

Café Connect Episode 12_mixdown.mp3

Voiceover [00:00:02] This podcast is brought to you by the University of Aberdeen.

Dr Barbara Gorgoni [00:00:08] Hello, everyone, and welcome to this new episode of Café Connect, where we bring you the latest research from the University of Aberdeen. My name is Barbara Gorgoni and I'm part of the Public Engagement with Research Unit here at the University. In this series, we meet different researchers who talk about their work and its relevance to our life. If you have any questions, we would love to hear from you. Please email peru@abdn.ac.uk and we will put your questions and comments to our speakers. So today I am delighted to welcome Professor Ignacio Canales, who's Chair in Strategic Management at the Business School of the University of Aberdeen. So welcome, Ignacio.

Professor Ignacio Canales [00:01:04] Thank you very much, Barbara.

Dr Barbara Gorgoni [00:01:05] We'll discuss the end of strategy and how it affects business competition and also a bit of warning that at the end of this recording, we'll have a special guest recording. So it's worth waiting to the end. So, Ignacio, first of all, what do we mean by strategy?

Professor Ignacio Canales [00:01:29] Well, strategy, in short, is how companies compete with one another for customers. Each organisation has to be able to analyse their competition and they then make a decision on how they will compete. And that is what strategy is about. It's about the plans you do for the future it's about what would you do if the contingency happens? For example, if you manufacture cars, you will need to know how the other car manufacturers are doing so that you take action in that regard. But you also need to make sure that, you know, if there are any newcomers to the industry, like, for example, Tesla is for the car industry it's a new type of car, it is a new entrant in a way, substituting what we know about cars. So, the talk today is about the end of strategy, but I thought I would explain what strategy is first. Now, the end the strategy comes into being when you think of the huge giants that dominate the business landscape today, companies like Apple or Google, or Netflix, or Alibaba, or Amazon, or Microsoft, or Facebook, or many others that you may be thinking about, have grown to such sizes that they already are bigger than a small country. I'll give you a small example. For example, Alphabet, which is the holding company of Google, is as big as Hungary, Microsoft is as big as Morocco. There are other companies, like for example, Facebook is two times Sudan and Amazon is as big as Finland. So, this gives you an idea of how big they have become. And the problem with becoming so big in this digital world is that they are able to take over other industries that would have been otherwise not easy to conquer because without the digital economy, it was impossible to move from industry to industry. With a digital economy, you have things like blurred industry boundaries, and that makes it easier for Amazon, for example, to enter into an additional business. Also, there's a characteristic of the digital economy in which business models can be imitated very easily. So, for example, if you want to start up a new Uber, you'd be able to start it with no problem. The only problem that you will find is that Uber already exists. But you could copy the business model and that won't be illegal. So, it happens with these companies that they grow very quickly and they overtake other companies in other industries. And that is where the end of strategy comes into being, because your strategies, how do you compete with other businesses? And then you have these humongous giants which are entering your industry and without warning, you don't know how to compete with them. And for example, one of the main tools that is used to analyse competitiveness in strategic management is called the Porter's Five Forces, which is made of the bargaining power of suppliers, the bargaining power of buyers, the threat of new entrants and the threat of new substitutes. So, for any industry

that you're operating, if the threat of new entrants and the threat of new substitutes is a humongously big threat given by these giants, then it means that no business is free from having one of these giants coming into your industry. And that's where competition becomes perhaps irrelevant, and strategy has an end. Let me give you some examples of these giants and how they have taken action over the last couple of months, because this is an issue that changes a lot on a daily basis. So, for example, I hope you knew that Apple buys one company on average per month. The last one they bought was a company called Turi Inc., which was once a promising artificial intelligence start-up in Seattle. They had helped create software that uses machine learning, and their technology was so promising that Apple went and bought it for two hundred million dollars. That happened just the last couple of days. A little before that, a company called Salesforce, which is brilliant in sales and marketing, decided they wanted to buy another company called Slack, which is a chat company, and they paid the handsome sum of 20 billion dollars for it. Now, take into account that Slack has never earned a single penny. Now, what is happening is that in the world of the digital giants, they're thinking that e-mail as a means of communication is dying. And so when the email is dying, there will be other ways of communicating. And Slack is exactly that, is like an inside chat tool within the company. A couple of years ago, Microsoft had thought of buying Slack and actually they were thinking of paying roughly the same amount, but they decided to develop MS Office and MS Teams further. So, look at this landscape, is a really difficult landscape, but for a moment, let's look for inspiration into some things that are slightly different. If you think of a fox, for example, like the foxes that we see in the U.K. all the time. Have you ever wondered what the long-term goal of the fox or what is the strategy of a fox? The fox is actually living in a world of giants and the giants are us. We are probably extremely powerful to them and they just managed to get their way around us and survive quite well. Now, who are the new entrants for the foxes? Are there new people coming in all the time to take away their resources? Yeah, of course. Imagine when the binmen come, they take away their food. But how does the fox survive? The fox survive because they adapt, a new small day-to-day adaptation and that day-to-day adaptation is the one that makes them stay alive. And this is my first insight, how to compete with the Giants. Well, remember, the fox. Just do what you do on a daily basis. Try to keep your customers the best you can. Try to prevent the Giants from stepping over you. But be aware that the Giants are there, that they're going nowhere. The second inspirational element, I wanted to discuss, is perhaps a thing called the Condor. The giant Andean Condor can stay flying for five hours without flapping its wings. And what is that? Well, that's a humungous skill. And they have to be aware of their skill. That's what I would invite you to do, take very good care of the skills that your company has, because that is what develops your distinctiveness. Making you aware of the skills will help you combat the Giants to the best of your ability, because at least you will know who you are. Other ideas of how to compete against the Giants can come with notions like the Guerrilla war. Guerrilla war is like having been totally conquered. I try to do the best I can in the few spaces that I am allowed to do it. The word guerrilla, surprisingly, comes from Spanish, and it was first coined during the French invasion of Spain and they were so overwhelmed that they just came back. The only way that they could come back was with a guerrilla, which means a little war. If you think of the resistance in France during the Second World War is about the same thing. So that is an inspirational element. If you cannot face your enemy up front, well you do it on the side. And on this notion, I have an academic paper which would bore you to death to read it, but probably I will give you a hint of what it's about. And it speaks about affordance and how you adapt to those affordances. Affordances are what the environment offers you. You have to hone your skills and your capability of understanding what the environment offers you and then react to that on a daily basis. Is that daily reaction as the fox adapts every day to where the food is, or as the condor flies looking for different things and taking advantage of their skills. Is that keeping up with every day, what will make you strong. And in this day-to-day practice, it's just you and your circumstances. And forgive me if I use another philosopher

here, but that was a statement by Ortega who said, "It's not only you, but you and what happens to you." And that interaction is what keeps organisations afloat. Now, lately there's been a new development in these Giants becoming bigger and bigger, and it is that the governments are taking action to control the Giants. And that is definitely helping you as a normal, relatively small company. For example, recently, Uber in the UK was forced to consider their drivers as employees and then pay them minimum wage and national insurance and holidays. Like any normal employee. That is very good news for everyone because at least it's a way to control the Giants. A couple of days ago, a very interesting development happened, the founder of Alibaba was about to launch a revolutionary banking system in China. And hours before the event took place, everything was put on hold and he was taken off air and hasn't appeared since, it's obvious that the Chinese Government didn't like the idea, which is good. It means that at least one of the Giants has been put under control. And finally, very recently in the U.K., there has been this discussion of the tech tax, which is supposed to be about one percent of the revenue, which is not a small amount, but obviously the US has threatened with retaliation if this happens. So, it's a war that is still going to be developed. So, the ways to combat or to counterattack what Giants are doing are several. The first one is keep close to your customer, that daily contact with the customer is your big defense. And second, also, there's this big help from the government that is being provided lately. Now, this is all I wanted to discuss today, but now we have the real privilege of listening to Mauricio Quiroga, who is actually one of those fighting the Giants. I had the privilege to interview Mauricio a while back, and now I will play the interview and what we discussed then.

Professor Ignacio Canales [00:13:36] Welcome, everyone. This is Mauricio Quiroga. Mauricio is a leader of a company that applies artificial intelligence to generate fresh cash in a fast way. He's also an economist and an MBA from Berkeley. Today, we're discussing the end of strategy. Mauricio, we discussed a little while ago that since a strategy was created to generate a monopoly, in a way, Michael Porter designed the five forces so the company could become as close as possible to a monopoly in the world. Today, there seems to be so many monopolies in every area like Google and Apple and so on, then is it the end of strategy?

Mauricio Quiroga [00:14:21] Well, thank you for this opportunity. And your question is quite interesting, I think is the strategy as we know it, in my point of view, it's a thing that has to be totally reconfigured. And why is that? In my point of view we are seeing a totally different world than the one that we had before. And remember that to understand the five forces, you always have to do the SWOT analysis. So, if we made a SWOT analysis today, it's changed completely, the configurations of how companies compete are totally different. And why is that. Because we have an enormous crisis, we are seeing a new era, in my point of view, all the relationships that we were seeing yesterday that were strange, like the thing that we are doing right now, is totally normal right now, so I can do business globally. A lot of companies are going to go out of business, especially those that their lives or their business model are open. OK, let's gather a lot of people and make business on that and also make a restaurant, an office, a cinema. All those kinds of businesses are changing quite fast, and that hyper-competition has made this like a war. We are living like a war, a hyper-competition. Think of this quarantine as similar to getting bombed. We have the economical experience of bombing like the sad bombings during World War II, London was bombed, Frankfurt was bombed and nobody went out to buy anything at all. So, we understand right now the economic dynamics of those kind of things and The Economist published an article that we are living in a war. We are not living in a common situation. So, if you are living in a war, in my point of view, the strategical tools are not suitable anymore because those tools are great tools but are designed for a different reality. So, if you think who has the most knowledge on how to manage huge, complex issues like the one we are seeing right now, is the military. In my point of view, we have to use

elements from the Military Doctrine and get those elements and merge them with the traditional strategy and think totally different than the way in we are thinking right now. So, if you use traditional tools, for instance, OK, let's have a meeting, let's plan, let's analyse SWOT to develop a new strategy, then to implement the strategy, then to control that strategy. That is not suitable anymore because the world is moving too fast. So, the technology, the philosophy that groups all this knowledge of the humankind to manage the extreme situations is in the military doctrine. So, for instance, an example, a maneuver is a military concept. So, we in companies don't use manoeuvre as much as we should use it, because it's how I move resources tactically in terms of competitors.

Professor Ignacio Canales [00:17:42] Yes but let me interrupt you. What do these military tactics have to do with having huge companies that absorb other companies all the time that become bigger and bigger than countries and with whom you cannot compete?

Mauricio Quiroga [00:18:01] That's an excellent question, because it's exactly the point. And the answer for that, in my point of view is maneuvers, you have to use these to compete with these huge companies because they are compared to an army. They are too big, they have too much power, and the only way to compete myself as a small company is to use these maneuvers, these guerrilla strategies, guerrilla tactics, and that's the way to compete with these big, big corporations that provide also the hyper competitive environment that we are seeing. So, if I use traditional strategy to try to compete with Google artificial intelligence or Amazon, I will be totally lost. I have to use guerilla strategies to go in a special way to the clients, to understand where the client is, to personalise my services. A lot of different ways of doing so, using a talent in Indonesia, in other countries to be competitive. So it's a totally different point of view we have in our company's mission, we follow the mission, see the results of the mission, we have a command centre in which we understand everything that's going on. But saying that, it's very important to say, strategy is a great tool. The business's strategy, what you have to do is to reorganise that, to reconfigure that to the new situation that we are seeing right now.

Professor Ignacio Canales [00:19:31] And how do you see companies like Amazon, for example, that have become almighty and Amazon is worth more than I don't know anything before? How do you compete against that? What are the guerrillas that you use to compete against that?

Mauricio Quiroga [00:19:46] That's an excellent question. And I would like to say judo, you have to use their own power to make judo with them. So, I use their platforms of artificial intelligence, I use their platform of having data. And since they are very open in terms of their prices and their costs, I configurate products that they are not able to reach, special niches and that's why I copy-paste their enormous platforms or I use their platform, the machine learning platforms, and I go to the niche that they are not able to serve. And those niches are enormous because the world is growing very fast. The fastest growing countries in the world are in China, are in Asia, of course, and in Latin America, Latin America, not today because we are seeing an enormous crisis. However, the fastest growing countries in the world are Latin American countries and Asian countries and Amazon is not able to serve all of those countries. So, this is a very particular time because I can use Amazon and Google infrastructure, billions of dollars of infrastructure, so I could enter to those markets. So, for instance, I enter to an Argentinian market without an independent company and my guy is saying to me, "OK, Mauricio, how much is your investment?" And I said, "Twenty billion dollars."

Professor Ignacio Canales [00:21:15] Wow.

Mauricio Quiroga [00:21:16] Yes, I used twenty billion dollars in first quarter, I rented these twenty billion dollars. I used Amazon, I used Google, I used all this technology, and I didn't invest twenty billion dollars. So that's the way in which you face this enormous efficient companies.

Professor Ignacio Canales [00:21:35] So it's surprising what you're saying. You're saying basically that this small dog can still find a place amongst the spaces that are left by these humongous dinosaurs that walk and leave the opportunities.

Mauricio Quiroga [00:21:48] Exactly. That's the only way to do so. And as I told you before, we use guerrilla strategies to go and find places. And what we want to do or what we want to happen is that Amazon buys us, that's our dream or Google, and that's all the small companies that are going to niches. And in that way, that's also a situation that I think will be changing in some years because the Congress here is discussing about antitrust laws for these enormous companies.

Professor Ignacio Canales [00:22:30] Well, that's a topic for another interview, another day. Thanks Mauricio, it's been a pleasure talking to you. Thank you.

Dr Barbara Gorgoni [00:22:38] OK, thank you very much. This has been really a fascinating journey into the world of business competition and how to fight the Giants. And thank you very much, Ignacio, for your contributions and your insight. And thank you to your special guest, Mauricio Quiroga. So, to our listeners, remember that if you have any questions or comments about this topic, please email us peru@abdn.ac.uk and please keep your eyes and ears open for our next Café Connect podcast. Thank you for listening and goodbye.

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