



STRATEGY

Planned Opportunism

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In the first few years of the new millennium, at the height of the boom in the offshore call-center business, Tata Consultancy Services, the Indian technology-services giant, made the counterintuitive decision to divest its call-center operations.

Why? Because although outsourced call centers were a fast-growing piece of its current business, TCS's leadership had come to believe that they would soon be burdensome. Employee churn was exceptionally high, forcing the HR department into a round-the-clock effort to hire and train as many as half a million new reps annually. This drained resources and distracted the company from its real goal—to develop more-sophisticated capabilities and service offerings. By moving out of call centers even though demand was stronger than ever, TCS was acting to prevent the right future from being swamped by the wrong one.

TCS's move was the result of what I call *planned opportunism*. The idea starts with recognizing that the future is unpredictable, shaped by nonlinear changes and chance events—the “opportunism” part. How you as a leader respond is the “planned” part. Planned opportunism requires sensitivity to weak signals—early evidence of emerging trends from which it is possible to deduce important changes in demography, technology, customer tastes and needs, and economic, environmental, regulatory, and political forces. Attention to weak signals gives rise to fresh perspectives and nonlinear thinking, which help an organization imagine and plan for various plausible futures.

TCS's leaders had picked up on several weak signals. They saw that technologies were moving to the cloud, allowing business services to be delivered as an online utility rather than through traditional enterprise-owned technology

infrastructures. They rightly believed that global businesses would eventually demand higher-level, more strategic outsourced services. (Sales revenue per employee tended to be higher for higher-value-added services, so by focusing on those services, TCS could significantly improve the top line with a smaller workforce.) And they knew that TCS needed to attract increasingly sophisticated talent, which would require HR's recruiting efforts. They concluded that call centers would not lead to—in fact, would get in the way of—the future they wanted to pursue.

TCS was acting to prevent the wrong future from swamping the right one.

Planned opportunism is a systematic process not only for recognizing impending changes and ascertaining what opportunities they may offer but for developing experiments to distill and scale up promising nonlinear business ideas. It accomplishes three exceptionally important things for the enterprise: (1) It creates a circulatory system for new ideas; (2) it develops the capacity to prioritize, investigate, and act on those ideas; and (3) it builds an adaptive culture that embraces continual change. It will enable your organization to be proactive rather than reactive. To be sure, planned opportunism can accommodate scenario planning and other conventional tools and cultural aspirations, such as a flatter organization and a more empowered workforce. But it is not just an event, an activity, or a tool. It is a discipline encompassing processes and behaviors across many functions that will strengthen resiliency and lead to growth.

Identify and Capture Weak Signals

Organizational resiliency begins with a clear understanding of the circumstances that either favor or threaten your business. Consider the case of Hasbro, the toy and game maker. By the mid-1990s significant signals that technology was likely to disrupt the gaming space could be discerned. They included the rise of PCs and the debut of Atari's video gaming system. But Hasbro also noted weak signals: The U.S. birthrate was falling, the population was becoming more ethnically diverse, and more households included two-income couples. At the same time, accelerated globalization stimulated the company's appetite for growth in untapped markets around the world. Hasbro could not have predicted all the changes that would affect it over the next 20 years, but it picked up on enough weak signals to point it in productive directions.

How Hasbro Responded to Nonlinear Change

From 2001 to 2015, a period that included the dot-com bust and the Great Recession, Hasbro's stock price rose from \$11 to \$72, while that of its main competitor, Mattel, rose from \$15 to just \$25. Hasbro thrived by responding nimbly to the weak signals that heralded dramatic nonlinear changes in the family entertainment industry. Below are some of them.

DISRUPTIVE TECHNOLOGIES

Monopoly and other board games dominated in the early 1990s, but new technologies soon disrupted the gaming space:

- Games found a new platform on digital and hand-held devices.
- Games as apps created dramatically lower entry barriers.

Hasbro continues to deftly navigate frequent shifts in the industry because it has a process, developed by CEO Brian Goldner, for tapping into weak signals and envisaging futures that might develop from them. The process involves asking three basic questions: What factors and conditions does our current success depend on? Which of them might change over time (or are changing already), thus putting current success at risk? How can we prepare for these possible changes in order to cushion or even exploit their impact?

Goldner's process works for Hasbro, but other organizations can employ different, equally effective approaches. TCS now uses an internal digital platform, Ultimatix, to encourage its more than 300,000 employees to share their perceptions about discontinuous industry shifts with management and

- Digital games spread virally and achieved global volumes, upending traditional revenue models.

NEW DISTRIBUTION CHANNELS

In the early 1990s toys and games were distributed primarily through brick-and-mortar retail outlets.

Then:

- Big-box stores began squeezing out mom-and-pop stores and boutiques.
- Amazon and other e-commerce players emerged.

FUNDAMENTAL CUSTOMER SHIFTS

In 1995 Hasbro's primary target consumers were 15 and younger. Over the next two decades:

- Dual-career parents spent less time with their children but had more disposable income. Per capita spending on children increased.
- Parents began to prefer toys and games with apparent "enrichment" value.
- As children became increasingly hyperscheduled, competition for their time and attention intensified.
- They were alone more often and preferred fast-paced video games.
- Grandparents, who often cared for young children and now had more disposable income, became attractive target consumers.
- More people were playing games while commuting on trains or buses.

NONTRADITIONAL COMPETITORS

Since 1995 new competitors have emerged:

- Technology and consumer electronics companies such as Electronic Arts, Microsoft, Sony, and Nintendo
- Smartphones and other products from the convergence of telecommunications, computing, and consumer electronics
- Media and entertainment companies such as Disney
- Tech-savvy local gaming companies from China and India
- Big players that offer private-label store brands

GLOBALIZATION

In 1995 Hasbro was primarily an American company. Now globalization has provided new opportunities:

- Birthrates are rising in poor countries while declining in rich ones.
- Emerging markets—with their differing concept of play, low affordability, and unique distribution channels—demand new competencies and new business models.
- They offer a low-cost manufacturing base and are

one another. The company has developed a software application that sifts through the huge volume of responses and identifies common themes.

Ultimatix is one example of a free-for-all approach to collecting weak signals from employees. Creating a task force to perform the same function is another option. When I consulted for GE in 2008–2009, we designed a process for brainstorming about weak signals that might affect GE Healthcare's future business in India. The challenge was to build a business to serve nonconsumers—in this case, rural Indians with limited access to health care—while competing against nontraditional rivals, including small local players. We assembled a carefully chosen task force: 20 company executives (not necessarily at the top of the organization) and 20 outsiders, including hospital administrators, health care academics, government officials, nonconsumers, and regulators. The members of the task force had very little vested in GE Healthcare's past—specifically, its high-end medical imaging equipment, which it sells at a steep price to leading Indian hospitals. They spent a week identifying weak signals that suggested a variety of nonlinear shifts, including extensive unmet health care needs, low customer affordability, a shortage of hospitals and qualified doctors, an underdeveloped health insurance industry, poor physical infrastructure, and good digital connectivity.

The task force and free-for-all approaches could conceivably be used in combination. Ideas gleaned from an Ultimatix-style system might be refined by a task force, or the latter's output might get feedback from the crowd. Whatever approach an organization takes, it is important to remember that a good process must address the following questions:

- Who will be your customers in the future? What will be their priorities?
- What disruptive technologies might open up new opportunity spaces?
- Whom will you be competing against in the future, and on what basis?
- Will your go-to-market approach change fundamentally in the future?
- What are the potential regulatory reforms?

sources of inexpensive and highly skilled talent.

At this stage of the process, it is not necessary to narrow down the list of weak signals. Be as divergent and expansive as possible.

Develop Hypotheses About the Future

Weak signals are valuable only to the extent that they generate ideas about how to access currently unserved parts of the market or to create entirely new markets. To convert those ideas into real opportunities, you must resolve several uncertainties, which can be framed as hypotheses. You can develop the hypotheses by assembling a cross-functional team and asking it to deliberate on this simple question: What assumptions must be true for this idea to be highly profitable?

Hasbro faced significant uncertainties when it chose to make a concerted push into the technology-based gaming space. In 1995 no one knew how quickly the internet would become a potent channel. Possible competitors and partners had yet to be identified. It was unclear whether the PC would remain the dominant platform for home technology or be replaced by something else—television or perhaps a totally new device. And as the web matured, other questions emerged: How would companies serve their customers in both the physical and virtual realms? How would the economic model change when the industry moved from analog dollars to digital pennies?

Hasbro reframed these uncertainties as hypotheses that spelled out potential opportunities. For example: We can develop successful game titles based on Hasbro brands. We can develop successful titles from scratch. We can keep development costs and time frames minimal enough to be profitable, even as computers and other gaming platforms become more sophisticated. With more people buying home computers, we can reduce costs via electronic points of sale. We can expand brand awareness by creating a presence on the web. We can increase market share by attracting new demographics. We can increase sales among current customers by expanding our product line.

Similarly, in the late 1990s Mahindra Group's automotive business, Mahindra & Mahindra, had to develop an assortment of hypotheses in the midst of transforming its future. Historically, M&M had assembled vehicles for Western automakers to be marketed to Indian consumers. Now, however, M&M believed the time was right to launch a new business in designing and manufacturing original vehicles, in particular its own line of SUVs.

Weak signals can be interpreted as opportunities, as risks, or as both.

In the wake of economic liberalization, India's middle class was growing rapidly. Weak signals suggested that these new consumers would embrace well-performing vehicles of Indian origin that were styled to local tastes and priced in line with local means. However, the profitability of the new venture required that M&M test hypotheses involving its understanding of customer preferences, the size of the addressable market, the appeal of the SUV to the growing middle class at the right price point, and M&M's own capacities, including its ability to design and manufacture the SUV cost-effectively and to reduce costs by leveraging the strengths of suppliers.

Weak signals are typically neutral in their implications and can be interpreted as opportunities, as risks, or as both. Moreover, they can be real signals or just noise. Thus their usefulness grows as your business begins to plumb their implications by converting them into new business ideas, reducing the ideas to hypotheses, and then testing them.

Test Hypotheses with Low-Cost, Low-Risk Experiments

Mahindra & Mahindra's SUV venture, the Scorpio, was a high-risk gamble, to be sure. The company had no proven competency in auto design, and the projected cost to develop the Scorpio was \$120 million, which would have been M&M's biggest investment to date.

The company decided to pursue a strategy of frugal engineering. Frugality combined with inexperience drove some especially innovative solutions in which experimentation was a crucial enabler. One experiment was M&M's development of a new version of an existing Jeep (licensed from the U.S. automaker) that could be used as a test bed for Scorpio parts, technologies, design elements, development, and marketing strategies. According to Pawan Goenka, who headed the Scorpio project (and is now M&M's executive director), the test bed vehicle—called the Bolero—was to be smaller and less expensive than the Scorpio. It was fast-tracked to get to market a full two years before the Scorpio, allowing sufficient time for the experiments it hosted to produce results and for the Scorpio to be tweaked accordingly. For example, M&M used the Bolero to test its ability to design and manufacture body panels, which the company had previously outsourced. “Scorpio was a full 360-degree innovation,” Goenka says. “It was a new product category aimed at a new market and relying on a new development strategy, radical cost goals, and a new business model. So we used Bolero as an experiment with an investment of about \$5 million. We learned a lot from Bolero before placing the bigger bet on Scorpio.”

Though the Bolero was not as finely appointed as the Scorpio would be, it was designed to be stylish and comfortable and at least as much fun as functional. And it tested new marketing approaches that emphasized messages and concepts more subtle than those M&M had been accustomed to using. The company's marketing had previously been “very generic,” according to Goenka, focused more on function and utility than on style and sizzle. The Bolero broke new ground by inverting those virtues and establishing credibility with buyers in urban centers. Consumer acceptance of the car's stylish design and appointments validated the assumption that the Scorpio would appeal to India's cosmopolitan middle class. The team also realized that no market for SUVs yet existed in India, so that designation would be meaningless. “Instead, we just called it a car,” Goenka says.

The marketing campaign also deemphasized the Mahindra brand, which was most strongly associated with manufacturing Jeep-like vehicles, mainly for rural customers. In advertising, Goenka says, “we called it the Scorpio—then, sort of below in fine print, ‘by Mahindra.’” TV commercials tried to capture the aspirational feel of a “typical commercial for Rolls-Royce,” he adds, “which the Indian public connected to very well.”

Finally, the Bolero experiment was a chance to test the idea that the Scorpio's frugality could be increased through an innovative approach to supplier relationships. M&M's lack of experience gave the company an incentive to learn from suppliers rather than dictate to them. So it provided clear performance characteristics and budget targets and enlisted suppliers as design partners. Because this was atypical in the auto industry, it took a while to catch on. But M&M discovered that many suppliers were pleased to have their expertise valued and to have more latitude than automakers typically offered.

Having honed its frugal-engineering capabilities with the Bolero, M&M was able to price its high-quality, low-cost Scorpio 30% to 40% lower than competitors' vehicles. Today the Scorpio continues to outsell competing vehicles made by Ford, Renault, and others.

Low-cost, low-risk experimentation can challenge many organizations—as IBM learned in 1993 when it tried to get a new idea called pervasive computing off the ground. The concept was rooted in the premise that internet commerce would

spread rapidly beyond computers to other devices—from cell phones and PDAs to cars, kitchen appliances, and other objects that could be networked. The idea anticipated what is now called the internet of things. But the pervasive computing initiative struggled to get traction. In part that was because it covered a broad area of research and was not a formally organized unit. Its assortment of loosely related projects thus ended up being assigned to various siloed core businesses. The silos applied a range of development approaches better suited to established businesses than to start-ups aimed at still-evolving markets.

IBM addressed this problem in the late 1990s, when it implemented an organizational architecture called emerging business opportunities, or EBO, to incubate embryonic ventures and help the company meet head-on the meteoric rise of the internet as a business platform. EBO followed an explicitly start-up-friendly framework that differed markedly from the way IBM ran its established businesses. It was heavily focused on learning about emerging technology markets.

Senior management ultimately unified the various projects connected with pervasive computing in a single business unit that operated using new rules spelled out in the EBO process. Rather than being put under the control of an operating division president, pervasive computing was reorganized as a dedicated team reporting directly to IBM Vice Chairman John Thompson, and thus was insulated from the short-term pressures of the core businesses. This enabled it to experiment patiently, assess the still-fluid market, and refine the strategy.

Metrics for progress were based not on short-term financial performance but on new learning: testing underlying assumptions, refining strategy, achieving milestones for identifying leading sources of future profit as embryonic markets solidified. Rod Adkins, who headed up the unit during its EBO years, says, “Almost everything we did began as an in-market experiment” done in collaboration with an IBM customer. For example, a team from pervasive computing worked with a mobile handset provider on a platform capable of presenting rich data in multimedia formats. The process involved developing a service tailored to the client’s unique requirements. The fruits of that collaboration were eventually hardened into products that could be replicated for other customers. In time the pervasive computing unit became a billion-dollar business for IBM.

Since its implementation, EBO has helped IBM turn more of its research capability into successful new businesses. Using empowered teams to test hypotheses has proved an effective, low-risk strategy for the company.

The future is not a far-off point: It arrives in daily doses.

One of Hasbro’s past ventures offers a cautionary tale about the dangers of rushing into a new market without the benefit of iterative learning. In 1970 the Nixon administration had begun a program of subsidized day care for working mothers. To capitalize on this opportunity, Hasbro launched a chain of nursery schools under the Romper Room brand (made famous by a popular U.S. children’s television program). Instead of using low-cost experiments to create rapid learning cycles, Hasbro’s approach was more like “If we build it, they will come.” The company was confident that the nursery schools could leverage its successful line of Romper Room-branded toys. But Hasbro was a product company, not a service provider; it had ventured out of its depth. Alan Hassenfeld, a member of Hasbro’s founding family, told the *Wall Street Journal*, “We’d get phone calls saying, ‘We can’t find one of the kids.’ The whole company would stop.” After five years of a bold but ill-advised strategy, Hasbro exited the nursery school business.

Invest in the “Horse You Can Control”

Businesses and CEOs often don't know how best to think about the future, much less to act on it. Although they rightly concede that it is unpredictable, they may think of it as a far-off point on the horizon—a reality they'll deal with when the time comes. But the future is *not* a far-off point. Rather, it is like a software program that is continually updated: It arrives in daily doses that must be noticed and understood. Only by working toward the future day by day can your enterprise respond resiliently when it encounters nonlinear opportunities or, equally likely, menacing threats.

Planned opportunism is a strategy for exerting some control over unpredictable circumstances *before* they occur. Of course, this involves one of life's most persistent conundrums. As Elizabeth Gilbert writes in her memoir *Eat, Pray, Love*, "We gallop through our lives like circus performers balancing on two speeding side-by-side horses—one foot is on the horse called 'fate,' the other on the horse called 'free will.' And the question you have to ask every day is—which horse is which? Which horse do I need to stop worrying about because it's not under my control, and which do I need to steer with concentrated effort?"

Though Gilbert is writing about personal conduct, her metaphor applies equally well to organizations and their leaders. Across every activity a business must continually ask itself, "Which horse is which?" The horse of free will can be steered, but the horse of fate cannot. Planned opportunism demands that leaders spend their energies and attention on the former.

I am not suggesting that you should ignore the horse you can't control. On the contrary, you need to understand, respect, and work to hedge against the destructive potential of uncontrollable fate. And the most effective way to manage the horse you can't control is to focus on the horse you can. Hasbro's process for identifying and acting on weak signals, M&M's learning through experimentation, and IBM's EBO program increased their readiness for the future.

Planned opportunism is a way to take control of the future instead of being passive in the face of its unpredictability. It doesn't require a change-ready culture; over time, it *creates* one.

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Very interesting article Vijay. Have you thought about how disruptive innovations play a role in an organisations use of planned opportunism?

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