

# *Changing the way we strategize*

*[Or, strategizing in the age of unsustainable competitive advantage]*

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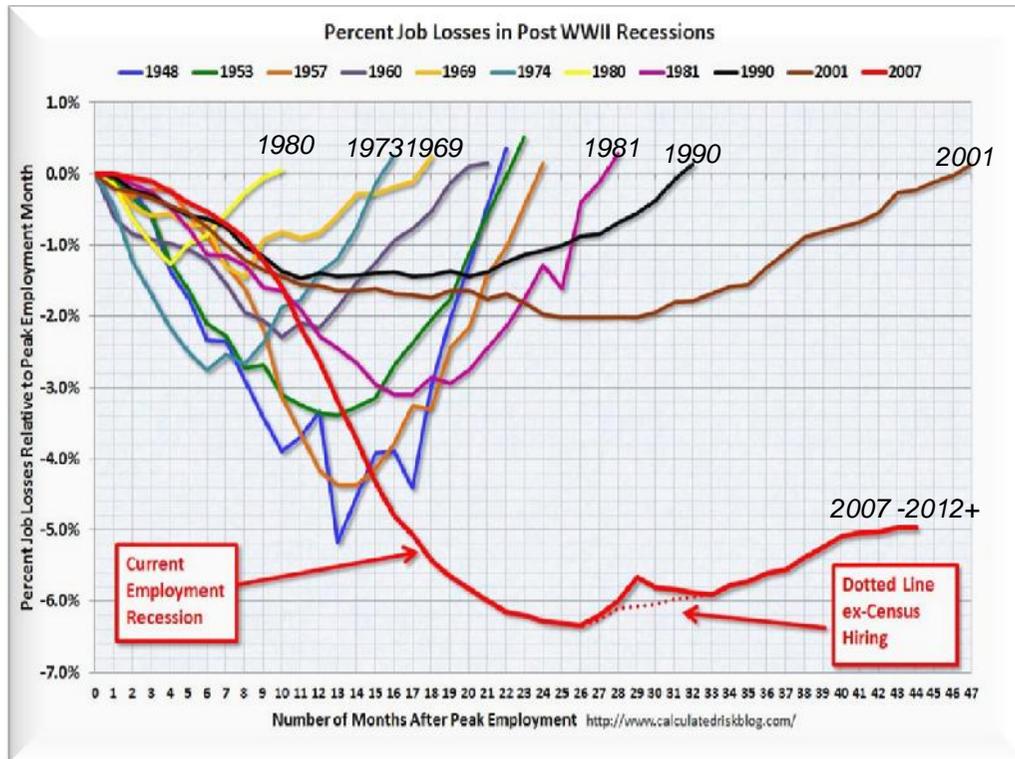


## *Competition as we know it is changing – irreversibly so*

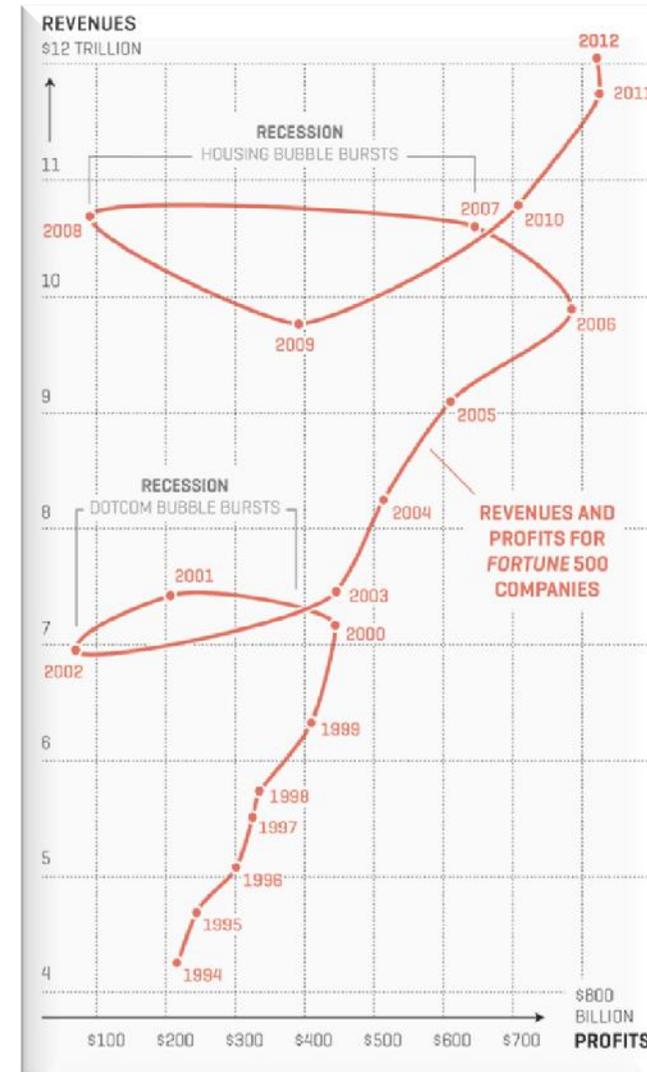
- We are living (and competing) in an increasingly *VUCA*\* world
- Time horizons for strategic decision making have shrunk considerably
- ‘Firm’s right to win’ no longer given; increased likelihood of failure
- Multiple and compounded impact of unprecedented economic/social/political factors in shaping 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

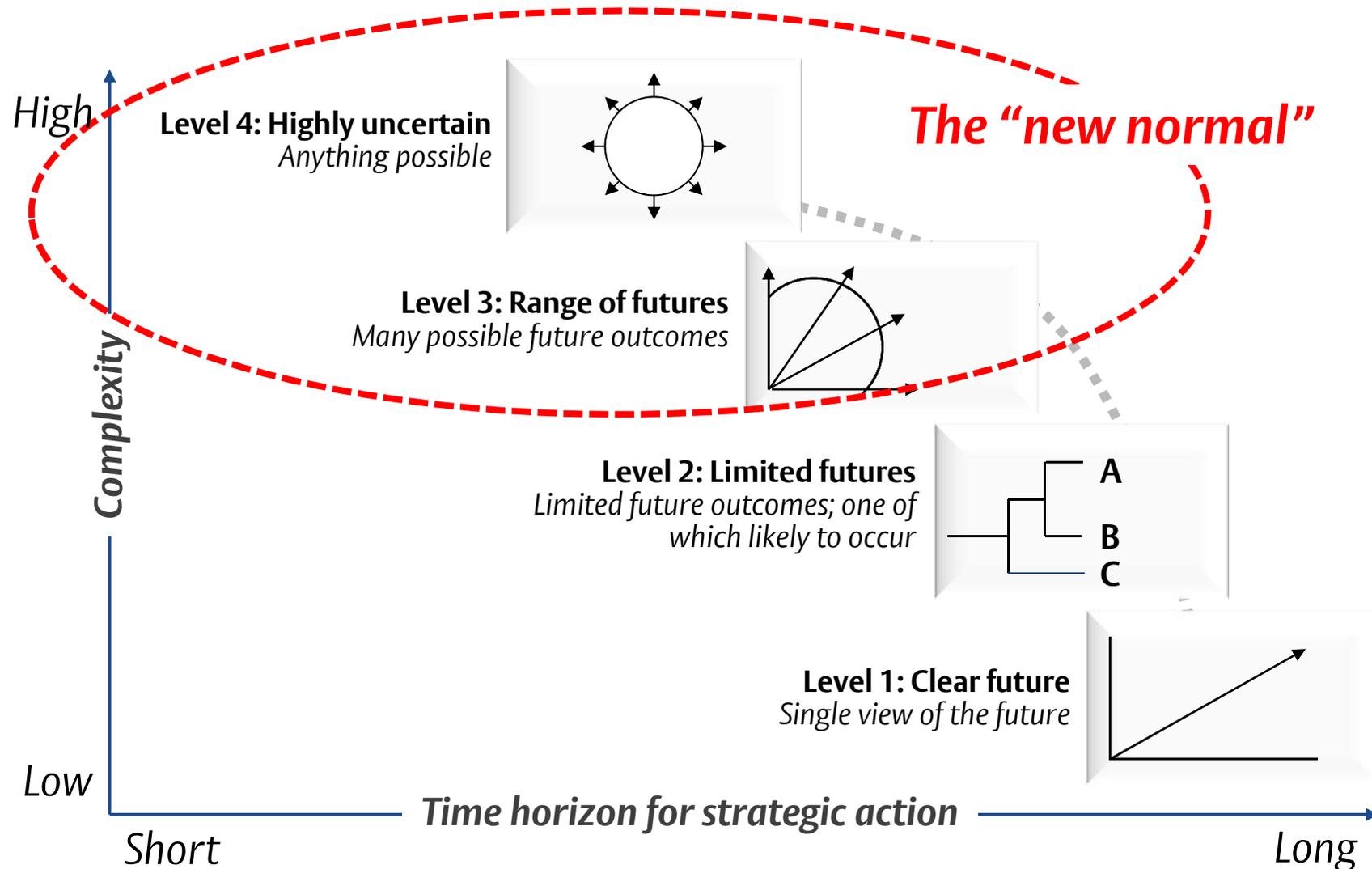


U.S. Bureau of Labor and Statistics (2012)



FORTUNE (Europe Edition) / May 20, 2013

# Time horizons are shrinking; complexity is increasing...



## *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'





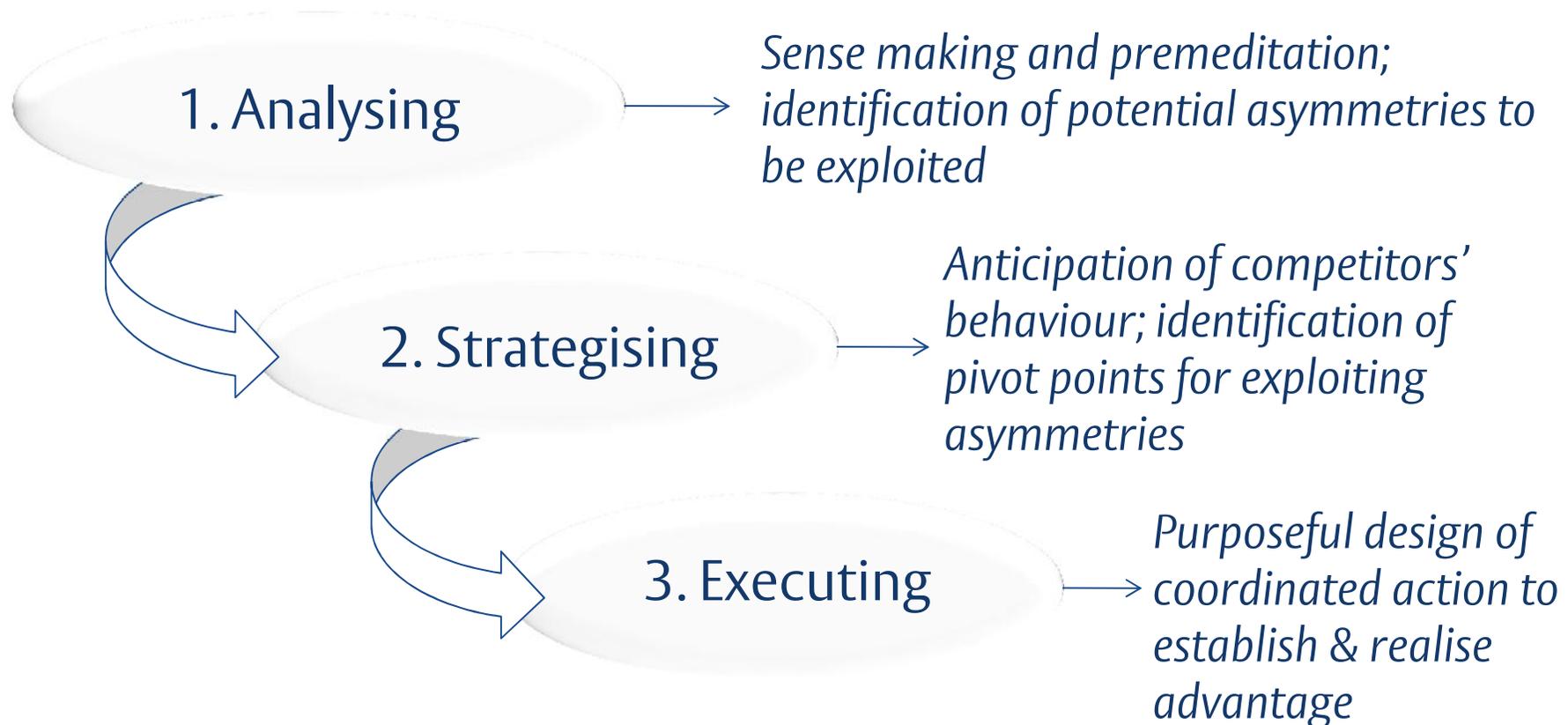
# *Good strategy often appears to be deceptively simple*

*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...*

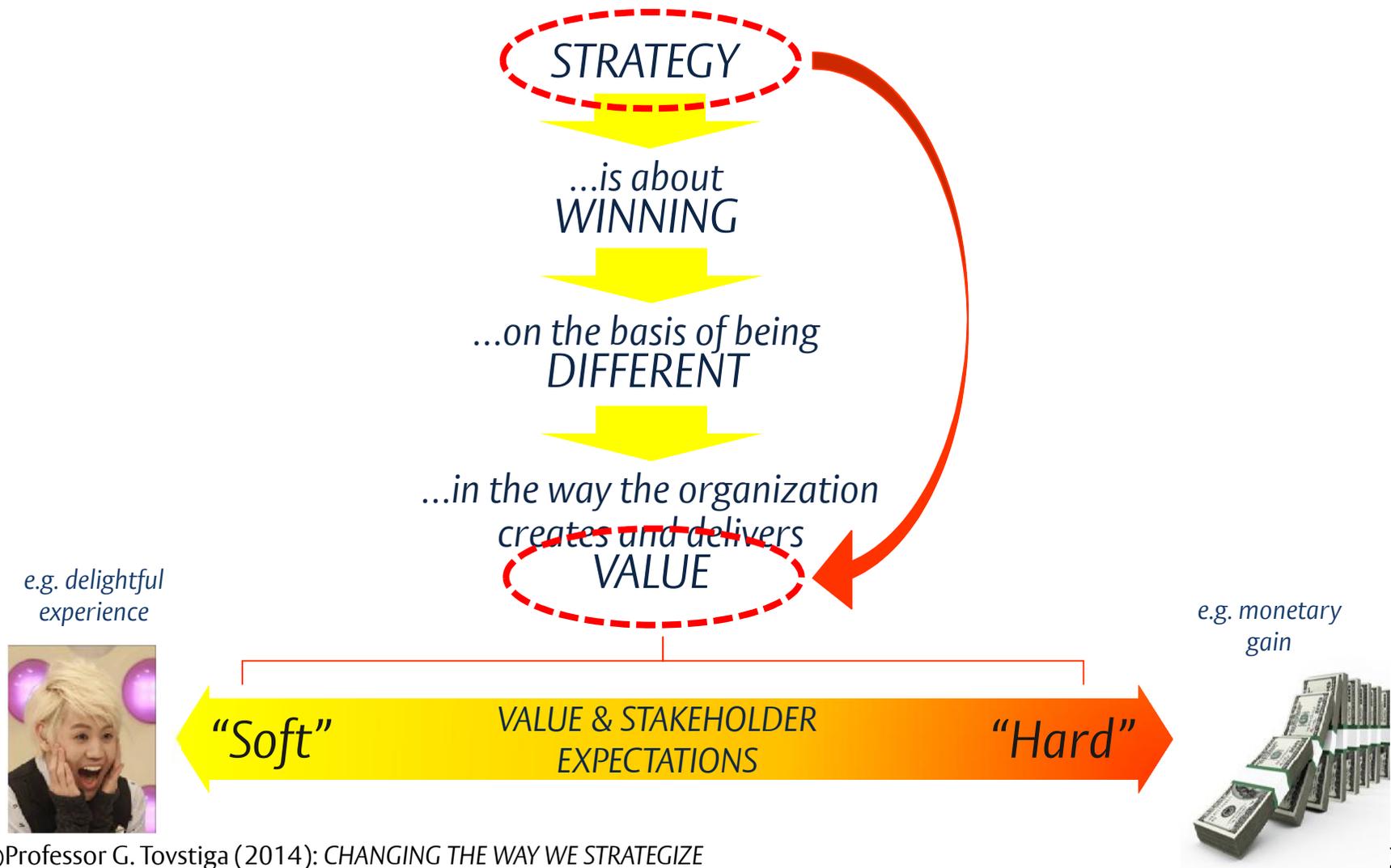


*But how does ‘good strategy’ translate to the modern business context*

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 ( $COMP_{VO}$ ): 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.

$$COMP_{VO} \text{ ('value bundle')} = aV_1 \text{ (e.g. brand)} + bV_2 \text{ (e.g. technical functionality)} + cV_3 \text{ (e.g. price)} + dV_4 \text{ (e.g. experience dimension)} + \dots$$

Where...

**$COMP_{VO}$** : summated composition of a value offering (i.e. 'value bundle')

**$V_i$** : individual value elements (e.g. functionality, brand, price, etc.)

**$a, b, c, \dots$** : 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 its uniqueness and the degree to which it is superior to competitors' offerings

$$CR_{VO} = U_{VO} \times S_{VO}$$

Core  
strategic  
objective

Where...

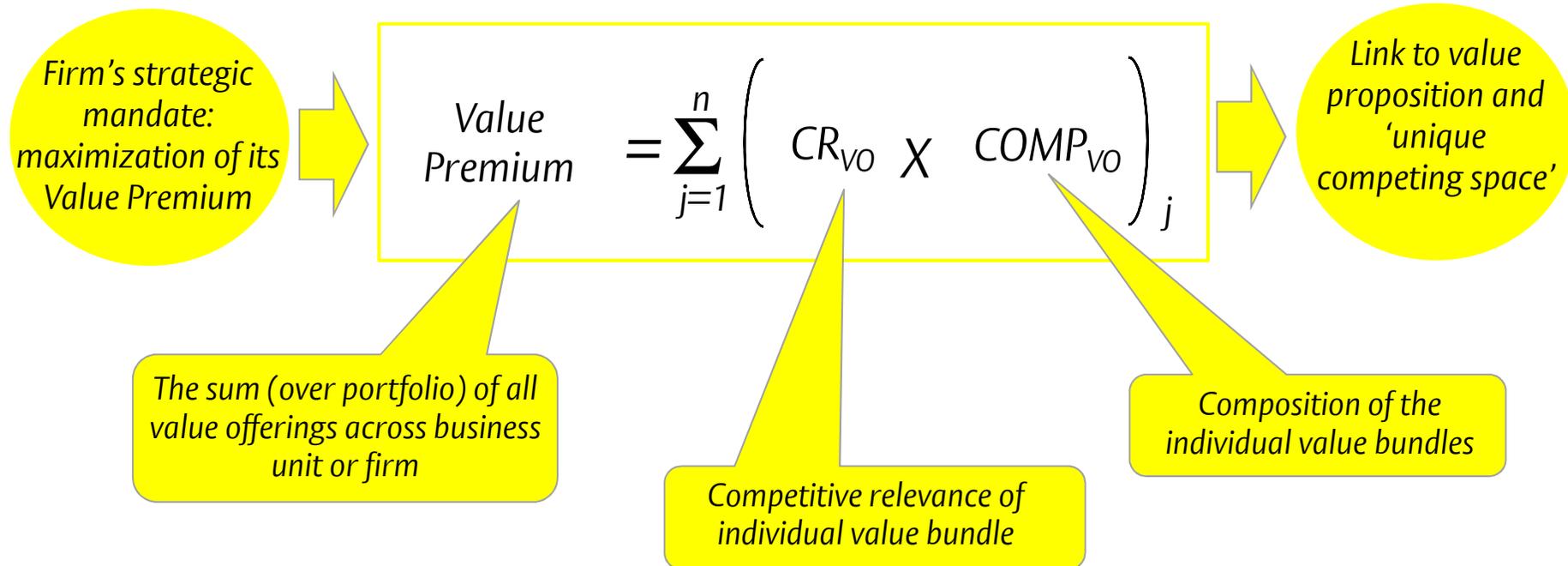
$CR_{VO}$ : **Competitive** or **strategic relevance** (impact) of value offering

$U_{VO}$ : **Uniqueness**, that is, difficulty of replication of value offering

$S_{VO}$ : **Superiority** of value offering in fulfilling stakeholders' needs

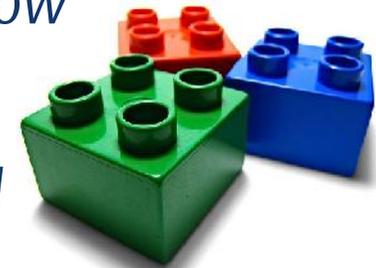
# At stake is the **value premium** generated by the firm's value offering(s)

...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



## 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”

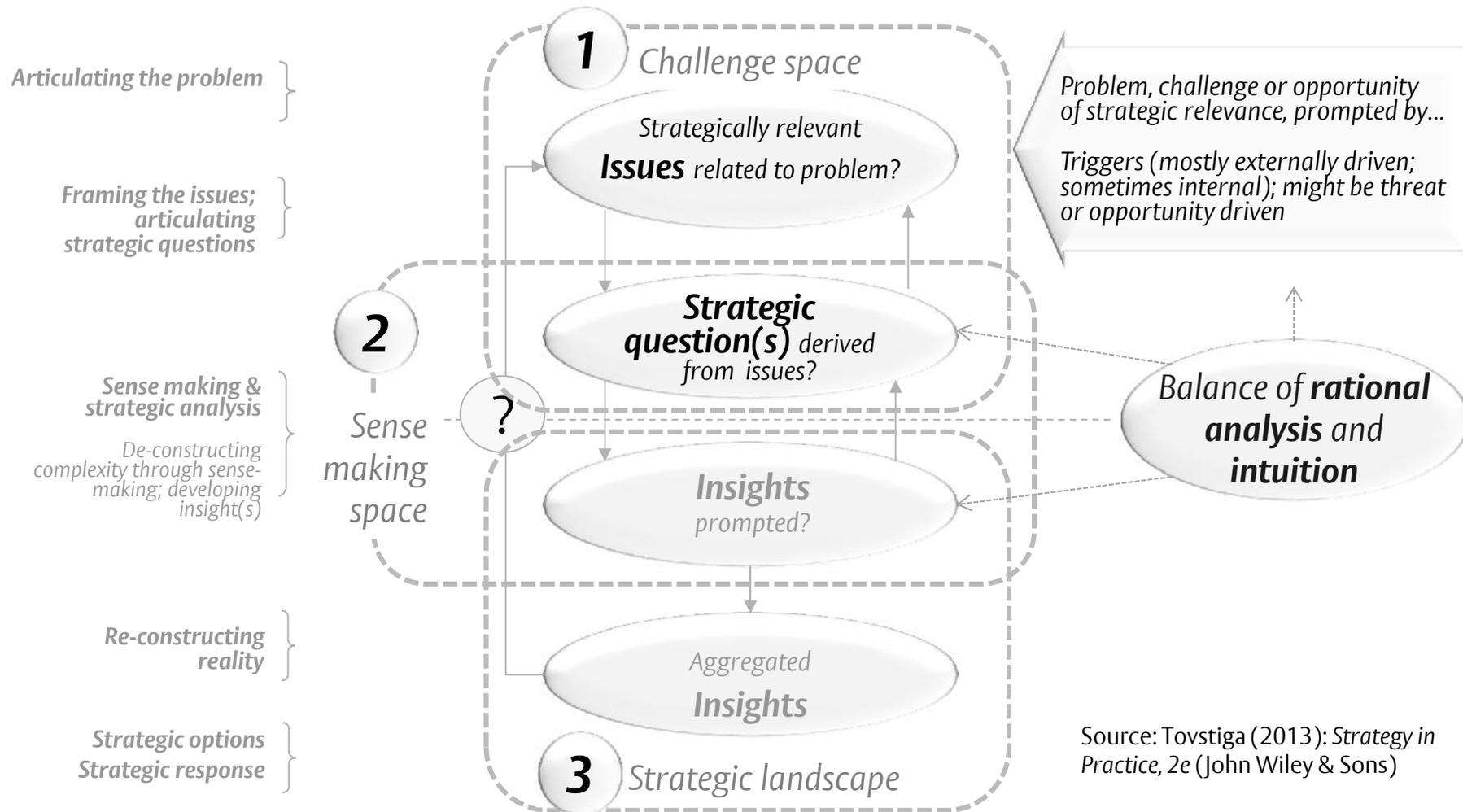
**Q1:** What **critical asymmetries** has NESPRESSO succeeded in exploiting to date?

**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



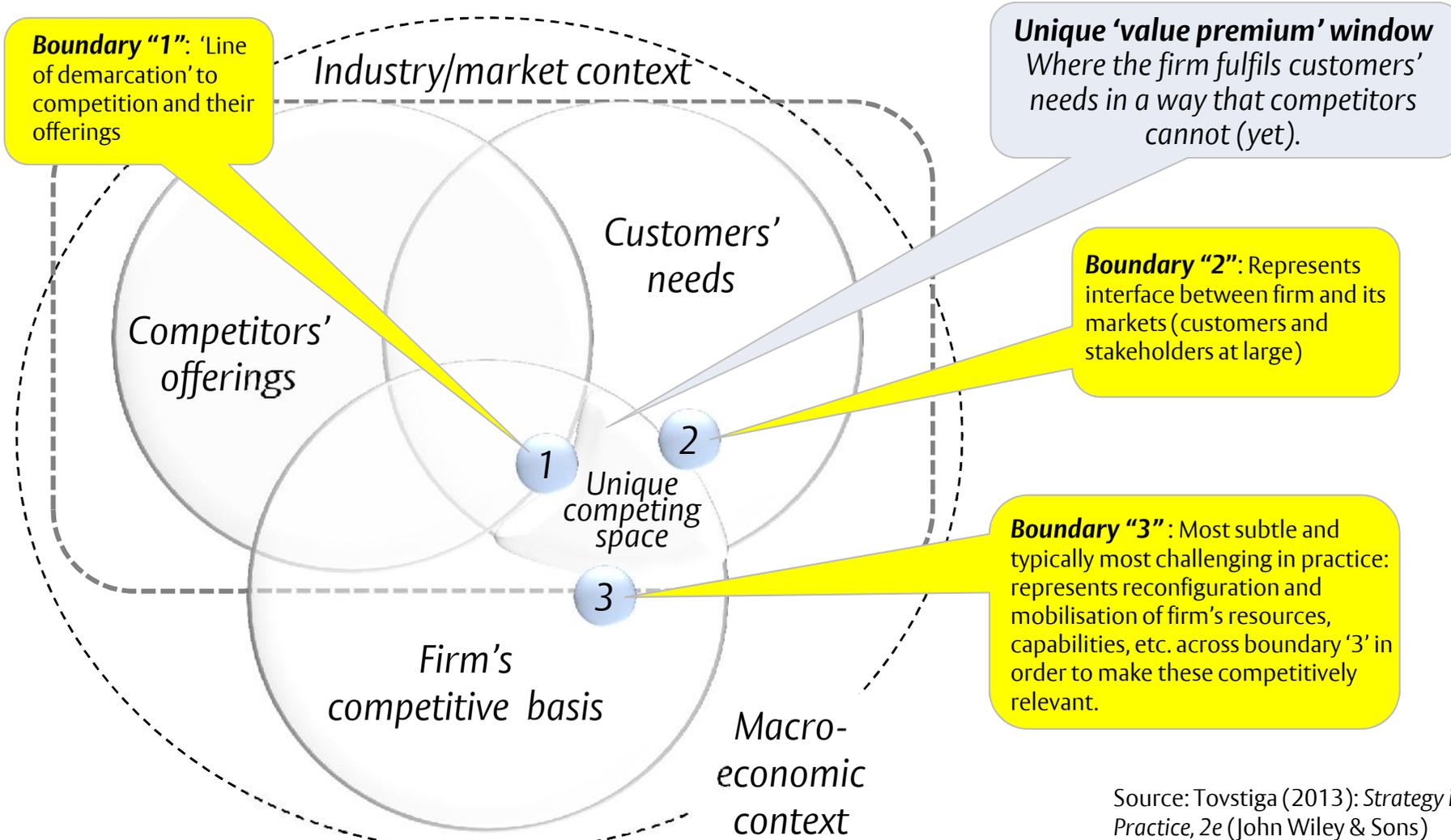
Source: Tovstiga (2013): *Strategy in Practice*, 2e (John Wiley & Sons)

# *From strategic thinking to ‘big-picture’, value-focused strategic analysis*



# Firm's 'Unique Competing Space' :

Opportunity space for creating a uniquely, superior value offering



Source: Tovstiga (2013): *Strategy in Practice*, 2e (John Wiley & Sons)

# 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<sup>th</sup>' value offering) market share / market share growth



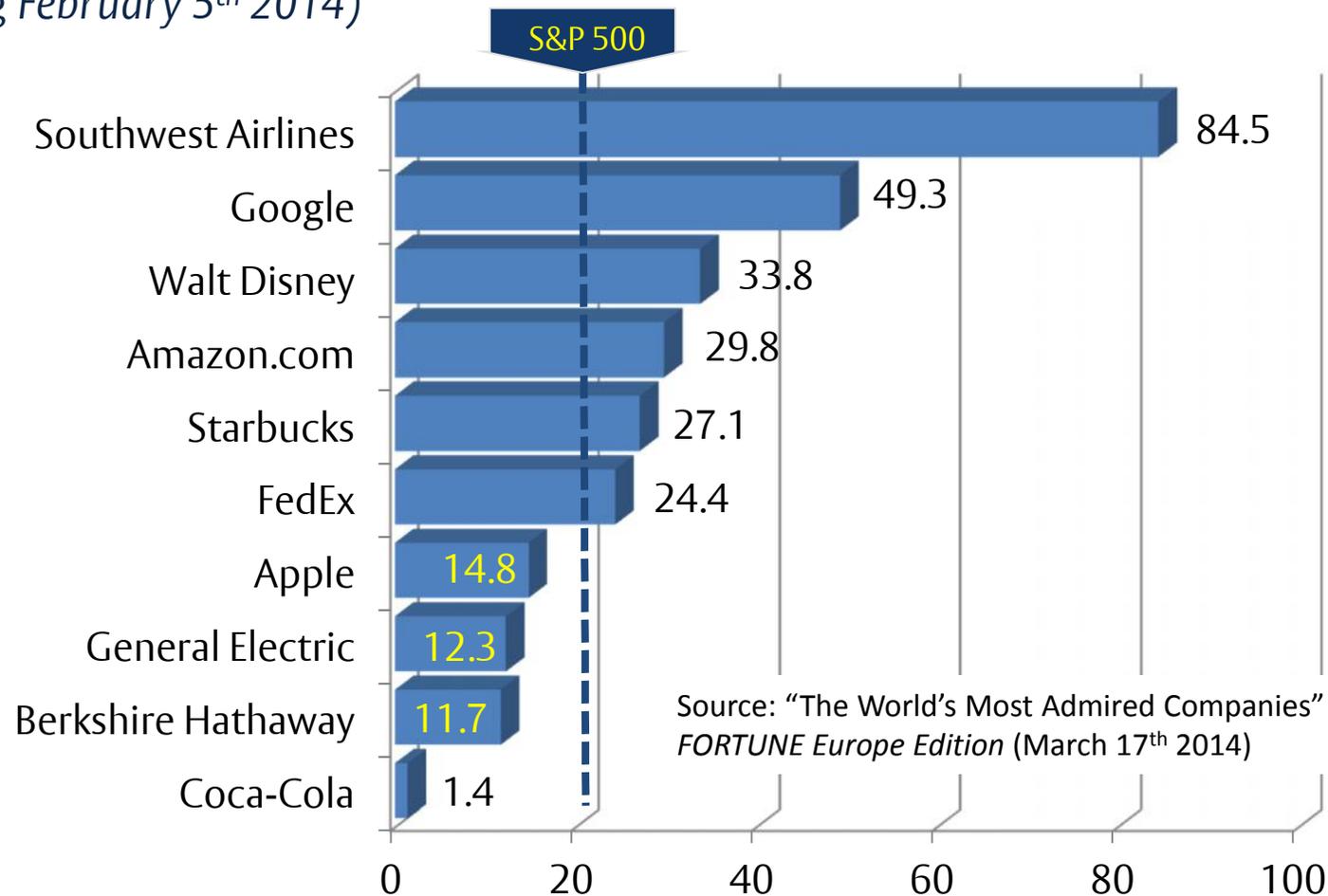
(1) Value premium achieved across firm's portfolio of value offerings



(2) Value associated with any individual value (bundle) offering

# Above-market average returns is one (of several) measures of the firm's value premium

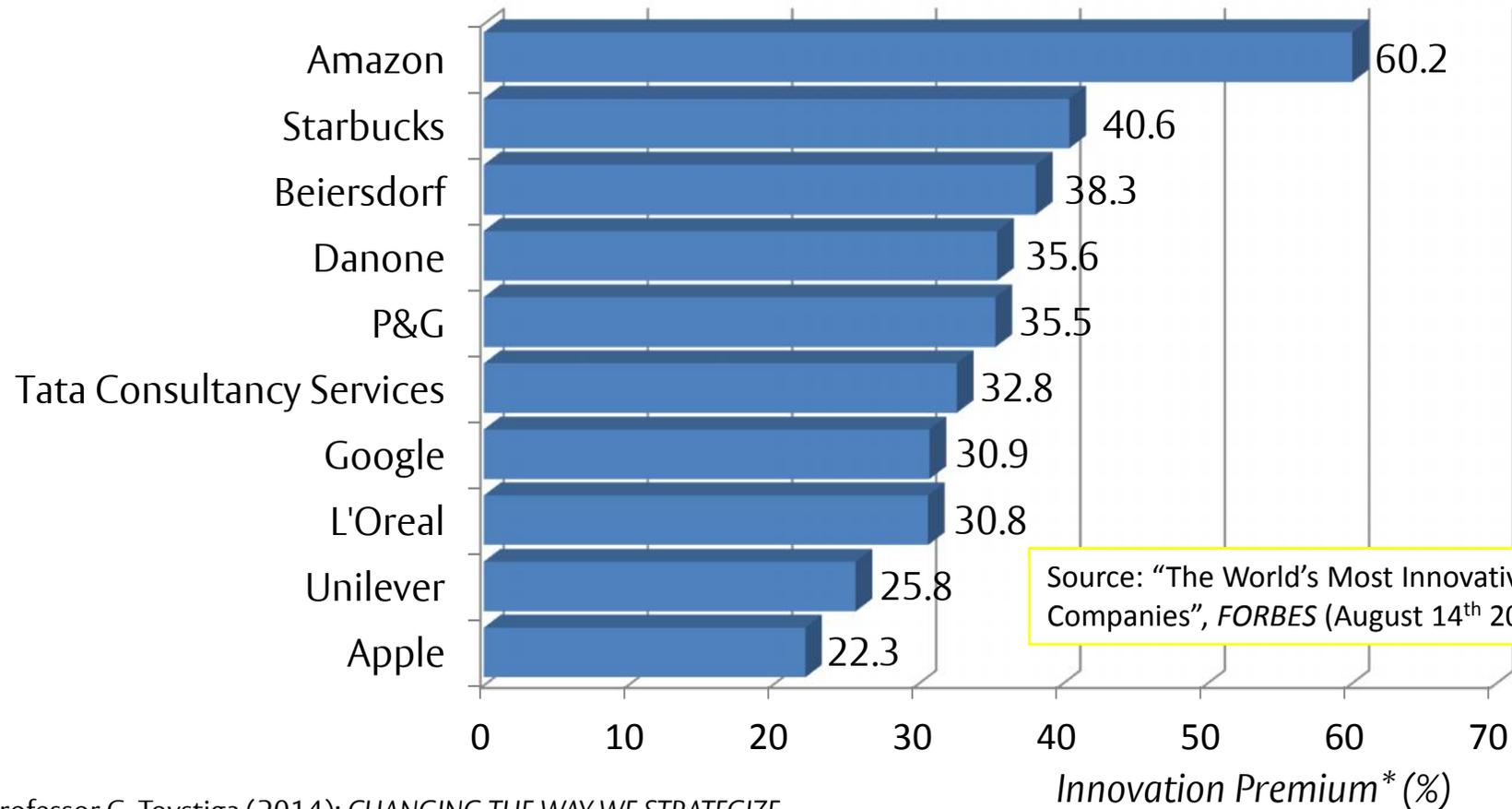
One-year total return vs. S&P 500 18.4% (historical performance)  
(period ending February 5<sup>th</sup> 2014)



# The firm's 'innovation premium' is another measure of its value premium

'Innovation premium' reflects investors' forward-looking performance expectation

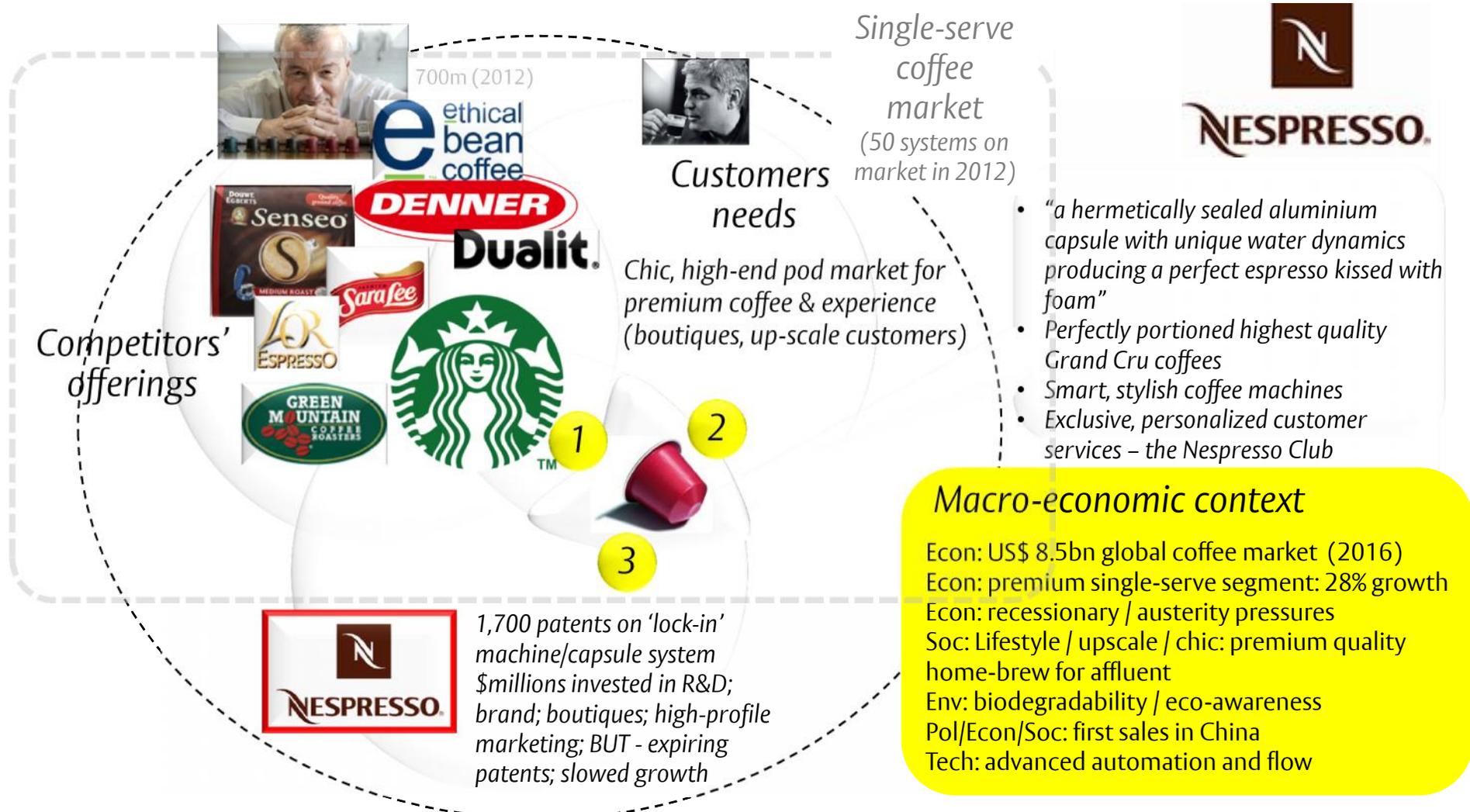
\*Innovation premium: Measure of how much investors have bid up the stock price of a company above its existing business based on expectations of future innovation performance (new products, services and markets)

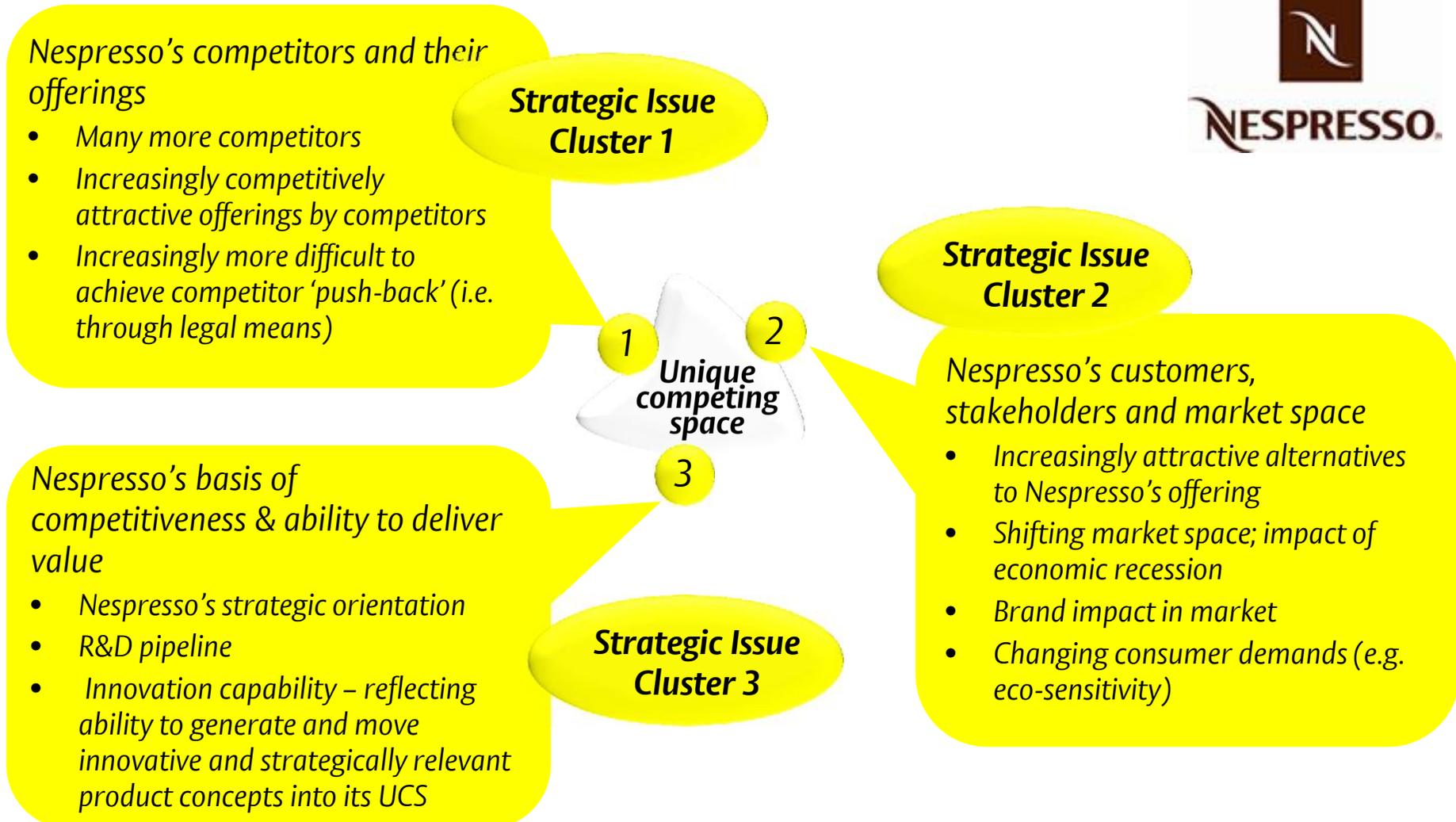


## Case example: Nespresso – revisited

*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?*







# 3. Strategic boundaries

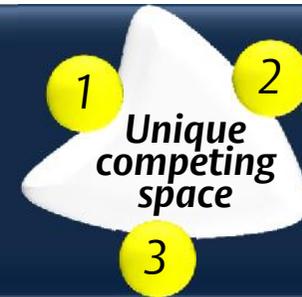
*(and why they matter!)*



# 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*



# UCS: Competitor Interface - *defending and expanding the competitive edge*

## 1. *Competitor interface*

1

*Unique  
competing  
space*

- 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?*

# UCS: Customer Interface - *nurturing & expanding a unique market space*

## 2. *Customer & market interface*

2

Unique  
competing  
space

- Who are our customers?
- What 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?

# UCS: Internal threshold - *orchestrating the organisation's resources and capabilities*

## 3. *Internal threshold*

Unique  
competing  
space

3



- 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?*

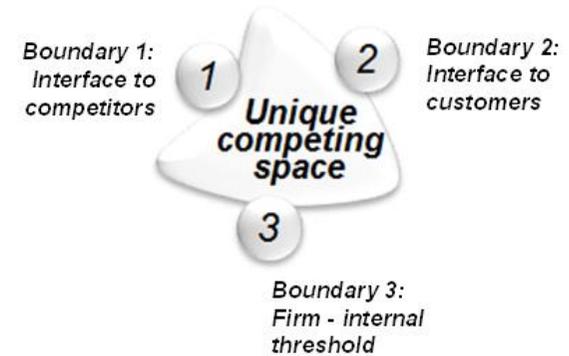
## *Henley research on ‘strategic boundaries’: Findings from strategy practice*

<b>Survey responses (N)</b>	<b>75</b>
Period of survey	April – May 2013
Percentage responses from organisations with 500+ employees	59.5%
Percentage response from organisations with £500+ turnover	33.8%
Data reliability (Cronbach’s Alpha)	0.747



# 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\*

Key component factors	Percentage of total variance explained	
	Individual	Cumulative
1. Emerging new competition (Boundary 1)	16.5	16.5
2. Getting organisational act together (Boundary 3)	15.7	32.2
3. Emerging markets (Boundary 2)	14.7	46.9
4. Changes in existing markets (Boundary 2)	14.2	61.1

\*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

# Correlation analysis provides evidence of significant **boundary interdependencies**

## Correlation Analysis

Boundary	Coding scheme	Mean <sup>2</sup>	SD	1.0	2.0	3.0	1.1	1.2	1.3	2.1	2.2	2.3	3.1	3.2
Competition	1.0 Boundary 1	3.71	.941											
Customers	2.0 Boundary 2	4.15	.896	.132										
Internal	3.0 Boundary 3	3.71	.955	.279*	.193									
Boundary 1 (Competition)	1.1 New offerings	3.48	.795	.462**	.166	.259*								
	1.2 New competitors	3.00	.930	.355**	.081	.304**	.165							
	1.3 Combinations	3.29	.749	.334**	.197	.480**	.146	.621**						
Boundary 2 (Customers)	2.1 New needs	3.81	.766	.017	.533**	.164	.127	.133	.167					
	2.2 New customers	3.53	.875	.176	-.015	.351**	.074	.266*	.232*	.211				
	2.3 Combinations	3.61	.769	.028	.221	.211	-.090	.094	.246*	.381**	.712**			
Boundary 3 (Internal)	3.1 Sense making	3.44	.721	.053	.024	.327**	.145	-.040	.058	.028	.180	.116		
	3.2 Resources	3.73	.890	.018	.151	.225	-.046	-.131	.099	.263*	.220	.262*	.269*	
	3.3 Mobilisation	3.52	.875	.073	.246*	.314**	-.072	.083	.156	.429**	.215	.222	.146	.579**

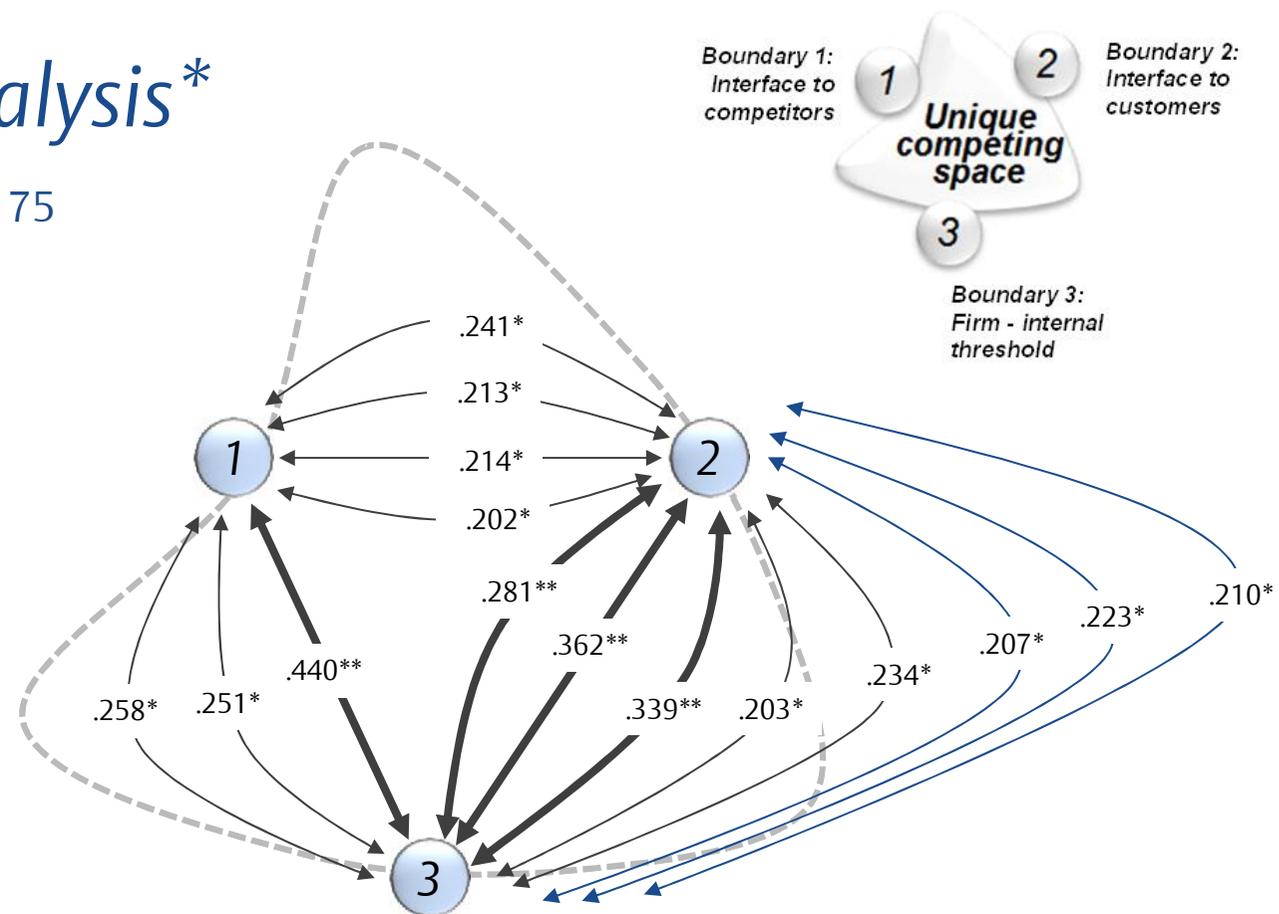
Notes: <sup>1</sup>Kendall's tau (2-tailed); <sup>2</sup>Mean values range from 1 to 5; N = 75; \*p < 0.05; \*\*p < 0.01

Finally, correlation analysis indicates the **complexity of interaction** between the three strategic boundaries

## Correlation Analysis\*

\* Kendall's tau (2-tailed); N = 75

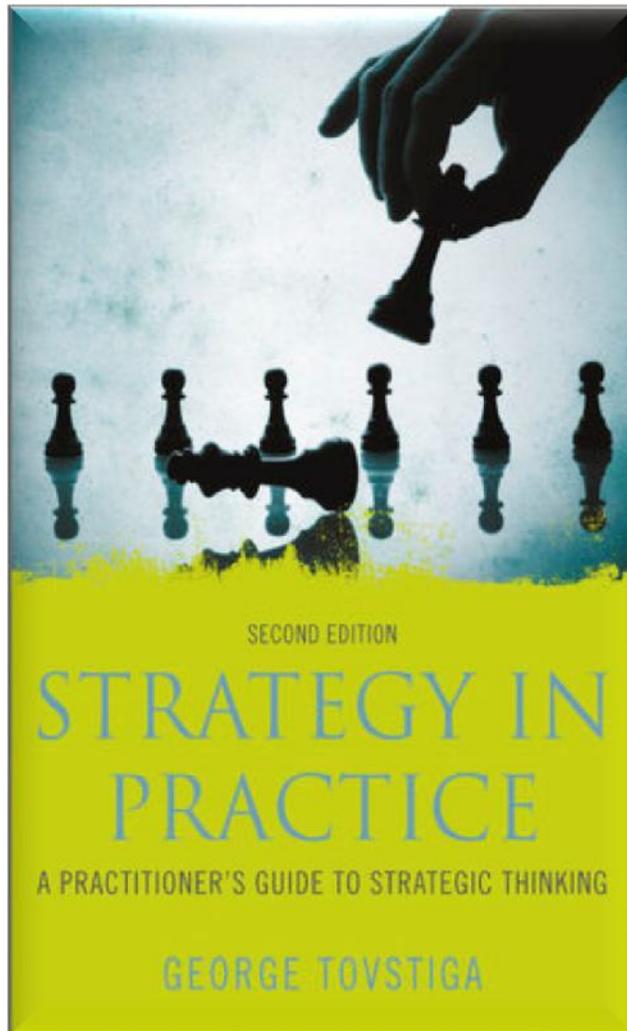
\*p < 0.05; \*\*p < 0.01



## *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!**

