Executive Handbook II

Strategic Thinking

A process to neutralise competition

Outthinking the competition is smarter than trying to outpunch them!

By
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Strategy Workshops

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Strategic Thinking:
A process to neutralise competition

Introduction

This handbook has been compiled to provide executive management with a quick but in-depth summary of the critical decision making process of Strategic Thinking when applied to the concept of competition strategy.

My objective is to provide you with some thought-provoking concepts that I have personally used and which can be turned into profitable business practise.

I hope that you will discover some practical ideas which you will find quick and easy to convert into good strategic actions for your business.

As a full time, dedicated, professional facilitator I will be delighted to discuss in greater detail our Strategic Thinking Process and its logistics.

Roger Handley
Facilitator & Founder
Strategy Workshops

Chapter 1

What is successful strategy?

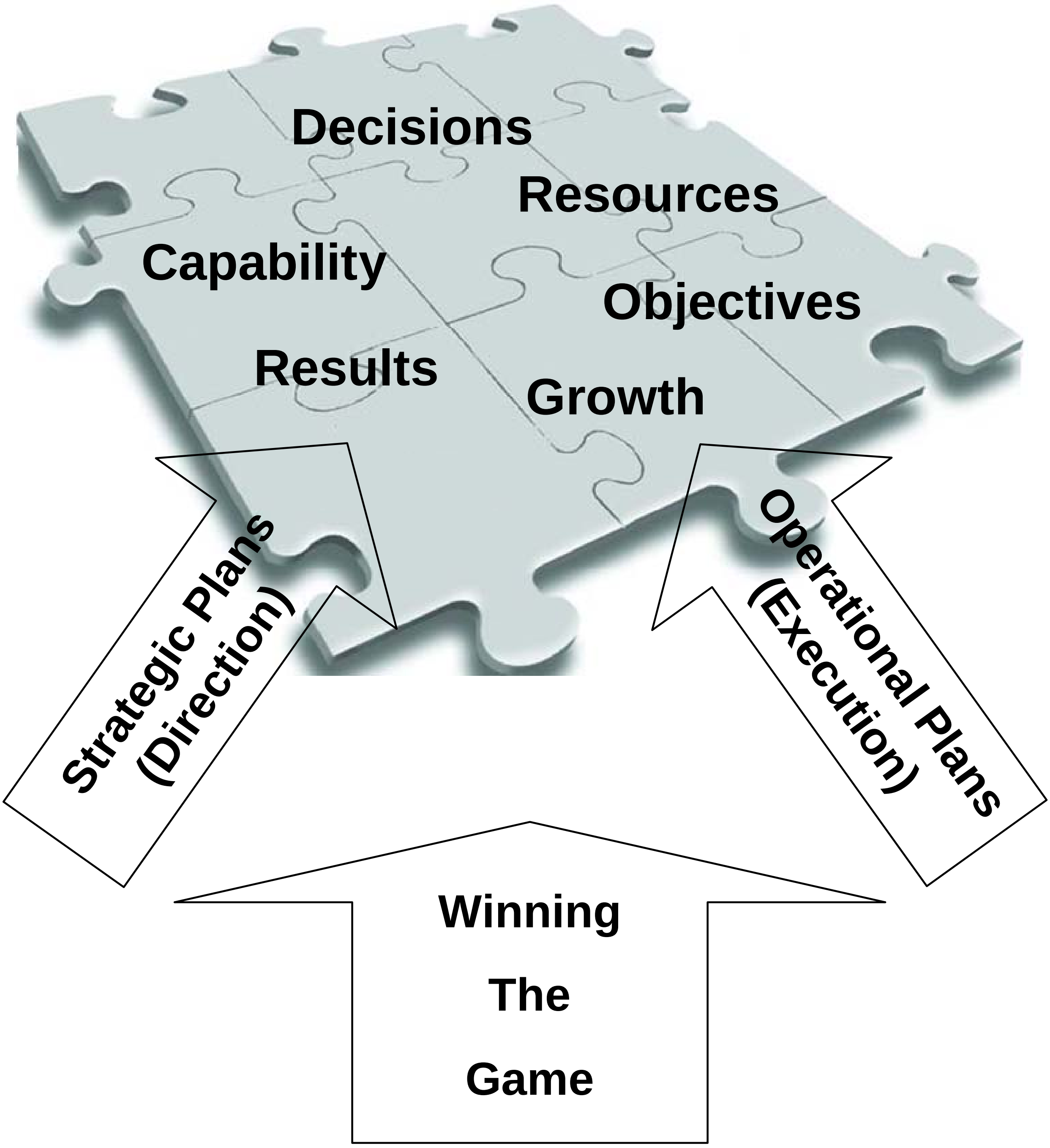
We talk about strategy as making choices, allocating resources, setting objectives, defining what we want to be, determining how to get there, leveraging competence and achieving goals, etc. But all of these are steps or tactics of one sort or another to achieve the ultimate goal of winning against the competition.

So what is successful strategy? For my part I see it as profitable and sustained growth of the business by taking market share from competitors. Competing must be a proactive function that management need to make happen and should be seen as a repeatable business process. A sign of weak strategy is an organisation that is being targeted by competitors. Under these conditions management tend to react with defensive tactics to minimise the impact. Quite often management see these defensive tactics as actually being proactive responses to deal with the threat but this is a negative mind set that allows the competition to control market pace.

A successful strategy is one that demonstrates a clear customer proposition which differentiates the offer from its competitors. The customer will see a positive distinction between one proposition and the rest. The organisation will protect this advantage by creating barriers that others will find difficult to copy or circumvent. They will also stretch the strategic fit to leverage any uniqueness and seek to extend this across as many products and markets as possible. A successful strategy aims to influence and exercise control in the markets. It is proactive and will cause competitors to be reactive in an attempt to minimise the impact that the successful strategic initiatives are causing.

A successful strategy will be one that causes competitors to be so concerned about your strategy that they spend too much time and resource trying to react to your challenge and in doing so will play the game to your rules.

What is Successful Strategy?



Chapter 2

How can we cause strategy to be successful?

There are three macro steps to take. The first is to scope out a future strategy that will meet the criteria given on the previous page. The second is to communicate strategy in such a way that every member of staff has an explicit understanding of the contribution that they need to make in order that the organisation achieves its future goals. The third step is to develop an intuitive understanding of your competitors. You will then be able to understand and predict their reactions to your strategy.

Interestingly, the thinking process needed to create a winning strategy for your organisation can also be used to predict the competitors' reactions to your strategic initiatives. By doing this you will in effect be managing and influencing your competitors' strategy to your organisations advantage.

The second step mentioned above is often observed as a weak link. A poorly communicated strategy creates confusion and misunderstanding amongst employees. This is partly due to the misconception that communicating strategy is achieved by a staff newsletter or an annual away day conference or a soap box announcement on the shop floor, etc. There are dozens of examples of this type of method but none of which, in isolation, will achieve the objective of ensuring that each employee has an explicit understanding of their personal contribution that will be needed.

For strategy to be successfully communicated to each employee it must be explicit in explaining the linkage between the individual's goals and the organisation's goals. It must motivate them to achieve these goals. The goals should be reflected in an individual's personal pay plan, quotas and incentives. The process of communicating strategy is to personalise the importance of it for each employee and ensure that the actions required are emotionally and financially compelling.

Competition Strategy

It's Top Management that Compete!

Strategic Check List

Define our strategy

Communicate to others

Set incentives

Develop our competitor intuition

Proactively target a competitor

The Thought Process to Outthink a Competitor

Chapter 3

Does size matter?

A winning strategy must be well thought out and executed. Smaller companies grow fast because they outthink their competitors. It's a myth to think that organisations with the greatest resources and the deepest pockets can always expect to come out on top. Clearly a resource rich organisation with a good strategy and implementation will be a dominant force. However, there are plenty of examples of the "David and Goliath" scenario that will give management encouragement when planning to attack a major player.

Hindsight is a wonderful thing, but without the benefit of retrospective vision where would you have seen the safer investment opportunities over the last ten to twenty years?

Xerox	or	Canon
British Airways	or	Virgin Atlantic
Marks & Spencer	or	Tesco
BMC	or	BMW
IBM	or	Microsoft
BT	or	Vodafone
Timex	or	Swatch

If you were to ask me without the benefit of hindsight, I would have to confess to seeing the left hand column as being the safer bet because overall they would have had superior resources. It could be argued, however, that the right hand column whilst clearly having less resources might indeed be superior in resourcefulness. I would suggest that the differentiator between these two columns is intuitive thinking coupled with strategic innovation.

Big companies have a natural weakness: they can frequently be seen as inflexible. They lose the small business mentality. This is not always the case and there are some very large multinationals that structure themselves to foster an innovative internal climate by harnessing the individual thinking talents of its employees and giving them the opportunity to pursue concepts that may result in new strategic product and market initiatives in their challenge to achieve their goals. Temporarily removing the word NO from the culture of the organisation can reap extraordinary results.

Management's approach to formulating winning strategy needs to be... ... Not ...

Needs to be...	... Not ...
Dynamic • embracing change	Static / stagnant
Flexible • internally & externally	Inflexible
Innovative • products & initiatives	Too Conservative
A Stretch • short & long term objectives	Risk averse
Resource conscious • leveraging	Low productivity
Seeking Improvement • continuously	Cost focused
Culture changing • well communicated	Poor communication

Chapter 4

Where do we compete?

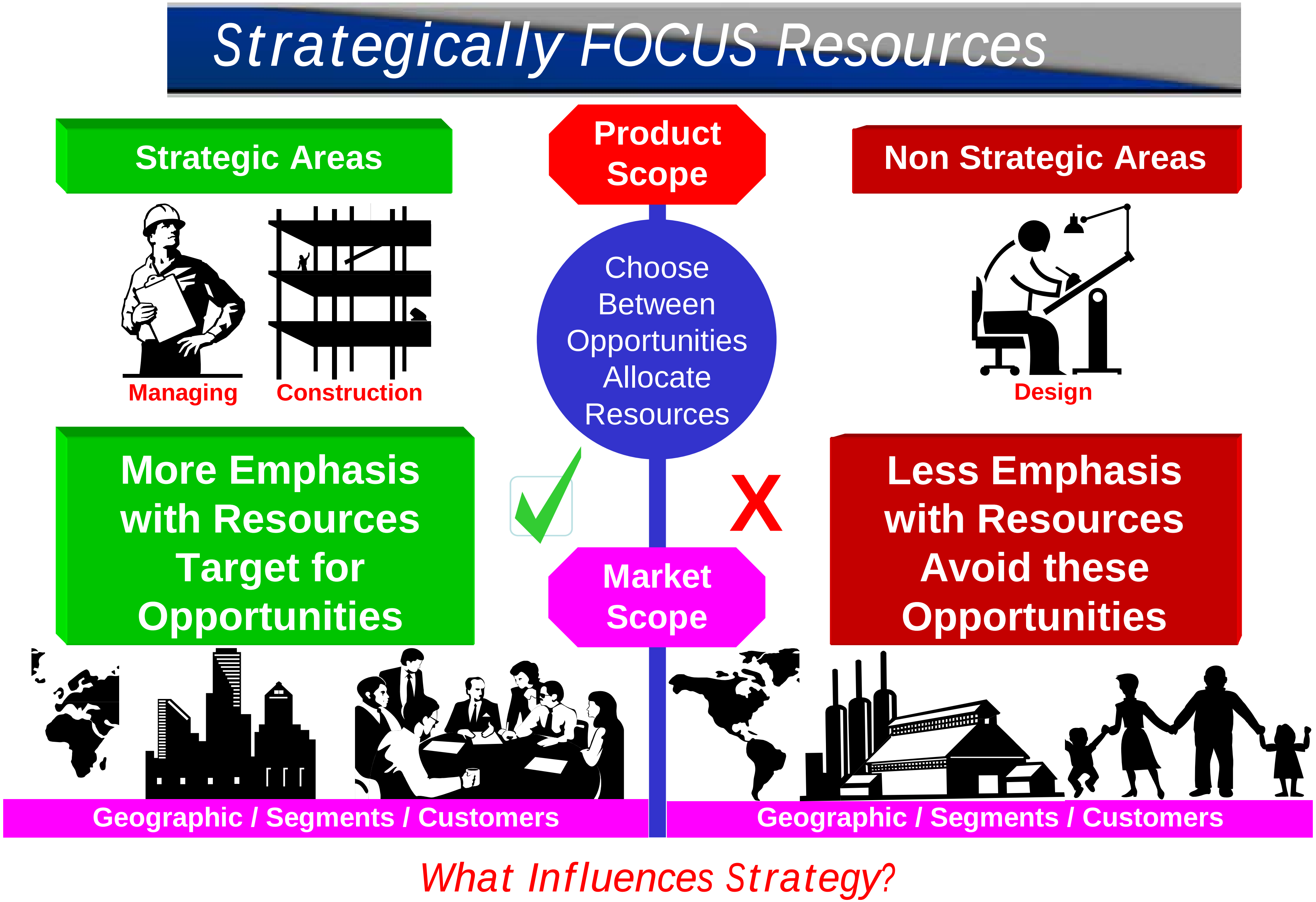
There seem to be two schools of thought. Some will argue that strategically, competition takes place at the closest point to the customer. This would mean that those organisations structured into business units will have done so in order to arrange their products, customers and markets to have close synergy. This is done to optimise the resources at their disposal and maximise the impact of technical know-how and individual skills. It is difficult to see whether this is a strategic objective or an operational tactic to facilitate the speedy execution of corporate strategy.

The other school of thought is that strategically, companies compete at corporate level not business unit level. What this means is that the future shape and look of the business over time will be defined by choices made at corporate level as to the future scope of the products and markets to be in. Decisions will then be made as how best to structure the business to achieve this aim. Additionally the scope for future products and markets will be used to determine potential acquisition opportunities when appropriate.

Confusing? It all depends on how you see the definitions of strategy applied but this does underline the need for the explicit communication of strategy to all stakeholders in the business.

It is important to agree and have mutual understanding amongst the top management team as to strategically where the business competes. The organisation must decide the boundaries and limits of its strategic scope. This entails drawing up the scope for future products and markets as specific examples that makes it explicit to management what the limits and boundaries of strategy will be.

The examples will be indicators of strategic fit and show where strategy can stretch for future growth. This clearly demonstrates to management where resources should be allocated and how competency should be leveraged.


Strategically FOCUS Resources
Strategic Areas
Managing
Construction
Product Scope
Choose Between Opportunities Allocate Resources
Non Strategic Areas
Design
More Emphasis with Resources Target for Opportunities
Market Scope
Less Emphasis with Resources Avoid these Opportunities
Geographic / Segments / Customers
Geographic / Segments / Customers
What Influences Strategy?

Chapter 5

Targeting for growth

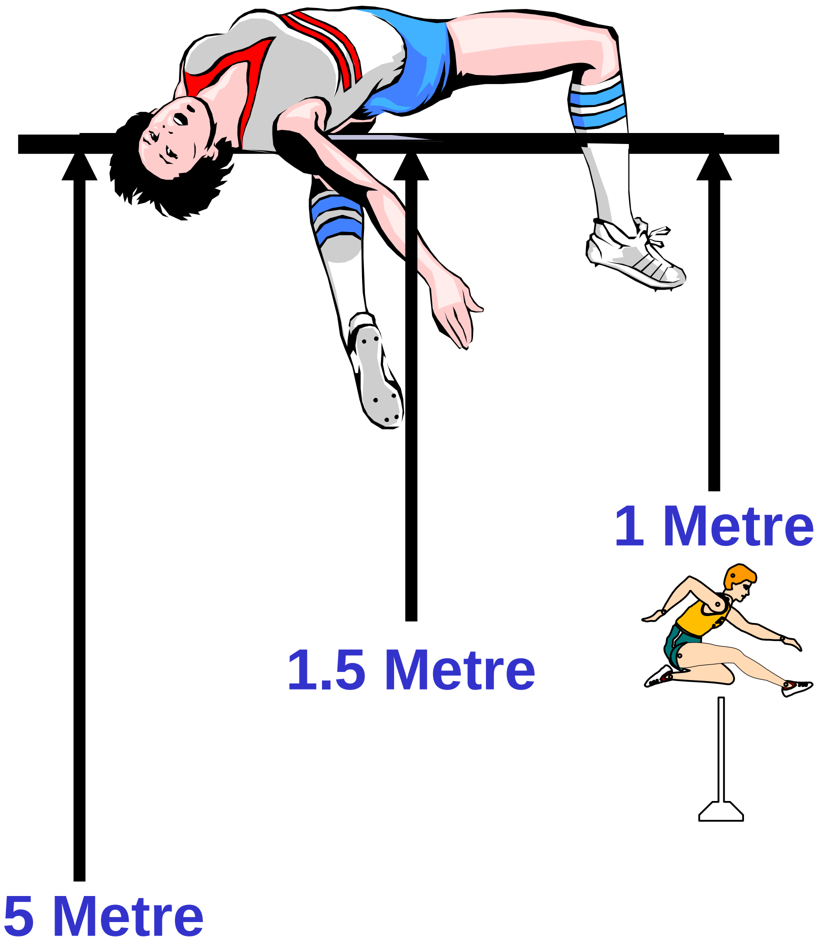
Raising the crossbar of performance

For most management teams bare minimum growth will be seen as the level of inflation or GDP. To achieve only this level of growth would be necessary just to stand still. Real growth would be in excess of this figure and for many of us will have to come at the expense of the competition. The real challenge is raising the crossbar by setting objectives to stretch the organisation and achieve above industry standard growth rates. Jumping a crossbar set at a challenging height needs an innovative approach. Something has to change. The high-jumper's innovation is to pick up a pole and become a pole-vaulter. You have to decide what your pole will be.

Some markets may be growing at a rate sufficient to satisfy everyone's appetite. An example would be the personal computer market during the eighties. There was so much growth and demand that the competing organisations had no need to fear each other. However, when supply begins to catch up, as we have seen since the nineties, these companies start to take much more notice of each other. It would appear that the key to success in high growth markets is to focus on operational competency. As long as there are some clear operational objectives in place and they have the right skills to achieve their targets then these companies can succeed because there is sufficient market growth. However, as soon as the market hardens it becomes a quite different scenario.

In this instance a proactive strategy is called for, one that will have differentiation and be seen as distinctive within your chosen markets. An organisation that is being targeted by competitors will find itself reacting to events and being constantly on the defensive. It will find itself switching resources from one activity to another on the basis of fending off one competitive attack after another. This is caused by the competitors spotting something attractive about your strategy that gives them an opportunity to demonstrate an edge in the markets. The reasons why one company becomes sluggish or suffers paralysis when attacked will differ between organisations, but there is usually one common factor. The company targeting a competitor and pursuing a proactive strategy will have managed to understand what the particular Achilles heel is of its target, and has devised a plan to work on that area.

Raising the Crossbar of Performance



Find a Pole?

Simply identifying a competitor's weaknesses and proceeding to attack them will not in isolation prove to be a successful strategy over the long term. There may be some short term benefit whilst the competitor fixes his weaknesses, but having done this he is back to strength and may even be more formidable because of it – all thanks to you!

The technique to employ when defining a competitive strategy is to examine both the strengths and the weaknesses of the competitor and then to uncover the parts and/or processes of that business which cannot easily or quickly be changed. It's targeting these areas that will provide the most scope, as the competitor cannot rapidly respond. Sometimes a unique strength can be turned into a unique weakness almost overnight because of structural, procedural or legal reasons as to why a competitor cannot change his direction. Such competitive tactics aim to change the game plan to the predators benefit.

I spent ten very worthwhile years of my working life at Rank Xerox. It was here that I witnessed one of the best examples of single target competition when Canon decided to restructure the reprographics market forever. In 1980, Xerox and Rank Xerox had 97 percent share of the worldwide plain paper copier market. In 1985, it had 13 percent. The reason for this was that Canon came in and completely changed the game plan in the market. Instead of using Xerography technology, it introduced its own. Instead of offering big centralised machines, it introduced small decentralised ones. Instead of selling only through a direct sales force, it also went through distributors. Instead of only renting the machines, it leased and sold them outright. It took Xerox five years to be in a position to sell through distributors, and it took Xerox seven years to wean itself off its rental revenue stream. Eighty-four percent market share later.

How could this have happened? Xerox was a highly regarded organisation, generally considered to be well run and in a market position of total dominance, almost a monopoly. I believe that Canon fully understood the implications of changing the game plan in order to influence the market arena to their advantage. They proceeded to outthink Xerox by paralysing the very strength which was at the root of the Xerox strategy and in doing so changed the established market rules to their own (Canon's) advantage.

The unique strength that Xerox had was their low cost machine rental policy. They made their revenues by incorporating a metered, pay as you use, cost per copy charge. It enabled them to seed the market with high capital cost equipment on a short rental agreement at a low financial commitment for the customer. Customers loved the technology and copying volumes quickly mushroomed along with Xerox profits. It was not unusual to see a company leap from making 200 “wet copies” per month to suddenly finding the need to make 6,000 dry plain paper copies in a matter of weeks from installing the new equipment.

Over time as the copy volumes increased on each of these machines, Xerox customers began to do their sums and realised that they were probably buying the copying machine outright at least once every year. Xerox offered its customers no alternative but to rent them. Canon realised that most Xerox customers resented the one option rental agreement. Canon was also smart enough to realise that Xerox were locked into their rental policy and could not extricate themselves from it in the short term because of the implications on their revenues, profit, tax, balance sheet, operational structure and the legal implications of their monopolistic position. The whole worldwide Xerox structure was in place to serve the rental policy. A whole new range of lower cost products was needed before they could respond to the Canon assault. It was this that took five years. Canon worked out that it would take this long even before one single copier ever arrived into this country. They knew that they would have a clear run at all Xerox’s top customers. Canon “changed the market rules” by turning Xerox’s unique strength into a unique weakness – virtually overnight!

Canon identified the Xerox Achilles heel. Xerox was growing its business by pursuing a strategy based on a rental business with no other option. Snuff out the rental business and you snuff out the competitor, no matter how big they are. In order to pursue this line of strategic thinking you have to understand what makes your competitor tick. What is it that drives that competitor to make the decisions it does concerning the pursuit of its chosen products (or services) and markets and what is it that drives that competitor to organise itself internally to serve that pursuit? Controlling the game plan is what every strategy should aim to do. Defining that game plan is an output from strategic thinking.

Chapter 6

The importance of a Strategic Heartbeat

The key concept in outthinking the competition

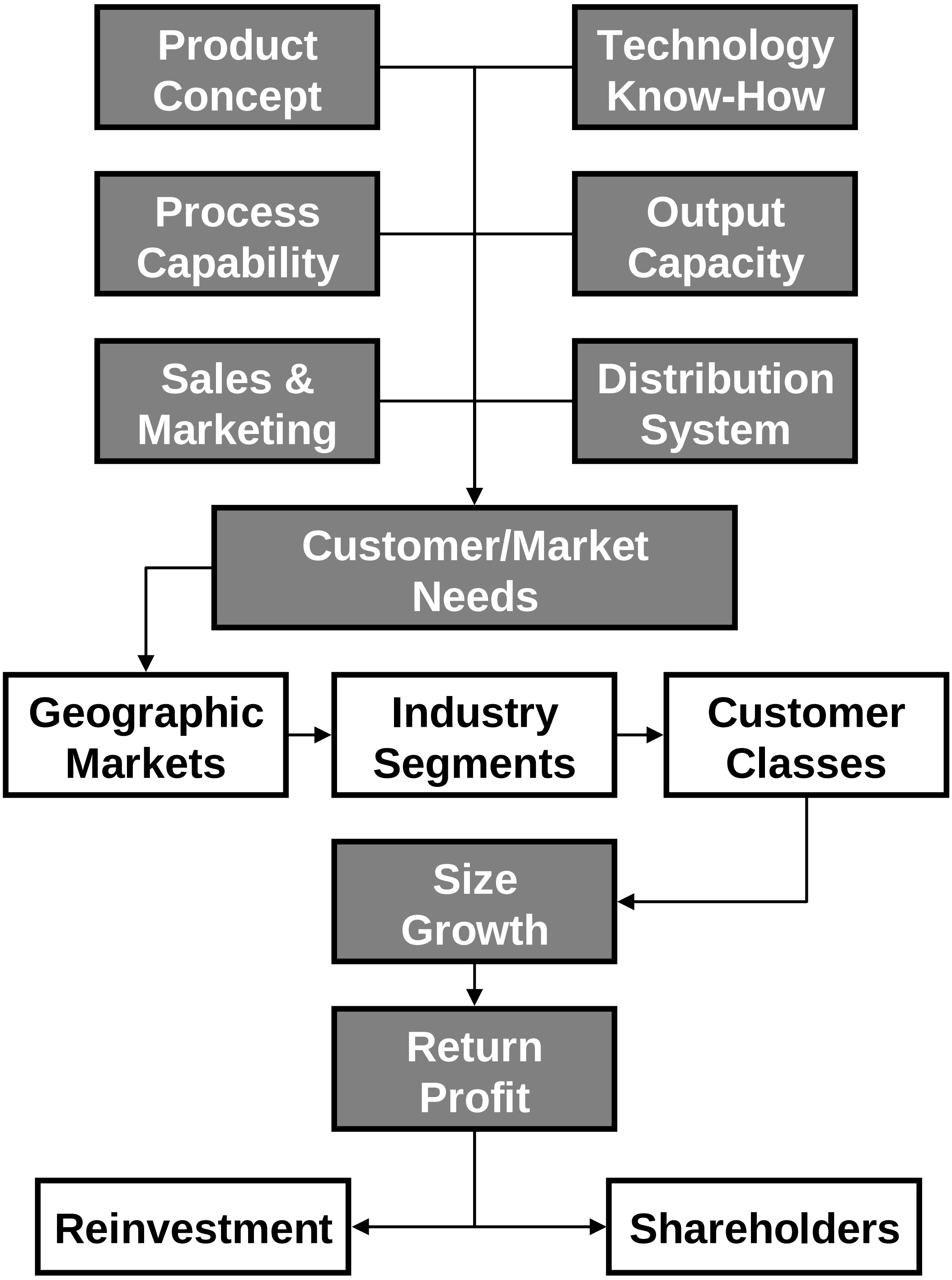
Understanding what drives a business is fundamental to defining strategy whether it is the strategy of your business or the strategy of your competitor's business. Having a working knowledge of these primary drivers is one of the key concepts of Strategic Thinking. There are a total of nine driving forces and when reviewing them there are certain observations that need to be considered.

- They can all be seen in any type of organisation.
- There is a hierarchy of importance between them when it comes to assessing their individual strategic influence.
- Even in the same industry segment the relevant importance of these drivers varies from one business to the next.
- One of the drivers has significantly more influence than any of the other eight when it comes to discriminating between opportunities and allocating resources.
- The driver with most influence is the one that sets the strategic direction of the business when choosing which products or services to offer and which markets to pursue.
- That in organisations that have been successful over long periods of time the driver with the most influence, the driving force, remains constant and becomes its Strategic Heartbeat.

It is interesting to observe a management team at work when it is assessing future opportunities. What you will normally see is the different opportunities being passed through a number of decision making filters, the objective being to examine the kind of "fit" that each individual opportunity would have with certain important drivers within the organisation. The final filter would be a search for a fit between the opportunity and one particular key driver or critical element of the business.

Some would look for a fit with their products and some would look for a fit with their customers, market segments or geographic markets. Some would look for a fit with their technology or process capability.

9 Drivers influence the look of any business



One Driver is the Driving Force and determines direction in terms of Product and Market choices

Others would search for a fit with their selling and marketing methods, distribution process or process output capacity needs. Finally there will be those that look for a fit with their size and growth or return and profit requirements.

The Strategic Heartbeat is usually the element of the business that MUST fit the opportunity being proposed. It is mandatory and without a good fit the opportunity will usually not be pursued. Bearing this point in mind, an understanding of a competitor's Strategic Heartbeat is the best clue as to how that competitor will react when being forced under competitive duress to make strategic decisions.

Clearly, the purpose of taking time to improve the organisations knowledge of its competition is to use that learning to facilitate commercial advantage. It's an essential part of developing a winning strategy.

The starting point is to identify the most influential of the nine driving forces in the competitor being analysed. Also to understand the various competencies that it uses to make its strategy work. This will ultimately result in the definition of its Strategic Heartbeat.

From this point it is then possible to apply some strategic thinking as to what initiatives can be introduced that will redirect business from the competitor to your organisation in such as way as to make it very difficult for the competitor to respond. The examples throughout this publication demonstrate this practise.

Chapter 7

Predicting competitive behaviour

Consider the following hypothetical scenario. Two high street giants 3M and Johnson & Johnson both offer their customers First Aid Bandages. 3M see this product as a length of sticking tape with a medicated pad affixed. J&J see this product as being required by their target customer base being Medical Professionals and Retail Customers requiring healthcare products.

3M offer the product because it fits with many other of its core products that are also based on lengths of sticky tape (masking tape, Scotch tape, electrical tape, Post It Notes, etc). They are in this business because each of these products and many hundreds more, require the application of an adhesive to the surface of the material. The core expertise at 3M is Coatings and Adhesives which over many years has leveraged the investments they have made into the technology of polymer chemistry. If a product ceases to require their expertise in this area 3M will usually drop the product. They will do this because without the special technology that they can apply they will cease to have any competitive edge and will not be able to leverage premium prices. They are not interested in commodity products, only those products where they can demonstrate added value to their customers by differentiation. The Strategic Heartbeat of 3M is the “Application of the Technology of Polymer Chemistry”.

Johnson & Johnson are in this market because they target customers who specifically require generic medical and healthcare products – medical professionals and retail purchasers. Their desire to service these customers has nothing to do with the technology of coatings and adhesives. The only reason that J&J would stop selling their “Band Aids” is if for some reason their customers no longer required them. The Strategic Heartbeat of J&J is “Healthcare Market Needs”.

So we have two giants, in the same market, offering similar products, at similar pricing, to similar customers. Hypothetically then, let’s examine what might happen given the following events, should they ever take place. A new technology is discovered by another company. This technology is in the form of an aerosol that can spray a flesh coloured, durable, water proof, medicated covering to the surface of human skin in any shape or size. It’s the knockout blow to

First Aid bandages. It has the potential to change the rules for any future requirement for a First Aid dressing.

What might 3M do? Examine the technology but discover that it falls outside of their Strategic Heartbeat that is the driving force behind all of their choices for products and markets. Take this opportunity to improve production efficiencies with their sticking plaster products, cut the prices to existing customers and exploit new markets where the new technology won't be initially on offer. Ultimately be prepared to allow this product to have a profitable death. What will they not do? Invest in a new and competing technology that would violate their long term strategy.

What might J&J do? Embrace the new technology because it will be a product that their targeted customer classes will demand. Aim for a licensing deal with exclusivity. Profitably phase out the existing sticking plaster ranges. What will they not do? They will not ignore this or any other new technology that emerges if that technology will result in a healthcare product that will be required by their target market.

What this simple, albeit hypothetical, example demonstrates is that competitive behaviour can be predictable. It is possible to foresee the likely strategic reactions that major competitors may take in light of changing circumstances. Furthermore it is possible to do this without any proprietary data or information to hand. What is needed is an intuitive knowledge of your major competitors. This knowledge can often be acquired at zero cost by talking to people in your organisation who understand these competitors. They may even have worked for them at one time. The key to unlocking this knowledge and predicting behaviour is to examine each competitor to determine their own specific Strategic Heartbeat. As was demonstrated above we can often see that the Strategic Heartbeat of two head to head competitors, in the same market, with like for like products, can be different. It is this difference that provides the clues needed for intuitive competitive strategic thinking.

Chapter 8

Determining the Strategic Heartbeat of an organisation

To determine the Strategic Heartbeat of an organisation it is necessary to have a clear understanding of the different driving forces that will affect their decision making. In particular these driving forces will play a significant role when choosing which products to offer and which markets to pursue.

Equally important are the choices made as to which products and which markets NOT to pursue. Competitors who follow this line of strategic thinking will ultimately make better decisions as to which opportunities to choose and where resources should be allocated for the best return.

In assessing a competitor's Strategic Heartbeat you will need to research a few basic areas of its' business operating environment. Important questions may be:

- When looking at the range of products/services offered, what do we see as common characteristics that run through them? What is the common theme, thread, trend that is apparent? Is there a particular product concept/idea that is extrapolated over time?
- When looking at the customer and markets segments targeted, what do we see as common characteristics that run through them? What is the common theme, thread, trend that is apparent? Is there a particular customer class or market need that is targeted?
- What know-how or technologies do they invest in? Is there a single technology that gets more emphasis with research and development than any other? Do they spend a higher than industry norm on R&D?
- Do they pride themselves on the efficiency and/or flexibility of their business processes? Do they aim to keep the "production facility" (factory or teams of specialist people) full to capacity at all times? Do they target niche markets with specialist offerings or do they serve a wide mass market requirement? Do they generate premium pricing or tactically trade at lowest price on offer?

- Does a special selling or marketing method feature in their approach to winning business? Does this method influence or limit the choices they make as to what products/services to offer and which customers and markets to pursue? Does this method feature in their promotional and advertising activity?
- Is a proprietary or wholly owned system of distribution the main thrust of their business? Do they deal only in products or services that will be delivered to the customer by this system? Are the markets limited by the availability of the system in that market or geography?
- Currently, are they pursuing a drive for growth or perhaps a focus on maximising profits? Have decisions been taken to expand the business at the expense of short term profit or contract the business to focus on specific product or customer segments? Are their choices restricted by the need to return minimum profit levels? Are they a subsidiary of a holding company?

Most of the above questions can be answered without clandestine intelligence activity. Most, if not all, of this information will be available in published data available in the press, web sites, brochures and from previous employees.

As these questions are answered other enlightening snippets of data will emerge. Also, there will be other questions that you will want to get answered to complete the competitive survey.

One thing you will notice is that practically all this data is qualitative in nature. Very little quantitative data is required to assess an organisation's Strategic Heartbeat and potential future strategic intent.

The key question at this stage is "What Drives Strategy"?

What are the critical elements of an organisation that collectively will drive the decisions to choose which products/services to offer, which customers/markets to pursue and what skills and capabilities in which to invest?

Chapter 9

What Drives Strategy?

Which Strategic Model best fits the future intent of your target competitor? There are 9 Driving Forces that influence the strategic decision making of an organisation, one of which could best drive your competitor's business forwards into the future.

(1) A business that is driven by a Product (or Service) Concept Strategy?

As a product driven strategy the future business is linked to the development of products which all stem from a single concept. As a result current products conceptually resemble past products and will be functionally similar. Future products will share the original concept or may be derived from existing ones and could be extensions or adaptations from previous ones. Continuous product development is critical as the business must have the best product in class as this is the chosen route and method of differentiation. They will be skilful in forecasting future customer trends and needs. They will be innovative in designing, producing and marketing their products and will want to support those products by offering excellent service to their customers both pre and post-sales. Which of your competitors fit this description?

Car manufacturers, computer manufacturers, life insurance companies and holiday companies are possible examples of product concept driven organisations.

(2) A business that is driven by a Market Needs Strategy?

Unlike product driven organisations, some have wide ranging product portfolios that have little consistency with look and functionality. They are often made or provided using different technology or materials. These organisations pursue a strategy that is not product driven but instead is market needs driven. In this mode they identify clearly describable customer segments and then pursue those customers with a wide range of products that fulfil a related need. They develop the skills required to enable them to have a thorough knowledge of their customers and reinforce strategy by developing customer/end user loyalty. They excel at market research in order to understand their segments' needs better than any competitor and use this knowledge to anticipate changes and trends, which will enable them to respond with a perpetual stream of new and innovative products to meet those needs. Which of your competitors fit this description?

Examples might be health needs companies, food service industry companies, office supplies organisations and publishers of special interest magazines.

A business that is driven by a Skills and Know-How Strategy?

Unlike product or market driven companies, some supply a wide and unrelated range of products to an equally wide and unrelated group of market segments. By contrast these organisations make strategic decisions based on exploiting their know-how and capabilities. There are five different capabilities that will influence these choices:

(3) Technology Driven organisations generate ideas that need applications. Always at the root of a technology driven company is know-how that needs exploiting. They will invest heavily into research to enhance their technology and may acquire new but complimentary technologies even if they can see no immediate product application. They may have very broad product portfolios that will serve the needs of equally broad market segments, but you will note that each product will have grown from the foundation technology. They emphasise research and exploit this into marketable applications. They usually spend more than competitors in their area of expertise, on pure research to keep at the cutting edge of knowledge in this field and on applied research to develop the practical use and marketability of this knowledge. Which of your competitors fit this description?

Pharmaceuticals, Polymers and Electronics are possible examples of industries where technology knowledge based organisations can be found.

(4) Process Capability Driven organisations develop products that exploit their proprietary business processes. As a manufacturer they build special capabilities into their production process that will enable them to make products with features that are difficult for competitors to copy. They have flexible processes, which can profitably exploit short run requirements. They pursue niche markets and markets where they can differentiate, add value and generate premium pricing. Which of your competitors fit this description?

Highly specialised manufacturing organisations, speciality printers and one-hour photo printing services might be examples.

As a service industry they will have similar characteristics. Their capability resides in skills carried in the heads of highly trained people. Their production process stems from teams of people in an office rather than production lines in a factory. Their investment is in people, either highly qualified such as engineers, lawyers, and accountants or highly trained such as telephone sales and support. Which of your competitors fit this description?

Examples may include; people intensive speciality service industries such as Civil Engineers, Solicitors, Accountants and other professional services, also Call Centres could be examples.

(5) Output Capacity Driven companies offer products that enable them to keep their facility operating at maximum capacity. To maintain capacity they focus on products that have wide customer demand with the potential to generate high volumes and repeatability. They need low selling prices so they pursue low production costs and high productivity. Their investment in assets must be kept fully occupied. Such as physical plant and machinery as in a paper mill or a place, building or resource that offers specific services like an airport, hotel or train operator. In order to keep to capacity they will produce any product or service, sell it to any customer, in any market, providing this activity will exploit capacity from their process. Which of your competitors fit this description?

Industries such as pulp and paper, steel mills, oil and gas have fallen into this classification. Other examples might be jobbing printers, business hotels and airlines.

(6) Selling or Marketing Driven organisations pursue a strategy that has a highly differentiated or unique method of taking an order. Examples are: direct from catalogue like Index and Argos, direct telephone service organisations like Direct Line Insurance and First Direct banking, TV shopping as on satellite and cable, party plans like Tupperware and Anne Summers and internet services like Amazon and Ebay. These organisations will only emphasise products that can be successfully sold by their special method, only operate in markets that will accept their method of sale and only solicit customers that can easily be reached by this method. Which of your competitors fit this description?

(7) Distribution System Driven companies only develop products and service the markets that will exploit their distribution process. They make significant investments in systems, processes and equipment to achieve this objective. They will only seek opportunities to move from place to place, tangible products such as parcels or intangible services such as data that will fit their logistical system. Which of your competitors fit this description?

Examples would include retail distribution from the high street, parcel distribution by road and speech/data distribution by telephone companies with networks of wires or transmitters.

A business that is driven by a Results Achieved Strategy?

Organisations that follow a results driven strategy make choices about which products and which markets to pursue based on very different criteria to that of product, market or capability driven organisations and will use performance only as a guide to make decisions focusing solely on critical areas of measurement to achieve this goal. There are two types of results driven organisation:

(8) A Size or Growth driven strategy will focus on top line performance the emphasis being on achieving short-term results and optimising economies of scale. Strategic decisions will emphasise products, markets and acquisitions that will focus only on the achievement of growth. Holding companies are examples of this type of thinking. Which of your competitors are part of a holding group and/or make decisions that would fit this description?

(9) A Return and Profit driven strategy will focus on bottom line performance and make choices about products and markets based solely on their ability to meet a return or profit target. This is the typical driver of a conglomerate. They usually give full autonomy to each of their subsidiaries but in return expect them to deliver the agreed profits, on time every time. There are seldom any links between subsidiaries and often no synergy in terms of their products or markets. Which of your competitors are part of a conglomerate organisation and/or make decisions that would fit this description?

Which Driving Force will influence your Competitor's Future Strategy?

Product Concept	1	To offer products that share the same concept and sell them to a wide range of different customer segments
Market Needs	2	To serve the needs of a target market or customer class with many different product concepts
Technology Know-How	3	To exploit applications from a highly resourced technology or know-how. Diverse production or implementation processes and new product innovation
Process Capability	4	To exploit applications from a highly resourced process skill and capability which is often proprietary. Similar, often unique, production or implementation processes
Output Capacity	5	To exploit capacity from investments made in process or production capability, often comparable with competitors. Common, highly efficient, production or implementation process
Sales/Marktg Distribution	6 7	Exploiting a special method or system of reaching a market
Size/Growth Return/Profit	8 9	To pursue acquisitions or opportunities that will consistently return the required profit or growth rates

Chapter 10

The implications of determining the Strategic Heartbeat

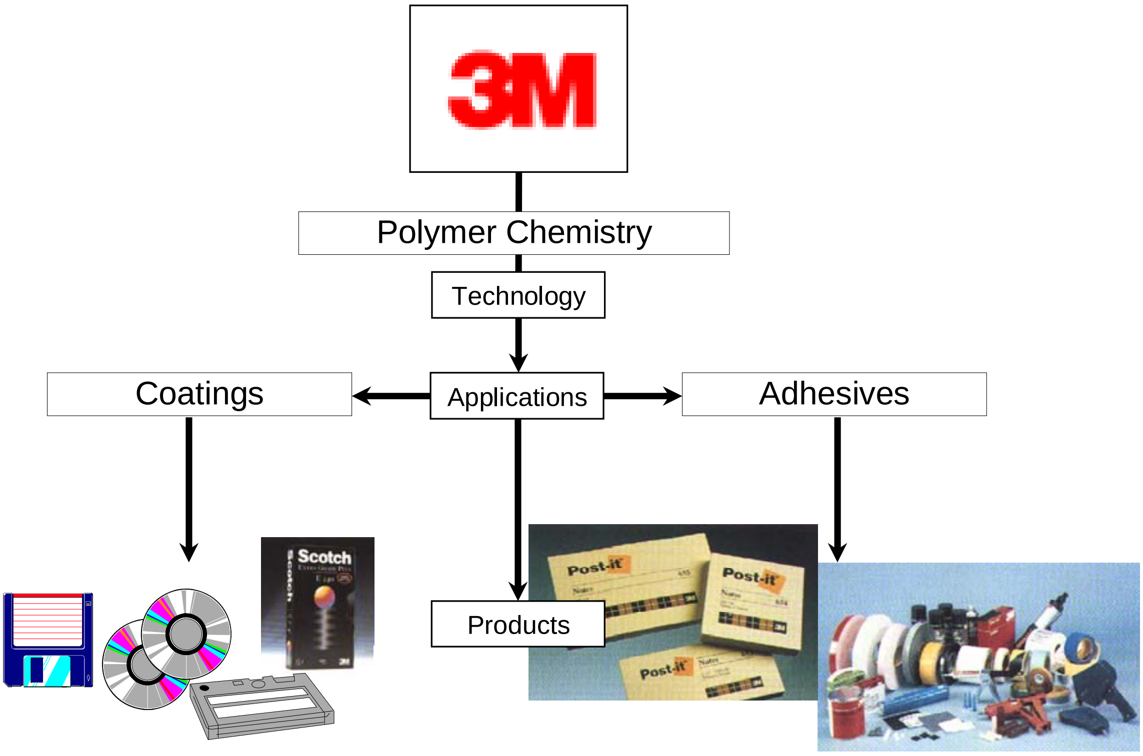
Strategy is concerned with making the best choices when choosing opportunities and allocating resources and so the importance of identifying a Strategic Heartbeat of a key competitor is critical to predicting its future focus. A competitor may choose any one of the nine driving force options just described but in doing so its future decisions will be influenced in a different way. This will lead the organisation down a different path because it will have a different emphasis and direction.

A competitor practising using multiple drivers as a strategy to stay focused will be seen switching from one direction to another as they flutter between different opportunities that don’t share strategic fit and consistency of decision making.

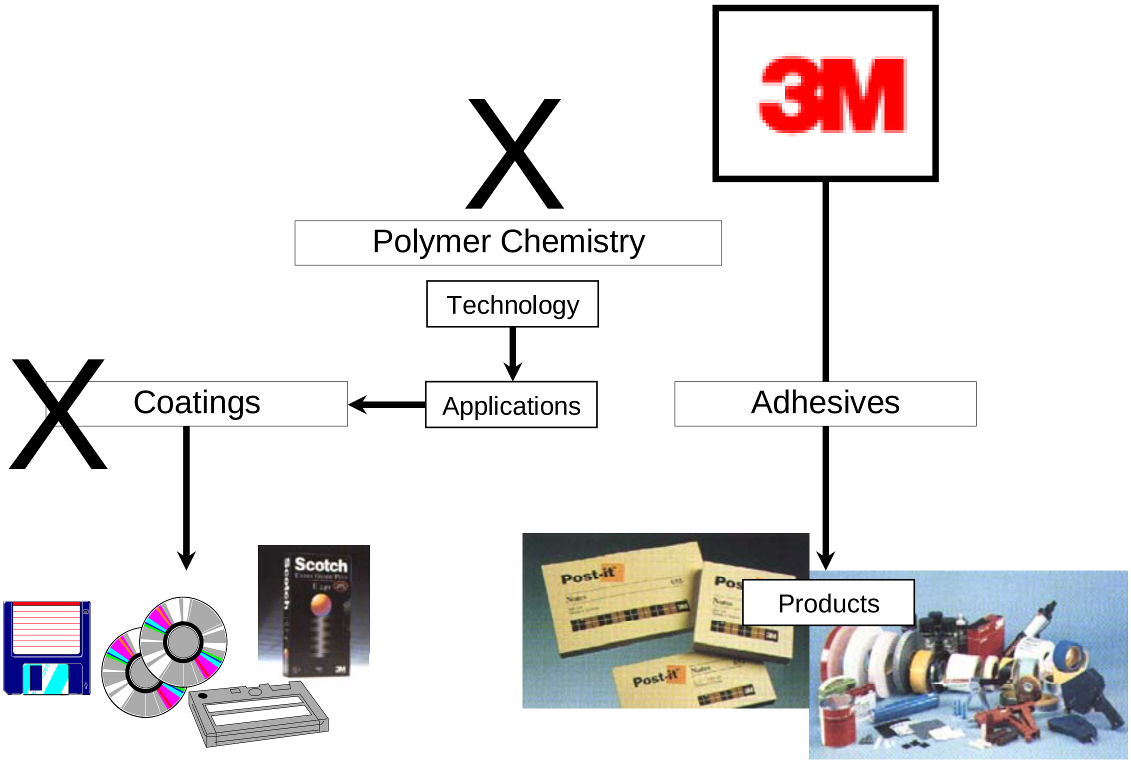
The implications of determining the driving force behind strategy can be demonstrated by this example. As was mentioned earlier in this book, 3M produce a wide range of products that they sell to a wide range of customer types. The driving force behind this strategy is the technology of Polymer Chemistry. They invest heavily in developing applications for this technology. From these applications they produce a wide range of products but each one is related in some way to the core technology of Polymer Chemistry. Some products stem from the application of coatings and some from the application of adhesives. With this understanding we can now see the logic behind their choices of products and markets. (See top graphic opposite)

Now, if 3M’s strategy was to pursue a product concept rather than a technology then their allocation of resources into research and product development and the choices they would make as to which products to pursue and which customers to serve would be quite different. If the product concept was adhesives then we would see all of the current adhesive based products but none of the coatings based products. More resources would be channelled into adhesives but none into coatings. The resulting scope for products and markets would be quite different. The focus and direction of the business would also be different as would be its customer proposition, its competency and its decisions concerning the allocation of resources. (See lower graphic opposite)

A Technology Driven 3M



A Product Driven 3M



Chapter 11

Constructing a winning game plan

Single target competition is the name of the game. Take them on one at a time not all at once. Focus on a big elephant where the return and market share growth has the potential to be substantial. No point in risking conflict for one or two percentage points. Canon wanted to take control of the reprographics market worldwide, not a small part of it. Having a significant influence in your business arena will only come if your intent is to take control.

Once the target competitor has been selected then the process of strategically outthinking them begins. The first step is to gather the appropriate information to determine the competitors Strategic Heartbeat, for the reasons explained previously. The next step is to use the Strategic Heartbeat to help predict the most likely choices they will make concerning future products and markets. This will help you to forecast how the competitor is likely to develop their skills and capability. Their growth and profit aspirations are likely to be linked to past performance unless a new technology or an acquisition is likely.

The product and market choices will most likely be made on the basis of strategic fit in order to leverage the internal investments being made. Therefore, it will be necessary to determine the sort of investments they are making into developing their skills, capability and strengths. This can be achieved in much the same way as laying out your own organisation’s competency. Whilst discussing these areas it is also beneficial to assess the competitor’s weaknesses and areas of vulnerability. The threats and opportunities being external variables are likely to be similar to those identified for your business in the product and market areas where you are running head to head and so an analysis in this area will also be useful. Other information sources such as press comment, web site announcements and the industry grapevine can also yield valuable input.

With this data as a background it can now be used to anticipate how this competitor is likely to play the game given the circumstances of their strategic variables. The method that we use with clients at Strategy Workshop Facilitators Ltd is to facilitate a workshop meeting for a small team of staff members that have some practical knowledge about the target competitor. They should adopt the posture of being the competitor’s top management team and debate the essential questions that need to be discussed if they were setting that competitor's corporate strategy. The strategic operating profile of the competitor can be constructed in precisely the same way that you would construct strategy for your own organisation. You will find that much of the information needed to complete this exercise can be extracted from the heads of those participating. Some data may be missing but can be added at a later stage by individuals being tasked with that action. Once the required strategic data has been assembled it will then be possible to draw up different future scenarios as to how that competitor may proceed "strategically" in the future. With this as a backdrop the challenge is to now apply the process of strategic thinking and come up with some innovative ideas based on the intuitive inputs that you have produced in order to outthink and outplay the competitor at his own game.

Neutralising a competitor to sustain a competitive challenge will not be achieved by attacking its weaknesses nor will it be achieved by outperforming its strengths. Minor gains over the short term may be achieved but for long term sustainable success the focus must be to paralyse a competitor's ability to respond in the short term.

To do this the strategic thinking must focus on the investments being made by the competitor into its competency that underpins its strategy. The rationale for this is that no organisation will be able to or want to suddenly change and certainly not abandon the investments being made in all of those special skills and activities that it perceives as being critical to its strategy. Those areas that it considers make its strategy unique, distinctive and differentiated in its markets.

The most likely scenario is that when attacked it will take further steps to safeguard its strategy rather than change it. Further resources will be focused into these areas rather than less. The competitor becomes defensive and reactionary and gives your proactive thrust the opportunity it needs to establish a pattern of growth. The key to outthink this competitor will be to determine what you can do strategically to force them into this scenario so that your strategy has a chance to flourish.

To construct a game plan that will win substantial market share at the expense of a competitor means changing the customers' perception of the competitor's proposition. Change the established rules to a new set of rules that you can apply but which your competitors cannot.

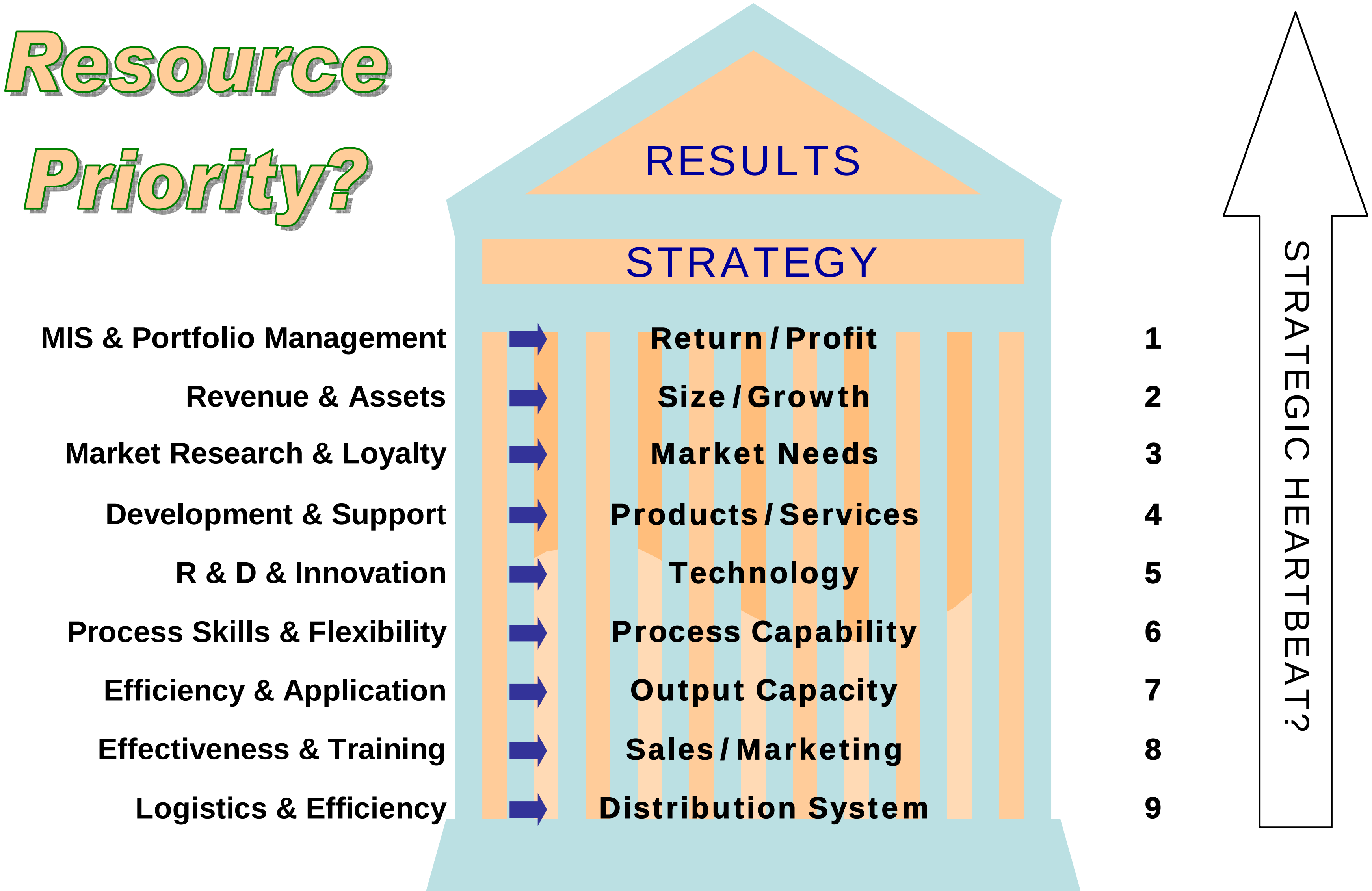
Chapter 12

Where are the nerve functions to cause paralysis?

Some companies seem to grow from strength to strength whilst others in the same industry and under the same market conditions seem unable to sustain growth. The clue to understanding this lies in the phrase “to grow from strength to strength”! It would seem that those companies that have the ability to perpetuate growth year after year do so because they have adopted the practice of continuously enhancing their key skills and capabilities. Recognising the need to identify what it is that will set them apart from their competitors, they have made it a supreme objective to ensure that their strategic skills are honed to a higher level of proficiency than any competitor. They then set in place a plan to continuously focus their resources on these key areas of their business. At no time do they restrict resources from being invested in these areas. During good trading conditions they apply resources into these areas but most importantly during poor trading conditions they continue these investments, perhaps even more so than in the good times. These strategic skills are always clearly describable and well communicated through the business and are often referred to as core capabilities. They receive special attention at all times and are deliberately and continuously cultivated.

I refer to them as the Corporate Excellence. As no organisation can usually have access to unlimited resources to develop all the skill areas of the business then it becomes the task of management to decide which areas of the business will get resources allocated to develop its capability and what will be the amount of resource apportioned in each case. Determining the Strategic Heartbeat helps management to allocate resources. As described previously each of the nine driving forces need quite different capabilities to make the strategy work. It’s the function of these capabilities to create the differentiation and uniqueness in the customer proposition. If you attack these areas then you attack the very essence of the competitor’s strategy, the very part of his strategy that cannot easily be changed. The graphic opposite illustrates some of the generic examples of capabilities that underpin the nine driving forces that can support the organisations Strategic Heartbeat. The descriptions provided earlier in this publication also indicate what these skills and capabilities would be in order to pursue a strategy in each of those modes.

Corporate Excellence: Enabling Skills & Capabilities



Chapter 13

Building Innovation into strategy

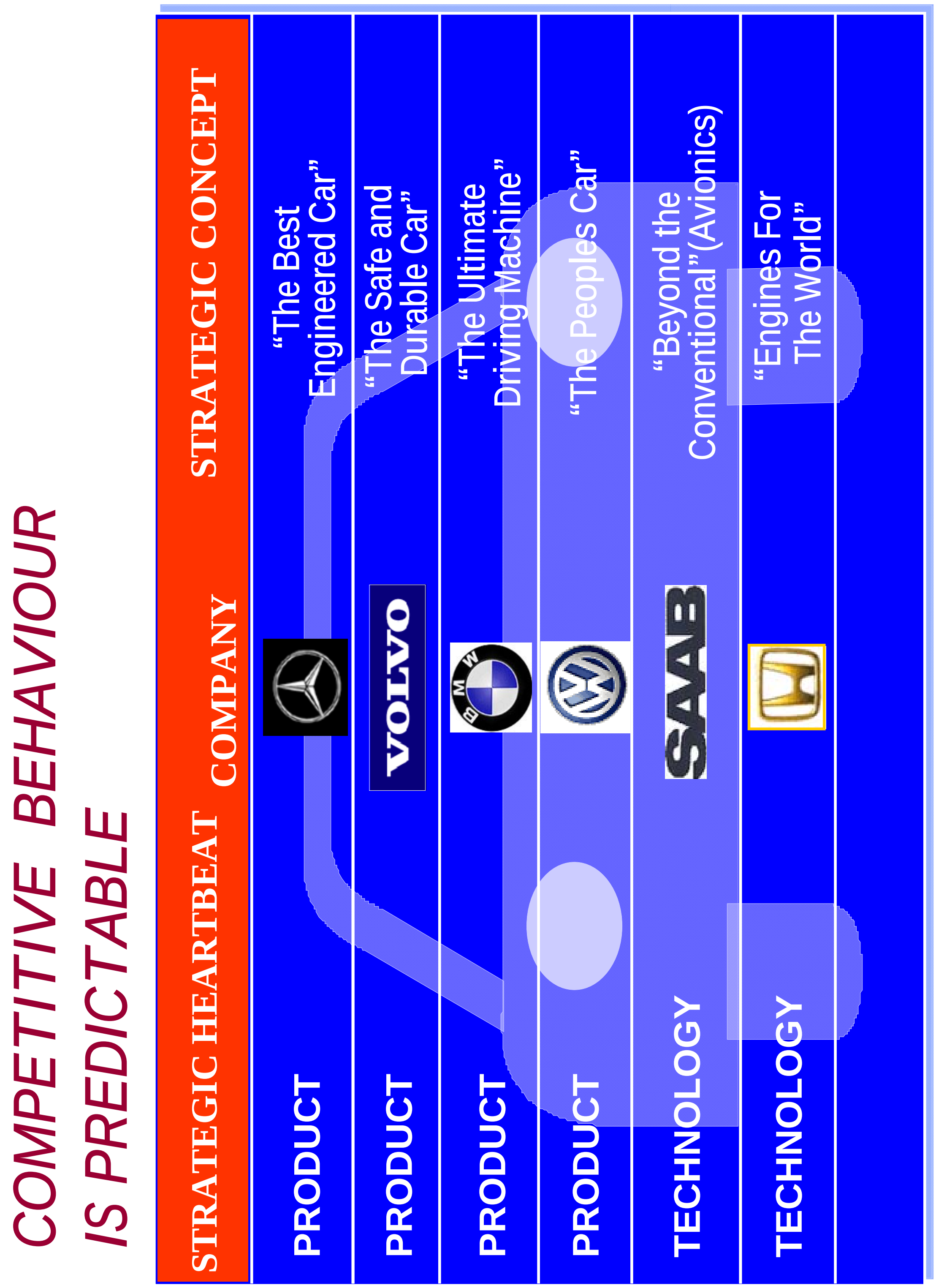
Finding the “pole” that will enable you to raise the crossbar

It is important never to assume that all competitors in a given industry share the same Strategic Heartbeat. If you want to understand what is driving a company then you may have to look back into that company’s history and sometimes at the product portfolios beyond the boundaries of the business arena in which you meet that competitor today. This is particularly true of subsidiary companies or organisations that are structured with a holding company at its summit.

Competitors in a given industry seldom behave in the same manner; therefore, the factors of success are different for everybody. You may find that several competitors share the same Strategic Heartbeat but you will also find that their customer propositions will be sufficiently varied to allow each company to behave and react differently, even given the same circumstances. By using our Strategic Thinking process you can determine each competitor’s Strategic Heartbeat and Corporate Excellence and that will enable you to anticipate competitive behaviour when developing tactics.

Take a look at this example in the automotive industry. Mercedes Benz has successfully pursued a strategy for many years that has been focused on its Strategic Heartbeat, the concept of its car. To be more precise, “the best engineered car in each market sector”. This customer proposition is responsible for determining the way the car looks, the build quality, the target customer profile, where and how it is sold and at what price, etc. Volkswagen, which is also an organisation with its strategic heartbeat driven by the concept of its car, pursues a different customer proposition developed from its original roots “the people’s car”. This strategy results in a different profile of the business in terms of the look of its products, the category of its customers and the scope of its markets.

Volvo is yet another example of a company with its Strategic Heartbeat centred upon the concept of its product. Volvo differentiates itself by pursuing the strategy of “the safe and durable car”. BMW also has the same Strategic Heartbeat – the concept of the car being “the ultimate driving machine”. These examples all demonstrate companies that are following the same business driver. However, they are all able to prosper because they each have a different concept of their product and a different customer proposition which leads them to behave and react differently in the market.



Honda is also in the car business but its Strategic Heartbeat is different. Honda makes cars but it also makes motorcycles, lawnmowers, shredders, generators and hand tools; engines being the common factor in all of these products so Honda makes cars because cars need engines! Honda makes excellent engines because this is its Strategic Heartbeat “engines for the world”. Its recent advertising campaign makes this quite clear “Engine technology so advanced it leaves everything behind” – a Strategic Heartbeat focused on engine technology.

With this understanding, Honda’s behaviour can be predictable. As emission control standards for cars increases, motor manufacturers look for ways of meeting the regulations.

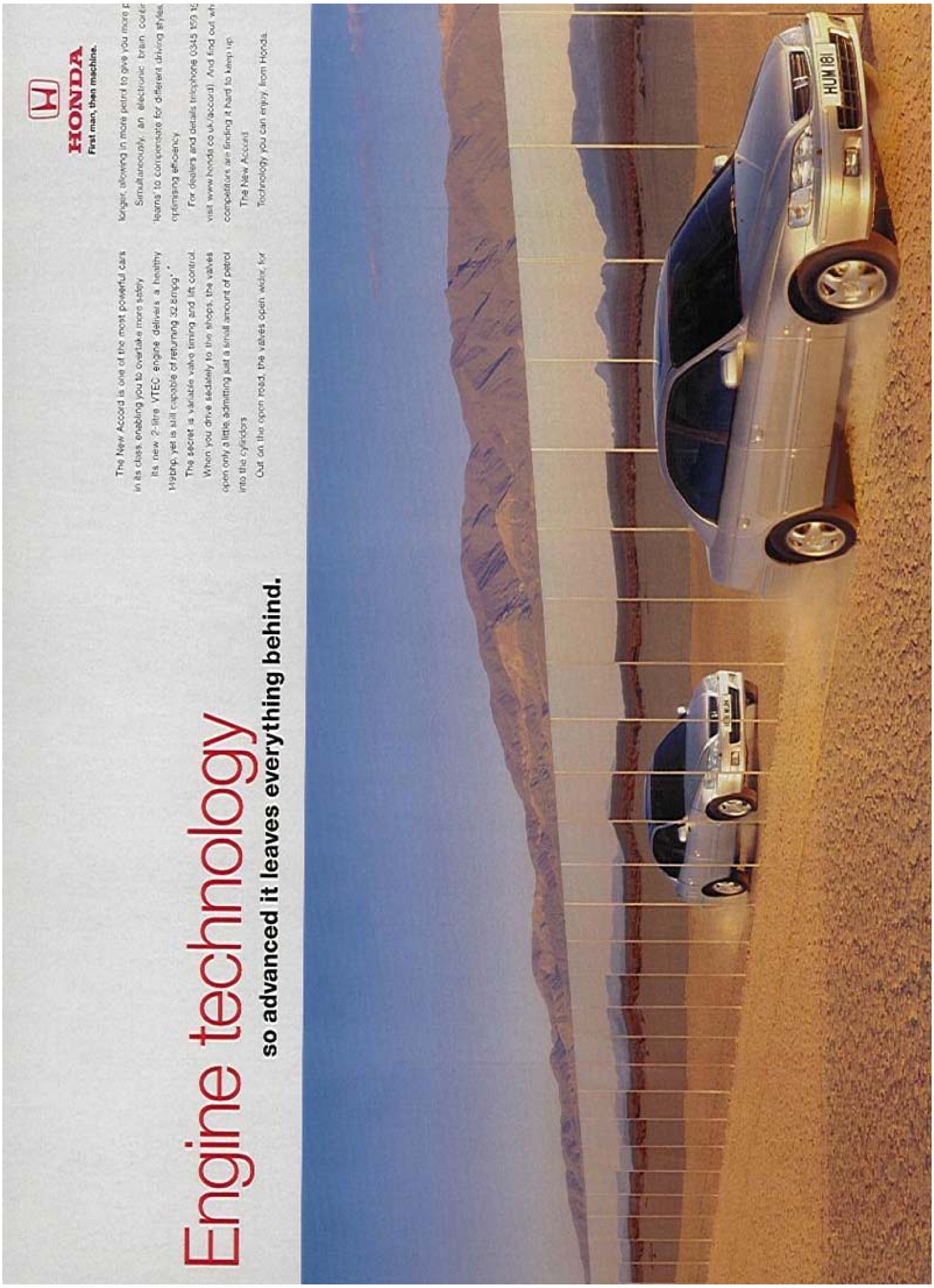
The product concept driven car manufacturers all respond by adding the catalytic converter to their engines. Honda, however, consistently go back to the drawing board and using its engine technology redesign its engines to meet the new standards without the need for an add-on catalytic converter. Predictable behaviour once you understand the Strategic Heartbeat behind the strategy.

Anticipating future product developments of companies based on their Strategic Heartbeat is part of outthinking a competitor and if you were speculating as to where growth for future Honda engines might be then marine and aerospace will be on the list.

Technology from the root of its parent company drives another motor manufacturer. Saab sees its customer proposition as, *“Beyond the conventional”*, and in its advertising campaign Saab says that *“It gets its aggressive streak from its wild uncle”*

Following this theme, in a more recent advertisement Saab extends this perception of its product by quoting *“It’s the technology that keeps our planes in the air that keeps our cars on the ground”.* (See copy on page 43)

Saab clearly feels that to differentiate its offer from its competitors it will create a customer proposition that focuses on its background in aeronautics. Consequently, Saab provides the most comprehensive driving instrumentation of any motor car. Information and warning alerts for practically every eventuality, just as you would expect in the cockpit of a fighter plane.


HONDA
First man, then machine.
Engine technology
so advanced it leaves everything behind.
The New Accord is one of the most powerful cars in its class, enabling you to overtake more safely.
Its new 2-litre VTEC engine delivers a healthy 149bhp, yet is still capable of returning 32.8mpg*.
The secret is variable valve timing and lift control.
When you drive sedately to the shops, the valves open only a little, admitting just a small amount of petrol into the cylinders.
Out on the open road, the valves open wider, for longer, allowing in more petrol to give you more
Simultaneously, an electronic brain
'learns' to compensate for different driving styles, optimising efficiency.
For dealers and details telephone 0345 159
visit www.honda.co.uk/accord). And find out
competitors are finding it hard to keep up.
The New Accord.
Technology you can enjoy, from Honda.
HUM 181

Externally you can also see the influence from its aviation history with emphasis on aerodynamics and wing designs. Is this predictable competitive behaviour or simply gimmickry? Whichever, but as a competitor it will give you valuable clues as to Saab's future product developments.

Direct Line Insurance will pursue a range of insurance and personal finance related products providing that it can utilise its unique direct telephone response system. Whereas Saga will pursue a range of insurance and personal finance related products providing that it can satisfy the needs of its customer segment, the over 50's. Should legislation change in the insurance environment, what you will see are these two companies reacting in differing ways to protect their strategy governed by their particular and individual Strategic Heartbeat. Direct Line would respond to any insurance or personal finance opportunity that would be created by a legislative change, provided it would fit its direct telephone response system. Saga would only respond if it affected the over 50's. The same industry but different reactions due to different Strategic Heartbeats.

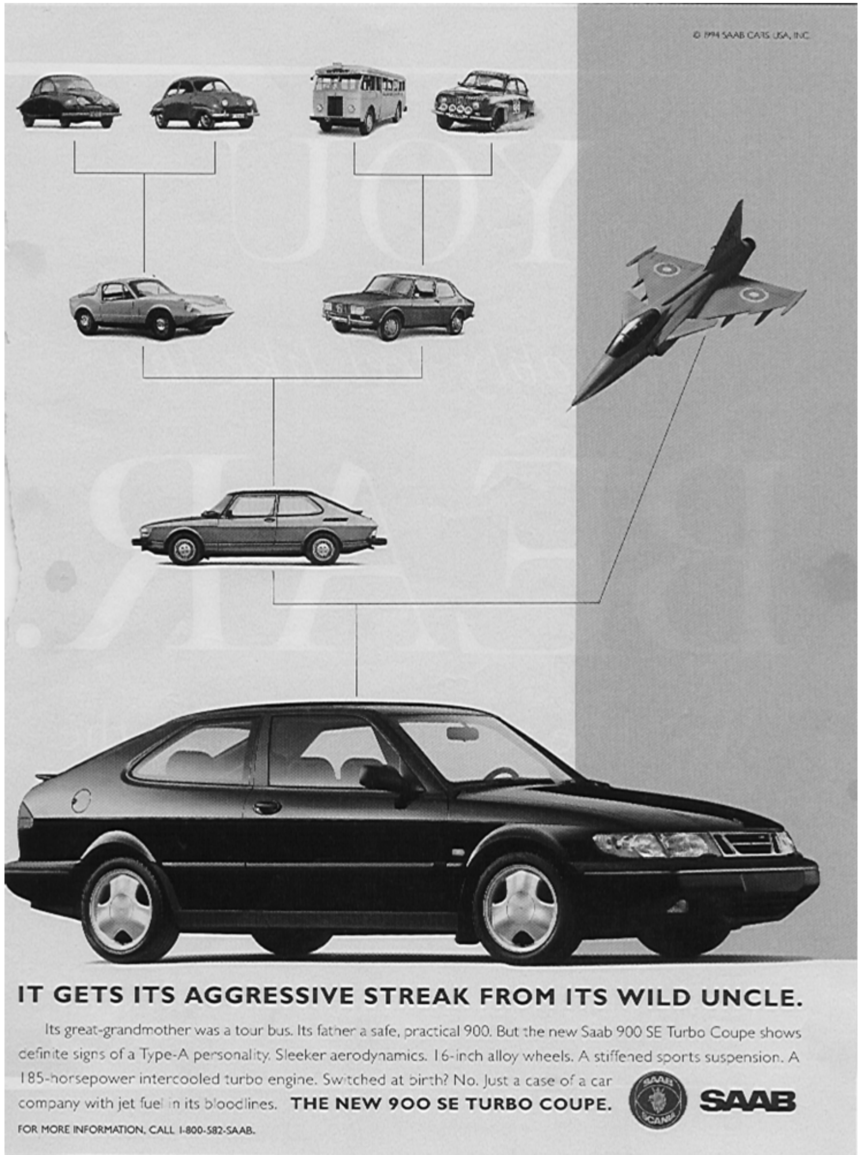
If you want to gain significant growth at the expense of your competitor then you must plan to affect its Strategic Heartbeat. However, as no competitor is going to sit back and allow you to do this, you have to think of a way to achieve it but at the same time make it impossible for that competitor to quickly react. It has to be a plan of action that causes the competitor to sit by the sideline whilst it finds a way around its strategy, systems and structure before reacting. During which time you must aim to have gained significant market share and built in some protection against the counter attack.

When Virgin decided to take on British Airways it chose not to exploit its weaknesses but to steal its crown jewels. Virgin challenged BA on its most prestigious, most lucrative and most treasured routes across the North Atlantic. Laker Airways sought to do the same thing but with a very different outcome, which I am sure you will recall. Laker attempted to compete with BA on a single transatlantic route by offering the customer the concept of the "Sky Train". Lowest fares, no booking, no frills service just turn up and go, and by the way, bring your own food. This was an attempt to change the market rules but it was based entirely on low cost travel brought about by low operating costs. This strategy was established solely on operational considerations and had no long term differentiating features to defend a counter attack. Laker was competing head on in BA's long established markets and as it would later turn out, on BA's terms.

SAAB

“Beyond the Conventional”

“It’s the technology that keeps our planes in the air that keeps our cars on the ground”



As a strategy it was flawed because whilst it appeared to change the market rules it in fact did nothing of the kind. Indeed it didn't even cause a single flutter to the Strategic Heartbeat of BA. All BA had to do to counter this strategy was to match Laker price for price on the routes that Laker had chosen. BA continued to offer their usual service knowing full well that only being exposed on a few routes, they could sustain a price war long after Laker would have to give up. BA knew that with their resources compared with those at Laker's disposal it wouldn't take very long. For BA it was an easy and quick decision that had the benefit of little implementation time.

So what did the thinkers at Virgin Atlantic learn from this. Firstly, that it was vital to have a very low operating cost base, essential in business today. Secondly, it was critical to have a strategy that would stay in place for a very long time and survive a BA assault. This meant having a plan to thwart BA's strategic thrust in such a way that they could not immediately react. They had to come up with a plan to change the rules of play: a "pole" was needed.

So they decided to offer first class travel for the price of business class and business class service in economy. They would collect business travellers in private cars from their homes and deliver them by limousine to their hotel destination. They attracted younger and more colourful ground and cabin staff that made the less experienced passengers feel more at ease with long haul travel. They genuinely catered for families and took the stuffiness out of flying. They incorporated package holidays into their scheduled flights thus taking away the stigma of being a tour package holidaymaker and at the same time gave them more flight options. They listened to their customers' demands for higher level of in-flight service and comfort and provided it. They pioneered innovative thinking and differentiation in air travel by providing amenities such as personal video screens. They created a new set of market rules.

BA couldn't respond overnight. The changes were too great and the implications of following suit on some routes, but not all, would have placed considerable risk on their business and first class passenger trade. They were also bogged down by the many legislative and operating agreements between governments and their state airlines. BA had to stand and watch from the touchline whilst it manoeuvred itself into a position where it could begin to counter. The time taken to do that enabled Virgin Atlantic to establish themselves as an international airline and serious alternative for business and leisure travellers alike.

We've raised the bar 35,000 feet.

B.A.'s business class offering just can't match the dizzying heights of Virgin Atlantic's Upper Class.

There's no free limo to take you to and from the airport.

No Drive Thru Check In.

No Clubhouse lounge with luxury spa treatments.

No hair salon and no St. Tropez Tanning.

No cocktail bar and brasserie.

No onboard bar to sit at.

No inflight massage to help you unwind.

Even their bed fails to measure up in width and length to the Upper Class Suite.

Still, they do manage to match us on one thing. Price.

UPPER CLASS www.virginatlantic.com virgin atlantic

They set a standard which the established airlines had to match, and provided genuine competition for one of the first times ever. It seems that Virgin will never consider entering into a new business enterprise unless it can add significant value for the customer. This added value will enable them to develop a different perception of the offering when compared with its rivals. Virgin Atlantic is an example of that strategy and a good lesson in single target competition.

Virgin Atlantic have raised the crossbar and in doing so have changed the rules of play to their advantage. It has worked successfully for them for many years as indicated by this full page advertisement that appeared in The Sunday Times on 8th January 2006.

To be proactive you must consciously decide what your market is. It's your chosen market so you choose whom to target. You decide who your competitors are, don't let them target you. The first step is to fix the limits of your market. You can make the market as large or as small as you want. It's your choice. IBM has chosen to compete in all corners of the business computer market, from laptops to mainframes. Dell on the other hand has chosen to set up its market in one corner of the computer market and compete only in the personal computer segment plus only by direct marketing methods.

There are now two other decisions to be made. The first is to decide which competitor you are going to target. This must be a competitor that you are confident in being able to upset its strategy and diminish the effects of its competency. Against this competitor, you must now devise proactive tactics to accomplish this objective.

The second decision is to identify and include in your plans those competitors whom you think might be in a position to attack your strategy and thus weaken the effects of your competency. You will want to monitor these competitors very carefully. The rest of the competitors are probably not in a position to do much damage. If you don't disturb them, they probably won't disturb you.

Take care not to be seduced by opportunities that don't fit your strategy and that may result in you being sucked into competitive markets by mistake. Carefully analyse the competition and choose to target the competitor that looks like providing you with a good return for your effort, for the minimum of risk. To preserve resources and maintain focus it's good practice only to target one competitor at a time.

Conclusion

Sheer necessity demands that most business activity focuses on dealing with short-term operational issues. Most Chief Executives that I talk to agree that more time should be spent in the boardroom outthinking competition and making decisions as to how best to develop and exploit competitive advantage

During many of the process overview presentations that I give, Executives disclose that strategy for the business is not explicit but is determined implicitly by way of objectives given to them to fulfil their operational responsibilities. Also that strategy is not explicit or adequately communicated even amongst their top management. It is difficult to implement an unknown or misunderstood strategy. This will undoubtedly lead to confusion and disagreement as to how resources are allocated.

My objective in writing this publication has been to provide you with some thought provoking concepts that I have personally used, and which if implemented will result in a common understanding and commitment to your strategy. As a full time, dedicated, professional facilitator I will be delighted to discuss in greater detail our Strategic Thinking Process and its logistics.

I sincerely hope that you have enjoyed browsing through this book and that you will be motivated to apply these concepts and that in so doing, it will enhance the growth, profitably and satisfaction of commanding your business.

Roger Handley
Facilitator & Founder
Strategy Workshops

And Finally

Food for thought

Here is a final thought, another example of a Japanese company that makes good use of this concept.

Subaru recently targeted Volvo. For many years, Volvo's strategy has been to build "safe and durable cars", and for the last 30 years Volvo has been showing us pictures of its cars crashing into walls to demonstrate its safety features.

Subaru ran an advertising campaign in the USA that, at the top of the page, shows the Volvo car crashed into the wall. We are used to seeing this because it has the purpose of reassuring us about surviving a crash if you are in a Volvo.

However, at the bottom of the page, there is a Subaru car stopped six inches (150mm) away from the wall.

The inference behind the caption being "If you want to survive an accident, buy a Volvo. But if you would rather prevent an accident, buy a Subaru".

Subaru has targeted Volvo and in doing so has decided not to attack Volvo's weaknesses, but rather the very heartbeat of its strategy – "the safe and durable car".

Subaru has come up with a very ingenious way to do this by making people consider that it is not surviving an accident that is the question it is avoiding an accident in the first place that's more important.

A distinctive strategy is one that will change the customer's perception concerning your proposition.

Changing the Rules of the Game

Changing the Rules of the Game

Subaru® Legacy™

We Built Our Reputation By Building A Better Car.

About Strategy Workshop Facilitators Ltd

At SWF we provide a Strategic Thinking Process for top management teams to help them articulate Vision and Goals for Corporate, Business and Competition Strategy. We also facilitate an Innovation Process to assist with New Product Development, Competition Strategy and Operational Strategy.

Our Business Concept & Client Proposition

We work on strategy projects with a top management team to facilitate their strategic thinking meetings usually over two or three days. We don’t tell management how to run their organisation and we don't attempt to formulate strategy on their behalf. Our business proposition is to provide a clear framework and meeting structure based on our proprietary Strategic Thinking Process using current accepted management practice.

This is to enable management to quickly discuss the important issues facing the business and make the appropriate decisions to define and implement distinctive strategy. We help our clients articulate a unique business concept that their competitors will find very difficult to copy, together with the Critical Issues that must be managed in order to quickly and successfully execute strategy.

About the Author

Roger Handley is the Facilitator and Founder of Strategy Workshops, an active management consulting business which specialises in facilitating top management work sessions that have the objective of improving strategic competitiveness.

Roger's skill is facilitating rational thinking processes that allow top management teams to challenge and re-focus their corporate and competition strategies and to define growth opportunities for new product, new service and new market initiatives.

His competence is drawn from over 35 years in business and working in management roles in organisations such as Debenhams, Rank Xerox, Apple Computer and Fujitsu.

Roger has worked as a management consultant since 1990.

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