MONSTER POWER

BY MARK STEURTZ

The world has an unquenchable thirst for energy, which is the primary reason why Coca-Cola has plunged in with both feet. Late last summer, the soft drink giant announced it would soak up a 16.7 percent stake in Monster Beverage Corp. for a net cash payment of $2.15 billion. As part of the deal, Coke is transferring its energy drinks NOS and Burn over to Monster, which is kicking its non-energy beverages over to Coke, including its popular Hansen's Natural Sodas.

What makes Monster such a hot capture in the hyper-competitive, $27 billion global energy drinks market? Innovation, say observers. They're constantly recalibrating their energy portfolio to put pressure on rivals. They've introduced high-protein Muscle Monster energy shakes (chocolate, coffee, even peanut butter cup flavors), zero calorie drinks, and Monster Energy Ultra — a power beverage that's lighter and less sweet. That innovation might explain why competitors like Rockstar, Full Throttle, NOS, and 5-hour are treading water. In the wake of the Coca-Cola deal, Monster announced on November 6 that third-quarter sales had increased 7.7 percent to $636 million.

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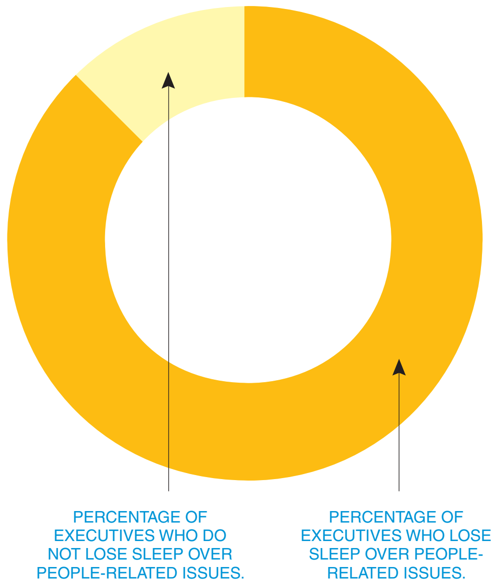


READY FOR PLAY?

According to the 2014 Insigniam Executive Sentiment Survey, a full 80 percent of executives lose sleep over people-related issues, including engagement. Enter gamification, or driving engagement by transforming work functions into games. Not long ago, the thinking was this secret sauce would "game change" everything from recruitment and talent retention to employee training and customer engagement.

The research firm Gartner, Inc., even predicted that by 2014, 70 percent of Global 2000 organizations would have implemented at least one gamified app. Alas, that didn't happen. It turns out that using games to successfully drive problem solving and engagement takes well-grounded, clearly defined business objectives. Compelling game design doesn't hurt either. Secret sauce? Not yet.

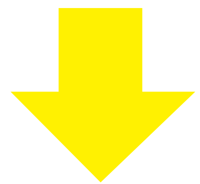
NOT INCLUDED

Even with the most established brands, disruption is frequently business as usual. In October, Proctor & Gamble announced it would shed its Duracell battery business to Warren Buffett's Berkshire Hathaway for $4.7 billion in Proctor & Gamble stock. Duracell goes all the way back to the 1920s, when scientist Samuel Ruben teamed up with businessman Philip Rogers Mallory to form the company.

The private equity firm Kohlberg Kravis Roberts picked up Duracell in 1988 for $1.8 billion before it was passed on to Gillette in 1996 for a whopping $7 billion. And why not? Duracell batteries are used in all sorts of popular gadgets, from toys and personal CD players to digital recorders and cameras. As recently as 2008, the "CopperTop" battery was ranked 88th on *Bloomberg Businessweek's* top 100 brands with a valuation of $3.68 billion. That put it ahead of Smirnoff and powerhouse luxury automaker Lexus.

But growth stalled, necessitating the spin-off. Duracell was felled by smartphones, of all things. iPhones and Android phones have three of those gadgets that Duracell powers right on board — four if you count games and apps that operate remote control toys. And perhaps more importantly, smartphones don't need replacement batteries.

Disruption came out of left field for the CopperTop. True, Duracell has forged a pact with Powermat, an Israeli firm that markets wireless charging and backup batteries for smartphones and tablets. Regardless, it's still a steep value crest to scale in order to reach that '90s value high. Which proves a point: If you don't negotiate the tricky balance of disrupting your own business while simultaneously nurturing your core, someone else will surely perform the disruption part for you.



$3.68 BILLION

The amount of Duracell's brand evaluation

$4.7 BILLION

Berkshire Hathaway's purchase price in P&G stock

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DATA HULK

It appears the Industrial Internet — the convergence of Big Data analytics with the Internet of Things — is poised to drive the next industrial revolution. How potent will this revolution be? According to Gartner, Inc., a technology research firm, the Industrial Internet will have 26 billion interconnected devices driving $1.9 trillion in global economic value-add by 2020.

A network of physical objects that can sense and interact, the Industrial Internet includes devices such as diagnostic equipment, medical devices, jet engines, turbines, robotics, and vehicle sensors. This massive network excludes smartphones, tablets, and PCs.

The most valuable opportunities in this coming revolution reside in health care, oil and gas, aviation, insurance, power generation, and distribution. Why? Because data generated by industrial equipment holds far more potential business value than information from social media and consumer Internet sources. GE recently announced that its Predictivity information services platform will realize $1 billion in revenues in 2014. That's after the company committed in 2013 to invest $2 billion in health care information solutions over the next five years.

Still, many firms may struggle to align their organizations to capitalize on these coming opportunities. To effectively harness the Industrial Internet, the enterprise must overcome internal system barriers between departments, and cultural hurdles that thwart the collection and correlation of data. That's in addition to talent gaps in critical areas such as data analysis, the gathering and consolidating of disparate information streams, and managers capable of using Big Data analyses to make sound decisions. Success in this new world always comes back to people — and the organizational culture within which they function.

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INNOVATING BEHIND THE CURVE

While breakthrough success is often paved by the rapid adoption of cutting-edge technology, sometimes it simply pays to hang back and exploit opportunities ignored in the rush.

Fort Worth, Texas-based Athlon Energy applied a similar strategy in the Permian Basin, the West Texas shale play and top-petroleum-producing region in the U.S. While oil and gas companies were rapidly adopting expensive new technologies such as hydraulic fracturing and horizontal drilling, Athlon was quietly picking up Permian acreage thought unsuitable for these new technologies for pennies on the dollar. It then scooped up traditional vertical drilling rigs at discount prices. Net result: a deep inventory of some 3,900 vertical drilling sites and more than 10 years of drilling inventory.

The assembled value was so attractive that Calgary-based Encana Corporation snatched up Athlon for $7.1 billion in a "transformational acquisition" finalized in November. Innovation sometimes means seeing the conventional with fresh eyes.

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