

# Strategic Thinking for Competitive Advantage – From Innovation to Execution

**Agenda March 19, 2007**

**Overview of Strategy**

**Personal Innovation**

**Creating the Vision**

**Blue Ocean Strategies**

**Building Margin Separating  
Plans**

# Kotler on Strategy

*It is more important to do what is strategically right than what is immediately profitable.*





# What is strategy?

**Strategies** are broad overall priorities or directions adopted by an organization; strategies are choices about how to best accomplish an organization's mission.

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>





# Strategic Planning is:

**a management tool**, and like other management tools, it is used for one purpose only:

**to help the organization do a better job.**

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>



# NO Stragedies



# What is Strategy?

- From Wikipedia, the free encyclopedia
- A strategy is a long term plan of action designed to achieve a particular goal, as differentiated from tactics or immediate actions with resources at hand. Originally confined to military matters, the word has become commonly used in many disparate fields . .
- A strategy is typically an idea that distinguishes a course of action by its hypothesis that a certain future position offers an advantage for acquiring some designated gain. The description of the idea is generally prepared in prescriptive documentation.
- The word derives from the Greek *stratēgos*, which referred to a 'military commander' during the age of Athenian Democracy.
- What is a strategy? - An umbrella plan encompassing a number of smaller plans for some objective.



## Strategic Planning is Not:

Strategic Planning does not predict the future and make decisions which cannot be changed.

Strategic Planning is not a substitute for judgement of leaders.

Strategic Planning is not always a smooth, predictable or linear process.

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>



The background of the slide is a scenic view of a snowy mountain range. In the upper left corner, a ski lift is visible with several people sitting on the chairs. The sky is a clear, light blue. The word "Decisions" is written in a large, blue, sans-serif font across the middle of the image.

# Decisions

**Strategic decisions** are fundamental, directional and future-oriented.

**Operational decisions**, on the other hand, primarily affect the day-to-day implementation of strategic decisions.

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>

# Jim Collins

**“Decisions mean *inviting uncertainty into your home, offering it a drink, and asking it to stay for dinner*”**







## Strategic Planning is:

a **systematic process** through which an organization agrees on and builds commitment among key stakeholders to priorities which are essential to its mission and responsive to the operational environment.

## Strategic Planning is:

- a process about building commitment.



Adapted from Peter Drucker  
<http://www.druckerfoundation.org>





Creates:

**a forum for understanding why  
the organization exists and what  
the shared values are.**

**Strategic  
Planning**

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>



# Fosters:

- **Successful communication** and teamwork among board and staff
- **Meaningful change** by stimulating strategic thinking and focusing on what is important.

**Strategic  
Planning**

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>





Strategic Planning:

Strategy >

Objectives >

Tactics >

Measurable Action items

Adapted from Peter Drucker  
<http://www.druckerfoundation.org>

# Michael Treacy

In *The Discipline of Market Leaders*, he and co-author Fred Wiersema propose four rules for success:

1. Become best at one of the three value disciplines.
2. Achieve an adequate performance level in the other two disciplines.
3. Keep improving one's superior position in the chosen discipline so as not to lose out to a competitor.
4. Keep becoming more adequate in the other two disciplines because competitors keep raising customers' expectations.

Treacy and Weirsmas, *The Discipline of Market Leaders*, 1994



# Discipline

## Operational Excellence

*Walmart - Dell Computers*

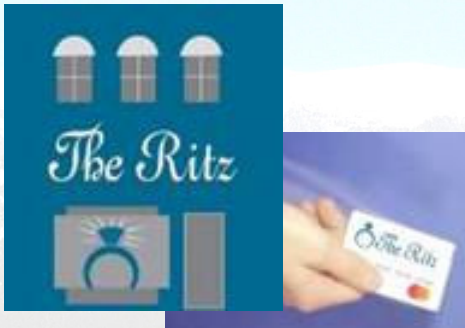
?



## Customer Intimacy

*Nordstroms - Starbucks*

?



## Product Leadership

*IPOD - Lexus*

?

Treacy and Wiersema, The Discipline of Market Leaders, 1994



**The Strategic Planning Session:  
Pre-work – Interview Stakeholders**

**Step One – Create the Vision**

**Step Two – Focus on Strategies that will accomplish the Vision**

**Step Three – Build Objectives for each Strategy**

**Step Four – Design Tactics for each Objective**

**Step Five – Measure it all**



# Three Characteristics of Good Strategy

## ■ Focus

- Company does not diffuse its efforts across all key factors of competition

## ■ Diverge

- Differentiate from the industry's average profile

## ■ Compelling Tagline

- A good tagline must not only deliver a clear message but also advertise and offering truthfully, or else customer will lose trust and interest

# Compelling Taglines



**“Go Nuts”**

**Mobile Spay & Neuter Clinic**

**“Pampered Pets – Priceless”**





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# Creating a Blue Ocean of Innovation

## ■ Water, water, everywhere

- You don't have to compete in a red ocean of bloody competition. Even exhausted industries-like the circus-can be reinvented

## ■ Don't swim with the school

- Quit benchmarking the competition or setting your strategic agenda in the context of theirs

## ■ Find new ponds to fish

- Don't assume your current customers have the insights you need to rethink your strategy. Look to non-customers instead.

## ■ Cut bait on Costs

- Put as much emphasis on what you can eliminate as on what you can create



# Marissa Mayer Vice President, Search Products & User Experience Google

## Nine Notions of Innovation

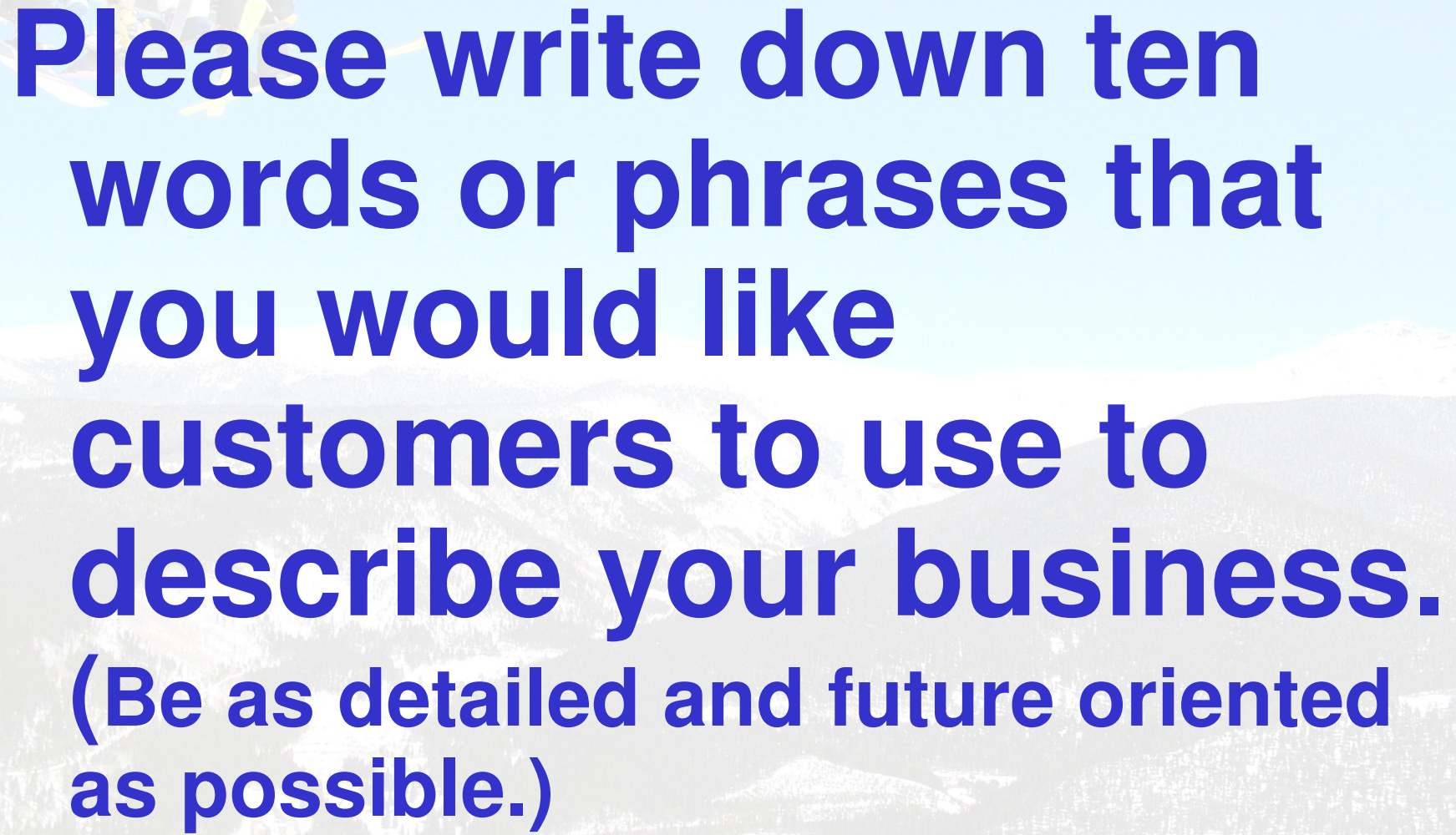
- Ideas come from everywhere.
- **Share everything you can.**
- Your brilliant – we're hiring.
- A license to pursue dreams.
- **Innovation – not instant perfect**
- Don't politic – use data.
- **Creativity loves constraints.**
- Worry about usage and users, not money.
- Don't kill projects – morph them.



**Is this a true statement?**

**If you want to keep getting what you've always gotten, keep doing what you've always done.**





**Please write down ten words or phrases that you would like customers to use to describe your business. (Be as detailed and future oriented as possible.)**

# Be Your Own Seer

## ■ *See Different, Be Different*

— *Economic Predictions*

## ■ *Be a Novelty Addict*

— *What's new, What's not?*

## ■ *Find the Discontinuities*

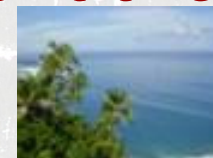
— *Lifestyles and Ageing*

## ■ *Search out underappreciated trends*

— *What is no one talking about?*

## ■ *Find the Big Story – transcendent themes*

— *Legend of Three Views*





# Terry Jones – Travelocity

- **Our job is to bring things slightly out of focus into focus for our customers.**
- **Jeff Bezos at Amazon – We worry about price like Boeing worries about gravity.**

# A Whole New Mind – Daniel Pink - 2006

## ■ Left Brain, Right Brain

### Right Brain

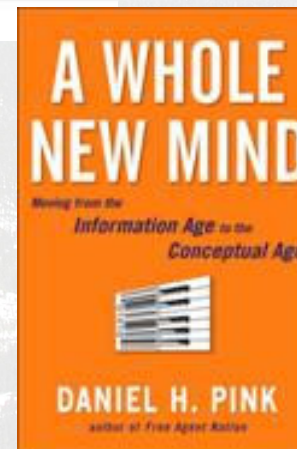
- Controls Left Side
- Simultaneous
- Context – Meaning
- Big Picture



Vesalius 1542

### Left Brain

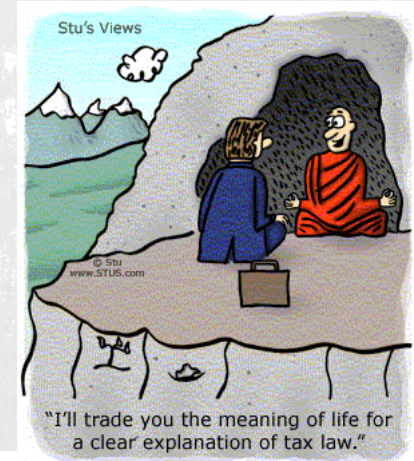
- Controls Right Side
- Sequential
- Text – Facts – Logic
- Details





# Future Success Portfolio

- Design
- Story
- Symphony
- Empathy
- Play
- Meaning





# Daniel Pink “A Whole New Mind”

**High concept involves the capacity to detect patterns and opportunities, to create artistic and emotional beauty, to craft a satisfying narrative, and to combine seemingly unrelated ideas into something new.**



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# Michael Porter – The Six Principles of Strategic Positioning

- **Start with the right goal.**
- **Enable the company to deliver a differentiated value proposition.**
- **The strategy should reflect a distinctive value chain.**
- **Robust strategies involve tradeoffs.**
- **The strategy should define how various elements of a company fit together.**
- **The strategy should involve a continuity of direction.**

Porter: Strategy and The Internet, HBR 2001



# *Who We Are - Our Vision*

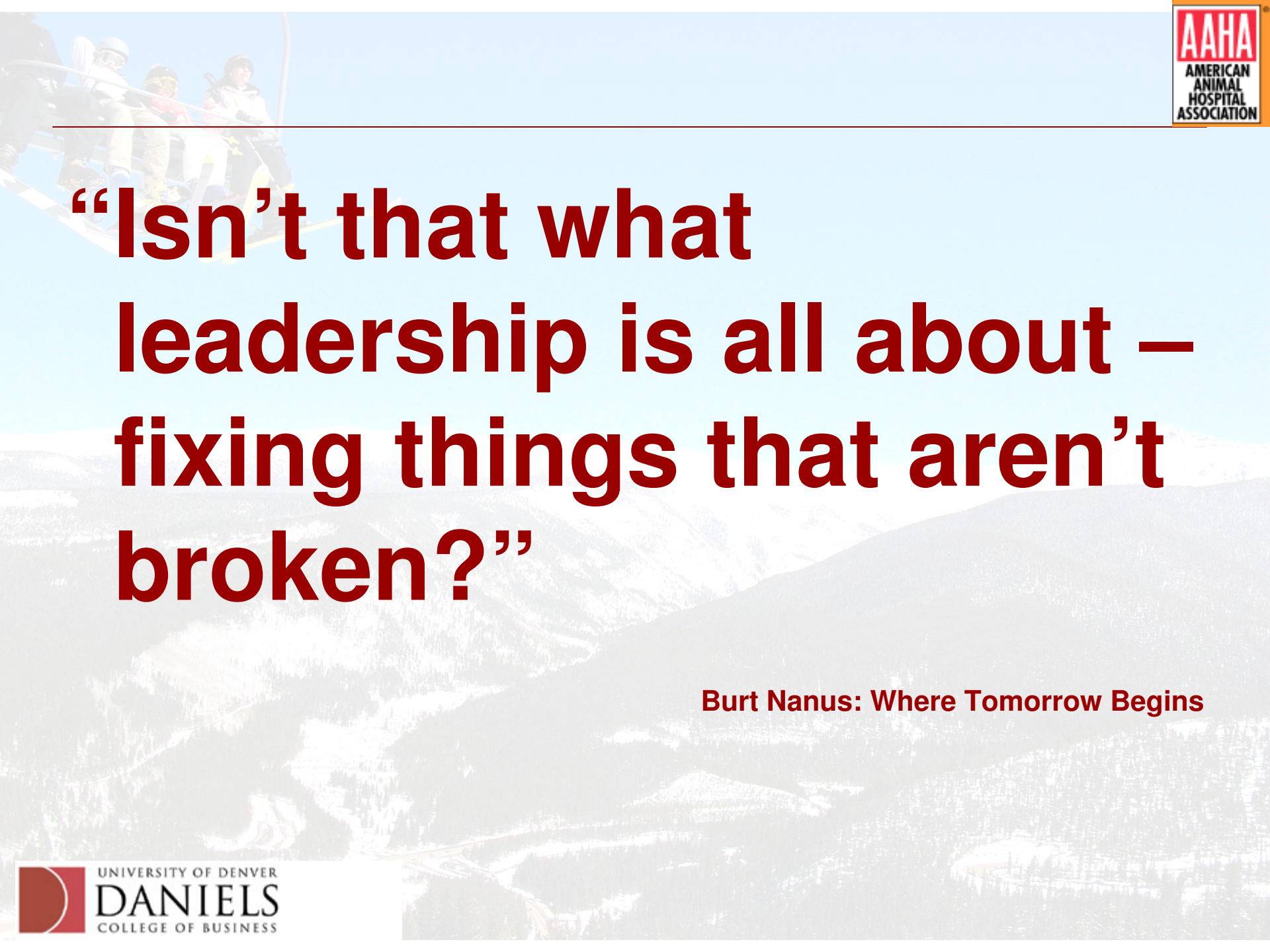
To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow.

# What is a vision statement?

**“... A vision is a mental model of a future state of a process, a group, or an organization. As such, it deals with a world that exists only in the imagination, a world built upon plausible speculations, fabricated from what we hope are reasonable assumptions about the future, and heavily influenced by what is possible and worthwhile.”**

**Burt Nanus: Where Tomorrow Begins**





**“Isn’t that what  
leadership is all about –  
fixing things that aren’t  
broken?”**

**Burt Nanus: Where Tomorrow Begins**

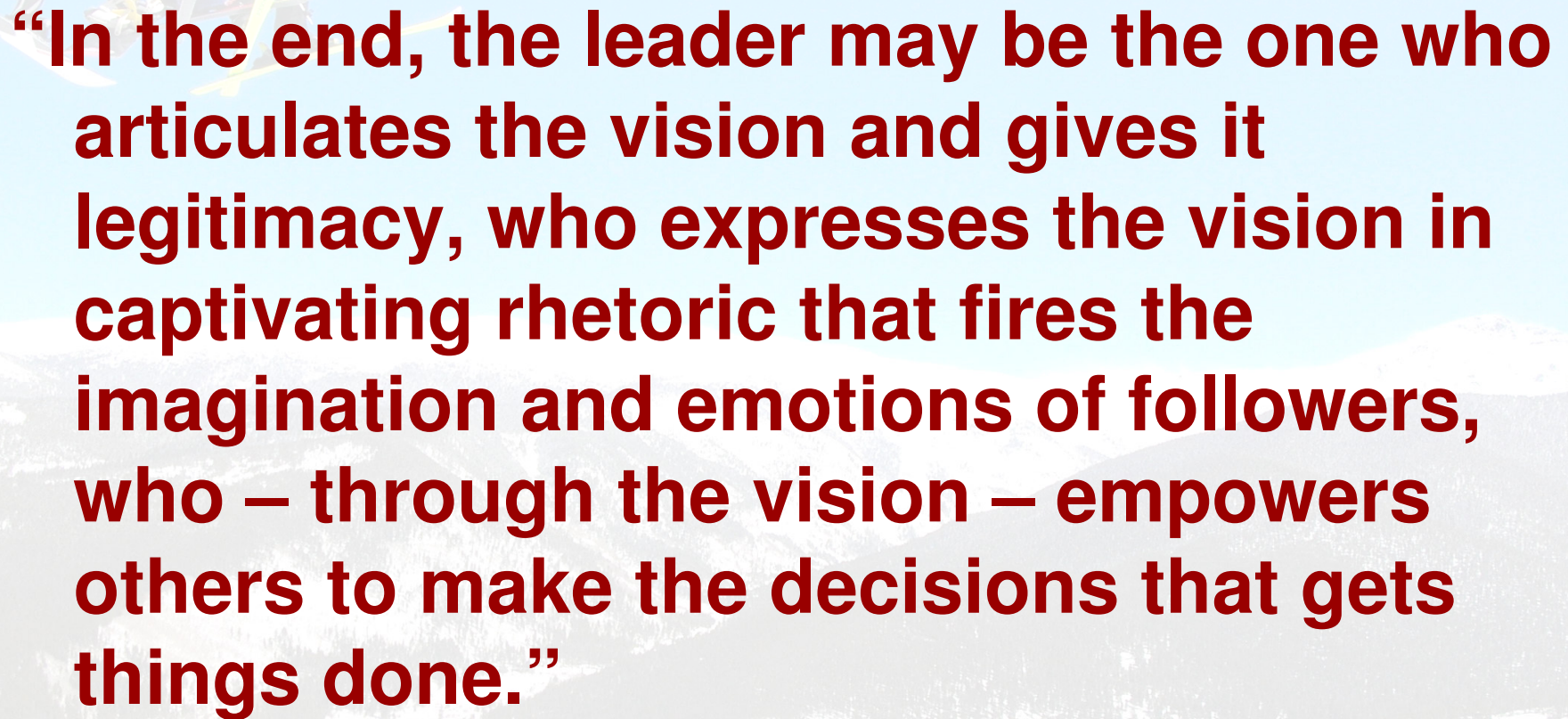
- **Vision for the company**
- **Mental model for the future**
- **Idealistic**
- **Short**
- **Bold**
- **Worthy – must be believable**



# Chapter 21 Where Tomorrow Begins: Finding The Right Vision

## Burt Nanus

- Has to be based on hopes and dreams.
- Change when successful
- Not a prophecy
- Not a mission
- Not meant to be factual, because it deals with a future state
- Not Static
- Does not constrain the action of others



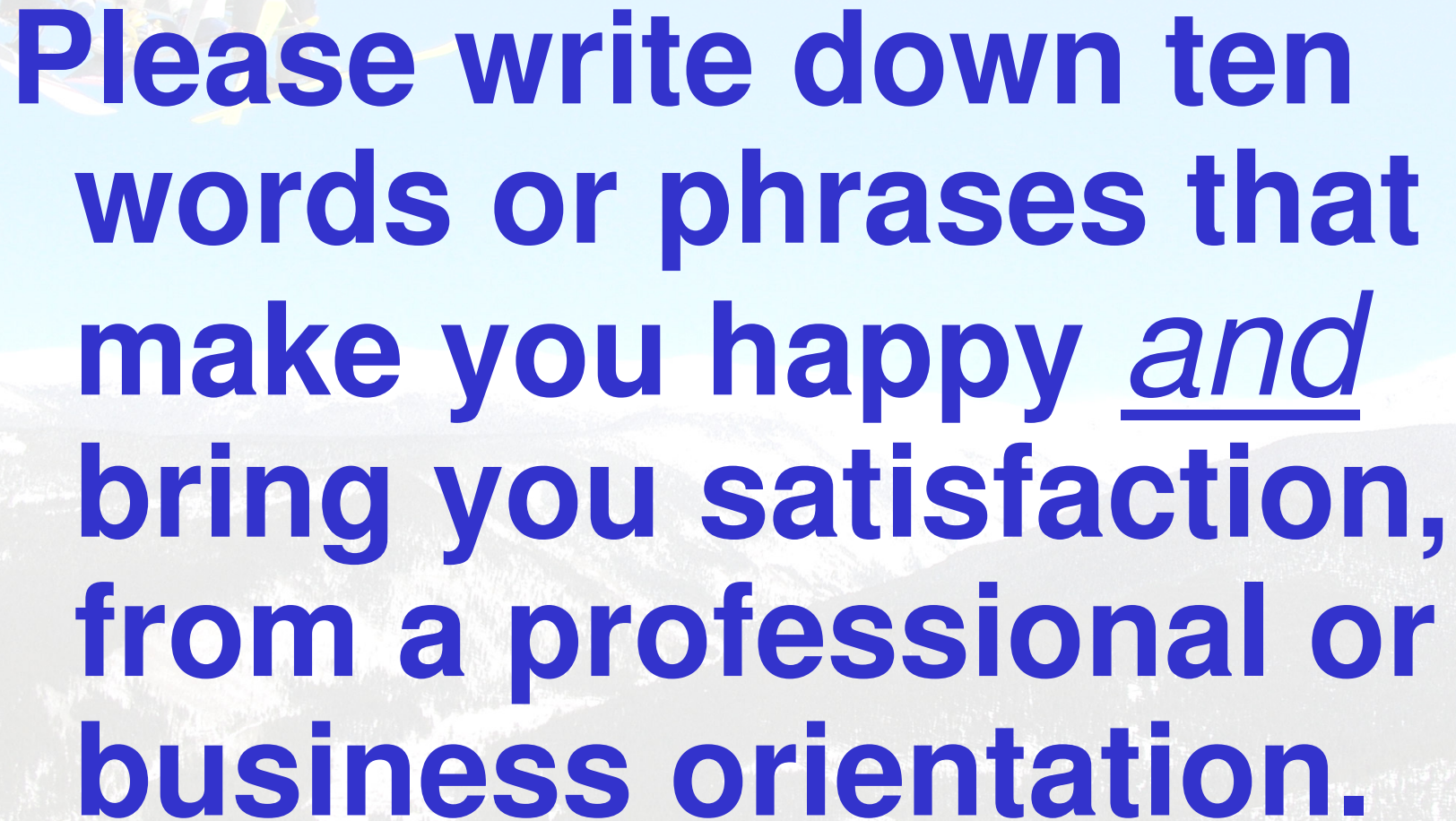
**“In the end, the leader may be the one who articulates the vision and gives it legitimacy, who expresses the vision in captivating rhetoric that fires the imagination and emotions of followers, who – through the vision – empowers others to make the decisions that gets things done.”**

**Burt Nanus: Where Tomorrow Begins**



## Burt Nanus – Visionary Leadership

**“Vision is composed of one part foresight, one part insight, and often a healthy dose of chutzpah.”**



**Please write down ten words or phrases that make you happy and bring you satisfaction, from a professional or business orientation.**



# Vision Creation Process



*Never subordinate the mission in order to get money.*

# Mission and Vision

- **Mission** – Why do we exist? Why will customers pay for (or fund) our products or services? What did the customer hire this product to do for them?
- **Vision** – What do we want to be when we “grow up”?



# Mission



The mission of the American Red Cross is to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid, prepare for, and cope with emergencies.



**Cross five words or  
phrases off each list!**



# Vision Creation Process



*Peter Drucker's classic questions:  
Who is our Customer?  
What is our Mission?  
Why does our organization exist?*

“We help people trade practically anything on earth.

We will continue to enhance the online trading experiences of all – collectors, dealers, small businesses, unique item seekers, bargain hunters, opportunity sellers, and browsers.”



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Porter: Strategy and The Internet, HBR 2001



# The Growth of Starbucks



<http://www>



# *Starbucks Core Ideology* - The Goal

To become a great, enduring company with one of the most recognized and respected brands (reputations) in the world, known for inspiring and nurturing the human spirit.

# What is Marketing? - Drucker

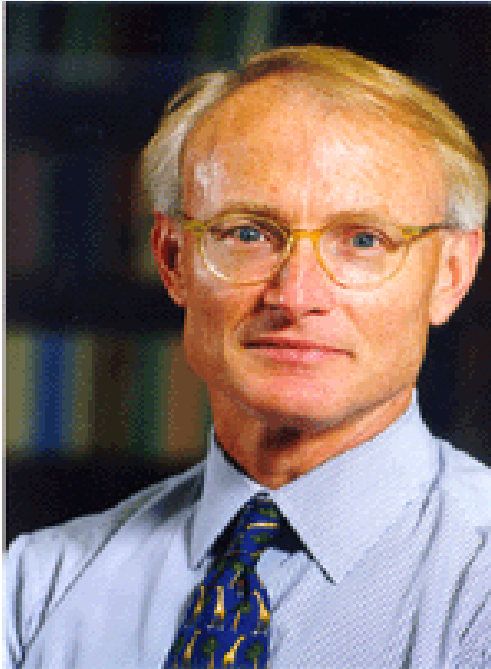
- “There will always, one can assume, be need for some selling. The aim of marketing is to know and understand the customer so well that the product or service fits him/her and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.”



# The Dopeler effect

- The propensity of stupid ideas to sound good because they come at you rapidly. We live in a world of speed and convenience.**

# Porter's Generic Strategies



Overall Cost Leadership

Differentiation

Focus

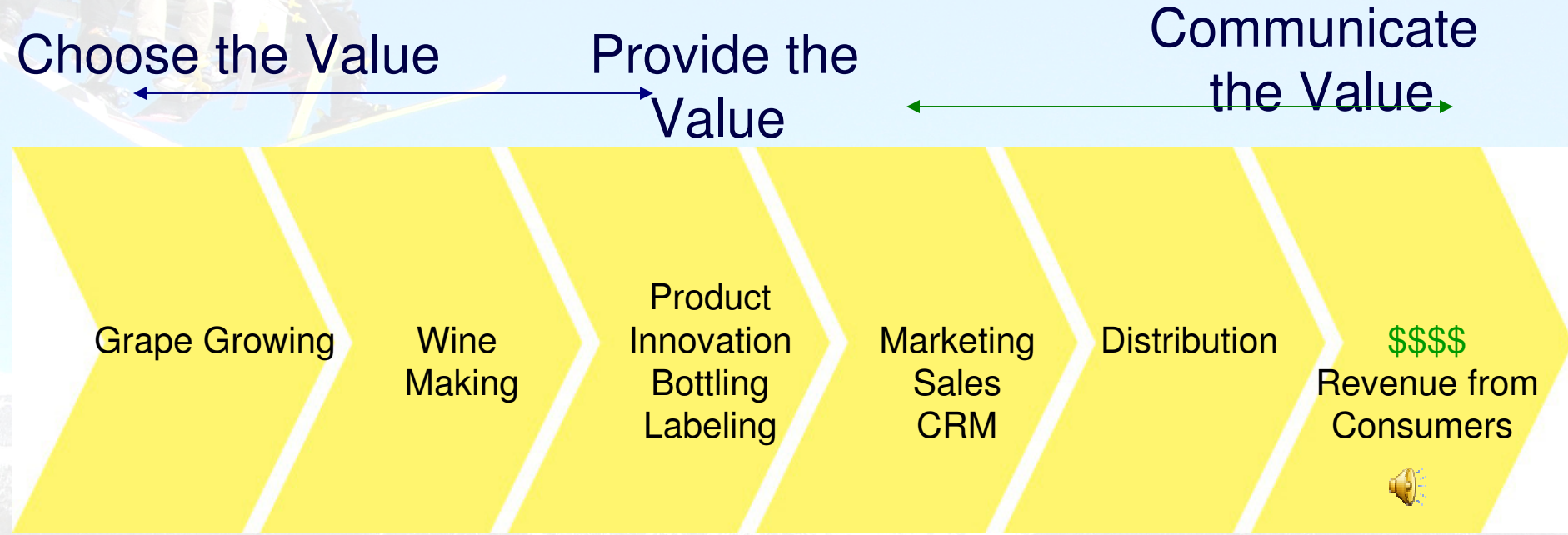


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# Revenue Processes



## Enabling Processes

Information Processing – Operations - Technology – Finance  
 Marketing – Legal – Security - Human Resource Management  
 Property Management – Procurement - Communications



# So What is Value???

**Value = Benefit – Cost**

**To the customer!**

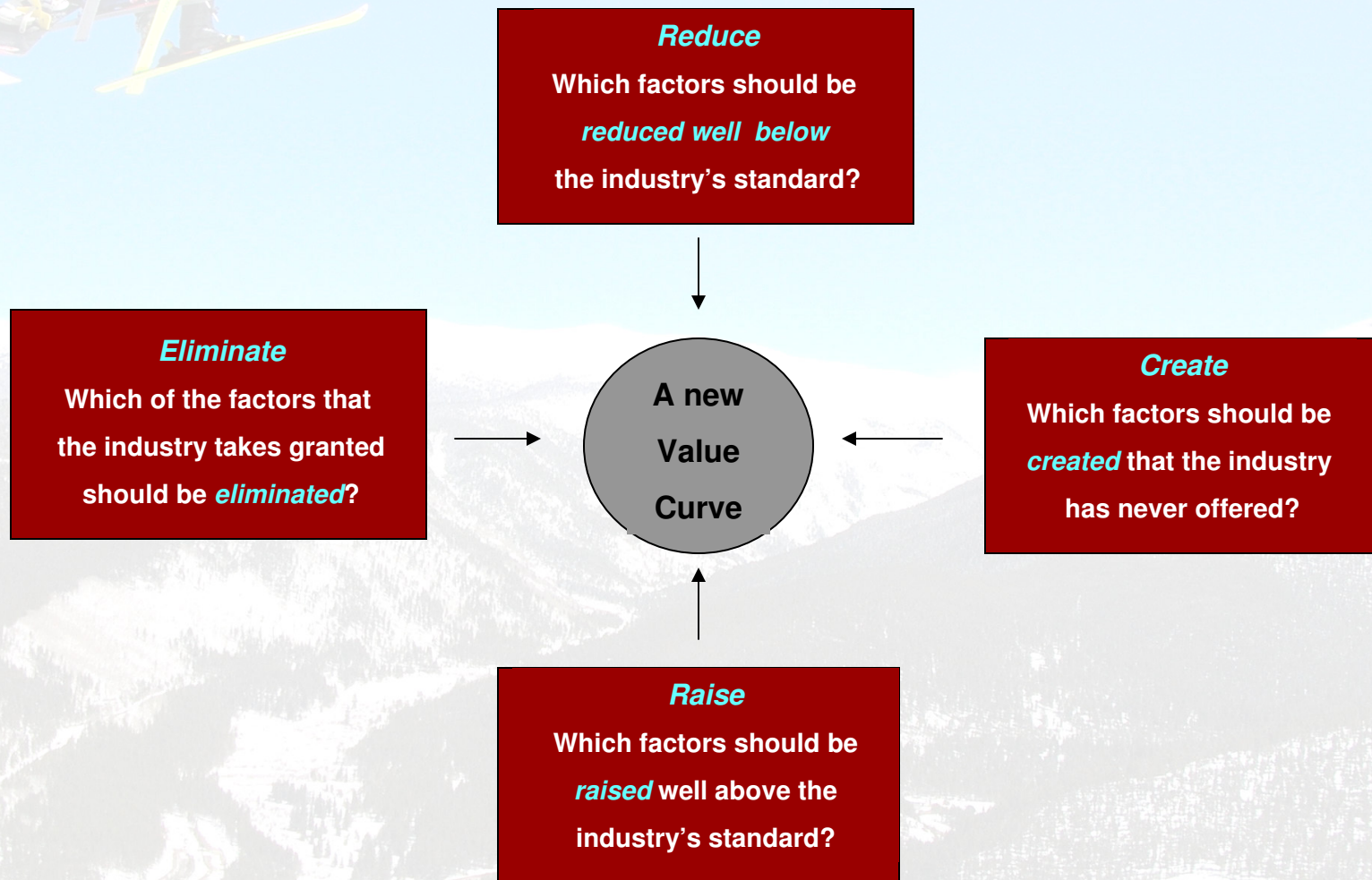
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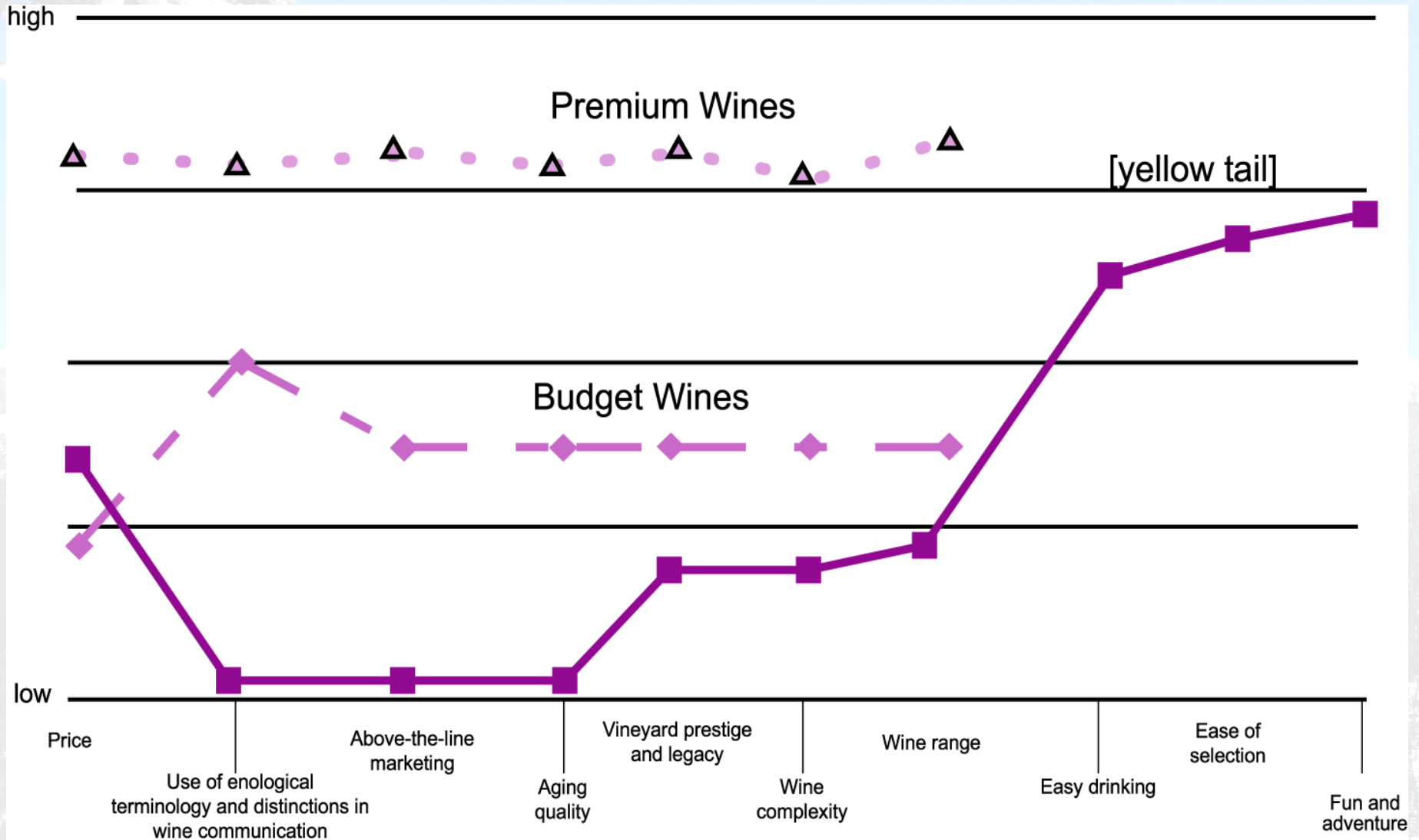
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# The Four Actions Framework



# Strategy Canvas of U.S. Wine Industry





# The Case of Cirque du Soleil

## **Eliminate**

**Star performers**

**Animal shows**

**Aisle concession sales**

**Multiple show arenas**

## **Create**

**Theme**

**Refined environment**

**Multiple productions**

**Artistic music and dance**

## **Reduce**

**Fun and humor**

**Thrill and danger**

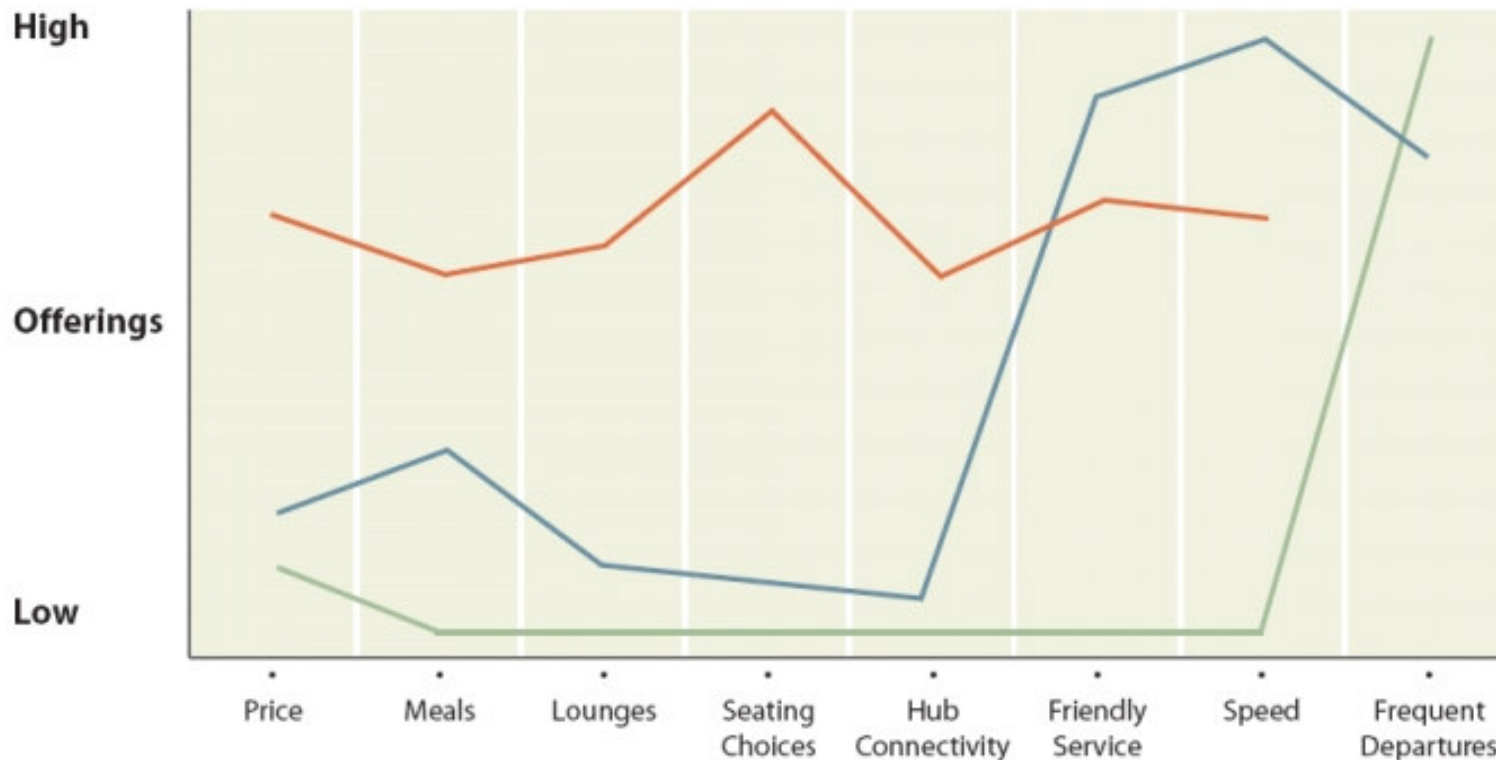
## **Raise**

**Unique venue**

# Strategy Canvas of Southwest Airlines

## The Strategy Canvas of the Short Haul Airline Industry

- Southwest
- Other Airlines
- Car





Please spend a few minutes answering these questions.



*Peter Drucker's classic questions:  
What is our business?  
Who is the customer?  
What is of value to the customer?  
What will our business be?  
What should our business be?*

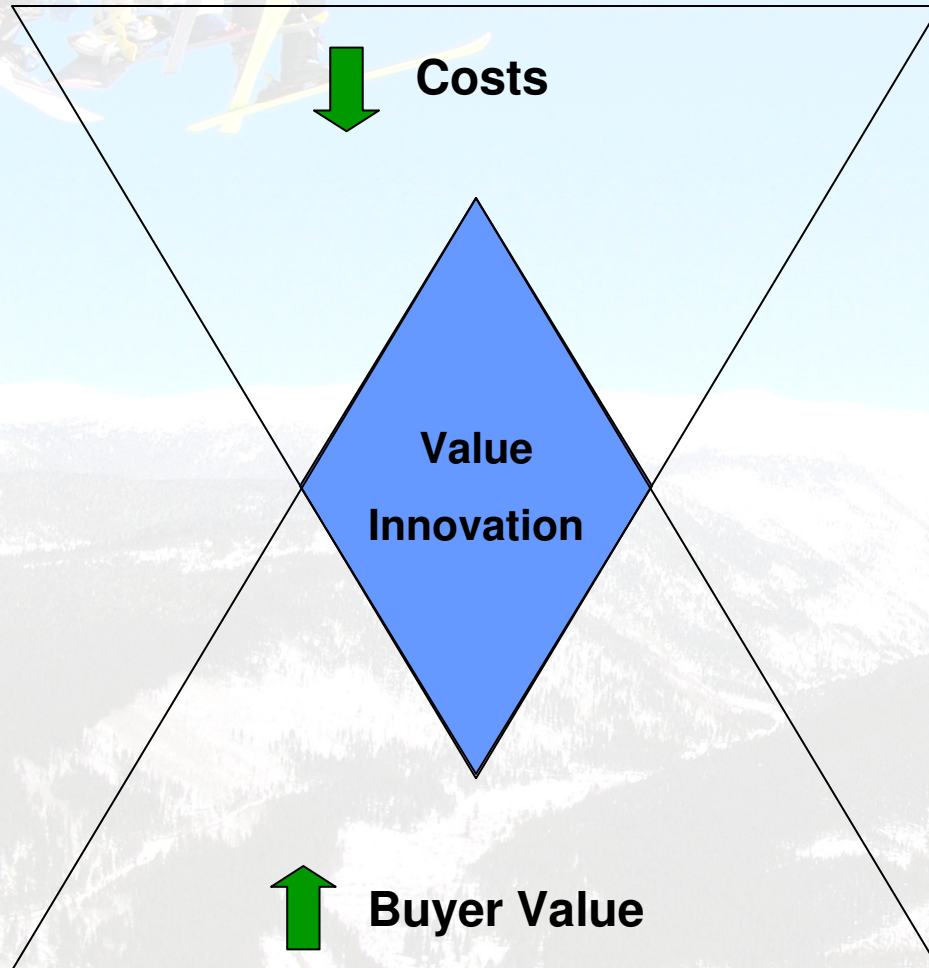
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# Cornerstone of Blue Ocean Strategy



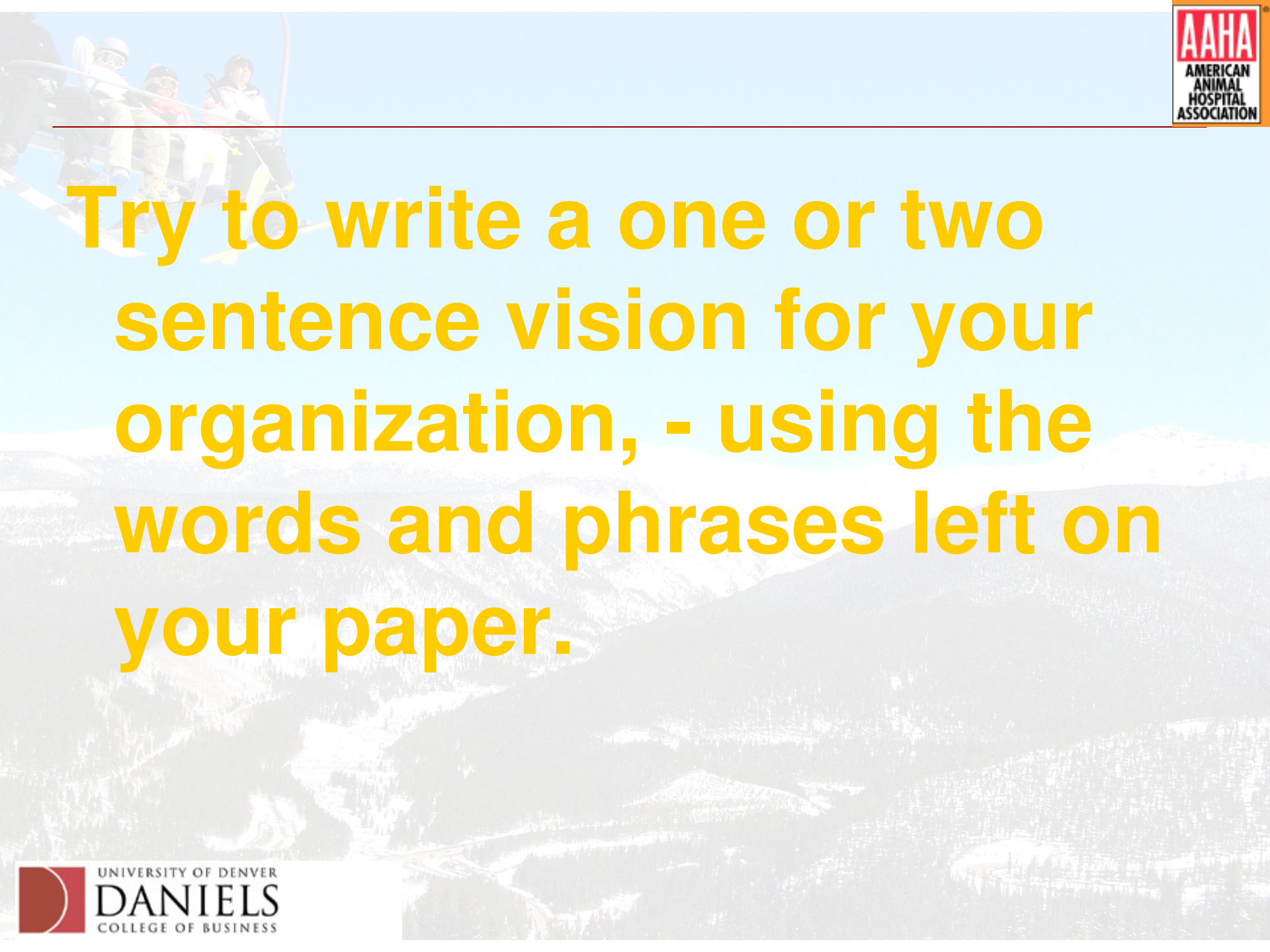
- **Simultaneous Pursuit of Differentiation and Low Cost**

# Michael Porter – The Six Principles of Strategic Positioning

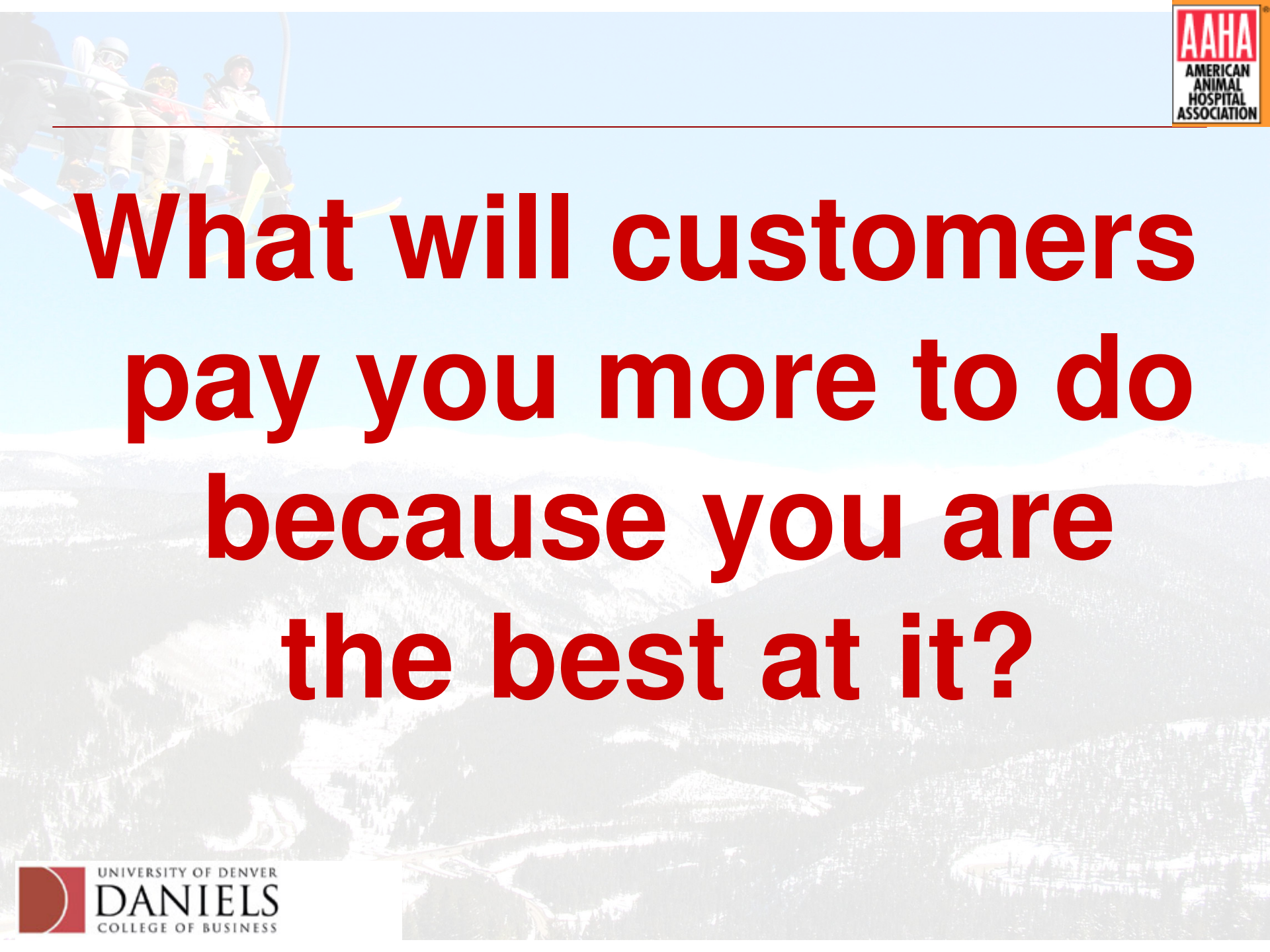
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**Try to write a one or two sentence vision for your organization, - using the words and phrases left on your paper.**




**What will customers  
pay you more to do  
because you are  
the best at it?**



# Strat Plan PAH



**The Plemmons Animal Hospital will be the most profitable franchised Veterinary group with at least 30 operations in ten states by 2010. Our franchisees will be our best customers and will actively assist in building our brand.**



**Strategy** – Build a highly profitable, unique, and clearly differentiated animal hospital that is the envy of all hospitals in the area.

**Objective:** Find a great location

Hire and train a well aligned staff

Create a best in class customer service operation

**Tactic:** Best recruiting practices

Best training systems

Entrepreneurial spirit

**Measurements:** - Dashboards, BSC,





# Life is Uncertain – Eat Dessert First

# The Ten Rules of Radical Marketing –

Radical Marketing, Hill & Rifkin

- 1. The founder or CEO must own the marketing function**
- 2. Make sure the marketing department starts & stays small and flat**
- 3. Get face to face with the people who matter most – the customers**
- 4. Use market research cautiously – radical markets use a more grassroots approach**
- 5. Hire only passionate missionaries**

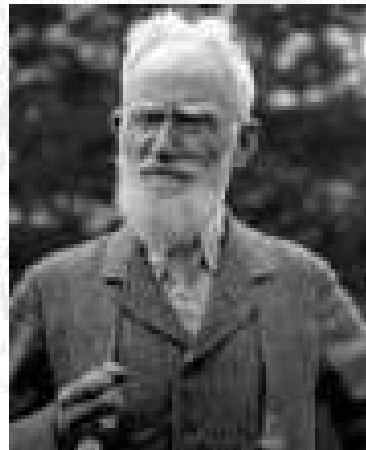


# The Ten Rules of Radical Marketing –

Radical Marketing, Hill & Rifkin<sub>(cont.)</sub>

6. Love and respect your customers.
7. Create a community of consumers – find the people who fall in love with your product and make them feel like they also own the brand.
8. Rethink the marketing mix – forget about traditional marketing channels and find the surgical strike opportunities.
9. Celebrate common sense.
10. Be true to the brand – be obsessive about quality and brand integrity.

■ You see things; And you say, 'Why?' But I dream things that never were; And I say 'Why Not?'



» *George Bernard Shaw*  
*Back to Methuselah (1921)*



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# Blue Ocean Strategy



**Don't Compete with Rivals  
- Make Them Irrelevant!**



**Every Great Strategy Has:**



**Focus**

**Divergence**

**Compelling Tag-line**

# Samsung Blue Ocean Strategy

- Value Innovation is Samsung's core tool for product development
  - Played a significant role in becoming the world's largest electronics company.
- 2,000 employees working in cross-functional teams on 90 Value Innovation projects at Samsung in 2006
  - No product is introduced to the market without first getting a Value Innovation Certificate.
- Quote from the first Korean Economic Daily article:
  - *"In 2003 the Digital Media unit launched 40 new products using the VI process, and its first quarter profits were 50 times higher than that of the same period the previous year."*





# Six Principles of Blue Ocean Strategy

## Formulation Principles

Reconstruct market boundaries

Focus on the big picture, not the numbers

Reach beyond existing demand

Get the strategic sequence right

## Risk factor each principle attenuates

↓ Search risk

↓ Planning risk

↓ Scale risk

↓ Business model risk

## Execution principles

Overcome key organizational hurdles

Build execution into strategy

## Risk factor each principle attenuates

↓ Organizational risk

↓ Management risk



**Across Industries = Eatertainment**

**Across strategic groups = Curves**

**Across the chain of buyers = Pharmaceuticals**

**Across complementary product & service offerings = adjacent markets = gift cards**

**Across functional or emotional appeal to buyers = sbux cemex**

**Across Time = CNN**



# Six-Path Framework

## Head-to-Head Competition

## Blue Ocean Creation

### Industry

Focuses on rivals within its industry



Looks across alternative industries

### Strategic group

Focuses on competitive position within strategic group



Looks across strategic groups within industry

### Buyer group

Focuses on better serving the buyer group



Redefines the industry buyer group

### Scope of product or service offering

Focuses on maximizing the value of product and service offerings within the bounds of the industry



Looks across to complementary product and service offerings

### Functional-emotional orientation

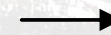
Focuses on improving price performance within the functional-emotional orientation of its industry



Rethinks the functional-emotional orientation of its industry

### Time

Focuses on adapting to external trends as they occur



Participates in sharing external trends over time

# Functional-Emotional Orientation

- **The power of redefining the functional-emotional balance is well illustrated by the example of Starbucks.**
- **Starbucks created a strong emotional pull in coffee consumption by:**
  - **Tantalizing its customers across all five senses**
  - **Providing an intimate environment**
  - **Featuring an exotic portfolio of coffees from around the world.**
- **In the process it established a premium brand and a phenomenal following of loyal customers.**





# Four steps of visualizing strategies

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## 1. Visual awakening

- Compare your business with your competitors' by drawing your “as is” strategy canvas.
- See where your strategy needs to change.

# Four steps of visualizing strategies

## 2. Visual exploration

- Go into the field to explore the six paths to creating blue oceans.
- Observe the distinctive advantages of alternative products and services.
- See which factors you should eliminate, create, or change.



# Four steps of visualizing strategies

## 3. Visual Strategy Fair

- Draw your “to be” strategy canvas based on insights from field observations.
- Get feedback on alternative strategy canvas from customers, competitors’ customers, and noncustomers.
- Use feedback to build the best “to be” future strategy.

# Four steps of visualizing strategies

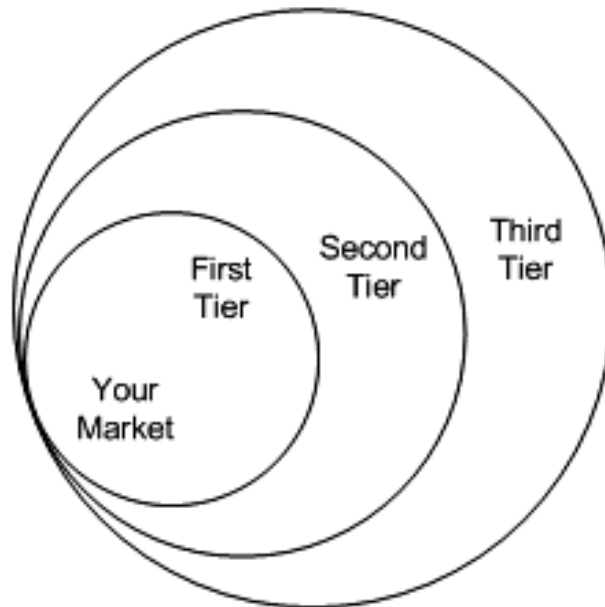
## 4. Visual communication

- **Distribute your before-an-after strategy profiles on one page for easy comparison.**
- **Support only those projects and operational moves that allow your company to close the gaps to actualize the new strategy.**



# Three Tiers of Noncustomers

## The Three Tiers of Noncustomers



First Tier: "Soon-to-be" noncustomers who are on the edge of your market, waiting to jump ship.

Second Tier: "Refusing" noncustomers who consciously choose against your market.

Third Tier: "Unexplored" noncustomers who are in the markets distant from yours.

Kilde: Kim, W.Chan & Renée Mauborgne: Blue Ocean Strategy. Harvard Business School Press, Boston, Massachusetts. 2005.

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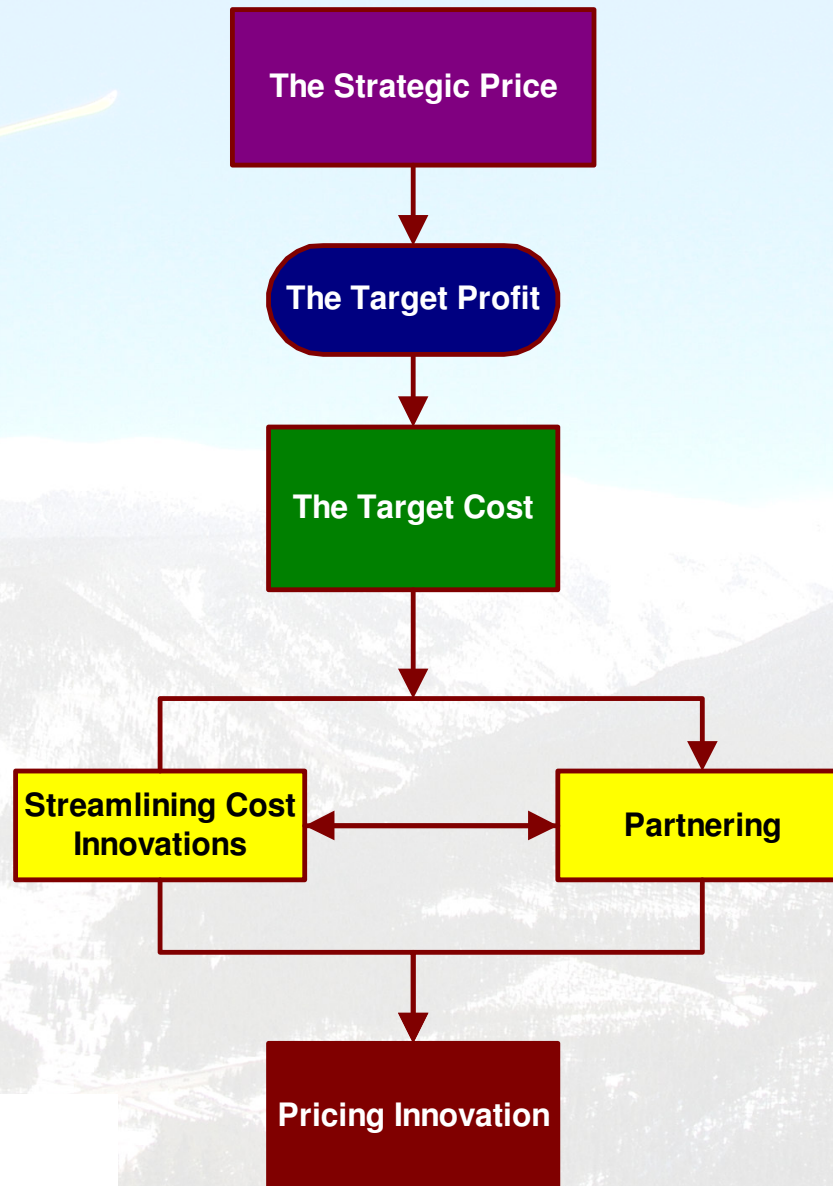
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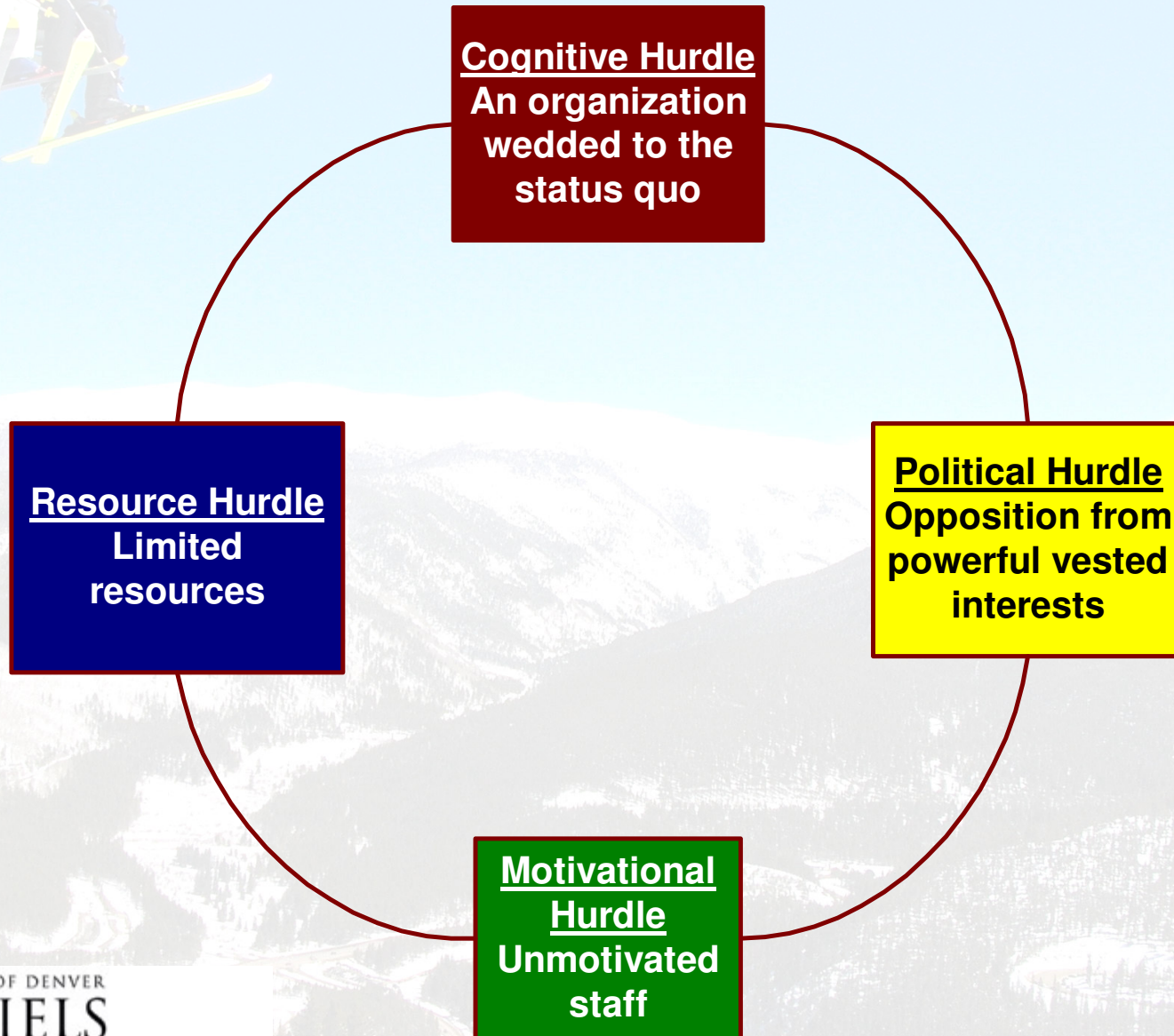
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# The Profit Model of Blue Ocean Strategy



# Organizational Hurdles to Execution





# Kotler on Marketing

*Every business is a service  
business. Does your service  
put a smile on the  
customer's face?*

