

## CHAPTER 1

### MANAGING MARKETPLACE STRATEGY

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One of the oldest adages in business strategy is “Winning in today's marketplace is never enough.” If you've ever questioned its validity, consider the following:

- In the early 1990s, among the companies cited by academic researchers, consultants, and the business press as shining examples of astute strategic management were such leaders in their respective industries as 3M, Avon, Boeing, Coca-Cola, Compaq, CompUSA, Disney, General Motors, Heinz, Kodak, Kellogg, Motorola, Raytheon, Reebok, Sunbeam, Xerox, and Waste Management. Yet, through the late 1990s and into 2000, each company has battled vigorously but sometimes in vain to arrest declining sales growth, sagging profits, and stagnant or deteriorating market share.
- Business periodicals such as *Business Week*, *Fortune*, and *Forbes*, as well as the business sections in leading daily newspapers, perpetually chronicle the fall from grace of companies that only a few years earlier were launched with apparent unlimited optimism and attained early marketplace success. For example, AutoNation, launched in 1995, created a new model for selling previously owned cars. Its superstores looked like cafes, and computer kiosks and child-care centers to lure customers to immense lots; each offered as many as 1,000 late-model cars. Wall Street's projections propelled the firm's share price above \$40 by early 1997. By late 1999, the share price had dropped below \$10, sales were declining, and stores were being closed. Among the reasons for AutoNation's woes: the emergence of competition from the Internet, improvement in the services and prices offered by traditional dealers, and a leveling off in the prices of new cars. All these factors contributed to much slower sales than forecasted.
- The list of Japanese companies that seemed invisible in the previous decade, but have incurred major declines in their sales and profits in the past five years, reads like a who's who of world industry: Nissan, Honda, Sony, and Mitsubishi, are a few examples.

Every organization must simultaneously lay the foundation for tomorrow's success while it strives to outmaneuver its rivals in today's competitive arena. Accomplishing these two tasks is the prime directive of strategic management. This is so for at least three reasons:

1. The competitive landscape where strategy is put into action, or more broadly, what practitioners, consultants, and academics refer to as the environment in which an organization will earn tomorrow's success, is likely to be quite different from the environment it confronts today. Change comes in the form of new products, new technologies, new competitors, old competitors with new strategies, new regulations, and new ways of communicating (e.g., over the Internet). Xerox Corporation's struggle to adjust to the onslaught of digital technologies, the incessant product introduction of historic competitors such as Canon, the emergence of new competitors, and rapidly changing customer preferences, exemplify how difficult it can be for a large corporation to position itself for the future while producing satisfactory sales and financial performance results. Less precipitous change in the form of changing demographics, social values, and lifestyles, also affects most businesses.
2. To succeed in the environment of tomorrow, the organization itself must undergo significant and sometimes radical change. Rare indeed is the firm that over the past 10 years has not had to discard old ways of developing and marketing products, change core assumptions about how to win in the marketplace, or embark on the tortuous, but exciting process of modifying key elements of its historic culture. To mention only a few, Procter & Gamble, General Electric, IBM, and Allied Signal, as well as most of the companies noted earlier, have invested millions of dollars in change programs to create organizationwide cultures and mind-sets that they believe will enable competitive success in the anticipated new competitive conditions of the first decade of this millennium.
3. Adapting to and, in many cases, driving change in and around the marketplace while managing significant *internal* change places an extremely heavy burden on the leaders of any organization. Yet that is precisely the dual task that confronts strategic managers. They must accomplish two complex activities simultaneously:
  - Exploit the present while sowing the seeds for a new and very different future.
  - Build bridges between change in the environment and change within their organizations.

This chapter provides an introduction to managing strategy in the marketplace. It begins by briefly noting key markers of change in the competitive environment that confront every organization. It then identifies the three distinct general characteristics of every strategy that organizations employ to win the competitive arena -- scope, posture, and goals. Next, it delineates three distinct forms of strategy -- inventive, renovative, and incremental. Classifications like this aren't arbitrary. They codify the language of strategy making and identify the range of choices available to an organization. Using them to make decisions requires the members of a leadership team to develop a shared language that promotes better communications and better insight. The final segment of the chapter enumerates strategy principles -- each of which contributes to developing a shared understanding of what strategy is all about.

### THE CHANGING STRATEGY LANDSCAPE

Any discussion of strategy must take into account the dominant changes in the business environment that serve as the backdrop for strategy development and execution at the dawn of the new millennium. The changes occurring in the first half of the 2000s represent fundamental shifts in

the competitive landscape compared with the early 1990s. Although we highlight only a few critical environmental shifts, they nonetheless illustrate why any organization can't hope both to win today and also to sow the seeds of tomorrow's success if it does not understand how and why tomorrow's world may be radically different from yesterday's.

### **Product<sup>1</sup> Proliferation**

New products, product line extensions, and model and style changes emerge with bewildering frequency. Customers thus confront ever-increasing choices in and around every product category. The purchaser of something as commonplace as a bicycle nowadays can choose from in excess of 2,000 varieties. Teenagers buying clothes face a range of products, options, and styles and critical decision paths that leave their parents totally bemused. Everyday consumer activities, such as shopping for a toaster, can become exercises in learning about emerging technologies -- analog computer chips, home network wiring, and connectivity of appliances to personal computers and phones.

### **Convergence of Technologies**

Technologies and the products that flow from them are becoming ever more interrelated and comingled. Advances in voice, data, and video technologies integrate the television set, cable and wireless communications, computers, home appliances, telephones, software, games, sports, and leisure. Historically unrelated technologies such as computers, robotics, and artificial intelligence are coming together to redefine manufacturing. And who would have thought that computers would soon be routinely talking to toasters and toasters loaded with microchips would be talking back! A mobile phone can now be used not only to make phone calls but to access the Internet, to check voice mail, to send e-mail messages, and even to obtain soft drinks from a vending machine.

### **Breakdown of Traditional Industry or Segment Boundaries**

Partly as a consequence of product proliferation and converging technologies, demarcating industry boundaries, or segments of an industry, presents increasing difficulties. Where are the boundaries of the telecommunications industry? Even the long established and staid auto industry defies easy delineation: auto analysts now must decide whether to consider minivans, SUVs (sport-utility vehicles), electric cars, and many types of light trucks as separate industries or distinct segments. Demarcating the boundaries of many emerging industries such as robotics and biotechnology has become well-nigh impossible.

### **Global Competition**

For the first time ever, we are now experiencing genuine global competition in many industries such as automobiles, computers, pharmaceuticals, and many types of capital equipment, with rivals from

North America, Asia, and Europe, aggressively invading each other's "home" territories.<sup>2</sup> Canon and Kodak fight each other intensely for market share in almost every country on the face of the earth. Many traditional companies are just now beginning to face the demands of global customers. And the Internet allows even small firms -- often firms that did not exist a few months ago -- to sell their wares anywhere in the world.<sup>3</sup>

### **Shortening "Half-Shelf" Life of Knowledge**

An obvious but often unheeded consequence of pervasive and discontinuous change is that knowledge about product evolution, technology change, competitors' strategies, customers' buying preferences, industry demarcation and governmental policies rapidly becomes obsolete. The advent of digital technology has caused firms across many industries to abandon the technologies that buttressed their manufacturing processes, to change the content of their products, and to alter their relationships with customers. Yesterday's facts become today's fallacies; today's certainties become tomorrow's ambiguities.

### **Interconnectedness of Participants**

Firms increasingly manifest networks of relationships and alliances with all types of entities in and around an industry: rivals, suppliers, channels, end-customers, governmental agencies, and vendors of specific forms of knowledge, skills, personnel, and capital (e.g., consulting firms, advertising agencies, logistics providers, banks, and venture capital firms). IBM, Hewlett-Packard, Merck, Microsoft, Motorola, to name but a few examples, exemplify firms that capably manage networks of relationships with different types of partners -- suppliers, channels, large end-customers, and so on - - depending on the business unit or product sector. Even start-up firms now must connect in unique and valuable ways with sources of capital, labor, and management expertise; specialists in the latest technology developments; and of course distribution channels and end-customers.

### **Increasing Sophistication of All Participants**

All the participants in and around an industry or an industry segment exhibit increasingly sophisticated business intelligence and efficiency of operations, as well as the capacity to establish relationships with other organizations, influence regulation, and manage diverse and often conflicting stakeholders. As firms upgrade their technologies, adapt and exploit e-business, develop new customer solutions, and reconfigure internal operations, the old ways of doing business in any industry or "competitive space" become less competitive.

### **Intermittent Winners and Losers**

Increasingly, industries or product segments are no longer dominated for long periods by one or even a few winners.<sup>4</sup> In the tug-of-war rivalry in almost every product domain, some firms emerge as leaders for a time only to be replaced by those who introduce superior solutions. Despite

dominating certain product categories for years, renowned market successes such as Proctor & Gamble (soaps and diapers), IBM (minicomputers and workstations), and Ford (Taurus) and Toyota (Camry) eventually suffered major downturns in sales and profits due to the actions of rivals. In notoriously fast-changing markets such as software, where rivals play the innovation game dexterously, leadership often changes dramatically in a matter of months with the emergence of distinctly new products, radical extensions of the core product, or sometimes, just the rumors that such a product will soon be launched.

### **Increasing Prevalence of Discontinuity**

When all the preceding change drivers work in combination, the dominant feature of the competitive landscape is not just change but discontinuity. In other words, learn to expect radical breaks with prior trends and patterns. Top management often forgets that its own innovations -- truly new products; new ways of manufacturing, delivering, and servicing products; new alignments with other players; new and exciting ways of exploiting the Internet-- cause rivals and customers to alter their expectations and their decisions. Changes in governmental regulations -- such as recent proposals to allow banks, insurance firms and security brokerages to compete in each other's domains -- sometimes set off earthquakelike effects to be felt in related industries. No longer can the past, or even the present, be taken as a slow unfolding prologue to the future. The change marathon does not have an official start (some government interventions or acts of nature being exceptions to the rule). So heed this warning: The competitive race is not just continuous but exhibits many twists and turns, some of which will be difficult if not impossible to anticipate.

### **THE NEED FOR STRATEGIC MANAGEMENT**

Change is thus both the reason for and purpose of strategy. Without change in the firm's environment, new business opportunities could not arise. The explosion of e-commerce over the Internet, for example, has given rise to many opportunities for firms in almost all industries including new products or services and new ways of reaching customers. By the same token, unless a strategy generates significant change in the firm's competitive context, such as products that are new to the marketplace, extensions of existing products or new ways of delivering value to customers, it quickly devolves into a "me-too" strategy. It's almost a truism to state that such a strategy can't generate any advantage over rivals.

Organizations therefore must commit themselves to managing and leading change, which requires that they understand it and transform it into opportunity. To cope with change, strategic management must address three interrelated tasks:

1. Managing strategy in the marketplace: designing, executing, and refining strategies that win in a changing marketplace. Strategy is the means by which the organization creates and leverages change in and around the marketplace that ultimately provides superior value (compared with that of rivals) for customers.

2. Managing the organization: continually reconfiguring the organization -- how it thinks, how it operates. Without such internal change, the organization can't hope to hone its capacity to identify, adapt to, and leverage environmental change.
3. Practicing strategic management: continually enhancing the linkages or interface between strategy (what the organization does in the marketplace) and organization (what takes place within the organization). Throughout this book, we learn that how these linkages are managed determines whether the organization wins today and positions itself for tomorrow.

## MANAGING STRATEGY IN THE MARKETPLACE

For many years, torrid debate has marked attempts in both the academic and managerial literatures to define and delineate what strategy is and what it is not. Yet few would disagree that the ultimate purpose of strategy in any business context is to provide superior value to customers and to do so in a way that generates profitable growth over time. Strategy thus entails a purpose and a means for achieving that purpose. In deciding on purpose and means, managers must make choices. Indeed, throughout this book, strategy is a synonym for choices. The sum of these choices about where and how to commit an organization's resources determines whether the organization wins in the marketplace -- whether it can get and keep customers and outperform rivals.

These choices are influenced by the organization's understanding of current and potential change and their capacity to anticipate, create, and leverage change. But what levers can organizations manipulate to make change work to their advantage? Once they learn to pull the right levers, how can they continue to improve their performance? How can they continuously exploit change for superior performance? Strategy creates or leverages change in three related ways:

1. *Scope*. Through the choice of products or solutions the firm offers and the customers it seeks to serve, an organization determines the scope of its strategy. For example, should AT&T purchase one or more cable-TV companies? Should Saturn add a midrange line of automobiles? Should a small U.S. industrial components manufacturer enter the European market? To think about scope, you ask questions about what you want to offer to what customers in what geographic regions.
2. *Posture*. How aggressively the firm competes in its chosen businesses or product-customer segments to attract, win, and retain customers establishes the posture of its strategy. For example, should a cable-TV company add new elements of service to its customers, such as electronic payment; or should it upgrade its equipment thereby making it more customer friendly; or should it lower prices? Should Saturn add more functionality and features such as fast acceleration, more attractive coffee-cup holders, higher miles per gallon? To think about posture, you ask "how will we differentiate our offering" questions.
3. *Goals*. The choice of what attainments a firm will pursue sets the goals of its strategy. For example, should AT&T try to be a participant in the cable-TV business in every geographic region? Should Saturn seek to aggressively penetrate the car rental market or selective foreign markets? To think about goals, you ask "what results do we want" questions.

Issues and choices involving scope, posture, and goals are recurring themes throughout this book. Because of their importance to any understanding of strategy, each is briefly discussed in the following subsections.

## **Business Scope**

Central to any consideration of strategy are questions concerning business scope. Scope decisions compel an organization to recognize the limits of the options available to it. No organization can market an unlimited array of products or offer unlimited services. Even with the assistance of partners, most firms can't reach all potential customers. Indeed, few firms are able to compete or "be a player" in all product-customer segments of their industry. So by evaluating scope choices, an organization picks the playing field that works to its advantage, given its rivals.

Scope determination revolves around four questions:

1. What product (or product groups) does the organization want to provide to the marketplace and what customers, or more specifically, what customer needs, does it want to serve (product-market scope)?
2. What geographic regions does it want to reach with its product-market scope (geographic scope)?
3. What stakeholders <sup>5</sup> does it want to involve in shaping and executing its product-market scope (stakeholder scope)?
4. What assets, capabilities and technologies <sup>6</sup> does it possess or can it develop to serve its product-customer segments (organization scope)?

These four questions compel an organization to systematically and carefully assess what business it is in, where opportunities exist in the marketplace, and what capacity it has or can create to use these opportunities. <sup>7</sup> Product-market and geographic scope directly address marketplace strategy, that is, the products the firm wants to sell to which customers. Stakeholder and organization scope address the firm's capacity to develop and execute its marketplace strategy.

## ***Product-Market Scope***

Every organization continually confronts choices pertaining to product-market scope. It can add to or delete products; it can seek new customer needs; it can withdraw its offerings from specific customer groups. However, breadth and complexity of the relevant product-market scope issues and questions are distinctly different at the corporate or sector and business-unit levels, as shown in Table 1.1.

At the corporate level, a principal challenge is to identify the businesses in which the corporation can generate value-adding opportunities. What businesses can be developed and enhanced over time? Which businesses should be divested? What product or customer synergy can be extracted across existing or potential businesses? <sup>8</sup> The difficulties inherent in this strategic task are well exemplified

in the myriad major corporations in industrialized countries around the world that in the past few years have reported significantly lower performance results than anticipated. In the United States, examples are Exxon, Westinghouse, Quaker Oats, Du Pont;<sup>9</sup> in Europe -- Siemens, ABB, Philips, Volvo; and in Japan-Sony, Matsushita, Mitsubishi, Nissan. Many of these firms have had to sell off once promising or "can't miss" businesses that they anticipated would be the future stars of their portfolios.

**TABLE 1.1 Scope: Key Questions and Issues**

<b>Corporate Level</b>	
Business scope	What businesses is the firm in? What business does the firm want to be in?
Stakeholder scope	What stakeholders can the organization leverage to aid in attaining its goals?
Scope relatedness	How should the businesses in the organization be related to each other, if at all?
Means of changing scope	Internal development, acquisitions, alliances, divestment, aligning with/opposing stakeholders.
Strategic issues	In which business sectors should the business invest? Retain the current level of investment? Reduce investment or divest itself entirely?
Strategic challenges	How can the corporation add value to its individual businesses? What might be the basis of synergy between two or more businesses within the corporation?
<b>Business-Unit Level</b>	
Product scope	What range of products does the firm want to offer to the marketplace?
Customer scope	What categories of customers does the organization want to serve? What customer needs does the firm want to satisfy?
Geographic scope	Within what geographic terrain does the organization want to offer its products to its chosen customers?
Vertical scope	What linkages does the organization have (and want to have) with suppliers and customers?
Stakeholder scope	What stakeholders can the organization leverage to aid in attaining its goals?
Means of changing scope	Adding/deleting products or customers, moving into/out of geographic regions, aligning with/opposing stakeholders.

TABLE 1.1, (Continued)

Strategic issues	In what products should the organization invest? Retain at current levels? Divest itself? What relationships does the organization want to develop with stakeholders?
Strategic challenges	How can opportunities be identified and exploited? What is the best strategy to do so?

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*Corporate and Business Unity Scope at GE.* The case of General Electric (GE), a multinational conglomerate, illustrates differences in the context and setting of corporate and business-unit scope issues and questions. Viewed from the perspective of the CEO or the board of directors, GE's *corporate scope* is assessed by continually posing the following types of questions about each of its more than 10 business areas (e.g., aerospace, lighting, aircraft engines, financial services).

- Which business areas confront the greatest opportunities in the form of potential new businesses (new products that would give rise to a new business for GE)?
- What emerging or potential opportunities might not be exploited, given the present configuration of business areas? How might business areas be realigned to pursue these opportunities?
- Which areas should be encouraged to develop new opportunities through the internal development of new products, based on their current knowledge, capabilities, and competencies?
- Which business areas can take existing products to new types of customers or to customers in new geographic regions?
- Which areas should receive minimal, if any, new funds for business development?
- Which areas should be managed with the intent of generating cash to invest elsewhere, perhaps in other areas, or in the development of new business areas?
- What new opportunities might be created by linking products, skills, and competencies from two or more business areas?
- What opportunities might be created by aligning with one or more other corporations?

Some of the same questions can be directed, with considerably more focus and specificity, to each of GE's business areas. Each area must consider which specialized businesses or business units it wants to grow, hold, or divest. The Financial Services area is an example:

- Which of its more than 20 business units or product groups should be extended through the introduction of new products or services and/or the acquisition of new other entities that would add new products and/or extend existing product lines?
- Which business units should emphasize expansion into new geographic markets?
- Which business units ought to be pruned or scaled back?
- Are there business units that should be divested?
- What opportunities could be pursued by combining the products, technologies, and competencies of two or more business units?

### ***Geographic Scope***

A geographic dimension is unavoidable in (product-market) scope determination: business-unit and corporate strategy must consider the regional, international, and global context of business. Dramatic improvements in information technology, telecommunications, and transportation allow information, goods, and services to be shipped around the world at a speed that was unimaginable a mere decade ago. The emergence of e-business over the past five years -- in fact, all the consequences of the new capability to do business using the World Wide Web -- greatly enhances the ability of any organization to quickly and simultaneously reach customers in many regions of the world. This new global reach requires every organization to reassess its portfolio of opportunities.

Geographic scope thus presents the following issues and questions:

- What national or regional markets represent opportunities for the firm's current and future products?
- What differences and similarities exist among customers across these national or regional boundaries?
- How can the firm's products be customized or adapted for each customer group?
- How can what is learned about customers, distribution channels, competitors, and the firm's success or failure in one geographic market be leveraged in others?

### ***Stakeholder Scope***

The increasingly networked nature of organizations means that issues of scope also apply to the interorganizational or political arena: the interaction between the organization and its external stakeholders such as industry and trade associations, community groups, governmental agencies, courts, the media, social activist groups, as well as industry participants such as distributors, end-customers, suppliers, and competitors. Success in dealing with stakeholders is frequently critical to success in the product or economic marketplace. For example, many computer, software, consumer electronic, and biotechnology companies have forged alliances with their product rivals, institutions specializing in technology development, large end-customers, social and community groups, and sometimes even governmental agencies to push their preferred technology standard, or to obtain favorable treatment from one or more governmental agencies.

Among the scope issues and questions involving critical stakeholders are the following:

- Which stakeholders can affect attainment of the organization's goals and how can they do so?
- What are the similarities and differences in the "stakes" or interests of these stakeholders?
- Which stakeholders can the organization align itself with to enhance goal attainment and how can it do so?

### ***Organization Scope***

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As noted earlier, how well strategic managers guide and lead change within their own organization greatly affects success in marketplace strategy. As marketplace strategy changes over time, it requires managers to acquire additional assets such as new financial capital, personnel with new skills, and new types of knowledge. It also requires managers to extend and refine existing capabilities or competencies, and in many cases to develop new capabilities and competencies. For example, many firms are now honing new e-business capabilities. In part, due to the changes sweeping the strategic landscape noted earlier, managers increasingly confront whether their firm should perform specific functions or activities (e.g., using its own sales force or manufacturing facilities) or instead assign the work to a vendor or form an alliance with a company that specializes in performing the task. Such “outsourcing” and “make or buy” decisions lie at the heart of organization scope challenges. Thus, strategists always confront several key organization scope issues and questions:

- What stocks of assets do we require to develop and execute our current and desired marketplace strategy?
- What capabilities and competencies do we now possess and how can we leverage these to ensure success of our current and desired marketplace strategy?
- What new capabilities and competencies will be required?
- Which technologies will be required to create and sustain our current and desired capabilities and competencies?
- Which assets, capabilities, and technologies do we develop ourselves, outsource to others, or develop in conjunction with which potential partners?

Scope delineates the businesses or product-customer segments the organization is in or wants to be in. It does not, however, address or provide much guidance as to how to compete in the marketplace to attract, win, and retain customers -- the substance and focus of competitive posture.

### Competitive Posture

It is never enough to know where you want to compete (product-market and geographic scope); you must also know how to compete. Posture addresses how an organization differentiates itself from current and future competitors *as perceived and understood by customers*. Differentiation is the source of value (compared with the value provided by competitors) that customers obtain when they buy the firm's product or solution. Without some degree of differentiation, customers have no particular reason to purchase an organization's product offerings rather than those of its competitors. For example, unless customers perceive some unique or superior value associated with buying a computer from Dell, they will have no specific incentive or reason to buy from that company rather than from its competitors. But if Dell provides them with a compelling value proposition, such as low price, superb service, and customized products -- it is more likely to lure customers away from powerful rivals such as Compaq. A critical purpose of strategy is to create-and to continue to enhance-some degree of differentiation.

But how does an organization develop a strategy that will enable it to create and sustain valuable differentiation, as perceived and understood by customers? Although not intended as an exhaustive

listing, Table 1.2 indicates key modes of competition (or modes of differentiation) employed by organizations in any competitive context or industry.

The intensity of the pressures to attract, win, and retain customers in almost every industry or industry segment forces organizations into a never-ending race; they struggle continually to redefine and renew their posture. As detailed in Box 1.1, every firm in the personal computer business continually extends its product lines; upgrades its product features; builds additional functionality into the products; adds new service elements; promotes, advertises, and uses every form of customer interaction to advance its image and reputation; broadens the distribution base for its products; works to strengthen its relationships with dealers and users -- all with the intent of enhancing the value delivered for the prices charged.

The ultimate power of the modes of competition resides in their combination. They can be integrated to form distinctly different postures recognizable by and attractive to important customers. Some firms such as Southwest Airlines successfully execute a no-frills posture: though it provides customers only essential functionality (the plane will get you from location A to location B), minimal features and services (no meals on board, limited seat assignments), and low price, it makes you

**TABLE 1.2 Competitive Posture: Sample Key Dimensions**

Product line width	Breadth of product line
Product features	Style Design "Bells and whistles" Size and shape
Product functionality	Performance Reliability Durability Speed Taste
Service	Technical assistance Product repair Hot lines Education about product use Warranties
Availability	Access via distribution channels Ability to purchase in bulk How quickly product can be obtained

**TABLE 1.2 (Continued)**

Image and reputation	Brand name
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	Image as a high-end product Reputation for quality of service
Selling and relationships	Sales force that can detail many products Close ties with distribution channels Historic dealings with large end-customers
Price	List price Discounted price Price-performance comparisons Price-value comparisons

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feel good about riding on one of their airplanes. Southwest's wry TV ads tease customers, "You are now free to move about the country." At the other end of the spectrum are high-end postures associated with products such as Rolls Royce and Rolex. They emphasize a brand image of exclusiveness, a name that "makes a statement," and high price. The one-stop shopping posture employed by Amazon.com or Wal-Mart offers customers the functionality of being able to obtain all the products they require from one source: books, CD recordings, and videos in the case of Amazon.com and a vast array of household, food, and consumer goods in any Wal-Mart store.

## Goals

The choices made in business scope and competitive posture are intended to achieve some purpose or goals.<sup>10</sup> By the same token, any choice of marketplace goals such as a commitment to double market share over a five-year time period, will affect choices in scope and posture. For example, Amazon.com became America's most popular site to buy books and records by choosing growth goals instead of profit goals.

Consideration of goals inevitably leads to two central questions:

1. What does the organization want to achieve in the marketplace?
2. What returns or rewards does it want to attain for its stakeholders -- its stockholders, employees, suppliers, and the community at large?

Specific goals that organizations typically consider are noted in Table 1.3.

**Box 1.1**  
**Rivalry in the Personal Computer Business**

Rivalry in the personal computer (PC) business is so intense, business journalists describe it as the PC wars. Diverse firms inhabit the "PC space": IBM, Dell, Compaq, Gateway, Hewlett-Packard, Toshiba, NEC, and many other small rivals.

The rivalry has multiple dimensions. Each of the generic modes of competition (see Table 1.2) provides insight into the nature and intensity of the rivalry.

*Product Line Width.* All competitors are continually expanding their product lines. New lines arrive in the market almost every month. Some firms announce as many as 30 or 40 new products in a year. Firms fight furiously to stay ahead of each other with the latest notebook, laptop, and desktop models.

*Features and Functionality.* This is a fierce battleground. Firms continue to proclaim new gains in "speeds and functions." Compaq, for example, has historically emphasized the performance capability of its products. Apple continues to push its user-friendly interface and graphics capabilities. Firms loudly proclaim in advertising and in trade shows how their products offer more functionality (e.g., greater memory) than rivals' specific products.

*Service.* This has become the focus of some rivals' attempts to achieve fundamental differentiation. Almost all firms offer a package of support services that includes an 800-number, installation support, and technical assistance. Direct distributors such as Dell and Gateway endeavor to use service features such as rapid response to customers' inquiries as a means of distinguishing the value they provide to customers from that of their more mainline rivals such as IBM, Compaq, and Toshiba.

*Availability.* Firms take radically different approaches to reach different customer segments. Dell and Gateway have always gone direct to customers; unlike IBM, Compaq, Toshiba, and others, they do not use distributors. IBM and Compaq are now endeavoring to develop some direct means of reaching customers without jeopardizing their long-standing relations with distribution channels.

*Image and Reputation.* All firms engage in extensive advertising, some of which is pointedly directed at rivals. Dell has used the following assertion in one of its advertisements: "The gateway to the hottest PC technology isn't Gateway."

*Selling and Relationships.* As noted, some firms such as Dell and Gateway sell directly to customers; others go through dealers. Dell, for example, tries to create an individualized relationship with each customer through information technology that tracks each customer's prior purchases.

*Price.* Although rivals continue to create and add value for customers through the preceding modes of competition, prices generally continue to decline.

**TABLE 1.3 Goals: Key Questions**

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<b>What does the organization want to achieve in the marketplace?</b>	
Vision or intent	In the broad marketplace, where does the organization want to be 5, 10, or 15 years from now?
Businesses in,	What primary and secondary businesses does it want to get into, stay in, or get out of?
Position	What ranking does it want to attain in each of its businesses in terms of marketplace leadership?
Products	With regard to each product line: What market share does it want to strive for, over what time period? What type of new customers does it want to attract? Which competitors does it want to take share away from?
Differentiation	What type of differentiation does it want to establish?
<b>What returns or rewards does the organization want to attain for its stakeholders?</b>	
Shareholders/owners	What level of shareholder wealth creation does it want to strive for? What returns (such as ROI) are sought on specific investments?
Employees	What quality of working experience does it want to provide for employees at all levels? What level of remuneration does it want to provide to all levels in the organization?
Government	How can the organization contribute to attainment of the goals of specific governmental agencies? What other contributions can the organization make to good government?
Customers	What degree of customer satisfaction and value does it want to provide its customers? How can the organization help its customers achieve their goals?
Society	In what ways does the organization want to demonstrate that it is a "good citizen"? Are there specific social projects to which it wants to make a monetary or other contribution?

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Every organization has an explicit or implicit hierarchy of goals that involve some mixture of marketplace, finance, technology and other goals. At least four levels of goals need to be considered: (1) strategic intent/marketplace vision, (2) strategic thrusts and investment programs, (3) objectives, and (4) operating goals (see Figure 1.1).

**FIGURE 1.1 An organization's hierarchy of goals.**



***Strategic Intent or Marketplace Vision***

Strategic intent or marketplace vision refers to the long-run concept of what the organization wants to achieve in the marketplace in terms of products, customers, and technology. Amazon.com's intent or vision appears to be to give customers the opportunity to purchase a wide variety of consumer products from one source. Apple Computers' famous original intent and vision was to build a user-friendly computer that would put a computer in every home in the United States.

Many firms express their intent or vision in a "statement" similar to this: To be the leader in the provision of a specific product class to particular types of customers on a global scale. For some firms, the driving intent or vision embodies a goal of reshaping and reconfiguring an industry or some industry segment. Home Depot's vision or intent was to create a whole new shopping experience for customers interested in making home improvements and to enable customers to perform challenging do-it-yourself projects.

***Strategic Thrusts and Investment Programs***

These articulate the significant product and other investment commitments that the firm is undertaking or plans to undertake to realize its intent or vision over three- to five-year (and

sometimes considerably longer) periods. Companies typically make thrusts to bring new products to market, dramatically extend existing product lines, reach new customers, and dramatically change the modes of competition. Representative goals might include building a leading presence in the European or South East Asian marketplace, reorienting R&D so that it can develop products that surprise and delight customers instead of just enhancing current offerings, and/or fashioning a set of alliances that brings together two or three types of related technologies.

### ***Objectives***

These goals transform strategic thrusts into action programs. Objectives tend to specify results that embrace a time horizon of one to three years and represent the organization's broad targets or milestones. A business unit's strategic thrust to launch a radically new product line in the European market might be guided by these objectives: launch each new product line in every major European country within three years, attain 15 percent of the European market within three or four years, achieve average gross margins of 25 percent, and be represented in every major distribution channel in each major country.

### ***Operating Goals***

These are short-run targets (usually achievable within one year) that are measurable, specific, and detailed. They can be viewed as accomplishments that contribute to the attainment of objectives. These typical operating goals penetrate certain key accounts with a set number of months; attain a particular market share for each product in a specific geographic market; enhance customer satisfaction by some percentage (based on some scale of measurement such as customer surveys); or improve margins by a specific amount.

Goals make sense of the organization's actions. For a firm entering the European market for the first time, a decision to enter into a strategic alliance with multiple distributors may be motivated by the goal of achieving rapid market penetration to preempt anticipated moves by one or more competitors. The same decision for the same firm in another product sector in the U.S. marketplace might be motivated by the desire to move inventories of existing products before it launches a new replacement product line. Also, goals facilitate coordination of what otherwise might be disparate and conflicting market actions. Thus, when they are managed well, goals inspire organizational members and coordinate actions across departments and functional units so that all stakeholders can contribute to winning in the marketplace.

## **THREE DISTINCTIVE STRATEGY FORMS**

Even a cursory review of the actual marketplace strategies pursued by organizations suggests that they can choose many distinct combinations of business scope, competitive posture, and driving goals. To highlight the extent of the possible differences and their implications, we briefly describe

three distinct strategy forms: inventive strategy, renovative strategy, and incremental strategy. The three strategies and relationships among them are illustrated in Box 1.2, the case of Amazon.com.

## **Inventive Strategy**

An inventive strategy revolves around new, “breakthrough” products or solutions such as Chrysler's minivan, Dell's customized, high-speed delivery, high-service Internet-based system for offering and delivering personal computers, and MTV's packaging of programming aimed at the “young generation.” Inventive strategy creates a new “competitive space” or marketplace niche; it is a strategy that no other competitor is now successfully executing.

The novelty of the strategy that is the essence of its inventiveness is embodied in its scope, posture, and goals. The radically new product or solution characterizes scope: It is new to the market and creates a new customer need or functionality. Posture typically aims to transform how customers and others “see” the product or solution domain, how and why they buy it, and how they use it. Starbucks reinvented what it means to drink coffee, where one should drink it, and indeed to some extent how it should be consumed. It is no surprise therefore that the marketplace goals associated with an inventive strategy almost always center on creating a fundamentally new form or mode of value for customers. A truly inventive strategy is driven by a “strategic intent” or “marketplace vision” that aims to create and exploit an opportunity that does not exist, is not recognized, or is not dared by competitors in today's marketplace. The following are highly visible and revealing examples of inventive strategy:

- Chrysler created the minivan. It represented a completely new automobile solution: a seven-seat “car” that did not look conventional but performed and maneuvered better than a van. It transformed customers' conception of what an automobile should look like and how it might be used. It aimed to tap into a widespread latent and as yet unserved need in the automobile market.
- CNN (Cable News Network) invented the notion of 24-hour TV news. It created an entirely new solution to the need for round-the-clock coverage of national and international news pertaining to public affairs, sports, entertainment, weather, and other news domains.
- The Internet has emerged as an escalating source of inventive businesses. Charles Schwab & Company totally redefined what it means to be a stock brokerage business: Online access allows even small investors to relentlessly buy and sell stocks. EBay invented the online auction as a way of bringing together buyers and sellers of an unimaginably wide array of products ranging from rare antique furniture and personal memorabilia to everyday consumer goods and even industrial components.

A number of marketplace and organizational challenges always confront any team of executives as they embark on crafting and executing an inventive strategy. The following challenges exemplify the difficulties inherent in successfully launching and leading an inventive strategy intended to create a whole new market space or industry segment:

- Create a product or solution that is radically different from any currently available in the marketplace.
- The product or solution must provide distinctly superior functionality for customers. Users of the product or solution must find significant value in its use, compared with the products or solutions they currently use.
- The product or solution must offer a platform for continued development and innovation. Otherwise the strategy results in a product or solution that is nothing more than a one-hit wonder.
- The product or solution must appeal to a wide array of customers and must be amenable to being adapted or customized to different customers' tastes, preferences, and uses.

Yet despite these difficult marketplace and organizational hurdles, many organizations have been able to create and execute an inventive strategy. Startup enterprises sometimes manifest classic examples of invented strategy. They bring a fundamentally new product or solution to the marketplace that ultimately meets the challenges outlined previously. Many of the e-business based new organizations noted in this chapter such as Amazon.com, eBay (auctioning collectibles over the Internet), and E\*TRADE (inexpensive stock trading over the Internet), have crafted such powerfully successful inventive strategies that they are now spawning streams of dedicated and well-financed rivals. Many long-established, mainstream corporate organizations create and execute inventive strategies too, as illustrated in the Chrysler minivan example. In Japan and Sweden, many 500-year-old companies have survived by reinventing their strategy century after century.

An inventive strategy is necessary if the organization hopes to catapult itself "out of the pack" or into a position of "breakthrough" market leadership. The firm must create and exploit an opportunity that is new to the marketplace. It is no surprise therefore that an inventive strategy entails the most risk because it involves doing something that no other organization has done. By the same token, it possesses the possibility of greatest marketplace and financial returns.

**Box 1.2****Inventive, Renovative, and Incremental  
Strategies: Amazon.com**

Founded in 1995, Amazon.com created a whole new way of marketing and selling books and records -- a classic *invented strategy*. It transformed product-market and geographic scope by eliminating prior constraints on the volume and range of books a seller could carry and the breadth of customers it could reach. It transformed posture by creating new forms of functionality (customers can quickly search for specific types of books or books related to a particular title), new forms of service (Amazon encourages readers to "review" books as a way of recommending them to their peers and it remembers its customers' previous selections and offers them books on related subjects), new features (customers can learn more about books over the Internet than they could from most bookstore clerks), and price advantage (books are offered at lower prices than in a typical bookstore and customers receive their choices by low-cost overnight delivery, saving them the cost of a shopping trip). It established a truly remarkable initial intent or vision: to be a one-stop shopping location for any type of book.

However, Amazon.com could not be content to sit on its laurels. It continued to *renovate its strategy*. It began to sell CDs, videos, children's toys, consumer electronics, and a host of other consumer goods, even building supplies. It has also begun to run auctions of an increasingly wide variety of goods ranging from rare books to people's personal junk. It now runs what it calls a mall: a group of other stores referred to as zShops that Amazon.com refers customers to for products which it does not carry.

Collectively, these extensions of its marketplace scope aggregate to a continuation of its inventive strategy: to become the first e-business to serve as a genuine one-stop shopping venue for consumers, almost irrespective of the products they wish to purchase. Thus, the firm has elevated its strategic intent or vision from being (merely) a one-stop location for any book.

As Amazon.com penetrates more and more specific product-customer segments of the consumer market, the *incremental* aspects of its marketplace strategy become more and more important. It will have to continue to add items within each of its myriad product lines within each product category -- books, toys, CDs, consumer electronics, building supplies, auctions, and so forth. It will conduct experiments to try modest service changes and then gauge customer reaction. It can augment and improve how it advertises and promotes the range and novelty of the books, records, and consumer products it carries to reach new customer segments or to obtain an ever increasing share of each customer's purchases.

## Renovative Strategy

An inventive strategy requires an organization to think thoughts and take actions -- undertake something fundamentally different, both strategically and operationally -- than it has ever done previously. Given the high risk of failure, or at least of making painful mistakes when pioneering unknown territory, the efforts of established organizations to renovate their existing strategy (i.e., to change scope, posture, and goals in significant ways) are considerably more common than their attempts to implement inventive strategies. It also seems fair to suggest that the vast majority of new entrants to specific product markets manifest strategies (i.e., scope, posture, and goals) that are variants of their rivals rather than genuinely inventive strategies.

Several factors make it more likely that organizations will choose renovative strategy instead of inventive strategy. First, it is much easier, intellectually and organizationally, to extend and leverage an existing strategy. In the garment industry of the 1950s through 1970s, the name of the change game was, "raise or lower the hemline of dresses a few inches." When the degree of change is minimal, a firm does not have to imagine and create a totally new product or solution or devise radically new ways of delivering value to customers. Second, if the strategy has proven successful in generating both marketplace and financial returns, the natural inclination of senior executive teams is "to ride this core strategy for as long as we can." Third, there is considerably less personal and organizational risk associated with renovating an existing strategy, at least in the short run.

Renovative strategies manifest common attributes. Scope, posture, and goals are significantly modified rather than radically reinvented. Although such change may be extensive, the organization's current products or solutions serve as the initial platform for changing scope. Managers search vigorously for opportunities that they can pursue using their current strategy as the point of departure. Then they extend, improve, and adapt product lines. They actively pursue new customers. They take a more aggressive posture toward competitors. Posture may shift from an approach that offers little differentiation to one that seeks extensive customer intimacy or new forms of relationship with distinct customer groups. Goal change may be abrupt and substantial; for example, a business may endeavor to switch from being a follower to being a leader in introducing new products or adapting and extending existing products or to shift from taking a largely undifferentiated to a highly differentiated posture:

- Computer, software, and electronics firms continually renovate their strategy by introducing new products and extensions to existing product lines that enable customers to experience "new functionality" (i.e., do things they could not previously have done).
- Over the past 15 years, Marriott Hotels has continually renovated its strategy. To its original hotel chain, it has added resort complexes, a low-end hotel line called Fairfield Inns, and an extensive catering or food service business in institutions including universities, prisons, and governmental agencies.
- Increasingly, firms are moving beyond their original products to provide many types of services associated with the product class.
- After watching Charles Schwab and E\*TRADE revolutionize how individuals and institutions trade stocks, Merrill Lynch launched a massive commitment to renovate its strategy in the brokerage business through the use of the Internet. It wants to add a massive e-business

component to its product offerings, and in the process reconfigure almost every facet of the firm's relationship and involvement with customers.

Any organization contemplating renovating its strategy needs to ask the following questions:

- How will the proposed product or solution be different from existing products or solutions and from those that others may be planning to introduce?
- What is the nature and extent of the opportunity that the product or solution is intended to create?
- In which ways will the product or solution create distinctive value for different categories of customers?
- How can the anticipated customer value be augmented and defended in the face of current and emerging competitors' current and potential strategies?

Renovative strategy allows many firms to create significant new opportunities in product, customer, technology, and competency domains that are familiar to them. As Marriott Hotels extends into low-end and high-end hotels, and new forms of food delivery and catering, the firm remains in the same business, broadly defined. It can continue to leverage its long-established assets such as a widely recognized brand name and distinctive competencies such as the ability to identify, acquire, and develop real estate.

### **Incremental Strategy**

Incremental strategy typically occurs when an organization is unable to, or chooses not to renovate or reinvent its strategy. It involves only modest change with respect to scope, posture, and goals. The firm chooses to make only slight changes to the basic solution it offers, the customers it pursues, how it competes, and the goals it seeks to achieve. For many firms, it might best be described as "doing largely the same thing, only more of it, with slight differences in execution over time."

Firms tend to fall into or adopt an incremental strategy when they have a successful product or solution. If they have a proven "product winner," why would they want to tamper with it in any extensive way? Winners are gaining some degree of market share, margins are typically increasing, and rivals might even concede their victory in the particular product-market segment. The self-satisfying maxim, "if it ain't broke, don't fix it," begins to be the watchword heard throughout the organization. If stable conditions continue to make it the right strategy for the right industry at the right time, an incremental strategy can be rewarding. The firm's costs are low and its return on investment tends to be predictable. However, if management has misread the capacity of the market to change suddenly, this can be a very risky strategy. Companies that are fat and blissfully happy grazing in their own private pasture tend to attract wolfish competitors.

The following situations exemplify use of incremental strategy.

- A toothpaste manufacturer that over a number of years makes only minor changes to the physical product and modifies its marketing, promotion, and sales programs in modest ways, mostly in response to the initiatives of rivals.
- In the downtown areas of most major cities, luxury hotels compete directly against each other for high-end business customers. In many instances, they only incrementally change the hospitality package they offer customers: the amenities they provide; the services they offer; the advertising and promotions they engage in to attract customers; the relationships they try to develop and sustain with frequent customers; and the price they charge.
- The business school that offers the same degree programs for a decade or more, even though it makes annual changes to the curriculum in each program (e.g., adding and dropping individual courses, and adapting the material in each course), and continues to seek students from new corporate and other institutional customers.

Firms also find it easy to engage in incremental strategy when the competitive context or industry segment in which rivals combat each other manifests little disruptive change over some period of time. New products or solutions are not introduced; new customer needs or functionalities do not emerge; major channel disruptions do not occur; and, customers do not make radical new demands of their suppliers.

Incremental strategy has generated significant financial rewards for many firms for substantial periods. As measured by enhancing revenues and profit margins, these firms have not only stayed in business but have generated real value for customers and acceptable returns for shareholders, employees, and managers.

That is the good news. The bad news, however, is that the types of changes noted at the beginning of this chapter -- product proliferation, convergence of technologies, breakdown of traditional industries, global competition, shortening life of knowledge advantages, interconnectedness, increasing sophistication of all participants, intermittent winners and losers, and increasing discontinuity -- render incremental strategy less and less viable as a choice for firms wishing to emerge as dominant market leaders or even to make dramatic market share gains. As new entrants exploit inventive strategy and historic rivals renovate their strategies, any firm pursuing an incremental strategy literally places its survival in jeopardy. To compete in the hospitality business, even quaintly primitive bed-and-breakfast hotels in remote corners of the world now have interactive Web sites, 800-numbers, high-speed digital connectivity, and customized service capability.

### Comments on the Strategy Forms

The most striking feature of the three strategy forms is the fundamental differences among them. Inventive and incremental strategies are simply not on the same scale with regard to scope and newness of the opportunity, or the risks and rewards they entail. Inventive strategy represents a venture into the unknown; the organization quite literally invents its own future. Incremental strategy embodies the commitment of a management team to continuously enhance what it is already doing in the marketplace.

In large part because of these differences, it should not surprise us to find an organization with a number of distinct products or solutions simultaneously pursuing each strategy mode. Many pharmaceutical, software, electronics, and chemical firms invest considerable amounts of time, expertise, and money to invent the drugs, applications, products, and compounds that will result in a new business -- new not just for them but to the marketplace. Many firms such as Nokia, IBM, GE, and Microsoft now establish "strategic investment funds" or "venture funds" with the avowed purpose of inventing or creating "really new products" or breakthrough solutions.

At the same time, these firms try extensively, and in some instances dramatically, to renovate their strategies. They acquire related product lines, develop alliances with existing distribution channels to reach new categories of customers, shape agreements with rivals in foreign countries as a means to enter and penetrate these markets, and in many cases, establish long-term cooperative relationships with end-customers. Success in renovating strategies generates the funds required to invest in, create, launch, and lead one or more inventive strategies.

Over time, an inventive strategy evolves into a renovative strategy, and perhaps even into an incremental strategy. Home Depot has continued to renovate its marketplace strategy adding distinctly new product categories over time such as garden centers and developing special services for professionals such as small home construction companies. It has also extended its product offering by acquiring specialist companies such as National Blinds, a catalog company specializing in window coverings and wallpaper. Yet Home Depot continually modifies each product category, adapts and adjusts how it services customers (often running experiments that are unique to individual stores), and how it lays out products in stores to make them more amenable to "walking shoppers."

Eventually, inventive and renovative strategies often assume many traits of incremental strategy. As the online auction house eBay.com adds more and more product categories, it will have to concentrate considerable organizational effort on upgrading and enhancing how it attracts, wins, and retains customers. It will have little choice but to augment and improve how it services customers, and how it advertises and promotes the value it delivers to customers.

However, some firms just don't move from an inventive strategy to its renovation. They also seek ways to transform the inventive strategy into opportunities to create inventive extensions of it. Home Depot, for example, has honed the art of building, running, and leveraging its prototypical store (the essence of an incremental strategy) over 15 years. In the past few years, it has created new forms of stores: Expo Design Centers. These small stores (by comparison to its typical stores) specialize in higher priced products -- a one-stop-shopping opportunity for major home or building renovations that also provide a dedicated project manager to oversee the entire renovation from beginning to end -- thus further extending the inventive strategy.

## **KEEPING YOUR STRATEGY ON TARGET: THE RIGHT ATTRIBUTES AND KEY PRINCIPLES**

Although inventive, renovative, and incremental strategies are fundamentally distinct in terms of their scope, posture, and goals, they are also characterized by common attributes. These attributes give rise to several strategy principles. Each principle contributes to developing a coherent understanding of what strategy is all about and what it takes to create and execute a winning marketplace strategy.

First, strategy cannot be a single decision, action or event. Irrespective of whether it is inventive, renovative, or incremental, *strategy is always manifest in a series of decisions, actions, and events* pertaining to scope, posture, and goals. Ford's strategy with regard to its popular Taurus product line is reflected in the range of the product line it manufactures, the segments of customers it targets, how it decides to distribute to and service these customers, what type of image and reputation it wants to develop for the product line, and how it decides to price each model within the product line.

No strategy can produce exciting marketplace results (sales, market share, brand recognition) and economic returns (margins, cash flow, profits) unless it creates and takes advantage of an opportunity. And, opportunities, as noted earlier, ultimately exist in the customer marketplace. Thus, *creating opportunity resides at the heart of inventive, renovative, and incremental strategy*. An inventive strategy endeavors to establish an opportunity by offering customer solutions such as a form of transportation (the minivan) or a way of providing electronic news (CNN) that is entirely new to the marketplace. Even an incremental strategy must commit to extending the firm's opportunity space through continually, albeit in most cases slowly, adapting the product, seeking new customers, and modifying posture.

However, *opportunities can't occur without creating or exploiting change* both in the external environment and within the organization. Opportunities do not fall like manna from heaven. In both an inventive and renovative strategy, the organization changes the competitive marketplace in a significant way by introducing a new solution or dramatically extending existing product lines, as exemplified by Amazon.com (see Box 1.2).

Recognizing that strategy is always about creating and exploiting change implies that *strategy content (scope, posture, and goals) is always conditional* on current and anticipated marketplace change (and on circumstances within the organization). The specifics of any strategy's scope, posture, and goals must take into account the customer needs that are being created or served, the potential reactions of competitors, the emergence of new technologies, and potential changes in governmental regulations. Thus, no matter how well conceived and executed, a strategy that is inappropriate for the prevailing marketplace conditions simply can't succeed. When the first VCRs were introduced, they were not a hit with consumers. The inventive strategy failed in part because the technology of the TV set did not allow for easy use of VCRs, consumers were not yet educated in the use of VCRs, and the early models proved far too expensive for most of the customers who wished to purchase them. So even a breakthrough product can flop if the strategy for getting customers to learn to want the innovation isn't well conceived. There is not one right strategy for all competitive conditions, or all phases of an organization's evolution.

Although it may be implicit in the preceding observations, *strategy content must be continually enhanced and adapted*. Stated differently, strategy scope, posture, and goals can never be allowed

to become stagnant. This is true no matter how successful the strategy. Every successful automobile model (e.g., VW's trend-setting and unique Beetle, Toyota's Camry, Honda's Accord, Ford's Taurus), eventually loses consumer appeal and market share, and is either replaced or radically restyled. As soon as the firm stops amending and augmenting scope, posture, and goals, the strategy becomes a sitting duck for rivals.

But strategy must be amended not just for its own sake but to attract, win, and retain customers. Perceived *opportunities are realized when they translate into superior value for customers*. When strategy does not create or add value for customers, there can be only one result: new products do not gain a toehold in the market; changes in posture do not deliver expected gains in market share; and ultimately, companies go out of business.

To create and realize opportunities *demands an obsession with the future*, rather than a preoccupation with the past, or even the present. Creating and leveraging the change that provides the opportunity for either an inventive or renovative strategy almost always means the organization willingly risks moving into a future where the past and even the present offer little guidance. At the start of the millennium, a host of e-businesses are crafting strategies and changing their business model based on their analysis of scenarios of a discontinuity just months away.

An emphasis on the future means that an organization must be dedicated to understanding how and why the future might evolve: What new products serving what customer needs might be available? How might competitors behave differently? What new technologies might evolve? How might the economy be different? These questions go to the heart of sowing the seeds of tomorrow's success, as opposed to just winning today. Thus, *to enjoy continued strategy success, an organization must commit itself to outwitting rivals*: to outsmarting or outthinking them. Outwitting requires that an organization do many things before its rivals:

- Anticipate key marketplace changes and the relationships among them.
- See how change gives rise to opportunity.
- Determine how to realize specific opportunities.
- Learn about customers' needs from rivals' actions; and craft responses to new entrants' strategies.

A few cutting-edge companies have used scenario learning to give their management team the experience of "living in" various possible futures with operating conditions, customer values, resources, competition, governmental restrictions, and other variables that would be distinctly different from those they manage today. Using the scenario methodology, they may be able to outwit their rivals by learning how to adapt to discontinuities before they actually occur.

Outwitting rivals is necessary but never sufficient. Strategy always requires action in the marketplace: introduce products, pursue new customers, modify each posture component, and announce changes in goals. *Success in each strategy form requires that the organization outmaneuver rivals*. For example, get new products to the market before rivals do; imbue products with features that add superior value for customers; lock up rapidly growing customers either

through contracts or more intimate relationships; involve customers in product development and modification.

Finally, strategy is always about achieving goals, that is, results. An inventive strategy that brings an innovative new product or solution to the market that customers are not interested in purchasing (the problem with the initial introduction of VCRs) will be a failure in terms of attracting, winning, and retaining customers. Keep in mind also that outperforming rivals demands more than gaining market share and enhancing financial measures such as margins, profits, and shareholder value. An inventive strategy outperforms rivals by successfully creating a whole new market space or segment. A renovative strategy may outperform rivals by transforming a whole segment of an industry by being the first to launch a new product line. *Strategy must always be assessed along multiple dimensions as to whether it outperform rivals.*

## SUMMARY

Designing and executing strategies to win in the marketplace is a never-ending challenge. Given the persistent and increasingly discontinuous change in and around the marketplace, strategists can't depend on simple recipes or algorithms. They must be committed to anticipating and understanding such change in the external marketplace as well as within their own organization, and must recognize the connection between them.

## NOTES

1. Product includes all forms of services, not just physical products.
2. Global competition is discussed in detail in Chapter 4.
3. This point is developed further in Chapter 5.
4. The examples cited in the bullet list at the beginning of this chapter attest to the difficulty of retaining market leadership in any market space.
5. The analysis of stakeholders is treated extensively in Chapter 7.
6. Assets are the exclusive focus of Chapter 10, and Chapter 11 addresses the topic of capabilities and competencies.
7. In a sense, these issues serve as the focus of this book.
8. These and many related questions are addressed in detailed in Chapter 2.
9. These are in addition to the many firms noted at the beginning of this chapter.
10. The argument here is that strategy is about both means and ends. Means are meaningless without some understanding of goals, and vice versa. Some authors equate strategy with means and thus keep goals distinct from any consideration of strategy.