“Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them.”

– Andy Grove
Oct 23, 2001

AAPL  + 2,217%
MSFT  + 5.9%
DELL  – 38%
Reinvention at Kodak

Success is inspirational; disaster is educational.
The Research

Study of 750 major U.S. business failures, involving publicly traded companies with significant losses from write-offs, discontinued operations, and bankruptcies, 1981-2005*

* Research assistance from Diamond

Outline

1. Three Insights
2. One Recommendation
3. Personal Implications
Insight I: Strategy Matters

"I think you should be more explicit here in step two."

Half a league, half a league,
Half a league onward,
All in the valley of Death
Rode the six hundred.
"Forward, the Light Brigade,
Charge for the guns," he said:
Into the valley of Death
Rode the six hundred.
Insight 2

Seven Failure Patterns, with Predictable Warning Signs

Failure Patterns

1. Illusions of Synergy
2. Faulty Financial Engineering
3. Deflated Rollups
4. Staying the (Misguided) Course
5. Misjudged Adjacencies
6. Fumbling Technology
7. Consolidation Blues
Misjudged Adjacencies
Red Flags

1. Driven by problems in the core business rather than opportunities in the adjacency
2. Lack expertise in the adjacent market
3. Overestimating relevance of core assets to adjacent market
4. Overestimating hold on customers, especially expectations of cross-selling or up-selling

Staying the Misguided Course
Red Flags

1. Seeing the future as a variant of the present and being unable to imagine truly radical threats
2. Comparing the new against the old, not accounting for the possibility that the new might kill the old
3. Refusing to consider all options
Insight 3

Why do bad strategies happen to smart people and good companies?
Misjudged Adjacencies

“Laidlaw realized too late that ambulances are a health-care business, with complex regulatory issues, not a transport business.”

– John Grainger, Laidlaw CEO

Staying the Misguided Course

“But it was filmless photography, so management’s reaction was, ‘that’s cute—but don’t tell anyone about it.’ ”

Source: New York Times, 5/2/2008
Outline

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“Decisions of the kind the executive has to make ... are made well only if based on conflicting views, the dialogue between different points of view, the choice between different judgments.”

– Peter Drucker
A Simple Principle

Never adopt a business strategy without independently stress testing critical assumptions and key pivot points.
Illusions of Synergy

“There was so much excitement about bringing in a new brand, a brand with legs... We should have had a couple of people arguing the ‘no’ side of the equation.”

– Bill Smithburg, Quaker Oats CEO

Acknowledging the Power of Incentives

“There is only one way to get a rational and balanced discussion: directors should hire a second advisor to make the case against the proposed acquisition, with its fee contingent on the deal not going through.”

– Warren Buffett
Strategy Stress Test

Outline

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Source: “Perfecting the Art of the Deal,” Paul B. Carroll and Chunka Mui
What does this mean for you?

- CEO
- Board of Directors
- Investors
- Functional Executives
- Business Unit Leaders
- Line Management
- Front Lines

Epilogue

- Looking for the best option, not perfection
- Business is a contact sport
- Ask the tough questions
- Independent stress tests make the strategy stronger or identify fatal flaws, whichever needs to be the case
Biography

Chunka Mui is a co-founder and managing director of the Devil's Advocate Group, a consulting group that helps business leaders stress test their strategies. He is also the co-author of two important books on business strategy. Chunka lectures widely, and he has spent more than two decades as a consultant on strategy and innovation.


Chunka was previously a managing partner and chief innovation officer at Diamond Management & Technology Consultants and a vice president at CSC Index. Chunka holds a B.S. in electrical engineering and computer science from MIT.

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