SkillBuilders 3rd Quarter 2009

the Company Connection®
for business owners in the American Business Women's Association

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The mission of the American Business Women's Association is to bring together businesswomen of diverse occupations and to provide opportunities for them to help themselves and others grow personally and professionally through leadership, education, networking support and national recognition.

Preparing to Dive:

Discovering Success Through Strategic Thinking

Excerpted from *Deep Dive: The Proven Method for Building Strategy, Focusing Your Resources, and Taking Smart Action,* by Rich Horwath

Even C-level executives at world renowned companies don't always practice sound strategic thinking.

Why? For three reasons: (1) abstraction (2) differing definitions, and (3) lack of knowledge.

First, strategy is an abstract concept. You can't reach out and touch it. Whenever an abstract concept is involved, there is plenty of room for interpretation. Second, different companies have different definitions of strategy. Different business units within companies have different definitions of strategy. And different groups within those business units have different definitions of strategy. Considering that people often move from company to company, we see how quickly things can get muddled. Third, most organizations pour their training resources into building operational skills — customer service, sales, communications, etc. — putting little, if any, resources toward building the strategy skills of their management teams.

To help clarify strategy, we can use the ABCs of what strategy is not. Strategy is not:

- Aspiration: goals, objectives, or visions
- Best practices: trying to be better than, instead of different from, the competition
- Caution: being tentative and restrained, afraid to make trade-offs

Aspiration

Too often, strategy is mistaken for aspiration, and it takes the form of a goal, an objective, or a vision. How often have you seen strategy written as "to be the market leader," or "to grow new business," or "to be the premier provider of . . ."? The "what" you're trying to achieve, whether it be a goal, an objective, or a long-term vision, should never be confused with "how" you will achieve it, which is the strategy.

Best Practices

Best practices can be crucial to success, but they should never be confused with strategy. While they are important for operational areas of an organization, if substituted for strategy, best practices can quickly lead to an erosion of the business. Best practices erode advantage because if more than one company is using a best practice, the necessary differentiation of strategy fades away, and the offerings (products and services) can begin to look the same in the eyes of the customers. Once the differences among competitors are whittled away, the only thing left for customers to decide on is price.

Caution

Strategy is not caution. If you aren't willing to assume risk, make trade-offs, and upset somebody along the way — including, maybe, even some customers — then you don't have a strategy. Too often managers striving for that next promotion play it safe and spread their resources evenly across the business. Trade-offs inherently involve risk, and risk means a potential loss of resources, revenue, and, possibly, that next step on the career ladder.

Remembering the ABCs of what strategy is not — aspiration, best practices, and caution — will help keep your business running smoothly.

In those times when we're faced with difficult business decisions, it's helpful to get back to strategy's foundation. Business strategy is defined as "the intelligent allocation of limited resources through a unique system of activities to outperform the competition in serving customers."

Resource Allocation

A number of important concepts make up strategy. The first is the intelligent allocation of limited resources. Resources can take the form of the tangible (physical assets and financial resources), the intangible (culture, brand, reputation), and the human (knowledge, competencies, and skills).

When the idea of "limited" resources is introduced, attention immediately goes to the tangible area of resources, as nearly everyone clamors for a larger budget with which to work. Companies lose tremendous profits and productivity due to unclear purpose in the form of mission and vision, incongruent strategic direction, and the unwillingness to make trade-offs. The organizations that successfully show employees the link between the purpose of their work and the strategy for achieving their goals unleash their maximum potential.

Unique System of Activities

The second aspect of our definition of business strategy is having a unique system of activities. Nestled in the middle of the definition, this idea of differentiation is perhaps the most overlooked tenet of strategy. Differentiation for competitive advantage in business has its roots in science. In 1934, Moscow University professor G. F. Gause published the results of a landmark study. He placed small animals in a bottle with an ample amount of food. If the animals were of the same genus and a different species, they were able to live together peaceably. However, if the animals were of the same genus and the same species, they were not able to coexist. This led to the Principle of Competitive Exclusion, which states that no two species can coexist that make their living in the identical way.

Open the newspaper and read about the companies that are struggling and it's a good bet one of the reasons is their failure to heed the Principle of Competitive Exclusion. They are stuck doing the same things in the same way as their competition. Jeff Immelt, chairman and CEO of General Electric, understood the importance of differentiation when he wrote, "GE must look different . . . act different . . . be different . . . to excel in the years ahead." Notice he didn't write that GE must be "better." He specifically chose the word *different* and used it three times to emphasize his company's understanding that the road to business success is paved with differentiation from the competition.

Strategic leaders are continually asking the following two questions:

1. What are the different activities we're performing that our competition is not?
2. What are the similar activities we're performing in a way that differs from our competition?

Operational Effectiveness

Perhaps the most common error is mistaking operational effectiveness for strategy. Operational effectiveness means to perform similar activities in a similar manner as competitors, trying to do them a little better or faster. However, employing operational effectiveness without strategy is like running the same race as competitors, hoping only to be a little faster. Incorporating strategy indicates that we are going to run a course that differs from our competitors'— one that we ourselves have designed to win.

Look at nearly any industry and you'll see examples of established companies locked in battles of operational effectiveness. When companies become complacent and rely on doing the same things in the same ways as their competitors (e.g., United Airlines and American Airlines), differentiated entrants come into the marketplace and begin to take their business (e.g., Southwest Airlines).

Outperform the Competition

The final component of the definition of business strategy is to outperform the competition in serving customers. Strategy inherently involves competition. The fact is, we've all been competing for a long time: think back to kickball at recess. When we were kids, we relied primarily on our physical attributes — such as size, speed, and strength — to win the day. Today, it's the size, speed, and strength of our thinking that create and sustain competitive advantage. It's in our relentless drive to raise our level of thinking — in our desire to compete, or "strive together"— that strategy becomes the glue that mentally binds us together to maximize our chances of succeeding in whatever market we play.

Competitive Advantage

Competitive advantage comes through three steps:

1. Customers perceive a consistent difference among offerings, and that difference occurs in an attribute that affects the buying decision.
2. The difference in the offering stems from a distinctive capability.
3. Both the offering difference and the distinctive capability last over time.

If, after going through this process, your organization determines that it is at a competitive disadvantage, you can choose among several options to transform that disadvantage into an advantage.

1. Change the offerings, creating better alignment between the capabilities and the offerings (e.g., Whirlpool's innovative appliances).
2. Create new capabilities (e.g., Apple's move into digital music).
3. Influence customer preference by changing the relevance criteria or making the value of the offering clearer (e.g., Subway's emphasis on healthy fast food).
4. Change the game — innovate into the market white space, where competition is nonexistent (e.g., Cirque du Soleil).

Value Discipline Spells Success

Complementing the work of understanding strategy and beginning to clear a path for competitive advantage is the concept of value disciplines.

Research by Michael Treacy and Fred Wiersema conducted among more than eighty market-leading companies demonstrated that successful organizations can be categorized by one of three distinct value disciplines: product leadership, operational excellence, and customer intimacy.

Successful companies, research shows, choose one of the three value disciplines to excel in and maintain industry-average thresholds in the other two. From a strategy perspective, that means the majority of a firm's discretionary resources are allocated toward only one of the three areas. This principle flies in the face of the human tendency toward balance and equilibrium; yet, great strategy requires trade-offs in order to load resources into one area and put only a threshold amount in the other two value disciplines.

Product Leadership

As one would guess, product leadership is all about providing the best product, one that offers true differentiated value in the marketplace. Successful product leaders produce products and services that customers recognize as the best, offerings that add significant benefits and performance to them. The product leaders' primary source of competition is themselves: they work fast and furiously to make their older offerings obsolete by introducing their own new state-of-the-art products. Examples of product leadership companies include Nike, 3M, and Apple. They understand that they provide premium brands, and more importantly, they build value propositions that enable them to command premium prices for their brands.

Operational Excellence

Companies that focus on the operational excellence value discipline are characterized as having the best total cost. They provide customers with reliable offerings at competitive prices and deliver those offerings in an efficient manner. Examples include Wal-Mart, Southwest Airlines, McDonald's, and FedEx. These companies realize that standardization and efficiency are the lifeblood of their businesses.

Customer Intimacy

Customer-intimate firms offer the best total solution. They live on the depth and length of relationships with their customers — relationships built on understanding exactly what customers need and how to deliver it in a tailored fashion. Companies that focus on this value discipline include IBM, GE, and Nordstrom. Not having the discipline or the understanding to select and emphasize a single value discipline results in three undesirable effects:

1. Fractured strategic direction,
2. Weakened brand, and
3. Mediocrity and commoditization. These negative effects quietly suffocate a business because they prevent people from harnessing the power that comes from the intense focus of time, talent, and money.

By focusing on one of the value disciplines — and thereby avoiding these negative effects — you will create momentum for your business that competitors simply cannot match.

Fractured Strategic Direction

A fractured strategic direction occurs when an organization lacks the discipline to focus the majority of its resources on just one of the three areas of value. Usually, in a well-meaning but ill-conceived attempt to grow the business, their resources begin migrating to several of the value disciplines. This resource migration muddies the strategic direction and compromises growth in the long term. Truly successful companies are committed to excelling in only one of the three disciplines while maintaining parity in the other two.

Weakened Brand

One of the primary challenges is ensuring that all of the different functional areas are "singing from the same song sheet." It's quite common for the marketing and R&D teams to be working and promoting from the product leadership value discipline while the sales force is selling on low price. This internal conflict blurs the value of the offering to customers and creates false expectations, and the end result is a weakened brand in the marketplace.

Mediocrity and Commoditization

Allocating resources evenly among the three value disciplines is the most insidious cause of business failure. This even distribution prevents a company from realizing its true potential. When individuals in an organization are not galvanized around one of the three value disciplines, the result is a watered-down, mediocre offering that lacks valuable differentiation, which can come only from extreme focus.

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