

Strategy

Overfished Ocean Strategy: Powering Up Innovation for a Resource-Deprived World

By Nadya Zhexembayeva

For most of the history of modern business, we have enjoyed falling prices on nearly all raw materials, which has made us dangerously oblivious to the shaky foundations of our global market economy. But the tides are turning: the new era is upon us. It is time to look into the facts – and to prepare a strategy for dealing with them.

Like his father and grandfather before him, Al Cattone has been living off the sea for all his life. For the Gloucester fisherman who spent over 30 years braving the Atlantic's waters, fishing is “not so much a job as it is an identity.”¹ But this legacy is coming to abrupt end. In light of extreme declines of cod stocks, the New England Fishery Management Council voted to slash allowed cod catch rates by 77 percent in the area from Cape Cod to Nova Scotia. The destruction of fishing communities across the region is expected to follow, with a domino effect on seafood processors, wholesalers, distributors, and retailers – an entire industrial ecosystem. But the unpopular move is backed by the harsh reality that the cod stocks today are very far from healthy, with some communities netting a bare 7 percent of moderate targets set by the National Oceanic and Atmospheric Administration.

In his struggle and sadness, Al is not alone. In the United Kingdom, the modern fishing fleet must work 17 times harder for the same catch as its sail-powered 1880s counterparts.² In northern Japan, the entire fishing industry has been in “terminal decline,” with the 2011 tsunami only accelerating the collapse.³ Recently, the *Financial Times* has become one of the most prominent voices about the fish crisis, warning the world of the decline in fish stocks, which is more severe than predicted. “More than half of fisheries worldwide face shrinking stocks, with most of these in worse condition than previously thought, leading to yearly economic losses of \$50 billion.”⁴ And if the proven losses of the present are not enough, the projected losses of the future exceed anything that could be imagined. According to a Stanford University study, overfishing could take all wild seafood off our tables by 2048.⁵

With its easy maths and empty-plates impact, the story of fish serves as a perfect metaphor for the entire world of resources our economy is built on. Whether it is fish or oil, clean water or gold, vitamin C or helium, the ocean of resources is running dry, and this is creating havoc in the market worldwide.

Where Are the Fish?

The question of declining resources is not new. Long before current reports put declining resources at the center of attention, the issue of resource scarcity commanded the notice of theorists



and practitioners alike. From Plato in the fourth century BC to Thomas Malthus in 1798 to the Club of Rome in 1972, a parade of esteemed thinkers drew our attention to the looming collapse – to no avail. Hardly any changes in the behaviour of businesses, governments, and consumers alike were inspired by their powerful outcry – if anything, the global market grew tired and deaf to the calls for radically new business models. Why?

Well, the theory of resource decline seemed strong and sound, but for nearly two centuries the market reality had been telling the opposite story. McKinsey's 2011 report *Resource Revolution* puts it best: “Throughout the 20th century, resource prices declined in real terms or, in the case of energy, were flat overall despite periodic supply shocks and volatility. The real price of MGI's index of the most important commodities fell by almost half. This decline is startling and impressive when we consider that, during this 100-year period, the global population quadrupled and global GDP increased by roughly 20 times. The result was strong increases in demand for resources of 600 to 2,000 percent, depending on the resource.”⁶

In essence, what the declining prices of resources told us for decades was that we could have our cake and eat it too – grow our population, increase our consumption, and keep cutting prices, all at the same time.

But that was then.

As the story of fish and every other resource shows, the now looks drastically different, and the speed of waking up to this new reality will determine who will survive and who will vanish

in the new era. It is time to accept the facts – and to prepare a strategy for dealing with them.

In Search for a New Competitive Advantage

We live at a time of remarkable transformation. The *linear throwaway economy* of today – where we extract resources, process them, use them barely once, and trash them immediately as we would a cheap plastic fork – is coming to an end. We are, simply put, running out of things to mine and places to trash.

Kyle Wiens, CEO of iFixit, the largest online repair community, and founder of the software company Dozuki, describes this transformation with laser-like precision: “The economy is broken. It’s not because of partisan bickering or the debt ceiling. It’s not because there is too much government spending or too little, too many taxes or too few. The problem cuts much deeper than that; it’s systemic and it’s global. The economy is broken because the principles that make the marketplace thrive will eventually destroy it.”⁷

And the market is beginning to recognize this as well: after an entire century of falling costs of raw materials, the first 10 years of the new millennium have seen a whopping 147 percent increase in *real* commodity prices.⁸ Do you happen to be one of millions of managers fighting the ever-rising prices of raw materials, transportation, operations, and more? Welcome to the future!

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Now, for any of us running a business, the question becomes: how do we prepare a solid strategy for dealing with this new reality? For decades, companies claimed their victory by finding the best spot – a unique position on the crowded competitive landscape. Others strived to avoid the crowd by discovering a new market space – swimming into the “blue ocean” waters far away from shark-filled blood-red existing markets.⁴

But this old economic order is running its course. Whether red, blue, or rainbow, the oceans are getting empty. A new economy is being born, one that takes *the line* and turns it into a *circle*, where at the end of the life of a product, *all* of the waste comes back into a production cycle as a valuable resource, infinitely. With that comes a new economic order, where we compete and win using a radically new set of rules. Managers who deeply understand and master this shift are able to turn the new reality into disruptive innovation and remarkable competitive advantage. As they ride ahead of the wave, new products, new business models, new markets, and new profits follow. The art of *turning resource scarcity into competitive advantage* is what I call Overfished Ocean Strategy.

Overfished Ocean Strategy: Disruptive Innovation for a Resource-Deprived World

While most of the world remains in the dark, Bayerische Motoren Werke AG – also known as the global giant BMW – is navigating the murky waters of the resource crunch. The company moved well beyond selling products to selling services – and from a car company transformed itself into a mobility company. Focusing on mobility – a service rather than a product – allows the company to power up radical innovation and open doors to a completely new business opportunity. Take, for example, the DriveNow car-sharing service, employing BMW i, MINI, and Sixt cars, which allows people in densely populated urban areas to enjoy the benefits of a personal car without owning one. The idea, as BMW explains, is simple: “The mobility concept is based on the motto ‘pick up anywhere, drop off anywhere.’ Billing is per-minute, fuel costs and parking charges in public car parks are included. Users can locate available cars using the app, website or just on the street. A chip in the driving license acts as an electronic key.”⁹ Now, that is a leap into the future for a 98-year-old company!

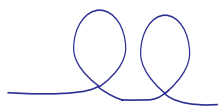
But the new world of resource-depravity is also attractive to the newcomers. In a number of European countries, a 2012-born start-up FLOW2, is making money by allowing businesses to sell their temporary overcapacity – underutilized machines, skills, and real estate – all with the click of a button. By May 2014, this “sharing marketplace” grew a portfolio of 25,000 materials and services¹⁰ that used to be sitting idle, but now make money for the owners while offering a cheaper alternative to users. And FLOW2 gets a nice commission as well – a much-deserved prize for a solid business model.

Puma, a multi-national shoemaker to the fit, has transformed resource crunch into a source for radically simple innovations. For instance, the company is getting rid of shoeboxes in favor of the remarkable intelligence of the light and reusable Clever Little Bag. The Bag came about as a response to a wasteful practice: a company made boxes, assembled boxes, shipped boxes, stored boxes, and put boxes into a shopping bag only to see both discarded by the customer within a few minutes of arriving home. An alternative? Clever Little Bag is a re-usable package-shopping bag combo that brings additional value to the customers while saving Puma big money on materials and shipping – cardboard savings alone amount to 65%.¹¹ Water, electricity, fuel use are also severely reduced – so bring on the savings!

In their unexpected take on resource intelligence, BMW, FLOW2 and Puma are far from alone. For the past three years I have worked with and studied the pioneers of a new economic reality, who are transforming the collapsing linear throwaway economy into a more lasting, more abundant, more sustainable version of itself. While the companies, people, and projects pioneering these new rules are still rare, there are enough of them to suggest the first few essential principles that allow managers to innovate their way into a new world. Five new rules of the trade – five essential “secrets” – appear increasingly important for individuals and companies

eager to power up a new strategic direction and secure the source of a truly sustainable value. Together, the principles inspire fundamental change and power up radical innovation across countries and industries – and make up the essence of what I call Overfished Ocean Strategy. At its core, Overfished Ocean Strategy transforms today’s depletion of resources into tomorrow’s differentiated long-lasting profits. Here I will speak about three of the five principles.

Principle One: From Line to Circle



The rapid decline of resources – from coal to tuna to vitamin C in a typical tomato – means that one way or another, all of us will have to find a new path forward. That path, however,

is not new at all – indeed, it has been perfected over the course of millions of years by nature itself. You see, nature does not have waste. Waste of one process becomes food for another, in perpetual cycle. When an animal dies, its body is not thrown into a landfill; instead, it becomes a source of valuable nutrition for millions of bacteria that in turn produce waste products that are essential for the formation of soil. Soil in turn churns out vegetables, consumed by the very animals. So, why not learn from nature and connect the two ends of the global economy and turn the line into a circle? Useless waste becomes a valuable resource that we can circulate indefinitely. Abundance follows.

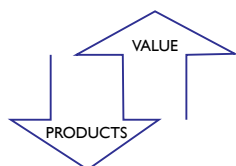
Principle Two: From Vertical to Horizontal



Imagine the global value chain of the industry you’re in. This long line consists of many steps: upstream, reaching to your company, and downstream, touching your customers, consumers, and end-of-life entities. This line is also many layers deep, with different industries feeding and interacting with each other. Growing up in business, we are taught to look downstream, paying attention to our customers and consumers. We are asked to pay attention to our immediate suppliers – to make sure that we have secured prices and quantities. But even more so, we are asked to pay utmost attention to the vertical cut in this chain – our competitors. Yet, in the world of overfished oceans, risks and opportunities are hiding far away from the home grounds – among the suppliers of the suppliers, and customers of customers of customers. Move beyond your little vertical slice of the global value chain. Expand your horizons.

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Principle Three: From Growth to Growth



Ask managers in Atlanta, Delhi, or Copenhagen where their growth comes from, and they will give you a clear answer: selling more. Yet, in a world constrained by every type of resource, including landfill space, only

one type of “selling more” is possible. We are taught to look at our businesses in terms of our products – even the financial services industry uses the term “product.” Yet, it is precisely in the service of creating more with less – designing a total solution, a unique experience – where growth lies.

Using these and other principles of Overfished Ocean Strategy allows companies, actors, industries, and continents to move from scarcity to abundance. The collapse of the linear throwaway economy is not a question of if but of when. The change is coming, and the rapidly oscillating prices on everything from rice to gold are a first sign of the new reality. The question is, will you ride the high tides with mastery and purpose, or will you be swallowed by waves that are unexpected and unnoticed until it is too late? If the endless list of Overfished Ocean Strategy innovations is any indication, we should make it into the new world just fine. I am counting on seeing you there.

About the Author



Dr. Nadya Zhexembayeva is a business owner, educator and author of *Overfished Ocean Strategy: Powering Up Innovation for Resource-Deprived World*, out in May 2014 by Berrett-Koehler Publishers. As a business owner, Nadya oversees a group of companies active in real estate, investment, and consulting industries. Her recent client engagements include The Coca-Cola Company, ENRC PLC, Erste Bank, Henkel, Knauf Insulation, and Vienna Insurance Group.

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11. You can learn about Puma’s clever ways at <http://brand.puma.com/cleverworld/cleverlittlepackaging>.