

Where Do Your Strongest Businesses Really Stand?

To BCG's network around the world,

Thirty-five years ago, I began my career consulting to the consumer products business of a leading telco. Our work on this company's strategy highlighted that the many hundreds of millions of dollars it earned from leasing telephones to consumers each year was going away much faster than realized, while the mobile phones it had written off as a niche business would be dramatically larger. The division's COO, who also ran the leased-phoned business, nearly threw us out of the room.

In 2000, as a young partner, I worked on convincing senior leaders of a top pharma company that the small-molecule blockbusters that had driven their enormous success would dramatically underperform their lofty growth expectations. Though it took nearly a decade, the company eventually managed a remarkable pivot to biotech and vaccines and today remains an industry leader.

In both cases, what appeared at the time to be the enormous strength of a "walled fortress"—a strong core business the company depended on—blinded leaders to the threats and opportunities around them.

For the past four months, I have been reminded of these stories and others as the pressures on some of today's strongest businesses grow. The current examples span a spectrum, including great companies like Tesla, which is now facing stronger competition in the electric vehicle market, and Google, whose \$200 billion search business is now under real pressure from the generative AI revolution it helped start. On the flip side, there's Silicon Valley Bank, which took mere days from being an industry darling with an intensely loyal customer base to a failed bank.

There is no single theme here, no one issue that leadership teams underestimate or forget. But there is a message for all of us, particularly as so many companies use Q2 to update their strategies in advance of operating planning later in the year. Now is the time to force the hard questions about where your strongest businesses really stand.

It is far too easy to take for granted the walled fortresses inside our own enterprises. Businesses that year after year drive profitability, are lauded internally and externally, and are counted on by investors to deliver results like clockwork can quickly lose their luster and their relative strength. It can be a result of technology disruption; management distraction or overconfidence; underinvestment in technology, capital, or people; or not catching on to changes in customer needs and behavior.

Right now, with economic and geopolitical uncertainty all around us, focusing this year's planning on navigating macro challenges of course makes sense. But I would encourage you to also look deeply, and even skeptically, at the businesses you feel are most secure, reliable, and often at the heart of your current value-creation engine.

The starting point can be framed with these questions:

- What is the three-to-five-year value creation trajectory for the business, through a customer lens and not just a financial lens?
- If an outsider took over with a five-year value creation horizon, would that person operate it the way you do? What would they do differently and why?

And then consider these harder ones:

- Where does technology disruption offer the most potential to shift value creation? What creative ways are there to experiment, partner, and invest to learn and provide options to incorporate these technologies?
- Is the leadership team devoting sufficient time to these businesses and creating an environment where status quo thinking can be tested and challenged and new opportunities imagined
- Have you thought about resilience and risk management from multiple angles? Is preparing for risks a delegated task outside the core leadership team or embedded as a core responsibility within it?

Walled fortresses can be staging grounds for future victories: the iPhone, Tide detergent, or the Home Depot stores. They can also be leased phones or supposedly

safe long-dated Treasury bonds dragging down a strong company and team. Use this planning season to force the hard questions about where your walled fortresses really stand and how to strengthen them for the years ahead.

Until next time,



Rich Lesser
Global Chair

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