Chapter 1

Patterns from the Past

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"1.75%? Why would I care?" asked the senior executive as he flippantly tossed the PowerPoint page onto his conference table, put his foot on the table, leaned back in his chair, and, yes, stuck his hand into his pants like Al Bundy in the 1990s sitcom *Married with Children*.

Steve and his colleague exchanged a knowing glance. They had worked together for 15 years and by that point they basically shared a brain, which, at that point, was thinking: "Is this guy for real?"

They were in his lavish office, sitting at his conference table. Steve noticed the golf trophies, pictures with celebrities, and large and expensive desk. The office screamed, "I'm successful!"

It was 2009 and, given the difficult economic climate, Steve and his colleague were being especially aggressive in getting out to meet new executives. They had done some work for a large, diversified media and communications company, creating a segmentation of consumer behavior in its industry. Their client, pleased with the work, was looking to present it at an upcoming industry conference and wanted to get some reactions from executives at peer companies – hence the reason they were sitting in Al Bundy's office.

The work they were sharing included a detailed segmentation of the consumer landscape for communications services like Internet, phone, video/television packages, and security. They had surveyed thousands of customers about their behaviors and actions. The survey revealed the typical and expected results: when people got married or had families, their Internet and video usage dramatically changed from when they were single. Expenditure on things like pay-per-view and other channels tended to be higher among this group. With more devices in the house, they also were willing to pay for higher Internet bandwidth.

This wasn't news. Companies in this space knew and loved these customers. They paid their bills on time, they didn't move, and as a result they didn't "churn." And, back in 2009, they probably had a landline, too. Therefore, if you successfully acquired one of these customers, you were likely to retain them, leading to a steady, predictable stream of revenue.

At the other end of the spectrum were the singles. They typically lived in an apartment and had more focused communications needs. This was a group that tended to select the most basic Internet and television packages. Sometimes this choice was driven by personal preference (think people who like to read at night). But sometimes this was driven by affordability, where having lots of channels could be expensive. You could predict the reasons for this choice based on income levels (typically tied to specific geographic locations) and whether the home was rented or owned. Some singles with higher disposable income bought a more comprehensive communications package, but it typically included just video and Internet; even in 2009, this group didn't want a landline – a mobile phone was just fine for them. These singles, perhaps because of their income or preferences, were willing to spend more on faster Internet speeds and specialty channels.

Because of the high capital intensity of the communications and entertainment distribution market, players in this industry wanted to win *all* of these customers. It wasn't economically viable to focus on just one segment, so Steve's work was designed to help companies customize their product, pricing, and marketing messages to better target the needs of each of these groups. For instance, if you had an area that overindexed on owned homes, that was a sign that there were probably a lot of families with kids, and you'd advertise a comprehensive package. If you were targeting an urban area with a lot of apartment renters, you'd make different choices.

None of this was particularly earth-shattering in 2009. The work was solid, but the patterns were generally predictable to experienced executives in the space.

Except for one small anomaly.

A seemingly inconsequential group of customers – that 1.75% that the exec had dismissed – was exhibiting some unique behaviors that made it challenging to assign them to one of the larger segments. When segmenting an industry, it's preferential to get to between four and eight meaningful segments of the marketplace that are small enough to be unique but large enough to merit individual focus. But, from an analytical perspective, the 1.75% just didn't fit into any segment.

These were younger people, so Steve and his team tried to type them to the segment with other single people. But they didn't really fit. They had lower income, so the team tried to group them with the budget-conscious single group, but they didn't pick the lowest-cost Internet. They actually wanted high Internet speeds. They tried to bundle them with the higher-income single people, but those folks didn't buy TV packages. Most of the time they would pick the most basic TV package, and many of them didn't even have a TV package at all. If they could buy "just Internet," they would – but at high speeds.

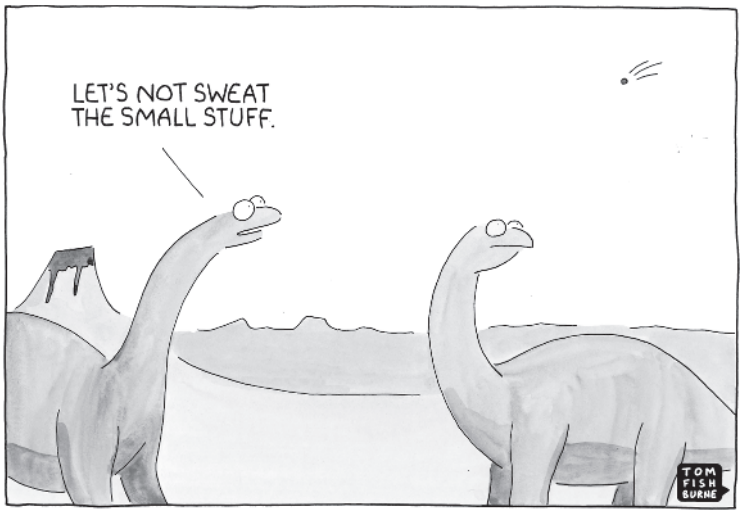
If their Internet provider required them to also purchase television or phone, they might purchase Internet elsewhere, sometimes getting a cellular hotspot (previously you could just use your mobile phone as a hotspot) instead of a wired home connection.

When Steve and his team further investigated this group and tried to understand whether they were just uninterested in video content, they found the opposite. This cohort of singles was quite interested in video content, but they weren't watching traditional network programming. They watched short-form videos on the then-new YouTube. They watched snippets of online video and they subscribed to the new streaming service offered by Netflix, introduced a year earlier, which had only around 1,000 titles and set a limit of 18 hours of streaming per month, a far cry from the Netflix that has become both a noun and a verb.[1]

Intrigued, Steve and his team dug deeper. What they found was that this behavior was rooted in preferences, not cost: this small group simply preferred to consume content in this way. The segment wanted to watch the shows they wanted to watch when they wanted to watch them. They wanted smaller, bite-sized chunks of content. They wanted it ad-free (but, given that they were budget constrained, they would tolerate ads if that helped make it more affordable). And they were pretty agile about finding ways to view their favorite shows online without paying for them, if it could be done.

In short, they consumed content in this way not because it was *cheaper* but because it was *better* – although the fact that it was also cheaper made it a zero-trade-off change for consumers.

But the executive wasn't buying it. He seemed more interested in discrediting the research methodology than the findings.



Remind me, how many people were in your study?

How did you weight your sample?

Did you conduct this study nationally or regionally?

Was the survey conducted online or on the phone?

After glancing at his colleague, Steve asked, "Are you curious to learn more about the behavior of this group of customers? It seems as though if the group became more prominent, it would challenge the way you make money."

It was at that point the executive responded with his *why would I care* response and arrogantly stuck his hand in his pants.

The behavior of this executive is part of a pattern that we have observed time and time again with leaders of all kinds – and it's one of the core reasons we wrote *Provoke*. When an anomaly emerges in their space, something that might be important, the vast majority of humans behave in a persistently predictable pattern. It's as if executives are riding that

roller-coaster but fail to recognize that they are in fact going up a steep slope that will at some point tip over into the ride of their lives – and not in a good way. The potential of the trend – if it *might* happen – shifts to when it *will* happen. Too many executives fail to anticipate that phase change. They:

Miss the trend

Deny the trend

Analyze the trend

Respond meekly to the trend

MISS THE TREND

The first issue that people seem to have is that they don't even see things that are happening under their noses. In the case of the cord-cutting behavior described above, the consulting team might have missed it themselves if there had not already been some reporting of the then-fringe behavior. But they also had the benefit of having a team of young people, many of whom were themselves contemplating cutting the cord because they simply could not understand why anyone would want to pay for something that forced them to watch a show at a scheduled time versus when it was convenient for them.

In general, we miss trends not because we aren't looking, but because our brain processes the raw data of what we see through an unconscious filter of our own experiences. Unless you consciously learn how to turn that filter off, it can be hard to see something right in front of your nose.[2]

DENY THE TREND

"1.75%. Why would I care?" The preceding experience with the executive is an example of denial. Denial can take many forms.

Steve saw a subtler form of denial, which was to question and discredit the observation. We've seen with other trends (e.g., humans' impact on climate, vaccines) that denial can include just an outright refutation of the findings. But after missing something for a long time, having it pointed out to you frequently sparks a negative response and deniers will dig in. The lesson? People don't like to be shown they have missed something important.

(Over)analyze the Trend

After a period of denial, some will turn to analysis. Executives will start to ask lots of questions about how big it is, how fast it's moving, how many people it will impact. And there are meetings . . . so many meetings . . . and all with their requisite PowerPoint decks. We frequently find that some analysis leads to more analysis. The more you look at something, the more you find other ways you could look at it. This is all designed, of course, to give executives more specificity on the problem (or opportunity) their business faces. Rarely do we see meetings that focus on analysis end with a decision to take action in the market; most of the time, the conclusion is that the action required is to go do more analysis.

Respond Meekly to the Trend

Sadly, in the rare cases where we do see executives take action – after an unduly long period of study – it's often too little, too late. Just think about the efforts of brick-and-mortar department stores to respond to the long curve of the online shopping trend. Instead of making deliberate choices to make what we call "minimally viable moves" in the face of early signals, they instead waited for evidence of the trend to hit them in the face and then had market forces dictate their path forward. There's often a theoretical debate in boardrooms about whether to

pursue a "first mover" or "fast follower" strategy. Unfortunately, the fast follower position is almost always framed as "wait for someone to be successful in the marketplace to *get started*." This is a choice that is increasingly doomed to failure given the degree to which markets are becoming more "winner take all." And, let's face it, most "fast followers" are really dawdlers.[3]

This pattern of behavior, which we've seen over and over again, prompted us to write *Provoke*. There are many trends we see in our line of work as strategists and consultants that are labeled as "uncertain." A chasm separates *if* something will happen (what we think of as true uncertainty) from the uncertainty of *when* something will happen. This difference matters immensely. It dictates how you act in the face of the trend, and the failure to recognize this nuance in meaning is what leads most leaders to miss, deny, analyze, and respond meekly, following the pattern of our hand-in-his-waistband executive.



THE SOLUTION IS TO *PROVOKE*

Our executive, and the organization he represented, had blinders on – blinders that we all wear, to one extent or another – that narrowed its organizational peripheral vision and ability to evaluate the importance of the changes found on the periphery. These blinders – constructed of basic human biases that we all share – mean that the playing fields we observe are narrower than the real world. Our maps, as the saying goes, are not the territory.

Combined with organizational dysfunction – overanalysis; meetings with no end or, seemingly, any point; and so on – they lead to systematic inaction. That inaction means that rather than setting our own course, we let others make decisions for us or limit the range of our choices – just as brick-and-mortar stores did. Our momentum (really, our inertia) will drag us into a predictable series of choices that will lead to failure in the face of a new reality represented by the glimmer of those trends.

These biases are the subject of the chapters of Part I, Predictable Patterns. We also offer solutions you can start implementing now to overcome some of these issues.

In Part II, Principles of Provocation, we introduce five moves you can make depending on whether you face an "if" or a "when." These are: envision the future, position yourself for success, drive change, adapt to changing circumstances, and activate your ecosystem. These tools will help you avoid those biases that prevent meaningful action, expand your peripheral vision to better assess your playing field, and prompt you to actually DO SOMETHING!

Some people are more successful at circumventing the problems caused by our biases. In Part III, Profiles of Provocateurs, we present three stories – inspirational ones, we

think – of executives who have provoked their organizations to create a better future.

But first let's return to our friend with his hand down his pants and perhaps a bit of egg on his face today now that we're all cord cutters. Steve and his colleague were unable that day to convince him to take an interest in that small group. It remained, at least on that afternoon in his fancy office, too small a segment to matter. We don't know if or how much his company debated the idea later, but it's fair to characterize their market responses as meek relative to Netflix's. They were too late to catch up (although we're sure they thought of themselves as fast followers). It took them a while to get around to taking action, despite already having many of the requisite capabilities within their organization.

In the meantime, Netflix's stock price (adjusted for splits) has gone from roughly $4 at the beginning of 2008 at the time of the meeting to over $500 at the time of our writing this, an increase of more than 100-fold. At the end of Q3 in 2020, Netflix was approaching 200 million paying members (the last published statistic at the time of writing) and had a market capitalization in excess of $200 billion.

At the same time, the executive team at our client (who introduced us to the person in the story) followed a different strategy. Based on their early insight into this trend, they realized they were now effectively a *wind-down firm*. A wind-down firm is a cousin of the *pop-up firm*, which itself is launched to capture a narrow window of market demand – think of a Halloween store that pops up on October 1 and disappears on November 1. The difference is that the wind-down firm had as its original intent the goal to "last forever," but is now riding the wave to obsolescence whether its executives know it or not.

Because of their early insight, our client realized that, without meaningful reinvention, their business model was

dead, despite still being highly profitable. So they sold the business. The choice to sell was ultimately a good one for them. They were able to cash out in time, whereas companies with similar assets, capabilities, and business models continue to struggle with the growing segment of customers that prefers to have more control over their content experience through companies like Netflix.

While choosing to become a wind-down firm is a completely legitimate strategy choice, there is a lot of potential value creation in adapting and successfully pursuing new market trends. That's what we want to explore with *Provoke*: as leaders, we all need to have better pattern recognition capability to enable us to spot trends and move to where the world is going to be. Even if you ultimately decide not to pursue the trend, the moves we describe will ensure you are making that decision on your terms and not those dictated by market forces.

But before we get into how to spot those trends, we need to identify – and correct for – the fatal human flaws that get in the way of us seeing these trends in the first place. In Chapter 2, we'll address how to go from "ifs" to "whens" – that is, how to stop treating trends that are already unfolding as mere possibilities.