Walk Faster
Keeping Pace with Creative Destruction

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If Thomas Hobbes found himself walking down City streets today, he wouldn't blink an eye. Business life seems to be getting increasingly short and rather nasty. Due to the accelerating rate of technological change, some economists believe we are embarking toward a "winner take all" era of unprecedented competition, enabled by an enormous number of smart devices communicating vast amounts of information.

As part of our research and advisory work with family companies around the globe, we are tracking the forces affecting all businesses everywhere and the evidence suggests business is in for a cold shower. Businesses have never lived long. In the U.S. 50% of all businesses started today will be dead within five years, 25% will last a decade and only 16% will survive a generation. Family owned businesses live twice as long as non-family businesses but still, not that long. And if you look at the longevity of high performing businesses you get a similar picture. America's best performing companies in 1970 lived, on average, only 32 years. A high performer founded in the 1950s would have lived 53 years. In 2010, a top 500 American company was only expected to live 17 years.

We predict business life will only get shorter and more brutish. Future challenges will get *harder,* there will be *more of them* and meeting them will get *more expensive,* because all companies exist in a technological vortex where *changes are happening faster.*

Take 64-bit mobile computing. It didn't exist until September 10, 2013, when Apple launched the iPhone 5S, even though the first 64-bit supercomputer was invented at Cray Research in 1975. 64-bit computing matters because of its 4GB memory capacity. For servers that process all our smartphoning, 64-bit chips are "crucial, because those machines often need gobs of memory for running many tasks simultaneously" through fast-response RAM, explains CNET journalist Stephen Shankland. Today only 2% of all cellphones use this technology. By 2020 all cellphones will be smartphones and all smartphones will be 64-bit. The change that took the PC world a generation will happen in the mobile computing world in seven or eight years.

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Today we move eight zettabytes of data worldwide annually, equal to 80 300-page books per second per person for everyone on earth, up from two such books per second in January 2007 when Steve Jobs introduced the iPhone. By 2020 we will move over 300 zettabytes annually, equal to 5,000 300-page books per second per person. We are on the edge of a new universe that Kevin Ashton calls the Internet of Things: the networked world of devices talking to one another the way we use our smartphones. Mark Andreesen, Netscape's Internet browser pioneer, says we are rapidly approaching a world of 6-8 billion handheld, worn or implanted miniature supercomputers, all connected and all communicating almost unimaginable volumes of information.

As deeply challenging as it is to try to imagine how this will transform virtually all commercial fields and much human interaction, it is mind-boggling to envision how companies will be able to keep up with the accelerating rate of change.

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We keep our eyes on companies like Nest, started by Tony Fadell (co-developer of the iPhone with Jobs), which was recently purchased by Google for $3.1 billion, or 1% of its market capitalization. Nest makes smart devices, such as thermostats and smoke detectors that will be at the endpoints of this emerging vast data network. Will Google be agile enough for Nest to succeed, and will Nest be sprightly enough to keep pace with the ever-expanding Internet of Things? At the leading edge of the new universe we are just beginning to explore, will we even remember Nest in five years' time?

The natural cycle of "creative destruction," first identified in 1943 by economist Joseph Schumpeter, is intensifying. Schumpeter believed that industries and companies are formed, prosper for a while and then perish.

Do industries really perish? Let's look at some evidence. Forbes developed a list of the 100 largest American companies for the first time in 1917. Seventy years later, Forbes compared the original 100 list with the 1987 list of 100 largest companies. Here's what they found.

Only 18 companies remained on the 1987 Forbes list from the original list. Sixty-one of the original companies ceased to exist. Another 21 had sunken far down in relative value. Since 1987, seven more companies have either been acquired or gone bankrupt. Even more importantly, only one company – GE – is still in existence with above market returns. In other words, in a 95-year period, 99 companies out of the leading 100 companies in the U.S. went out of business or fell by the wayside.

Baldwin Bell Green conducted an extensive analysis of the top 500 companies in the U.S. from 1955 to 2012. In 20 years from 1955 to 1975 roughly 11 companies fell off the list every year. Forty-four percent—220 companies—did not survive. Between 1975 and 1995 the pace of competition speeded up. About 15 companies fell off the list every year. Sixty-one percent—306 companies—did not survive the 20 years to 1995. Since 1995 the pace has picked up yet again: 35 companies—75%—dropped off the list by 2012. That's a mortality rate of 21 companies per year.

It's also more difficult for the wealthiest families to stay on top, meaning that wealth (created through investments in business) is also transient. Of the 100 wealthiest families in 1985 on Forbes' list of 400 Richest Americans, only 13 remained on the list in 2013. Only six of those 13 families were able to outperform the S&P average.

Family-owned Daimler, Fiat and Ford operate different businesses with different competitive landscapes. They face different cost and price pressure than they did when they were founded in 1896, 1899 and 1903, respectively. But the three companies endure. The news on 1 January that Fiat would buy full control of Chrysler from Daimler is a significant victory in the annals of family enterprise.

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Companies can adapt by shrinking or selling businesses in decline, growing other businesses and changing the business lines in their portfolios. Most companies are single business ventures in industries that don't significantly transform to keep going. Most companies in these situations don't diversify. This, more than any other factor, explains the poor, nasty, brutish and short lives of all companies.

We believe that companies and families that survive on the top 100 lists share some core values:

1. Sensitivity to external change. They are more externally aware because they avoid the "group think" that tends to lessen sensitivity to external trends.

2. Tolerance for new thinking. They accept activities on the margin by outliers, experimenters and eccentrics who stretch the understanding of new possibilities.

3. Cohesiveness around survival. They prioritize survival over maximizing short term performance, and they plan long term.

4. Conservative financial approach. They are frugal and maintain excess cash to preserve flexibility.

So, three lessons for business owners and leaders:

1. Recognize where your industry is in its life cycle. Life spans are getting shorter so life cycles are compressing. Assess your ability to stay in the game. Do you have the talent? Financial strength? Meaningful alliances?

2. Run your business passionately and build a great board to help you detach from it. Be ready to sell it or diminish your exposure to any business when the time is right.

3. Seed entrepreneurial ventures to keep your options open.

No pessimist should be surprised that Schumpeter's "creative destruction" process continues unchecked. But even Thomas Hobbes would be astonished by the rapid rate of change and the "winner take all" competition that we will experience over the next decade.

Walk faster, Hobbes.

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Thomas Steiner, JD, MBA focuses on industry maturation and the pivotal role of technology in this process. His particular emphasis is industry restructuring and shifting economic value as a result of technology. A consultant for 30 years, he directs studies in strategy, organization, operations and information technology.

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