GOOD ABOUT THEMSELVES AND ABOUT THE COMPANY THEY WORK FOR. THAT'S CRITICAL."

—**Gordon Logan**
Founder and CEO,
Sport Clips

In response, top organizations, such as Sport Clips Haircuts, are differentiating themselves by enabling young workers to feel as if they're contributing to something bigger than the bottom line. Sport Clips worked with the Veterans of Foreign Wars to create the "Help a Hero Scholarship" program in 2013 as an extension of its overall support of U.S. service members and veterans. To date, the men's and boys' haircare franchise has awarded more than 700 scholarships worth more than $3 million toward next steps in civilian careers. The franchise's other initiatives include sponsoring the Ageless Aviation Dreams Foundation, a nonprofit organization dedicated to honoring seniors and U.S. military veterans, as well as raising funds for St. Baldrick's Foundation in support of childhood cancer research and working with the American Red Cross to increase blood donations.

"Millennials really do care more," says Gordon Logan, founder and CEO of Sport Clips. "They are more giving, and they want to be associated with companies that give back to communities and make them feel good about themselves and about the company they work for. That's critical."

Similarly, Royal Caribbean formed a five-year global partnership with World Wildlife Fund (WWF) to help ensure the long-term health of the world's oceans. The goal is to reduce the cruise line's environmental footprint while raising awareness about ocean conservation among its more than 5 million customers. The by-product of this innovative


ONLY 13% OF EXECUTIVES BELIEVE THEIR COMPANY'S CULTURE IS AN OPTIMAL FIT FOR THEIR BUSINESS VISION.

partnership is a brand—and business environment—that caters to millennials' social consciousness—proof that when leaders leverage purpose, it can create a competitive advantage that's hard to replicate.

"Millennials are a majority of our workforce," says Goldstein of Royal Caribbean. "So we must be responsive to their interests in terms of where and how they want to work, what types of promotion opportunities are available to them, and the different types of experiences they want to gather along the way. That's the here and now—that's not futuristic."

No wonder millennials are having a significant impact on corporate culture. Nearly 60% of CEOs say their culture is changing due to the millennial generation. But it's not enough to simply cater to millennials' workplace preferences. Seventy percent of leaders cite having a unified culture as important or extremely important to achieving business goals. And yet, only 13% of executives believe their company's current culture is an optimal fit for their business vision.

"A company's culture should always be a reflection of the industry and environment it operates in," says Peter Riggs, president of business operations for Pita Pit USA, a quick-serve restaurant franchise. "It's hard to imagine being successful in a business when the culture doesn't line up with what you're doing. If your culture and business model aren't working together, then it's very difficult for leaders charged with driving success to truly feel passionate about the brand."

Logan of Sport Clips agrees, believing that culture can provide leaders with a significant edge in today's highly competitive corporate environment: "Culture is one of the most important, most underrated aspects of business today."

LEADERS MUST LOOK BEYOND SIMPLY FULFILLING A CUSTOMER'S NEEDS TO FOSTERING CUSTOMER ONENESS—A CONNECTEDNESS WHERE EVERYTHING BEGINS AND ENDS WITH THE CUSTOMER.

# THE NEW CUSTOMER COURTSHIP

## AN EVER-CHANGING CUSTOMER BASE REQUIRES NEW RULES OF ENGAGEMENT

Today's organizations are faced with a new breed of customer: technically savvy, well-informed and firmly planted in the driver's seat. An on-demand economy, combined with smartphone proliferation, has produced a generation of consumers that expect consistent and 24/7 service across multiple channels. In fact, 56% of business leaders describe their customer base as well-informed and/or empowered.

"We're keenly aware of the changing consumer marketplace," says Chuck Runyon, CEO of Anytime Fitness. "The consumer is very empowered, especially with mobile technology. They want things when they want them, where they want them and how they want them. So leaders have to find new ways to stay relevant and cut through the noise."

Twenty-first century organizations cannot expect to coast on customer loyalty. Only 26% of business leaders believe that customers are loyal, and many report that it's getting harder to retain customers. Indeed, 62% of executives say that the very concept of loyalty is almost, or fully, obsolete—a perspective that's particularly present in large enterprises.

Reactively, many companies are shifting focus from loyalty programs to customer experience initiatives. Today, less than half (49%) of leaders say they rely on loyalty programs to meet customers' needs. To compete for the best and most profitable customers, a new mindset about customer relationships is critical. Leaders must look beyond simply fulfilling a customer's needs to fostering customer oneness—a connectedness where everything begins and ends with the customer.

At the core of this principle is the ability to create meaningful and compelling customer experiences. Encouragingly, more than half of leaders (51%) believe they have customer experience "almost all figured out." But approaches to engagement vary wildly.

Supporting this seismic shift toward greater customer experience starts internally with employees. "The bedrock of our company is not our brand, and it's not our supply chain," says Ace Hardware's Venhuizen. "The bedrock of Ace is our values, and our highest value is love. When we have people who love what they do, who they do it with and who they do it for, it creates a competitive advantage that most businesses will never even understand."


OF EXECUTIVES BELIEVE CUSTOMER LOYALTY IS ALMOST, OR FULLY, OBSOLETE.

It's an innovative approach to engaging customers that diverges sharply from the business world's heavy reliance on technology to forge connections with consumers. "We invest sinful amounts of money in technology, but it's better to enable people," adds Venhuizen. "The world increasingly chases after this technical, impersonal, faceless interaction, but we're going the other way and betting the farm on people. Human relationships are the only thing on this planet that can stir another human soul. That doesn't mean there aren't benefits to technical service, but we're going to focus on human service, and then use technology to enable that as much as we can."

One way Ace Hardware accomplishes this is by offering customers same-day, in-store pickup of online orders using store stock. Not only does this strategy eliminate unnecessary shipping costs and shipping wait times, but it allows the company to leverage its employees—and the relationships they have with customers—as a key competitive advantage. "Convenience is an incredible factor [in customer service]," says Venhuizen. "You can see how important it is even to Amazon, as it seems to build another distribution center every other month."

However, unlike Amazon, Venhuizen says, "we have an incredible number of physical stores loaded with red-vested employees who are really close to our consumers. Seventy percent of the United States is now within 15 minutes of an Ace store. We need to exploit and leverage that strategic advantage." By leveraging these physical stores as an e-commerce fulfillment channel for in-store pickup, Ace Hardware has discovered a new and innovative way to cater to its customers in a more personal and meaningful manner. "A lot of people don't like to leave their online purchase sitting on their porch while they're gone all day," says Venhuizen. "So we offer in-store pickup. In fact, more than 90% of our online orders are in-store pickup." As a result, customers receive their products quickly and easily, and Ace Hardware strengthens its delivery of an omni-channel experience.

Looking to better engage its customers, business center franchise PostNet wanted a way to completely transform the traditional print shop model from a behind-the-counter operation to an inspiring small business consultancy. The result is Creative Café—an in-store space within its franchisees that provides small business owners with ideas and inspiration for their graphic design needs. "It's an environment where we sit down with the client, we learn about their business, and we identify the best format for their products," says Steven Greenbaum, CEO of PostNet. "Feeling the quality of various cover stock options, sharing budgetary concerns, collaborating on graphics ideas—they're all part of PostNet's proactive approach to establishing strong customer relationships. From there, customers can create an online account to instantly access information on everything from graphic design options to volume discount pricing. Orders can be placed online or directly through a sales associate."

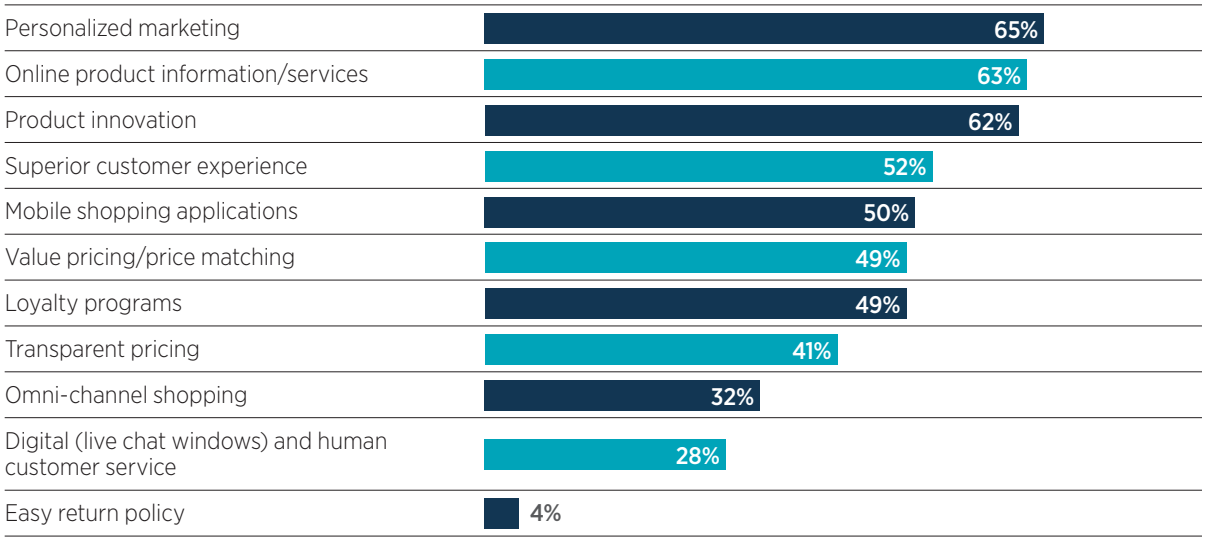
For the customer, it's a seamless journey from a face-to-face encounter in a brick-and-mortar location to an interactive and convenient online experience. For PostNet, it's a prime opportunity to guide small business owners through the sales funnel without sacrificing a superb experience. "There's not a print shop in the country that I'm aware of, including any close competitor of ours, that has a feature like the Creative Café, our business processes or the technology platform that we use," says Greenbaum.

Market segmentation is another way business leaders are achieving oneness with consumers. There once was a time brands could rely on TV and radio spots to deliver messages to the masses. But "yesterday's news is old news," warns Alejandro Zozaya, CEO of Apple Leisure Group, a vertically integrated travel and hospitality company based in Philadelphia. "Millennials have a different approach to marketing—not just in the message, but in the media used to reach consumers. They don't watch TV and see commercials—they're on the move, watching content on their phones, tablets and laptops, which is why we are constantly evolving our marketing plans and investments in technology to cater to this market."

"THE BEDROCK OF ACE IS OUR VALUES, AND OUR HIGHEST VALUE IS LOVE. WHEN WE HAVE PEOPLE WHO LOVE WHAT THEY DO, WHO THEY DO IT WITH AND WHO THEY DO IT FOR, IT CREATES A COMPETITIVE ADVANTAGE THAT MOST BUSINESSES WILL NEVER EVEN UNDERSTAND."

**—John Venhuizen**
President and CEO,
Ace Hardware

**Figure 4: What actions are you taking to meet your customers' needs?**



Among the tech-driven actions CEOs are taking to meet customer needs are personalized marketing (65%) and offering online product information and services (63%).

Yet more can be done with technology to improve customer experience. Only 32% of business leaders offer omni-channel shopping—a strategy critical to creating a consistent customer experience across multiple channels. And only 28% make use of digital (live chat windows) and human customer service. All of which represents a missed opportunity for companies to influence consumers at critical touchpoints.

## Minding the gap

Complicating matters further are socioeconomic inequalities around the world. Globally, levels of income are converging, with an estimated 75% of people expected to live in industrialized countries, compared with 20% half a century ago. But while there is convergence on a global scale, the inequality levels among different segments of populations within countries are increasing.

The vast majority—80%—of business leaders believe the impact of socioeconomic inequality on their organizations has been "significant" or "very significant." Sixty percent agree that the economy will continue to be volatile and unpredictable. And 59% of respondents cite the economy, income inequality and financial markets as having the biggest impact on business.

As these economic fluctuations and income inequalities intensify, many business leaders are having to market and speak differently to global audiences. For 62% of survey respondents, responding to the state of the economy includes expanding geographically.

Royal Caribbean's entry into China is a case in point. "We have real opportunities that we're pursuing aggressively," says Goldstein. "One of them is to develop, sustain and extend our leadership in the China market, which is a relatively new market for the cruise industry." In fact, five Royal Caribbean cruise ships set sail for China this past summer.

However, parlaying global trends into corporate profits isn't easy. While half of business leaders say that they have the economy "almost all figured out," many are forming partnerships to survive unknown environments.

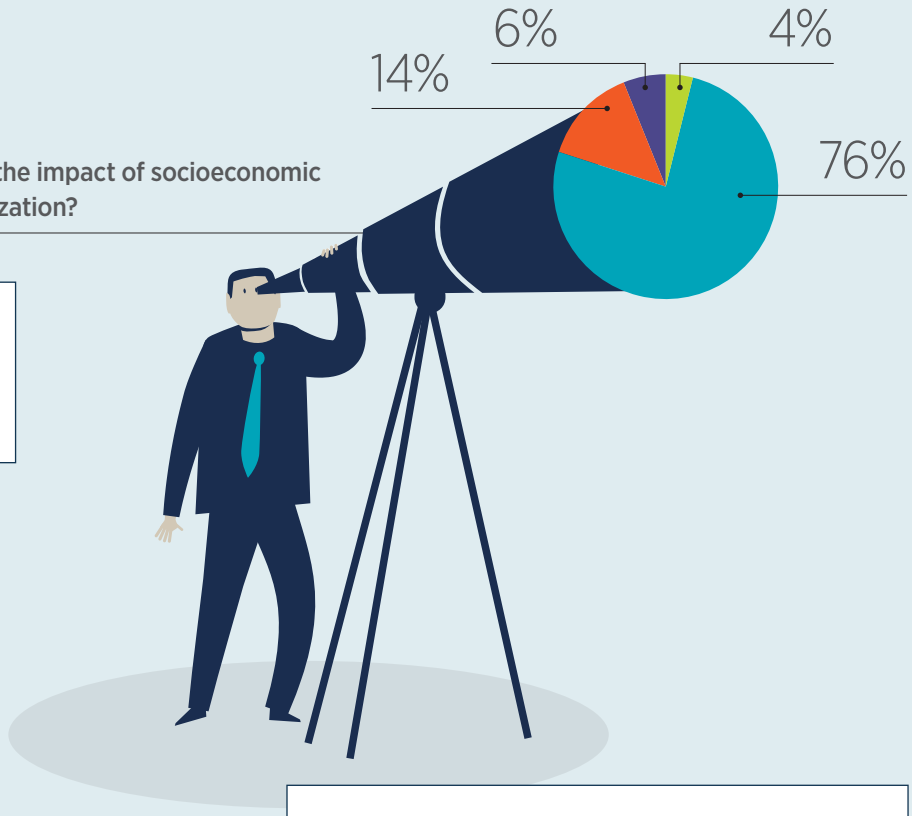
THE VAST MAJORITY—80%—OF BUSINESS LEADERS BELIEVE THE IMPACT OF SOCIOECONOMIC INEQUALITY ON THEIR ORGANIZATIONS HAS BEEN "SIGNIFICANT" OR "VERY SIGNIFICANT."

To strengthen its foothold in Southern Africa, PostNet joined forces with Aramex, an international express mail delivery and logistics services provider. "Aramex is responsible for acculturalization at the local level," says PostNet CEO Greenbaum. "They're responsible for helping with pricing strategies, product adaptation and making sure our business model and brand are aligned with the way customers conduct business in South Africa."

The result is a win-win situation for both companies—and their customers. "We provide the brand, the technology, the tools, the training and the support," says Greenbaum. "And Aramex uses its local business knowledge to make sure that our products and services are consistent with the country's culture, economy and customer needs."

Adjusting to new markets also requires an understanding of the integrated nature of countries and global markets. HAVI is a global provider of supply chain management services that employs 9,000 workers in more than 100 countries. "When we think about the impact of the economy on our business, it's really about the global economy," says Russ Smyth, chief executive officer of HAVI. "There's certainly a growing interconnectedness around the world because no one economy can stand on its own." As a result, he says, staying competitive requires keeping tabs on "all the markets around the world."

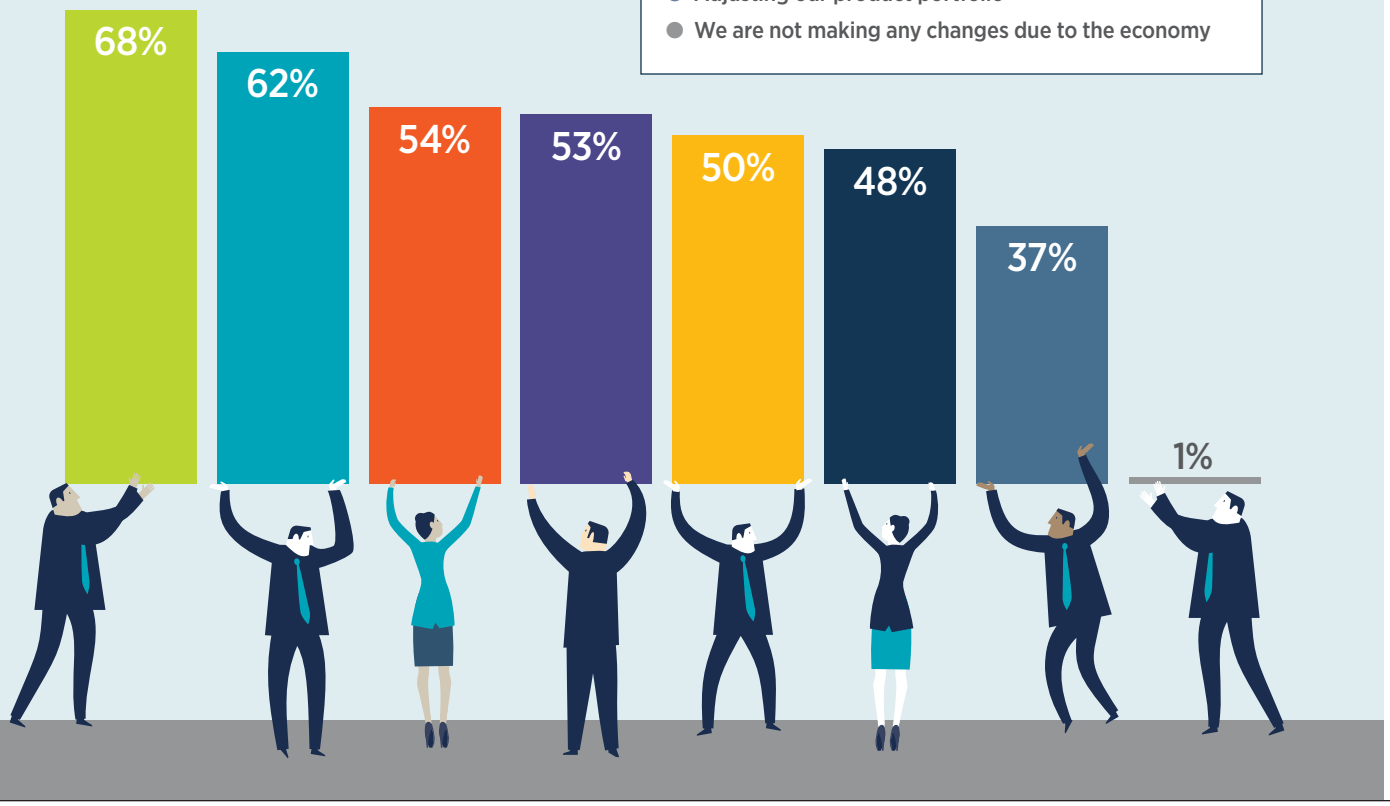
Figure 5: What has been the impact of socioeconomic inequality on your organization?

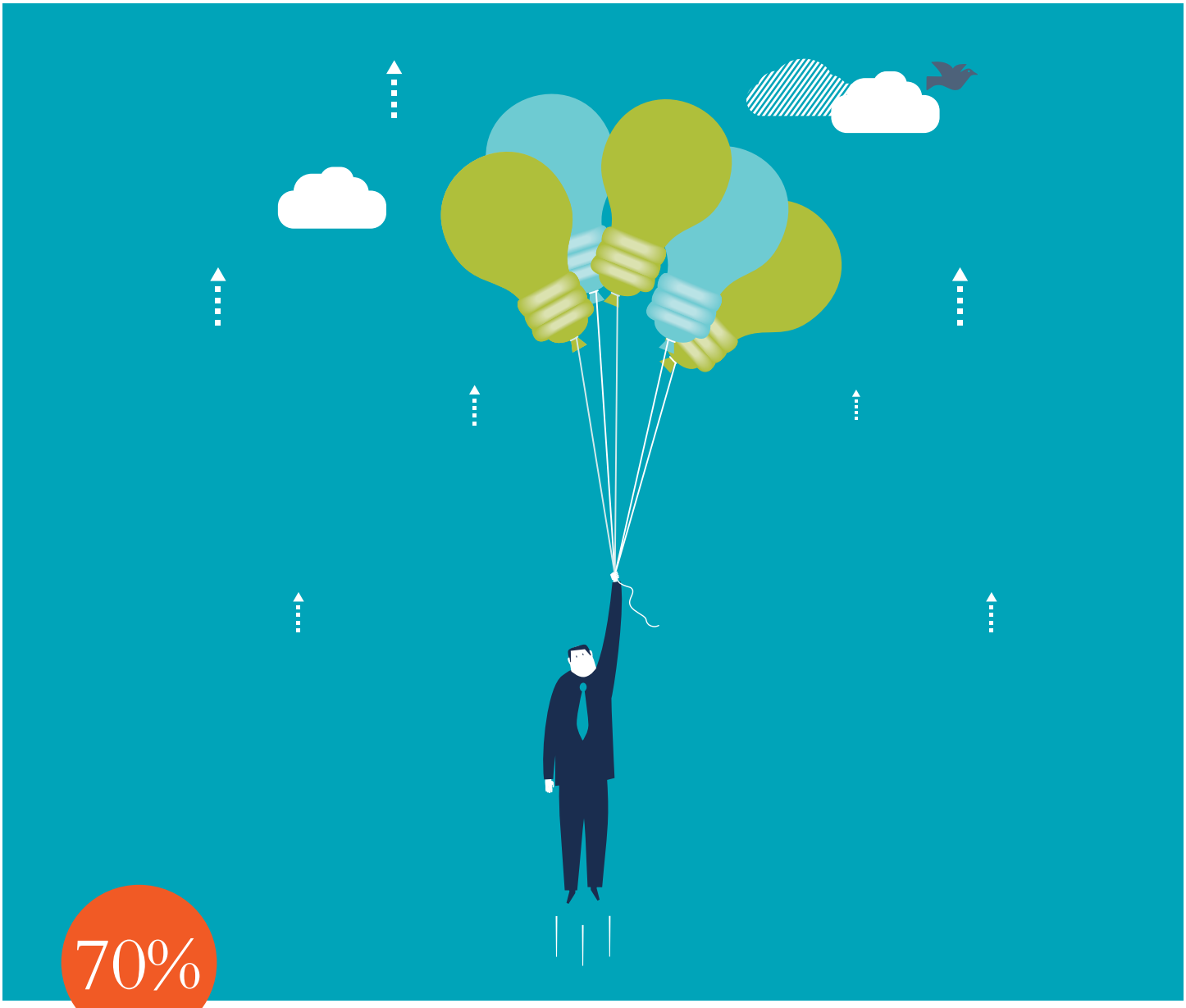



- Very significant
- Significant
- Somewhat significant
- No impact

Figure 6: How is your company responding to the state of the economy?

- Adjusting our pricing
- Expanding geographically
- Decreasing our geographical footprint
- Targeting a different customer base
- Increasing digitization
- Streamlining operations
- Adjusting our product portfolio
- We are not making any changes due to the economy





70%

OF SURVEY RESPONDENTS SAY THEY ARE "EXTREMELY CONCERNED" OR "SOMEWHAT CONCERNED" AS TO WHETHER THEIR COMPANY WILL STILL BE RELEVANT AND COMPETITIVE IN TWO YEARS.

# LEADING BY REINVENTION

## DISINTERMEDIATION LEADS TO NEW BUSINESS MODELS

Today middlemen are either disappearing as customers go directly to manufacturers or reshaping entire business models, like Amazon or Uber. Any player, from within or outside the industry, can come in unexpectedly with a new business model, typically fueled by innovative technologies and ideas, and render everyone else obsolete.

In fact, 70% of survey respondents say they are "extremely concerned" or "somewhat concerned" as to whether their company will still be relevant and competitive in two years. And more than half of respondents (51%) report that disintermediation is having the biggest impact on their business.

PostNet is one such company. For decades, the business center franchise primarily served as a pack-and-ship company that dabbled in business services. Since then, PostNet has pivoted into an integrated marketing solutions provider that offers digital printing, online marketing and shipping services to small business owners. Once "a collection point for UPS, FedEx and DHL," Greenbaum says, "today, there is no one linear supply chain anymore. At the end of the day, we have to seek different structures and different relationships to ensure the customer receives the best possible experience. Reliance was yesterday; today is all about independence as a brand and how we can add value for the customer."

A changing competitive landscape is another factor compelling companies to reframe their focus and discover new capabilities that will lead to transformational change. It's not enough to keep pace with industry stalwarts. Nearly three-quarters of companies (72%) consider businesses that most resemble them to be competitors. And 57% of leaders view startups from the same industry as greater competitors than enterprise-sized companies. That's because many of these smaller, nimbler outfits are focused on continuously innovating from within, and these emerging companies' rates of innovation are outpacing that of established companies.

"There are really well-established, mature, publicly traded retailers that are significant competitors for us," says Venhuizen of Ace Hardware. "But, without question, startups create an even more challenging environment. The process of getting an early-stage company up and running, funded and ready to share its wares with the world is so much easier and faster now."

### Innovate to flourish

Technology is a tool, not a replacement for innovation. But it can be an important business enabler. Axalta Coating Systems, for example, developed an innovative product technology known as the 3-Wet Coating System, which uses specially formulated primers, color coats and clear coats that let vehicle manufacturers apply successive coats of paint while they're still wet.

"WHILE OVERALL GROWTH RATES IN THE CURRENT GLOBAL ECONOMY MAY HAVE SLOWED, WE'VE BEEN ABLE TO OFFSET THESE MACRO CONDITIONS BY LEVERAGING INNOVATION TO GAIN SHARE IN OUR CORE MARKETS."

—**Charles Shaver**
Chairman and CEO,
Axalta Coating Systems

**Figure 7: What types of companies do you consider your biggest competitors?**

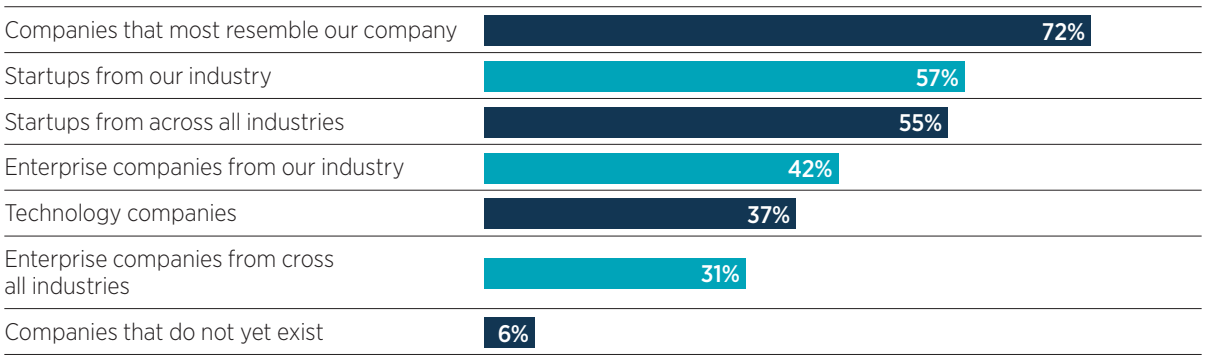
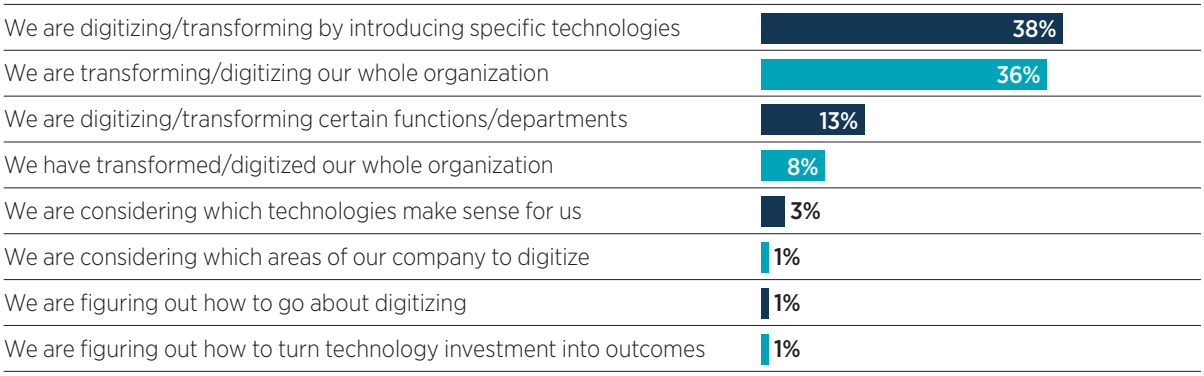


**Figure 8: According to the current belief that "every company is a technology company," what is the role of technology in your organization?**




"While overall growth rates in the current global economy may have slowed, we've been able to offset these macro conditions by leveraging innovation to gain share in our core markets," says Shaver of Axalta Coating Systems. That's because the 3-Wet Coating System helps automobile manufacturers "save time, reduce the demand for energy normally needed to heat traditional curing ovens and reduce customers' need for capital," he adds. All benefits that render Axalta Coating Systems an attractive partner in a dampened global economy.

Even players in traditionally low-tech industries, such as agriculture, are embracing innovation as the new imperative in a global marketplace. "Every company is a technology company," says Ford of Land O'Lakes. "At Land O'Lakes, we've embraced technology and its ability to help us build the farm of the future. From GPS and satellite imagery to big data, we're using cutting-edge technologies and tools to help our farmer owners make real-time decisions in the field."

That traditional industries such as agriculture are embracing technology is an encouraging sign that more and more leaders are evangelizing innovation. Rather than rely on R&D to come up with new ideas, innovation must be institutionalized from the top down, with business leaders inspiring employees to create new product categories, redesign business processes and rethink growth strategies.

Nevertheless, despite innovative applications of technology, only 9% of companies are focused on becoming data-driven. And 41% view technology as a top challenge. That's a missed opportunity to explore new business models, particularly as data insights can drive better customer experiences and greater product innovation.

In fact, many respondents are still grappling with technology—35% report "barely figuring out" technology, particularly in the manufacturing and automotive sectors. Less than half (36%) are transforming their organizations with technology. And a negligible 1% of companies are figuring out how to turn technology investment into outcomes.

Still, disintermediation and technology will continue to overthrow age-old business models, forcing business leaders to find new ways to stay competitive. "We have spent quite a bit of time researching opportunities to be disruptive in the shipping industry," says Greenbaum of PostNet, adding that even drones are up for consideration. "But we want to better understand how to add more value, how to honor the customer's freedom of choice and how to reward it. That's where companies are going to win."

## Transformation via technology

Eager to bring a fresh approach to their markets, many companies are turning to technology. In fact, a staggering 77% of business leaders report being "mostly proficient" in technology. Nearly three-quarters (72%) of respondents are already seeing tangible results from digitization in the area of market share increase. And 66% are experiencing tangible results from digitization in the area of product innovation. Looking forward, 40% of executives say technology is where the most change will occur in a company.

In a relatively depressed global market, revenue increases are most likely to be found in market share. However, it's not today's markets that are changing. Rather, by institutionalizing innovation, companies are significantly increasing their market share.

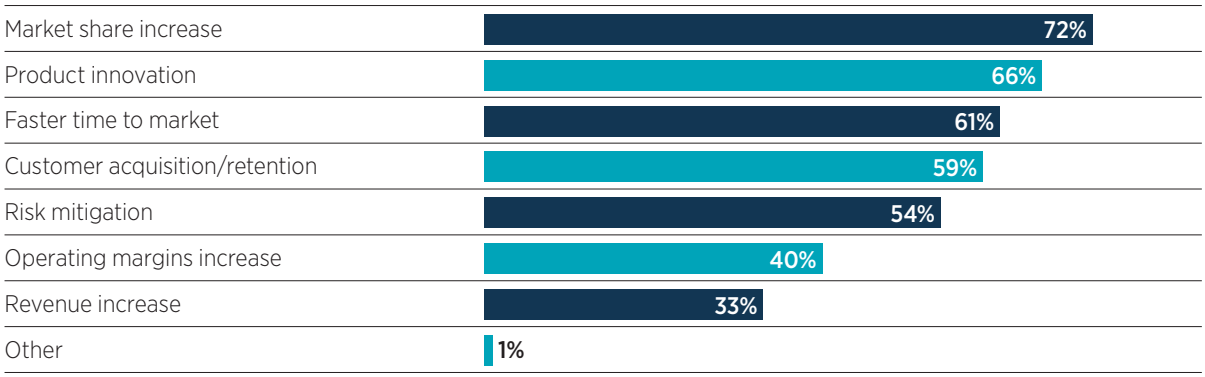
"Developments in technology are enabling us to do things in ways we couldn't even imagine five years ago," says Goldstein of Royal Caribbean. Royal IQ, for example, is a personal vacation management app that lets guests book dinner reservations, schedule onboard activities and learn about shore excursions with the click of a button. "It's an opportunity to create and sustain a seamless guest experience where the guests are really in control of their cruise," says Goldstein. "There are so many opportunities to leverage technology."

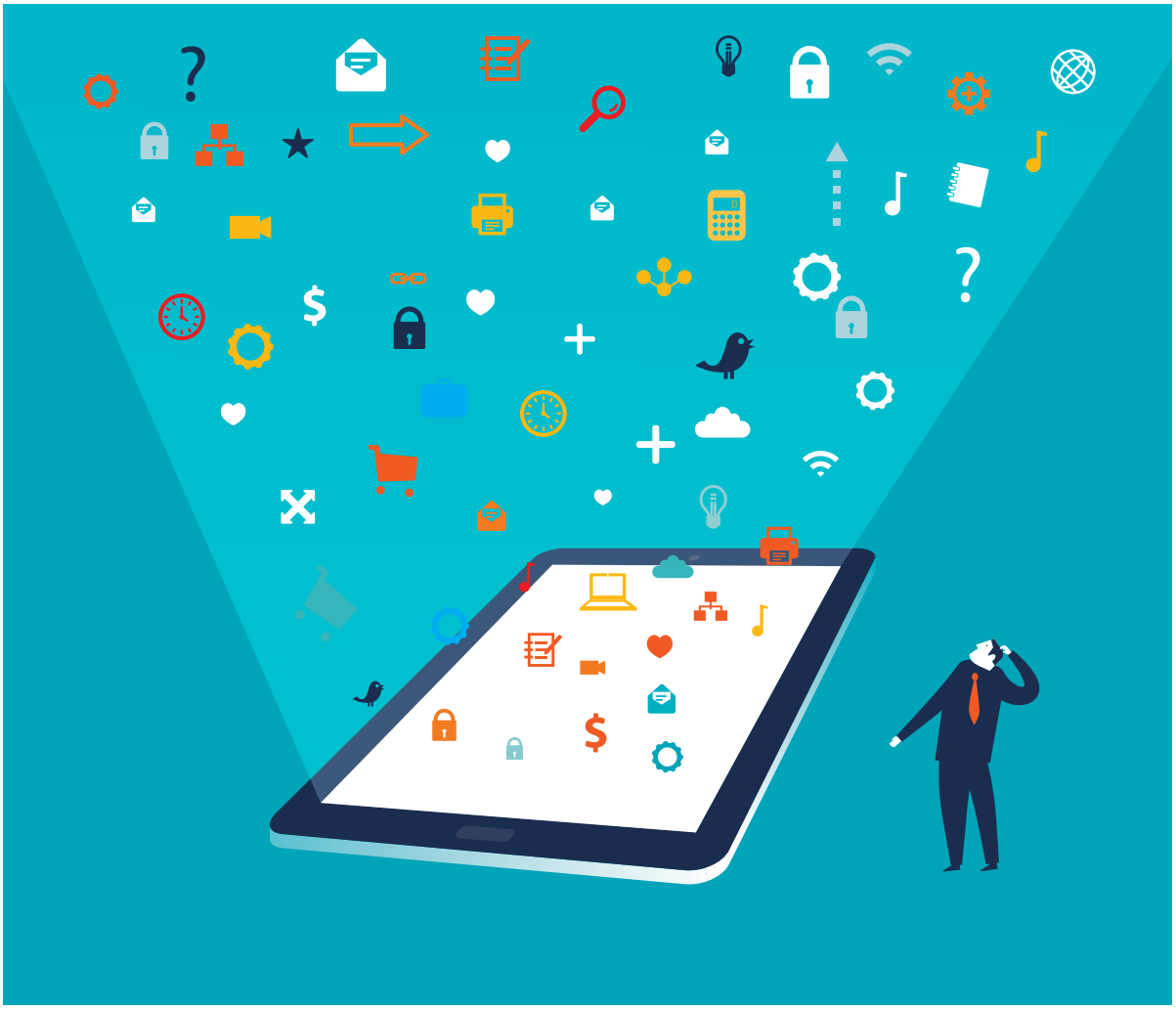
But it's big data that's truly helping companies alter the trajectory of their business performance. From examining historical buying patterns to predicting consumer trends, vast volumes of bits and bytes are reinventing the way companies connect with consumers.

"There is power in data," says Venhuizen. As a hardware retailers' cooperative, Ace Hardware comprises nearly 5,000 stores, the majority of which are locally owned and operated. By crunching customer data, each site can customize its product mix based on local demands and preferences. "Out of 4,945 stores, not one has the exact same assortment of product as any other," says Venhuizen.

Better yet, the insights Ace Hardware gleans from its data can be used to drive sales and improve product mix in other locations. For instance, when data reports showed that a line of high-end premium coolers was selling particularly well at a few of its southeast stores, Ace Hardware immediately added stock to thousands more stores, instantly driving profitability.

**Figure 9: In which of the following areas have you had tangible results from transformation/digitization?**





"DEVELOPMENTS IN TECHNOLOGY ARE ENABLING US TO DO THINGS IN WAYS WE COULDN'T EVEN IMAGINE FIVE YEARS AGO."

**—Adam Goldstein**
President and Chief Operating Officer,
Royal Caribbean Cruises

# WHAT'S NEXT FOR BUSINESS LEADERS?

Due to economic uncertainties and demanding consumers, companies today are operating in a dramatically evolving and unfriendly business environment.

New technologies and innovative, agile startups are threatening the livelihood of industry stalwarts. Consumers—more informed than ever—are calling the shots, forcing businesses to rethink their approaches to building brand loyalty and satisfying customer expectations. A volatile economy and socioeconomic inequalities are dictating everything from an organization's expansion plans to product inventory. And as competitive pressures mount, new partnerships and unexpected alliances are arising, as is the need for innovative change. The implications of this rapidly changing business environment include:

- **The need for institutionalized innovation has never been more paramount. Faced with the enormity of a competitive environment, demanding consumers, fluctuating customer needs and the acceleration of competitive threats, innovation is the key to achieving market share in a world devoid of natural organic growth.**
- **Organizationally, culture reigns supreme as the most important factor in enabling the attainment of corporate objectives. With an empowered and appreciated workforce, free of hierarchical organizational structures, there is more opportunity for increased effectiveness.**
- **The economic stratification of society will demand discrete segmentation strategies to satisfy clearly disparate functional and emotional needs.**
- **Corporations must revamp their views on competition. All market players, even competitors, should be considered potential partners in various levels of alliances.**
- **Technology is increasingly becoming a multifaceted enabler in effecting change.**
- **The millennial generation is consequential, both in its ability to contribute to a corporation's success by offering new ways of thinking, and in its presence as a new breed of customer with fresh aspirations and needs.**

Cognizant of this challenging business environment and its serious implications, it's up to business leaders to continue to stoke a passion for growth in order to stay ahead of the curve. "You must be fearless, in many ways, to drive growth," advises Ford of Land O'Lakes. Through constant reinvention, companies can achieve breakthrough performance, even in these uncertain and changing times.

AS COMPETITIVE PRESSURES MOUNT, NEW PARTNERSHIPS AND UNEXPECTED ALLIANCES ARE ARISING, AS IS THE NEED FOR INNOVATIVE CHANGE.

# METHODOLOGY

The data in this report is derived from a survey of 400 CEOs, COOs, presidents and managing directors conducted by Forbes Insights in October 2016. Respondents represented a range of industries, including retail, telecommunications, technology, financial services, healthcare, media and insurance. Geographies spanned from the U.S. and Europe to Asia. All companies had at least $1 billion in annual revenues.

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