Changing the way we strategize
[Or, strategizing in the age of unsustainable competitive advantage]

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Competition as we know it is changing – irreversibly so

• We are living (and competing) in an increasingly VUCA* world
• Time horizons for strategic decision making have shrunk considerably
• ‘Firm’s right to win’ no longer given; increased likelihood of failure
• Multiple and compounded impact of unprecedented economic/social/political factors in shaping competitive contexts
• Shifting global competition: maturing vs. emerging markets
• Blurring industry boundaries

*VUCA: volatile, uncertain, complex and ambiguous
Economic crisis (update 2014): We’re still not quite out of it as yet

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Time horizons are shrinking; complexity is increasing...

Level 1: Clear future
Single view of the future

Level 2: Limited futures
Limited future outcomes; one of which likely to occur

Level 3: Range of futures
Many possible future outcomes

Level 4: Highly uncertain
Anything possible

The “new normal”

Time horizon for strategic action

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The “new normal” has critical implications for how firms approach their strategizing

- Increasingly, best achievable is ‘unsustainable temporary’ competitive advantage
- Failure a high probability - learning to “fail intelligently”
- Competition emerging from both within and beyond immediate industry boundaries
- Little time for experimentation – need to ‘get it right’ from outset
- Rethinking role of (challenged) intuition in strategic decision making
- Shift from ‘perfecting the known’ to ‘imperfectly seizing the unknown’
- (Re-)definition of firm’s ‘unique competing space’ – and focus on firm’s strategic boundaries
Three elements of *strategizing in the age of temporary advantage*...

1. Rethinking what it means to be ‘strategic’; refocusing strategy on *value premium*
2. Strategic *thinking* (*not planning*)
3. Big-picture thinking - and focus on the firm’s *strategic boundaries*
1. Rethinking what it means to be ‘strategic’
Good strategy has always been the exception, not the rule

In 1805, England had a problem. Its navy was outnumbered by the French and Spanish combined fleets...
Good strategy often appears to be deceptively simple

Lord Nelson’s approach to strategy:

1. Grasping the few really critical issues in the situation,

2. Identifying appropriate pivot points that can multiply the effectiveness of effort, and then

3. Focusing and concentrating action and resources on these
Good strategy thus comes down to the following three simple steps...

1. Analysing
   - Sense making and premeditation; identification of potential asymmetries to be exploited

2. Strategising
   - Anticipation of competitors’ behaviour; identification of pivot points for exploiting asymmetries

3. Executing
   - Purposeful design of coordinated action to establish & realise advantage
But how does ‘good strategy’ translate to the modern business context

In other words, what does it mean to be “strategic” in today’s business environment?

(‘Google’ the term: 250,000,000+ hits in 0.15 secs)
Being ‘strategic’ is about being **different** in the way we **create, deliver and capture** (ideally, unique and superior) **value**
Changing competitive ‘rules of the game’ demand a renewed focus on the firm’s **value offering**

Composition of the value offering (COMP\textsubscript{VO}): The value perceived by the customer is a summative composite of any number of individually weighted value elements that contribute to the ultimate value bundle.

\[
\text{COMP}_{\text{VO}} = aV_1 + bV_2 + cV_3 + dV_4 + \ldots
\]

Where...

\text{COMP}_{\text{VO}}: \text{ summated composition of a value offering (i.e. ‘value bundle’)}

\text{V}_i: \text{ individual value elements (e.g. functionality, brand, price, etc.)}

\text{a, b, c, \ldots:} \text{ weighting factors reflecting importance}
...and in particular, on the strategic relevance of that value offering

...however, the competitive relevance (CR_{VO}) of a specific value offering (bundle) is a multiplicative product of the its uniqueness and the degree to which it is superior to competitors’ offerings.

\[ CR_{VO} = U_{VO} \times S_{VO} \]

Where...

- **CR_{VO}**: Competitive or strategic relevance (impact) of value offering
- **U_{VO}**: Uniqueness, that is, difficulty of replication of value offering
- **S_{VO}**: Superiority of value offering in fulfilling stakeholders’ needs
At stake is the **value premium** generated by the firm’s value offering(s)

...and finally, the firm’s **strategic value premium** consists of the sum of its value offerings weighted according to the competitive relevance of the individual composite value offerings.

\[
\text{Value Premium} = \sum_{j=1}^{n} \left( CR_{VO} \times \text{COMP}_{VO} \right)_j
\]

- **Firm’s strategic mandate:** maximization of its Value Premium
- **The sum (over portfolio) of all value offerings across business unit or firm**
- **Competitive relevance of individual value bundle**
- **Composition of the individual value bundles**
- **Link to value proposition and ‘unique competing space’**

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The building blocks of strategy:
...the critical few that really matter

1. What is our **external competitive environment** - and how is it changing?
2. What is our **own basis of competitiveness** – and how is it changing?
3. Who are our **customers** – what are their needs and how are (both) changing?
4. What is our ‘**unique competing space**’ – and how is it changing?
5. How do we ‘**get our organisational act together**’ – to pull it off?
2. Strategic thinking
Case example: Nespresso – what else?

“...the closest thing to a luxury brand within fast-moving consumer goods”

Q1: What critical *asymmetries* has NESPRESSO succeeded in exploiting to date?

Q2: What critical *strategic questions* should NESPRESSO be asking at this point?
Strategic thinking

… “good” strategic questions are the ones that, if resolved, ultimately stand to really make a difference

1. Challenge space
   - Strategically relevant
   - Issues related to problem?

2. Sense making space
   - Strategic question(s) derived from issues?
   - Insights prompted?
   - Aggregated Insights

3. Strategic landscape
   - Balance of rational analysis and intuition

Problem, challenge or opportunity of strategic relevance, prompted by...
Triggers (mostly externally driven; sometimes internal); might be threat or opportunity driven


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From strategic thinking to ‘big-picture’, value-focused strategic analysis
Firm’s ‘Unique Competing Space’: Opportunity space for creating a uniquely, superior value offering

**Boundary “1”**: ‘Line of demarcation’ to competition and their offerings

**Boundary “2”**: Represents interface between firm and its markets (customers and stakeholders at large)

**Boundary “3”**: Most subtle and typically most challenging in practice: represents reconfiguration and mobilisation of firm’s resources, capabilities, etc. across boundary ‘3’ in order to make these competitively relevant.

**Unique ‘value premium’ window**
Where the firm fulfils customers’ needs in a way that competitors cannot (yet).

The firm’s competitive performance is reflected by its achievement of a value premium.

Recall:

\[ \text{Value Premium} = \sum_{j=1}^{n} \left( CR_{VO} \times COMP_{VO} \right)_j \]

EXAMPLE:

Apple’s overall market performance measured in terms of investment returns.

Apple iPad’s (e.g. ‘j’th value offering) market share / market share growth.

(1) Value premium achieved across firm’s portfolio of value offerings.

(2) Value associated with any individual value (bundle) offering.
Above-market average returns is one (of several) measures of the firm’s value premium.

One-year total return vs. S&P 500 18.4% (historical performance)  
(period ending February 5th 2014)

Source: “The World’s Most Admired Companies”  
FORTUNE Europe Edition (March 17th 2014)
The firm’s ‘innovation premium’ is another measure of its value premium.

‘Innovation premium’ reflects investors’ forward-looking performance expectation.

*Innovation premium: Measure of how much investors have bid up the stock price of a company above its existing business based on expectations of future innovation performance (new products, services and markets).

Source: “The World’s Most Innovative Companies”, FORBES (August 14th 2013)
Q: How might you now apply ‘big-picture’ thinking to ‘cut to the chase’ in helping NESPRESSO to frame the relevant strategic issues and to begin articulating the ‘right’ strategic questions?
1,700 patents on ‘lock-in’ machine/capsule system
$millions invested in R&D; brand; boutiques; high-profile marketing; BUT - expiring patents; slowed growth

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$millions invested in R&D; brand; boutiques; high-profile marketing; BUT - expiring patents; slowed growth

Customers needs
Chic, high-end pod market for premium coffee & experience (boutiques, up-scale customers)

- “a hermetically sealed aluminium capsule with unique water dynamics producing a perfect espresso kissed with foam”
- Perfectly portioned highest quality Grand Cru coffees
- Smart, stylish coffee machines
- Exclusive, personalized customer services – the Nespresso Club

Macro-economic context
Econ: US$ 8.5bn global coffee market (2016)
Econ: premium single-serve segment: 28% growth
Econ: recessionary / austerity pressures
Soc: Lifestyle / upscale / chic: premium quality home-brew for affluent
Env: biodegradability / eco-awareness
Pol/Econ/Soc: first sales in China
Tech: advanced automation and flow

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Nespresso’s competitors and their offerings
• Many more competitors
• Increasingly competitively attractive offerings by competitors
• Increasingly more difficult to achieve competitor ‘push-back’ (i.e. through legal means)

Nespresso’s customers, stakeholders and market space
• Increasingly attractive alternatives to Nespresso’s offering
• Shifting market space; impact of economic recession
• Brand impact in market
• Changing consumer demands (e.g. eco-sensitivity)

Nespresso’s basis of competitiveness & ability to deliver value
• Nespresso’s strategic orientation
• R&D pipeline
• Innovation capability – reflecting ability to generate and move innovative and strategically relevant product concepts into its UCS
3. Strategic boundaries

(and why they matter!)
Unique Competing Space (UCS)

Strategic issues – when they arise – invariably do so at the boundaries of the firm’s Unique Competing Space (UCS)

1. Competitor interface
2. Customer interface
3. Internal threshold
1. **Competitor interface**

- Who are our competitors today?
- Who might they be in future?
- What don’t we know about them?
- What is their competitive offering?
- What makes it inferior (possibly superior?) to ours?
- How is our competitors’ offering changing?

- What threats are emerging from our competitors?
- How are we protecting ourselves?
- What opportunities are there relative to our competitors?
- How are we exploiting these?
2. Customer & market interface

- Who are our customers?
- What are their needs?
- How well do we understand our customers and their needs?
- How are both customers and their needs changing?
- What makes us special in the eyes of our customers?

- What makes us the supplier of choice in our customers’ eyes?
- How are we strengthening our preferred customer position?
- What new opportunities are there relative to our customers?
- How are we exploiting these?
U.S.: Internal threshold - orchestrating the organisation’s resources and capabilities

3. Internal threshold

- What are our most critical resources / capabilities?
- How will these need to change?
- What is it about our organisation that enables us / hinders us most when it comes to exploiting these?
- How do we orchestrate our strengths for maximum impact?

- How do we get our organisational act together?
- How do we ensure the optimal transfer of strategic resources into our unique competing space?
- What are the critical internal hurdles?
- How do we remove these and nurture a smooth running organisation?

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**Henley research on ‘strategic boundaries’: Findings from strategy practice**

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<thead>
<tr>
<th>Survey responses (N)</th>
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<tbody>
<tr>
<td>Period of survey</td>
<td>April – May 2013</td>
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<tr>
<td>Percentage responses from organisations with 500+ employees</td>
<td>59.5%</td>
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<tr>
<td>Percentage response from organisations with £500+ turnover</td>
<td>33.8%</td>
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<td>Data reliability (Cronbach’s Alpha)</td>
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**Factor analysis confirms the strategic relevance of all of the firm’s strategic boundaries**

**“What’s keeping British executives awake at night?”**

**Principal Component Analysis**

<table>
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<tr>
<th>Key component factors</th>
<th>Percentage of total variance explained</th>
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<tr>
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<td>Individual</td>
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<tr>
<td>1. Emerging new competition (Boundary 1)</td>
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<tr>
<td>2. Getting organisational act together (Boundary 3)</td>
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<td>3. Emerging markets (Boundary 2)</td>
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<td>4. Changes in existing markets (Boundary 2)</td>
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*Extraction Method: Principal Component Analysis ; Rotation Method: Varimax with Kaiser Normalisation
Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy: 0.605; Overall significance: **p < 0.01

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Correlation analysis provides evidence of significant *boundary interdependencies*

### Correlation Analysis

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<th>Boundary</th>
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Notes: *Kendall’s tau (2-tailed); *Mean values range from 1 to 5; N = 75; *p < 0.05; **p < 0.01
Finally, correlation analysis indicates the complexity of interaction between the three strategic boundaries.

Correlation Analysis*

* Kendall’s tau (2-tailed); N = 75
*p < 0.05; **p < 0.01

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Changing the Way We Strategize: **Summary**

1. Competitive advantage is transient at best; strategic horizons are shrinking - there is little room for experimentation with strategy

2. Strategy invariably revolves around the organization’s ability to create and deliver a uniquely differentiated value offering to its stakeholders; this requires a renewed focus on ‘value’

3. Invariably, the need for strategic response is prompted by competitive challenges at one or more of the three strategic boundaries of the organization’s “unique competing space”

4. ‘Good’ strategy: (1) addresses critical issues relevant to the organisation’s ‘unique competing space’; (2) identifies potential pivot points that exploit asymmetries; (3) enables appropriately purposeful and orchestrated action
Defining Strategy: Further Reading

G. Tovstiga (2013). *Strategy in Practice* (John Wiley & Sons)

In particular: Chapters 1, 2 and 5
Thank you!