

perspectives LESSONS FROM MAVERICKS

STAYING BIG BY ACTING SMALL

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AT A GLANCE



MAVERICKS: CHANGING THE COMPETITIVE TERRAIN

In an era in which scale-based leadership is both less durable and less valuable, many large corporations find themselves looking over their shoulders for the next disruption that could reshape their industry. These disruptions often come from mavericks—small outlier companies that think and act differently from incumbents.

HOW MAVERICKS COMPETE

Mavericks use a number of means to shake up their industries, including launching innovative business models, deploying novel technologies, leveraging experience and ideas from other industries, and changing the industry's model of collaboration.

LESSONS FOR INCUMBENTS

A study of mavericks can help incumbents see the future of their industry, gauge the value of novel business models, and identify currently under-served market segments or needs.

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IN AN ERA IN which scale-based leadership is both less durable and less valuable than it once was, many large corporations find themselves looking over their shoulders for the next disruption—the iPhone equivalent that could reshape their industry. In many cases, these disruptions come from *mavericks*—small outlier companies that think and act differently from incumbents.

A group of strategists met recently in Geneva, Switzerland, to discuss the emerging theory and practice of outlier strategy.¹ The conference featured a “Meet the Mavericks” panel discussion in which four outliers described their experiences in successfully challenging incumbents.

Common to all four companies, the discussion revealed, is that they built a significant and profitable business by *changing the way their industry operates*. Here are some insights on what large companies can and should learn from outliers.

How Outliers Change the Competitive Landscape

Outliers use one or more of the following methods to shake up their industry:

- Focusing on customer dissatisfactions and gaps in the industry’s existing offerings
- Being first to deploy a novel technology
- Changing the industry’s collaboration model
- Deploying innovative business models
- Leveraging experience and ideas from other industries
- Turning scarcity to advantage
- Being more agile and adaptive than incumbents

Focusing on Customer Dissatisfactions and Gaps in the Industry’s Existing Offerings. Founded in 1995, Intuitive Surgical is a surgical-robot manufacturer, with annual revenues exceeding \$2 billion. The company’s focus has been on providing surgeons with the means to perform complex surgeries through small incisions. By identifying and serving segments in which the value proposition is clear, the company has been able to bring minimally invasive surgery to many patients who would have undergone surgery using more invasive methods.

Being First to Deploy a Novel Technology. This is most common in rapidly developing industries such as medical technology. But it also

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occurs in more mature industries such as oil exploration, in which small outliers were the first companies to adopt hydraulic-fracturing techniques to access shale gas and oil formations. In many cases, deployment of these kinds of novel technologies requires changes to the business model as well as the business ecosystem—a challenge that incumbents may find hard to embrace.

Changing the Industry’s Collaboration Model. Louis Dreyfus Telecom was among the first private telecommunications companies in France. When it entered the market, it lacked the network of the established leader, France Telecom. To spare itself the massive expense of building a new network unilaterally, Louis Dreyfus Telecom installed extra cables and sold the excess capacity to other operators—a novel approach in telecommunications. By so doing, the company was able to build the necessary infrastructure with minimal capital outlay.

Deploying Innovative Business Models. EasyJet, now the fourth-largest airline in Europe, built its business as a low-cost carrier by pioneering a novel business model and ignoring many of the industry’s unwritten rules. EasyJet and other no-frills carriers shook up the business model of the airline industry by moving from a hub-and-spoke model with a diverse fleet to a point-to-point model with lean operations and high-capacity utilization. By removing or charging extra for all noncore elements of the customer experience, EasyJet was able to cut costs while focusing on what customers care about most: flight availability and punctuality.

Leveraging Experience and Ideas from Other Industries. Louis Dreyfus Group had no experience in telecommunications prior to its launch of Louis Dreyfus Telecom. But its experience in such volatile industries as commodities and shipping helped the company recognize the boom-and-bust cycle the telecommunications industry was then undergoing. With this understanding, the company was able to leverage financing and M&A opportunities with exquisite timing.

Turning Scarcity to Advantage. Outliers without the resources of market leaders can turn this lack to their advantage. Particularly in developing markets, many outliers are forced to adjust their products and processes to match both their own limited resources and those of their customers. This “frugal innovation” allows them to do profitable business at lower price points and even to capture market share among cost-conscious customers in developed markets.

Being More Agile and Adaptive Than Incumbents. Outliers often place greater emphasis on agility than do established players. Quantum-Black, an analytics consultancy, set out to change the basis of competition in Formula 1 racing. Historically, decisions related to car design and race tactics had been made by grizzled engineers on the basis on their dozens of years of experience on the track. By applying advances in

analytics, QuantumBlack enabled F1 teams not only to monitor electronically what was happening on the track but also to play out a large number of scenarios in real time and adapt their strategies accordingly, both during and between races.

Lessons for Incumbents

A study of outliers can provide valuable lessons for incumbents. Many incumbents started out as outliers themselves, of course, but in the process of becoming market leaders specializing in specific opportunities, many lose their exploratory flair.

The first important lesson is that mavericks can help incumbents see the future of their industry. The open-mindedness, flexibility, and faster clock speed of small companies make them showcases of future developments when an industry is at a turning point. When Intuitive Surgical entered the surgical-robotics market, it was a pioneer in its field. Today, for many procedures, such as hysterectomies, robotics-aided surgery is more common than traditional open surgery. Observing models pursued by outliers can help incumbents identify key trends early.

Outliers can also provide a laboratory for novel business models. Because outliers lack the position, scale, and resources of incumbents, they are forced to build business models that are different from existing ones. In many cases, these models have subsequently been adopted by incumbents. Witness, for example, how full-service airlines have copied many of the practices of low-cost carriers such as EasyJet. Outliers can also model a repertoire of novel practices—such as organization models and decision-making processes—that incumbents can observe and adopt.

Observing outliers can also help incumbents identify customer segments or needs that are currently ignored or underserved, as well as the capabilities necessary to address them. The example of QuantumBlack helped other Formula 1 teams understand the importance of data and analytics as sources of competitive advantage.

Incumbents can also use outliers as an outsourced development lab. Whereas established companies can face many challenges in the development of innovative new products, this kind of disruptive innovation is the lifeblood of mavericks. Instead of relying only on internal innovation, incumbents can recognize and imitate new ideas from outliers, as well as identify a stream of attractive acquisition opportunities.

Barriers to Learning from Outliers

Outliers can thus provide valuable lessons for incumbents. But incumbents, being inclined to dismiss interesting outliers on the basis of their limited scale or scope, do not always hear or heed the lessons.

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For effective learning from outliers, incumbents must look beyond the outlier companies' current levels of success and focus on what they are doing and how and why they are doing it. Incumbents often discredit an outlier's practices if its financial track record deteriorates. A shift in circumstances or investor sentiment does not mean that there is nothing to be learned from an outlier's business model, practices, and ideas.

How to Learn from Outliers

Incumbents that aim to learn from outliers can employ a number of approaches:

It is crucial for incumbents to examine carefully every player that is implicitly betting against their business model.

Look to the periphery. The history of business is filled with tales of companies that failed to appreciate the threat a newcomer with a new business model or approach posed to their business model. Most successful outliers start by identifying and catering to an underserved market segment (for example, low-end customers seeking inexpensive, no-frills products or services) and then use the foothold they establish to expand into the market's core segments. Incumbents should, therefore, keep their eyes on their industry's periphery.

Conduct a “maverick scan.” The mavericks on our discussion panel agreed that the biggest mistake incumbents can make is to underestimate the threat outliers pose. Incumbents should periodically conduct a “maverick scan” to identify companies that could threaten their position and also to understand how mavericks are challenging the industry's core beliefs and assumptions. For an incumbent, this exercise might require suspending deeply held convictions. But it is a necessary precaution to avoid being taken by surprise. It is crucial for incumbents to examine carefully every player that is implicitly betting against their business model.

Ask what you can buy, beg, or borrow. One of the advantages that incumbents have over mavericks is their superior access to resources. Once an incumbent has identified a potentially threatening outlier, the incumbent has three options: acquiring the company and its competencies (buying), forming a mutually beneficial alliance that combines the outlier's new ideas with the incumbent's strong market position (begging), or copying or adapting the outlier's business-model innovations (borrowing). Which of the three options is best depends on the maverick's source of strength and the two companies' relative balance of power.

Think and organize like a maverick. If there are no outliers yet in sight, an incumbent can try to preempt the threat by becoming a maverick itself. This requires changing the mindset from that of an incumbent to that of a challenger—developing, for example, a greater willingness to experiment and a greater tolerance for risk.² It might also require organi-

zational changes. In many cases, an outlier's business model cannot be replicated by incremental changes to an existing model; rather, it must be adopted as a whole. To facilitate this, an incumbent might need to establish a separate business unit devoted to the new model, similar to the way several established airlines have set up their own low-cost businesses.

FOR MOST OF the twentieth century, business was dominated by big corporations. Rising turbulence and technological change are changing the balance of power, however, empowering small businesses at the expense of large ones. In the 1970s, fewer than 5 percent of companies that were in their industry's top three in revenues for a given year dropped out of the top three the following year; in the first decade of this century, more than 10 percent of companies in their industry's top three dropped out of the top three the next year, with 40 percent of those companies dropping out of their industry's top-ten positions or going out of business altogether within the next five years. The strong historical connection between profitability and size is also eroding, with the likelihood of an industry's revenue leader also having the industry's highest margins declining from 31 percent in 1979 to just 6 percent in 2011.

To thrive in today's environment, big companies need to be more paranoid. They must keep their eyes open for outliers and react rapidly once they identify a potential threat. But big companies should also act to preempt threats by *thinking like mavericks themselves*. In other words, for a big company to remain big, it may have to act small.

NOTES

1. Strategic Management Society Special Conference, "Strategizing Practices from the Outliers: Enabling 'Big Bang' Innovations," Lake Geneva, Switzerland, March 20–23, 2013.
2. See "Adaptive Advantage," BCG Perspectives, January 2010, https://www.bcgperspectives.com/content/articles/future_strategy_business_unit_strategy_adaptive_advantage/, for a fuller discussion of the strategies and capabilities businesses must develop or deploy for success in today's increasingly turbulent environment.

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