



Podcast: George Day: Keeping an Eye on Distant Events that Can Make or Break Your Company

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In Wharton marketing professor [George Day's](#) world, the term "peripheral vision" means the ability of companies to detect, interpret and act on distant signals, whether a rumor heard about a new rival, a newspaper article about a new medical device, or the popularity of a blog started by a dissatisfied customer. Day and co-author Paul Schoemaker have written a book entitled, appropriately enough, *Peripheral Vision: Detecting the Weak Signals That Will Make or Break Your Company*, designed to help firms avoid being blindsided by unexpected events. According to the authors, only 20% of companies have succeeded in developing peripheral vision well enough to stay ahead of their competitors. Day talked with Knowledge@Wharton's Mukul Pandya and Robbie Shell about his book.



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George Day podcast transcript: Keeping an Eye on Distant Events that Can Make or Break your Company

In Wharton Marketing professor George Day's world, the term "peripheral vision" means the ability of companies to detect, interpret and act on distant signals. Whether that's a rumor heard about a new rival, a newspaper article about a new medical device, or the popularity of a blog started by a dissatisfied customer, Day and co-author Paul Schumacher have written a book titled, appropriately enough, *Peripheral Vision*, designed to help firms develop this capacity and avoid being blindsided by unexpected events. According to the authors, only 20% of companies have succeeded in doing this well enough to stay ahead of their competitors. Day talked with Knowledge at Wharton's Mukul Pandya and Robbie Shell about his new book.

K@W: Your book illustrates the phenomenon of peripheral vision using several case studies, such as how the BBC dealt with the digital multimedia challenge, how Anheuser Busch responded to the low-carb diet revolution, how Mattel struggled with its Barbie franchise, and others. Can you pick a couple of these examples, or others, to explain briefly for us how peripheral vision works or doesn't work?

George Day: The story that I think most captivates people is about Barbie and how she lost her dominance in the fashion doll market: In five years they went from being queen of the hill to being second in the market, having lost their global position to a doll called Bratz. It's a remarkable story of a leader in a market being deposed, and largely because of lack of peripheral vision.

The problem began as the market evolved without them really paying close attention. They were used to a market where the target audience was girls between three and 11, and they were somewhat aware that this

target market was getting younger, but what they had not fully realized in, say, 2000, 2001, is that in fact the target market was down to ages 3-5. So there's quite an age compression going on here.

They were blindsided for a number of reasons, and in our book we emphasize that leading companies have a superior capability in sensing and acting on these weak signals.

The companies that we've studied that are really excellent in this, Anheuser Busch is certainly one of them, we learned a great deal from Johnson and Johnson, we followed companies like Citibank, which are, in our view, very good at this, and what we found in Barbie, or in Mattel more accurately, is that they lacked some key ingredients.

The ingredients we find in the capability are first of all, vigilant leadership.

In the case of Mattel, and the problem then with Barbie was that the leadership had been totally consumed with a financial crisis brought on by an ill-advised acquisition. They brought in a new CEO from outside the industry who, of course, as you can appreciate, would be rather insensitive to these kinds of trends, and he promised "stability" and he engaged in cost-cutting to get the finances in order. Well, that distracted everyone.

Their second ingredient, where they were deficient, was in the way they approached strategy. They were very much focused on keeping Barbie at the cutting edge of conventional fashion, but Barbie lost ground because girls were dealing with other kinds of fashion, and Bratz is very fashion forward, aggressive, pouty, and a very different kind of doll.

Mattel people had a whole lot of trouble dealing with the idea. They're also, in their strategy making, very concerned about cannibalization: They didn't want to bring out another doll that would eat into the Barbie franchise.

Both those ingredients served them poorly. Their culture, which we find is an important element to successful peripheral vision, was very product driven. The culture was also very cautious, to our surprise: A manifestation was that they had a hundred page manual on how to manage the Barbie brand, which was all about protecting the brand. It was not about being adventuresome, trying new things.

They really didn't listen very well at all to the scouts on the periphery, and in our exploration of the periphery with many companies, especially companies like Intel, which is another excellent company. Andy Grove puts great stock in what the scouts were saying, the people way out on the periphery, who may not be able to really articulate what was happening, but he would listen to them and encourage them. This is leadership.

So, in their culture, they also did not share information well, it was very product-centric, if you like, "product siloed."

Their knowledge systems were fascinating, because they had no lack of data. In fact they had more data than they really knew how to interpret, and one of our messages is it's not so much about the collection of the data, it's about asking the right questions and interpreting the answers correctly. They got lost in 200 or so fragmented enterprise systems that couldn't easily share their data. So they had the data, which probably would have revealed this pattern.

It's a little bit like the 9/11 commission, finally came to the conclusion we had lots of warning, we just couldn't, in the famous saying, connect the dots. And that's what Mattel was unable to do.

Last, the fifth ingredient to success here is how they're structured, and that is their organizational structure. For example, the boys and girls divisions didn't either interact or transfer people: They had structural problems, very product centered organization.

Those are the ingredients we find in outstanding companies, and as you mentioned in your introduction, we found only about 20% had the right kind of capability -- Manifested particularly in leadership, that's

the big driver, to help them deal with weak signals from their periphery.

K@W: That's very interesting. As the father of an eight-and-a-half year old daughter who has three Bratz dolls, I can really appreciate what you are saying, and you're quite right, about the pouty aspect. They definitely are very different from Barbie.

Why is peripheral vision so difficult for companies to develop?

George Day: Well, let's go back and be careful what we mean by peripheral vision. It's not only the sensing of the weak signals, but as I indicated in the Barbie story, it's all about the interpretation, and then of course taking appropriate action. It requires probing and so forth.

The difficulty ultimately rests in the nature of the periphery: There's a lot of weak signals, and we use the term signal-to-noise ratio, and so the number of signals to the amount of confounding and confusing noise is upwards of one to 20, or worse.

You have to have a way of sifting out the wheat from the chaff, and this is very difficult, and most companies just don't have the right kind of structure and the right kind of inquisitive leadership to ask the right questions.

You have to have formal processes in place: We found that the companies that really understood their periphery asked probing questions. For example, I think a good illustration of the kind of question we have in mind is ones that the nanotechnology companies are using.

By the way -- When we talk about peripheral vision, this applies to all organizations. We did a lot of work with technology companies, consumer products companies, but in the case of the nanotechnology companies, the question that yielded the most insight was, what other industries have similar characteristics to ours that we can learn from?

Right away they came up with, "A-ha! We need to understand GMOs, genetically modified organisms, in Europe!"

And of course, that has been a debacle: The European consumer has rejected GMOs, and they reject them for a variety of reasons. They don't understand the benefits but they see the problems. They're introduced by big, faceless, usually American corporations. Their side effects over the long run are uncertain.

Many parallels can be found with nanotechnology, which is somewhat even more compounded by the fact that many nanotechnology developments are internalized through drug delivery systems, little nanobots that travel through your capillaries, so there's tremendous invasion of personal privacy, introduced by, guess whom, the large faceless global corporation.

There are at this stage no real standards for managing and monitoring the nanotechnology applications. So, the industry -- and interestingly, it's a Japanese company that took the lead on this, Matsushida -- was able to take these lessons and work with the industry to develop a comprehensive program to avoid being blindsided by the industry. But they could see this one coming, and were able to take action.

A lot of it is about identifying surprises that could be either threats or opportunities, and dealing with them sooner. And I want to emphasize, you will eventually interpret the signal from the periphery, because it will come knocking on your door. What you have to do is see these things earlier than your competition; that's how you win.

K@W: OK. Where are companies most likely to be blindsided, or to use your words, what is their biggest threat? Is it from new products, new competition, unexpected developments in the global markets?

George Day: Yes.

K@W: All of the above.

George Day: All of the above. And in fact we make no presumption about where the threats and opportunities are going to come from, It could be any one of those zones: It could be out of the media, who are looking for a story, it could be from the periphery of your own organization, it could be from technology change, depending on the industry you are in...

More generally, we find that the problems arise when you're working, and particularly acute problems arise, when you're working in sectors that are highly volatile. There's a rapid rate of change and a rapid involvement of the government for a variety of reasons. Changing regulations can blindsides you globally.

So, we look at that seven different sectors of your broad environment, and focus on each one of them, and any one of them can be a problem. In fact, it's the ones you're not paying attention to that often are the source of the biggest surprises.

K@W: I have a couple of related questions. I wonder if I could go back to something you said earlier about separating the wheat from the chaff and the noise to signal ratio.

How can companies tell the two apart? Is there a way of really finding out what is really likely to be something that results in a substantive change in your business, versus something that's likely just to be a distraction?

And, related to that, how difficult does this whole process become as emerging economies like China and India come up, and there might be a company that comes out of just nowhere and takes over your industry. Could you talk about both those things, please?

George Day: Let me start with the latter observation, which is absolutely accurate, that we're finding that many companies have emerging competition out of China, India, that is a total surprise to them. So how does one deal with this, how does one get an advance warning?

I do want to emphasize, all you need to be able to do is see them faster than your rivals, in order to be able to take effective action. So our process has five distinct steps to it.

The first one is scoping, and so there's a variety of exercises we have including scenario analysis, for deciding exactly where to probe. These are out of what we call guiding questions. I revert back to the notion of the nanotechnology industry asking themselves, what other industries had similar experience.

The probing questions, we can't look everywhere, so part of the answer, then, right at the outset, Mukul, is have to narrow your search, because we want to focus on just those things that are highly pertinent.

Next step, then, is to do the formal scanning, so, if we do a scenarios analysis and my colleague Paul Schumacher did one with the Enron credit union, which is absolutely fascinating and I think it illustrates the point, one of the probing questions we like to use is what are the most unimaginable scenarios that you could think of: Think of something that would be really unexpected but devastating if it occurred, and they did come up with this idea in 1998, mark my number, that Enron might go bankrupt.

Of course a credit union, Enron credit union in particular, is totally anchored to their client. With that insight, they said well, let's monitor it so the learning process goes, we've identified a potential area, we're going to do a lot of monitoring, and collecting information, just so we can get early warning on this.

Then, we have to be able to interpret it properly, that's step three, then we probe hard and then finally we take action. And they went through that whole process, coming out the other end and they said, this may be a low probability but there's some things we can do to limit the damage.

The first thing they did was to go out and find some new customers, so they wouldn't be totally reliant on Enron; second is they disentangled their systems from Enron, because had they gone down with Enron it would have been a systems problem. Then they tried to reposition themselves in the market with an identity that was not solely tied to Enron, more focusing on their capabilities. Well, when the unexpected did in fact come to pass, they were somewhat prepared.

They had a substantial run when bankruptcy was announced; they lost about 50% of the customers, but they didn't lose 100%, and they have survived and begun to turn the corner.

K@W: How does a leader foster peripheral vision throughout the organization, and are there rewards for managers and employees who do this?

George Day: We found, in a study of about 170 companies now, that leadership is the dominant determinant of how good your peripheral vision is, because it shapes everything. It shapes your willingness to think broadly strategically, it shapes your willing to invest resources.

If you have a CEO who is really more like a COO, and this is a comment made to me by a very well known investment banker who invests in companies, and I can't tell you his name, but it would be instantly recognizable, he said, I find about 90% of CEOs are more like COOs, that is, they're focused on making their short term numbers, this year, maybe next year. The 10% that I'm interested in are the ones that are really curious.

This inquisitive CEO is one that asks a lot of probing questions: Think of Andy Grove, or Paul Misano, as examples of people who push their organization to think more broadly. They are people that are extensively networked, they have lots of sources of information, and people feel comfortable in passing on weak signals to them.

The book that we found very influential in this regard was Andy Grove's book "Only The Paranoid Survive." He has a number of examples in there about the mavericks, the outliers, in the organization, feeling comfortable in coming to him.

In many organizations they're either cast out, they're ignored, and they'll get a hearing or the information they have does not bubble up to the top.

We found out some personal characteristics of these leaders, a question of how they manage the strategy process, and definitely a networking phenomenon. They do not rely on material that's just digested and sent to them; they're out there restlessly talking with their leaders. They seek out opportunities to learn, and its that very openness to new ideas, to weak signals that might be possibilities, that I think distinguishes the true leaders.

K@W: One final question, and that is, you mentioned that only 20% of the companies succeeded in doing this well. For companies that are part of the remaining 80%, if you were to give them one or two concrete words of advice, what would those be?

George Day: The 80% are those companies that are in highly volatile industries, and of course that implies most of them. You asked earlier about globalization. Most companies are now either in global markets or are globalizing, so they have to learn how to scan much more broadly. I would offer two pieces of advice.

One is, the whole question of redirecting your strategy process, driven by the leader to ask probing questions about the periphery, and we have a whole process for doing that in there.

Second, I would put some structural things in place, so that if a weak signal does come in to the organization, that everybody knows where to send it. So, suppose you hear about a new business

opportunity: A sales person is out there talking to a customer, who says, your product is O.K. But it doesn't really meet my needs, my needs are changing. Where does that sales person indeed send that?

You need to have a well defined point of contact within the organization that encourages and nurtures these kinds of ideas, and provides enough incentive so that your sales person, or whomever you want to hear from, is in fact going to be willing to take the time. We find that often, sales people get really interesting insights, because they're out on the periphery, and they have no interest in sending it to headquarters. They say, well, it's a big black hole, I never hear what happens to the suggestion, or the rumor, whatever it may be, and there's no reward for me in doing it, and it just takes a lot of time.

That's how organizations can both pinch off signals but by the reverse token they can also nurture and encourage them.

K@W: Thanks very much for talking with us.

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