DISCIPLINE

#1

Coalesce

To bring together from disparate parts,
requires both the sciences and the arts.

In January 1922 at the Royal Theater in Madrid, Juan de la Cierva watched a performance of *Don Quixote*. During the performance, Cierva's attention was drawn to a windmill on stage. He observed that the blades of the windmill flapped slightly with each rotation because they were made of flexible slivers of palm-tree wood. Cierva had been working on flight machine prototypes with blades atop the fuselage, and he had run up against one big problem: The propeller blades rolled to the right during testing. His revelation during *Don Quixote* was that the prototypes featured blades that couldn't flap, limiting the aircraft to a slow forward hover, which caused the roll over. If instead the blades were made of material that allowed them to flap like the windmill, then the advancing blade could flap upward, providing some lift, while the retreating blade flapped downward, producing extra lift. Cierva's flash of insight would prove to be the key principle in the flight of all single-main-rotor helicopters today.[1]

Cierva's discovery captures the essence of insight. An insight is the combination of two or more pieces of information or data in a unique way that leads to the creation of new value. Strategic thinking, then, is the ability to generate insights that lead to competitive advantage. Using the lens of *new value* on the ideas, projects, initiatives, and tactics proposed each day provides a powerful filter for eliminating meaningless activities. It forces you to more closely examine *why* things are being proposed and pursued instead of just *what* is to be done.

Advanced strategic thinking requires not only the insights generated, but the ability to coalesce these insights into meaningful differentiated value. Coalesce means to bring together, and we see this skill evident in great strategies and the strategists who have devised them. Steve Jobs's coalescing of insights from the computer, music, and telecommunications industries provided Apple much more than a single product hit. It provided Apple with the means to fuse design, integration, and convenience into a profit-chomping platform of products wrapped in a premium brand.

Strategy is often described as the big picture. Remember back to the connect-the-dots pages of your youth. Black dots were distributed throughout a page, each next to a number. By tracing a pencil in numerical order over the dots, you would create a picture. The more dots you connected, the more fully the picture would emerge. Prior to developing a strategy, the insights (black dots) must be generated and then connected in a meaningful sequence. The result is a holistic view of the current business situation and the path to achieve one's goals and objectives. Moving forward, we'll examine a number of different concepts and tools to enhance your ability to coalesce insights into cogent strategy.

Patterns in Strategy

A pattern is "a reliable sample of traits, acts, tendencies, or other observable characteristics of a person, group, or institution" as well as "a discernable coherent system based on the intended interrelationship of component parts."[2] Meteorologists attempt to map weather patterns, Major League Baseball pitchers attempt to identify batters' hitting patterns, and chess players use patterns to understand their opponents' plan of attack. Many of the technological advances we take for granted today including magnetic resonance imaging (MRIs), speech recognition software, and DNA sequencing analysis are based on the principle of pattern recognition. Every day, we communicate using specific combinations of letters and sounds, or patterns, to get our messages across.

From a business perspective, intended and unintended patterns are all around us. An intended pattern may be the human resource department's hiring process that creates a company comprised of a consistent type of employee with certain experience and skill sets. An unintended pattern may emerge when your sales team offers an end-of-the-year discount in a last-ditch effort to hit their numbers. The unintended aspect of this pattern is that customers now hold their orders until the fourth quarter to receive the discount, which in turn delays cash flow and lowers your profit margins.

Strategy has been characterized as "... the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals. . . ."[3] This description makes practical sense as strategy is defined as *how* one goes about achieving their goals and objectives. The patterns of decisions your managers make regarding their strategic direction will ideally lead to the achievement of their goals and objectives. In his seminal 1971 book, *The Concept of Corporate Strategy*, former Harvard Business School professor Kenneth Andrews elaborates:

> *The pattern resulting from a series of strategic decisions will probably define the central character and image of the company. The pattern will permit the specification of particular objectives to be attained through a timed sequence of investment and implementation decisions and will govern directly the deployment or redeployment of resources to make these decisions effective.*[4]

As strategy involves the intelligent allocation of limited resources, it's imperative that positive patterns emerge in how those resources are allocated, and just as important, reallocated. A study of more than 200 large companies found that the *reallocation* of resources to faster-growing segments within a company's portfolio of businesses was the largest single driver of revenue growth.[5] Unfortunately, in many organizations the reallocation of resources generally happens only once a year, during the annual strategic planning process. Even then, how significant are the resource allocation shifts? While managers may tweak the tactics, the thoughtful redistribution of time, people, and budget from one initiative or area to another is rare. Examine your business plan from two years ago and compare it with this year's plan. How much difference is there between the two plans? If the answer is "not much," consider the results of another study on the effect of reallocation that demonstrates the potential size of this missed opportunity. McKinsey tracked firms' resource allocation over a 15-year period. They found that, regardless of the industry, the firms that reallocated the most resources (on average more than 50 percent of capital) across divisions produced shareholder returns that were about 30 percent higher than those companies that reallocated the least.[6]

For many managers, resources stuck in dead-end projects and unproductive tactics simply stay there until the next planning process rolls around. Sometimes it's politically dangerous to pull the plug on a lame-duck initiative, and sometimes it can be perceived that a mistake was made. No matter the cause, the strategic thinking trap of the sunk-cost effect—continuing to invest in a losing endeavor because resources have already been spent on it—can put an anvil around the effort to elevate thinking. The results can be damaging not only for companies, but also for their individual leaders. A study of CEOs with an average tenure of six years showed that those who reallocated resources the least during their first three years as CEO were much more likely to be fired in years four through six than those who reallocated more often.[7]

One clear indication of a lack of strategy is a random and patternless hodgepodge of decisions with no consistency in approach. Leaders who describe their strategic approach as *opportunistic* believe that every opportunity is considered a good one. These opportunistic leaders fail to create a disciplined pattern of focus on providing maximum value to the right type of customer. If you've ever felt like a bumper car bouncing randomly from one opportunity or project to the next with no real direction, then you understand the effect of a pattern-less approach to business. Advanced strategic thinkers recognize this pitfall and employ a pattern lens to their daily work. As Columbia Business School professor Rita McGrath notes, "Today's gifted strategists examine the data, certainly, but they also use advanced pattern recognition, direct observation and the interpretation of weak signals in the environment to set broad themes."[8]

Developing strong patterns of regular resource allocation should not be left to chance. As the research demonstrates, consistent patterns of productive allocation and reallocation are important barometers for long-term company and individual success. Andreas Kramvis, CEO of

Honeywell Performance Materials and Technologies, offers some practical guidelines:

> *To ensure that your organization is constantly reallocating resources from weak areas to promising ones, you need a systematic operating method. Most companies have a rhythm of meetings and performance reviews but spend much of their time looking in the rearview mirror: What was last month's performance? What was last year's performance? I believe you need to impose an operating mechanism that reallocates resources in real time and that educates your organization and instills core capabilities.*[9]

Inherent to identifying patterns in the marketplace and within the customer and competitor arenas is the ability to understand the current business context. While most managers focus their attention using a functional (e.g., marketing) or geographic (e.g., Northeast region) perspective, there's a need to look at the business from a holistic point of view if we're to spot relevant patterns. As patterns develop over time, it's important to be continually monitoring the business to detect their emergence. One method of pattern detection is to examine snapshots of the business at different points in time to identify combinations of activities or tendencies. To do so, a series of Contextual Radars can be created on a periodic basis and then examined for patterns.

Radar is a method of detecting objects and determining their positions, velocities, or other characteristics using high-frequency radio waves reflected from their surfaces. In a similar fashion, the Contextual Radar provides a visual snapshot of the four primary components of business: market, customers, competitors, and the company. At the center of the radar are any issues or activities that are at the core of changes in the business.

Figures 1.1 through 1.3 show highlights of the Contextual Radar completed for three consecutive quarters. It's the recording and review of events within the Contextual Radar framework over time that can then be mined for patterns.

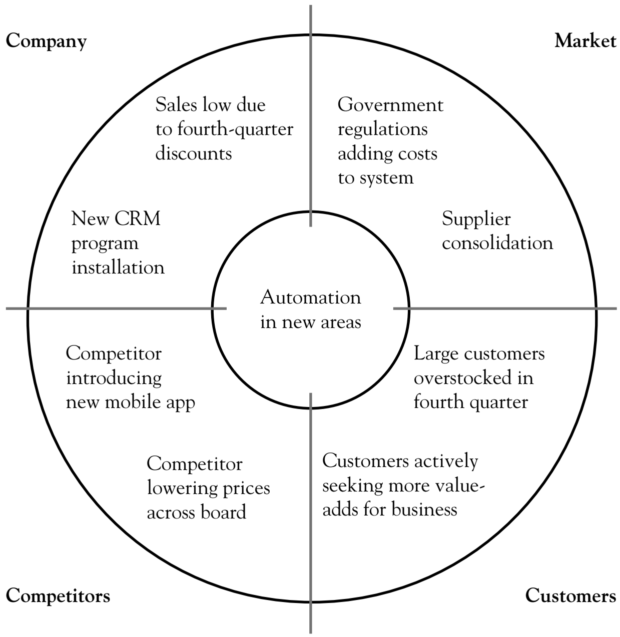

Figure 1.1 Contextual Radar—Q1

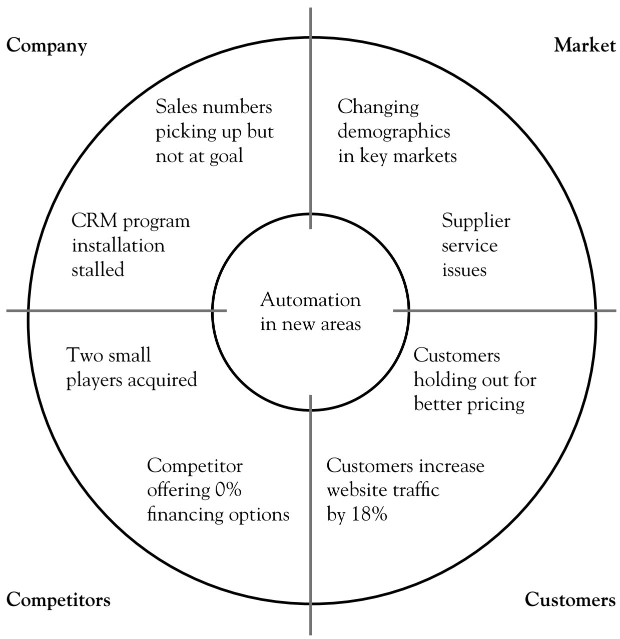

Figure 1.2 Contextual Radar—Q2

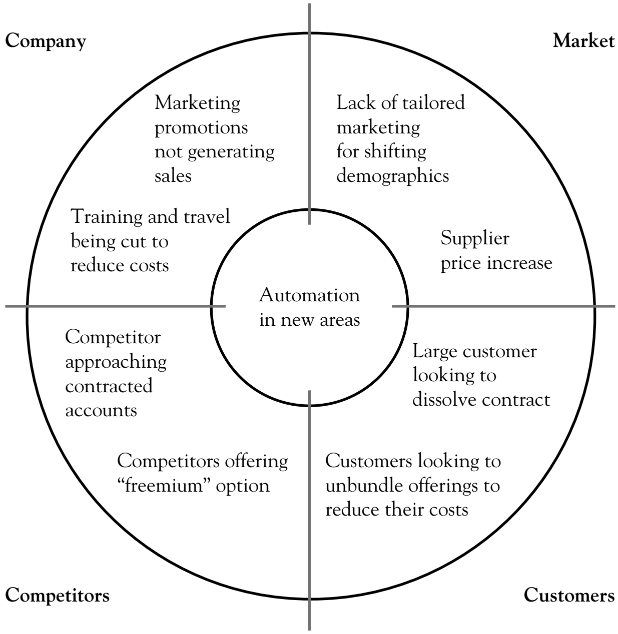

Figure 1.3 Contextual Radar—Q3

Table 1.1 Pattern Detector

Company	**Market**
Fourth-quarter discounts affecting sales throughout the year and conditioning customers to hold orders until that time.	Supplier consolidation reducing our profits.
Competitors	**Customers**
Competitor positioning at low end of the market through offerings, financing, and automation.	Competitors' activities causing customers to aggressively seek greater levels of value.

After reviewing the series of Contextual Radars, we can then look for and record patterns using the Pattern Detector, as seen in Table 1.1.

The Pattern Detector provides a forum for transforming business insights over time into meaningful patterns. Once the patterns are detected and described, thoughtful conversation around their meaning, impact, and warrant of resource allocation can occur. Without a device such as the Pattern Detector, reactivity becomes the primary modus operandi.

Systems

A strategist's ability to see the big picture involves not only the elements of the picture, but also how those elements are connected and what functions they serve. When these elements have connections and a purpose, we can refer to their whole as a system. The root of the word *system* comes from the Greek *synhistanai*, meaning "to place together."[10] As the first core skill of the advanced strategic thinker is to coalesce, or bring together, it's fitting that the concept of a system helps us do just that.

A soccer team is an example of a system. The elements are the players, coach, referee, ball, and field. The connections are the rules of soccer, teamwork, and tactical plan. The purpose may be one or more of the following: win the match, build fitness, enjoy oneself, and earn a living. One of the ways we know a soccer team is a system is because if we take away elements, connections, or purpose, the system is fundamentally changed. Remove the players or ball (elements), rules (connections), or score (purpose), and you no longer have a soccer game. As rules of thumb, if you cannot identify the elements, connections, or the effects they have upon each other, then they most likely do not form a system.

As scientist Donella Meadows explains, "A system is a set of things—people, cells, molecules—interconnected in such a way that they produce their own pattern of behavior over time. It's an interconnected set of elements that is coherently organized in a way that achieves something."[11] This description further builds on the concept of patterns described earlier. As a system develops, it generates patterns of behavior due to the connections between elements in an organized fashion. That's one of the reasons it's important to look at your business strategy as a system, involving your employees, customers, suppliers, competitors, and shareholders. Changes in any one of these elements or their connection (relationship) to others can fundamentally alter the course of your business. Strategic planning sessions that don't fully take into account the market, customers, competitors, and the company itself yield half-baked strategic plans that will crack under the pressure of changes in the system.

Understanding the systems that comprise your business is an important part of developing long-term strategy. Sound systems can lead to success, as Chipotle CEO Steve Ells noted, "Chipotle succeeds not because of the burritos. It works because of our system: fresh, local, sustainable ingredients, cooked with classic methods in an open kitchen where the customer can see everything, and served in a pleasing environment."[12] And a lack of systems thinking can lead to competitive disadvantage as Nokia CEO Stephen Elop lamented, "Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem."[13]

A useful exercise is to map out the system of the business. An Activity System Map provides a visual means of understanding the key elements and connections involved in mapping out a business strategy. It provides an elevated view of the business by capturing the strategy and activities, and the relationships between the two, on a single page. Designing an Activity System Map first requires the individual to step back and view the business from the high ground to better understand the strategic composition. It then drills down to assemble a conceptual framework, identifying the interrelationships and competencies of the key facets of the business. Once completed, the Activity System Map provides a clear and concise picture of the business, which enables leaders to more effectively set direction and allocate resources.

The Activity System Map consists of the strategic themes of the organization represented by large spheres, and the individual activities or tactics represented by small spheres. Between three and five strategic themes are appropriate to cover the primary hubs of strategy for a business. In addition to identifying the individual strategic themes and tactics, the Activity System Map highlights the strength of the relationships between the strategy and tactics. A solid line between two spheres indicates direct support and a dotted line indicates indirect support. Incorporating other elements such as suppliers, customers, and employees can add another dimension to the exercise. Based on secondary research, Figure 1.4 is a hypothetical example of an Activity System Map for Apple.

In this example, it is surmised that Apple's three strategic themes represented by the large spheres are design, integration, and convenience. These are the areas that would hypothetically receive a disproportionate amount of investment in order to drive the differentiated value of their offerings. Key activities and tactics (represented by the smaller spheres) such as the design of their own microprocessor chips, the Genius Bar, and the expansive virtual stores competently support their strategic themes. Summarizing the value of looking at your business with a system's lens is Harvard Business School professor Michael Porter: "Competitive advantage grows out of the *entire system* of activities. The fit among activities substantially reduces cost or increases differentiation. Beyond that, the competitive value of individual activities—or the associated skills, competencies, or resources—cannot be decoupled from the system or the strategy."[14]

Platforms

In the search for competitive advantage, many leaders have become fatigued by the hamster-wheel race to continually create new product and service features that are all too soon copied by the competition. They envy companies like Apple that design platforms, seemingly leap-frogging the head-to-head features battle that takes its toll on so many managers. While platforms may appear to be the panacea you've been searching for all along, they aren't an option for everyone.

To begin with, a platform requires the ability to look outside of your organization and see the potential for connections with others, often referred to as *complementors*. A platform is a foundation comprised of a product, service, technology, or system on which other complementary offerings can be built. Platforms serve to connect providers and consumers in ways that stand-alone offerings cannot.

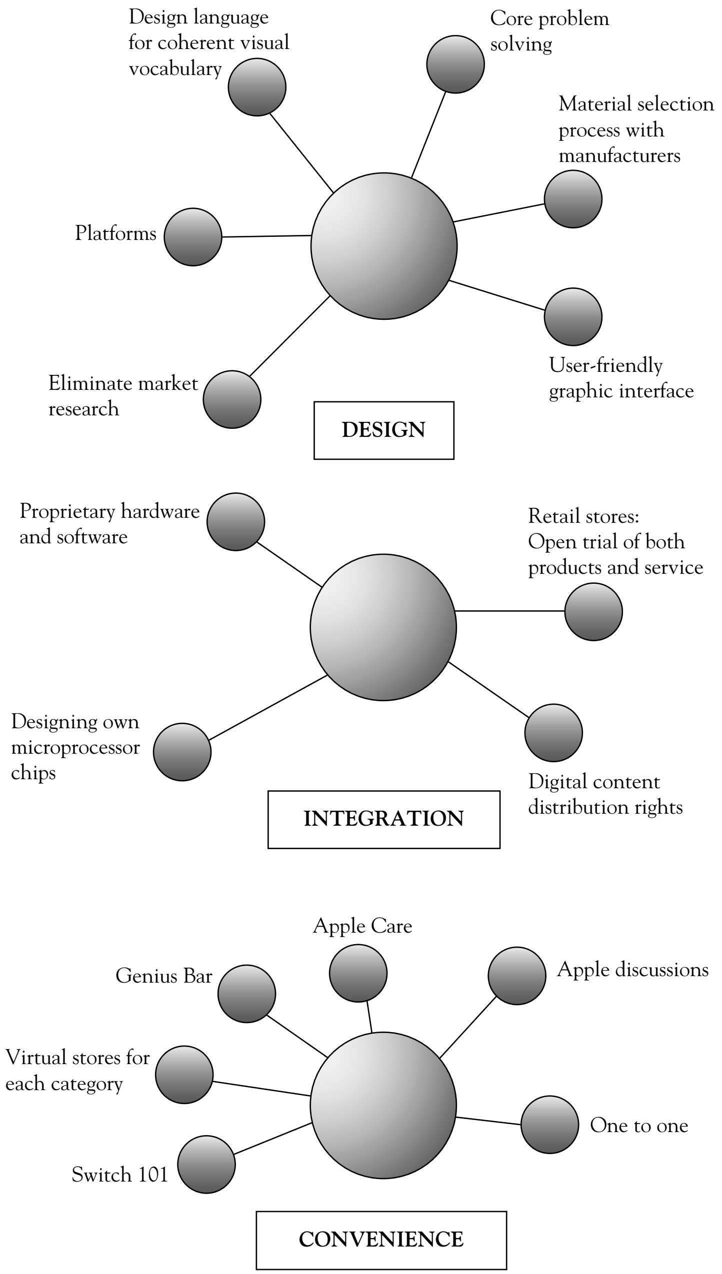

Figure 1.4 Hypothetical Activity System Map for Apple

To be considered a legitimate platform, the foundation is part of an evolving system and is not as valuable by itself. For instance, a video game console such as Xbox is considered a platform. It is part of an evolving system that includes gamers, software companies, and entertainment enterprises. Without the games or the players, it's not of much value by itself.

As far back as 2000, Apple founder Steve Jobs envisioned the Mac operating system as a digital hub for all of a user's content, including photos, video, music, and so on. The platform evolved into personal devices such as the iPod and iPad, and continues to transition as the digital hub moves to the cloud. Even a company not considered a pure technology firm, such as CVS, has used its retail outlets as platforms for a wide array of complementary offerings including basic healthcare (MinuteClinic), photography, and optical solutions.

The challenge facing platform providers is that they must engage both customers and the complementary offering developers in order for the platform to succeed. Returning to our example of the Xbox platform, on the one hand, if software game developers see gamers migrating to playing on their mobile devices, they may be less inclined to invest in developing games for the Xbox. With fewer quality games available for a device such as the Xbox, gamers would be further motivated to play on alternative devices such as phones or tablets, and a downward cycle would ensue. On the other hand, if gamers see the highest-quality, most engaging games being developed for the Xbox and not other platforms, then their loyalty to the Xbox platform would strengthen. As the number of users increases, the motivation for game developers to build for the platform also rises. These network effects, along with the high switching costs for gamers to move from one system to the next, act as a strategy shield for the platform provider.

A social network such as LinkedIn can also be described as a platform. First, it's part of an evolving system of workers moving from one job position or company to another. Second, without the numerous complementary offerings through partners such as Twitter, SlideShare, WordPress, and others, the value of LinkedIn would be greatly diminished. As LinkedIn co-founder Reid Hoffman said, "Social network platforms do best when they tap into one of the seven deadly sins. Facebook is ego. Zynga is sloth. LinkedIn is greed. With LinkedIn it's taking control of your economic destiny and improving how you operate as a professional and how you can develop a competitive advantage."[15]

Too often, a lack of differentiation in a company's core products or services is ignored or stubbornly dismissed until the firm becomes engulfed in full-fledged commoditization. Then the predictable product-line extension bandages are hastily stuck on the business, but do little to stem the flow of red ink. Research by professors Kim and Mauborgne found that 86 percent of business launches by companies were line extensions, but they generated only 39 percent of total profits. A mere 14 percent of launches consisted of newly differentiated offerings, yet these yielded a whopping 61 percent of total profits.[16] In a recent three-year study on innovation, only 13 percent of the world's leading consumer product companies were able to develop a breakthrough innovation. The authors of the study concluded, "The only thing keeping most big companies from creating new categories is their lack of imagination—their inability to see beyond what they're selling today."[17]

A rich source of platform innovation can come from the mental agility of leaders to move out of their strict mindset of providing either a product or a service, and instead look at the other category as an opportunity to develop their own complementors before outsiders do. Manufacturers exploring service complementors (Apple and their retail stores) or service providers exploring product complementors (Amazon.com and the Kindle) can reignite a company's growth.[18] In the automobile industry, increased cost/pricing transparency and hungry competitors have whittled away at profits. A number of auto manufacturers have worked to build on their platforms with services such as financing, insurance, warranties, maintenance, repair, Wi-Fi, navigation, and satellite radio. Their ability to enhance the service experience of an automobile may hold the key to growing profits in the long run.[19] Table 1.2 provides examples of platform complementors for different businesses.

Table 1.2 Platform Chain

Company	Customer	Need	Primary Offerings	Next-Layer Needs	Comple-mentors
Apple	Baby boomers	Mobile computing	iPad, Mac	Personalized instruction	Own retail store
Amazon	Business travelers	Business knowledge	Online store	Convenient format	Kindle reader
Taco Bell	Teenagers	Hunger	Tacos	Unique taste	Doritos-flavored shells
LinkedIn	Job seekers	Optimal employment	Professional networks	Knowledge enhancement	Business content

How does one determine if their business is or could be platform-based? The following Platform Chain exercise can begin to clarify if your business is a candidate for platform development:

1. Identify your key customer segments.
2. Determine the main need currently fulfilled for these customers.
3. Record the primary offerings (products, services) that meet this need.
4. Uncover the next-layer needs this customer group has within this area.
5. Create solutions to satisfy these additional needs (complementors). Litmus test: without these complementors, the product/service is of lesser value.

Establishing connections between the columns demonstrates there's opportunity to leverage a platform. If no platform currently exists, in what ways can the Platform Chain be modified to create one? If you're

Table 1.3 Platform Chain: Netflix Example

Customer	Need	Primary Offerings	Next-Layer Needs	Potential Complementors
20- to 30-year-old males	Convenient entertainment	DVDs, streaming	Variety and binge-viewing	Original content delivered in its entirety

a manufacturer, what services could be complementary to your products? If you're a service provider, what products could be complementary to your services?

Table 1.3 shows the Platform Chain being applied for Netflix.

Business Model

> *The holy grail of strategic thinking is, how do you come up with a business model that differentiates you and that creates value for your customers and by doing that, puts you in a unique position in your industry?*
>
> —Sam Palmisano, former chairman and CEO, IBM

At the foundation of a company is the business model. A business model is a structural description of how the organization creates, delivers, and captures value.[20] While the business model receives the white-hot spotlight of attention during a company's start-up phase, it is generally ignored and overlooked once the organization is launched. Attention then turns to sales and budgets, with little ongoing regard for the company's foundational construct. However, those companies that continue to develop and innovate their business models have shown to outperform industry peers by nearly 7 percent in total return to shareholders over a three-year period.[21] As *Fortune* magazine editor Geoff Colvin wrote, "Business-model innovation is the new essential competency. It's hard. It will separate tomorrow's winners from the losers."[22]

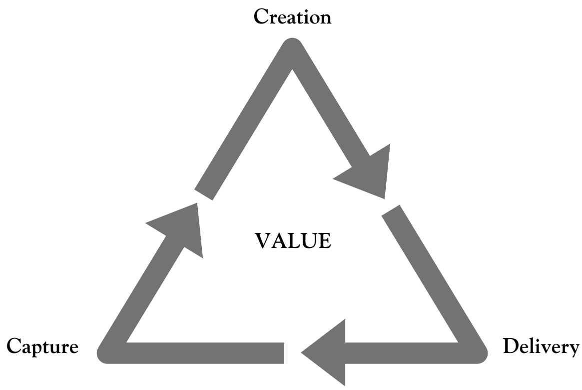

Figure 1.5 Business Model

If a company is functioning reasonably well, then it has a business model. The question becomes: How optimized is the business model for peak performance? Dysfunctional companies can often trace the cause of their troubles to cracks in the business model. As the definition of the business model centers on the creation, delivery, and capture of value, it is critical that these principal elements are fully explored and understood by leaders. (See Figure 1.5.)

Phase I of the Business Model: Value Creation

At the foundation of an organization's ability to create value are core competencies and capabilities. The terms *core competencies* and *capabilities* are often used interchangeably, which is both confusing and incorrect. A core competency is defined as a primary area of expertise. Popularized by authors Gary Hamel and C. K. Prahalad, a core competency represents the collective learning of an organization that brings together knowledge, skills, and technology, resulting in the ability to execute a value-producing process at a world-class level.[23] Simply put, a core competency is *what you know*. Common examples of core competencies include Honda's engine design and development, McDonald's food delivery system, and Canon's optics and imaging expertise. Keep in mind that a core competency isn't just something that you know pretty well; it's competitively important knowledge embedded in an organization that results in the ability to develop and execute to a world-class standard. To determine your company's core competencies, dig into the following three questions.

1. What are the areas of knowledge and skills your group possesses?
2. Are any of these areas currently best in industry?
3. Which of these areas produce the greatest differentiated value for customers?

Once the core competency or competencies have been identified, the capabilities can be established to deliver the value identified in the value proposition created in phase I of the business model. A capability is an organization's potential for using its resources to carry out specific activities to create value. Capabilities refer to the competitively relevant activities performed with key resources. They are the purposeful configuration of resources through activities designed to drive your strategy's success. Simply put, capabilities are *what you do*.

Common examples of capabilities include Walmart point-of-sales data analytics, eBay's alignment between software developers and marketers, and General Mills's brand management. When attempting to identify capabilities, it's easy to fall into the trap of recording a laundry list of things you do. Keep in mind that capabilities are the competitively relevant activities—the ones that use resources in a way that creates differentiated value for internal or external customers. To determine your organization's capabilities, start by asking the following three questions.

1. What are your group's top three capabilities?
2. What evidence supports these as being comprised of competitively relevant resources and activities?
3. What are the top three capabilities of your most dangerous competitor?

Once the core competencies and capabilities are identified, they can be used in the service of customers as articulated in the value proposition. The value proposition describes the rationale behind why customers would choose this particular offering over others. While the value proposition would appear to be an obvious given for the leaders of any organization, the research shows it's not. As authors Kaplan and Norton write, "In our research, we have found that although a clear definition of the value proposition is the single most important step in developing a strategy, approximately three-quarters of executive teams do not have consensus about this basic information."[24]

The value proposition can be broken down into four pieces:

1. Who: Customer to be served
2. What: Need to be met or job to be done
3. How: Approach to satisfy need or fulfill job
4. Benefit: Customer's advantage of using the offering

The value proposition begins with a specific customer segment and their unmet need—the job to be done. Authors Johnson, Christensen, and Kagermann have identified four barriers that prevent people from getting jobs completed: insufficient wealth, access, skill, and time.[25] Starting with these barriers for jobs to be done can immediately open up the range of possible solutions that can fulfill an unmet need. This job/need mindset also factors in non-traditional competitors or substitutes—solutions that are different but can fulfill the same function. For instance, beginning with a job to be done like cleaning a floor can provide innovative options ranging from the Dyson vacuum to a Swiffer to the Roomba cleaning robot. The value proposition for a Dyson vacuum might look like this:

Dyson serves middle-class and affluent customers with highly effective dirt removal from carpeted or non-carpeted floors by using bagless vacuum cleaners with cyclone technology in a stylish, see-through design, resulting in less time needed to clean.

In this example, we see the elements of the value proposition clearly identified using the following framework:

Dyson serves middle-class and affluent customers with highly
Company ***Who***

effective dirt removal from carpeted or non-carpeted floors by
What

using bag-less vacuum cleaners with cyclone technology in a
How

stylish, see-through design resulting in less time needed to clean.
Benefit

In developing the elements of the value proposition for your offering, consider the following criteria:

1. **Customer:** The adage, "You can't be all things to all people" applies here. All potential customers are not your target customers. Your target customer is the group that finds the most value in your offering and provides you with the best economic return. Amazon.com CEO Jeff Bezos describes the importance of focusing on the customer, "We innovate by starting with the customer and working backwards. That becomes the touchstone for how we invent."[26] Strategist Keniche Ohmae echoes Bezos' sentiments when he writes, "Before you test yourself against the competition, your strategy takes shape in the determination to create value for customers."[27]
2. **Need/Job:** Giving careful consideration to the customer's unmet need or the job to be done forces you to shed the internally focused product/service mentality and concentrate on providing new or unique value. Using a customer's needs as the driver for evolving your offering challenges the status-quo approach that lulls so many leaders into complacency. As former Harvard Business School professor Theodore Levitt writes, "Customers attach value to a product in proportion to its perceived ability to help solve their problems or meet their needs."[28]

3. **Approach:** The approach signals to customers how your offering will provide value that other potential choices will not. It captures the method for delivering differentiated value that moves your offering to a unique position in the market. In short, the approach is your strategic direction, since it shows how you will allocate your resources to provide differentiated value to customers. Dyson offers his perspective on approach, "The root principle was to do things your way. It didn't matter how other people did it. And so I have sought out originality for its own sake, and modified it into a philosophy which demands difference from what exists even if only to redefine a stale market."[29]
4. **Benefit:** While it may seem obvious, it's important to include the benefit of using the offering. What is the resulting customer advantage of using your offering versus other offerings for the need/job at hand? Benefits generally fall into three categories: quality (more effective); convenience (saves time); and cost (saves money). A leader needs to be able to clearly articulate which of these benefits the offering provides and quantify it if possible in terms of efficacy, time, or money. As Washington University professor Todd Zenger writes, "Essentially, a leader's most vexing strategic challenge is not how to obtain or sustain competitive advantage—which has been the field of strategy's primary focus—but, rather, how to keep finding new, unexpected ways to create value."[30]

Phase II of the Business Model: Value Delivery

At its core, a business is a value delivery system. Once you've decided how to create value as described in the value proposition, you must then determine how to go about delivering that value. The deliver phase of the business model begins with the value chain, a useful tool in visualizing how an organization delivers value to its customers. While the value proposition takes an external view of value from the customer's perspective, the value chain takes the internal organizational view. It graphically describes the business unit or group's configuration of capabilities (resources and activities) to design, produce, market, sell, and service offerings for customers. Introduced by Harvard Business School professor Michael Porter in his book *Competitive Advantage*, he writes, "The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors."[31]

Once the core competencies, capabilities, and value proposition have been crystallized, the value chain can be created to show how they will be employed in delivering value to customers. The value chain describes *how you do it*. It visually shows the sequence of activities that transform inputs such as raw materials and resources into the outputs that comprise the offerings to customers. The disaggregation of value by activity also serves to shine light on the areas most responsible for contributing to the differentiated value of the offering. In markets where competitors have similar capabilities, advantage can sometimes be had by altering the configuration of activities in the value chain. While competitors can more readily copy surface elements of your business including features and attributes, it is much more challenging for them to mimic all of your activities in their specified order that deliver value to customers.

Figure 1.6 provides a general value chain for the executive education industry. The five primary value-chain activities are creation, design, marketing, delivery, and support. Three examples are provided to highlight the different approaches to providing executives with business education. The examples demonstrate the various ways to configure activities in order to provide a certain type of value to a particular customer segment. The offerings range from customized content delivered in-person to intact teams to more general content delivered virtually to individuals.

The different approaches will appeal to different customers based on their specific needs and budget. One approach is not inherently better than the others. They each offer a different mix of value. Some executives may prefer learning content with their intact team at their

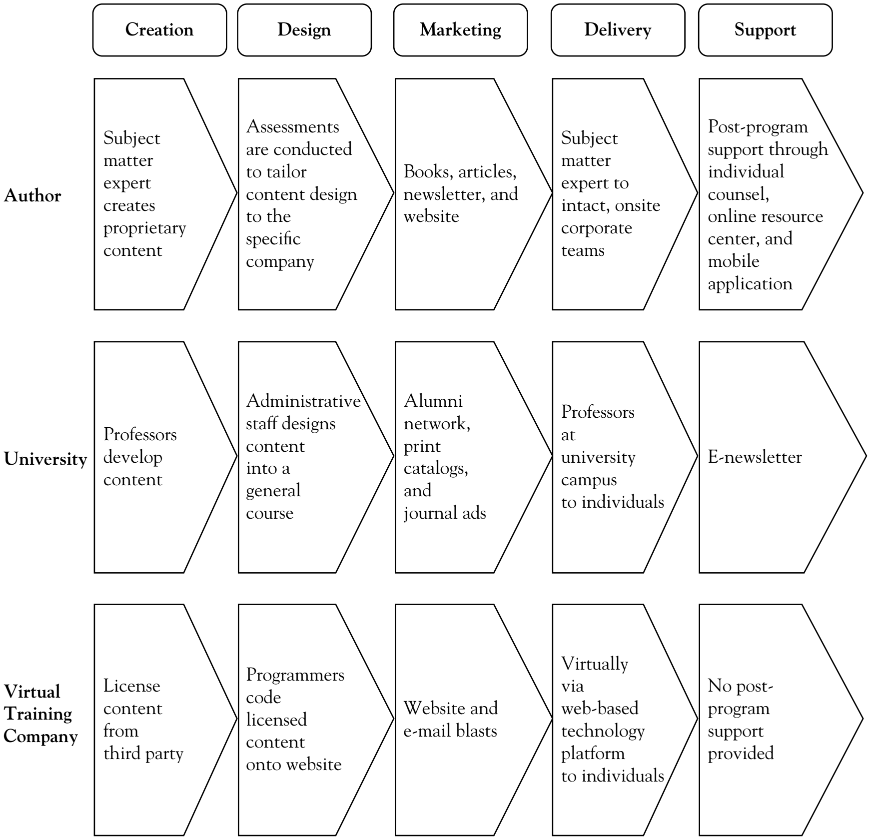

Figure 1.6 Value Chain

company headquarters to speed up the practical application of knowledge and skills to their current business issues. Other executives might prefer working alongside managers from other industries to stimulate new thinking while enjoying the prestige of a highly recognized business school. Still others may prefer learning online at their own pace for a fraction of the cost of the other two options. Working through the value-chain exercise for your business will ensure that the chosen approach is optimal based on your core competency and capabilities relative to the needs of the target market.

The final aspect of the delivery phase of a business model is the channel. The channel is the access point for customers to obtain your offerings. It represents the conduit between your offering and the user. The channel is *where you offer it*. Effective channel selection means customers have the opportunity to see and purchase your offerings. Poor channel selection may mean potential customers never see—and therefore never purchase—your offerings. There's a rich history of superior products and services that disappeared into the Bermuda Triangle of business because of the inability to manage the channel.

One such example is the Michelin PAX System. Unlike traditional tires, which become useless in the event of a puncture, the revolutionary PAX run-flat tire can be driven flat for 125 miles at speeds of 55 mph. When Michelin began developing the tire in 1992, it believed that this innovation would be as big a win as the introduction of the radial tire 50 years earlier. The company spent years and untold riches developing the tire, which it trademarked under the PAX label.

However, when the tire was finally introduced in 1997, consumers couldn't buy it. The tires connect to a vehicle's electronic system, so they could be used only in vehicles designed to accommodate them. Since electronics are added in when new cars are designed, Michelin had to wait until a willing manufacturer's design window opened. At the time, an average auto manufacturer took three to four years to move a car from design to volume production. So, even if the tire was fortunate enough to be designed into a car model that enjoys market success, Michelin's best case was that volume sales would begin three to four years after the tire was introduced. As it happened, even the few willing auto manufacturers with whom Michelin coordinated design cycles initially offered it as an option on only a very limited set of models.

Michelin needed to consider other intermediaries in the channel configuration as well, all of whom needed to buy into the concept before end customers could weigh in with their purchase decisions. Specifically, repair shops would need to invest in new equipment and training, and dealers would need to understand and support the PAX system. More than a decade after its introduction, Michelin's PAX system tires were standard equipment on only a handful of car models sold in the mid-2000s.

Although the run-flat tire hasn't taken off in the commercial channel, it did meet with success in the defense market, where it is used as a substitute for track treads in vehicles such as the U.S. Army's Stryker troop carrier. With fewer intermediaries, more concentrated buyers, and greater perceived benefit, the military channel was a better fit, at least in the short run. The example serves as a reminder that failure in one channel is not necessarily a death knell, but can also be a wake-up call.

The potential channels for your offerings include both direct (e.g., internet, sales force, retail outlet) and indirect (e.g., manufacturer's representatives, wholesalers, outside retail stores) options. Determining the appropriate channel mix should take into account the current level of customer awareness for the offerings, internal capabilities, volume sales goals, requisite profit margins, and the threshold level of support and service desired. Use these three questions to get started:

1. What are the pros and cons of direct versus indirect channels for your offerings?
2. Which channels provide you with the greatest combination of access to target customers and profit margin?
3. How can your core competencies and capabilities be used to optimize these channels?

Phase III of the Business Model: Value Capture

The litmus test of a sound business model is its ability to deliver customer value profitably. The third phase of the business model asks how you will capture the value generated by your offerings. A good idea unsupported by a financial formula for success remains nothing more than a good idea. The capture phase requires a firm understanding of the economic underpinnings of the offerings provided to customers to ensure sufficient cash flow and profit will fuel the business into the future.

There are four ingredients to consider when establishing how you will capture the value generated from your offering:

1. Price: The amount customers pay for the offering
2. Revenue: Price multiplied by volume sold
3. Cost: Expenditure of resources to provide offering
4. Profit: Revenue minus cost

These four elements can be calculated for older offerings in mature markets as well as new offerings in emerging markets. The price can be identified in both quantitative and relative terms. A number alone, say $100, is insufficient for understanding how that price will position our offering versus the competition. Does the $100 price point represent a premium position in the market, a moderate position, or a discount relative to competitors? Therefore, it's helpful to identify price in both quantitative (e.g., $100) and relative (e.g., premium) terms.

When it comes to revenue, price is multiplied by the expected volume (e.g., number of customers, units per customer per transaction, transactions per customer) to determine the amount of money to be made from the offering. While an *asset sale*, such as a bicycle purchase, may be the most common form of revenue, there are now many additional ways to generate revenue.[32] The following are examples of how major corporations generate revenue:

- Bill Gates built Microsoft's software fortune through *licensing*.
- Enterprise Rent-A-Car became an industry giant by *renting* cars primarily in community settings.
- The *Wall Street Journal* has continued to produce revenue through both print and online *subscriptions*.
- FedEx has garnered a large share of shipping revenues through *usage fees* for the delivery of packages from point A to point B.
- Google has used *advertising* as a primary revenue stream at the foundation of their business.
- Financial investment firms like Charles Schwab have built vast sums of wealth by connecting investors with financial products through intermediary services charging *brokerage fees*.

With a variety of options at a leader's disposal, a company's success can be greatly enhanced or stymied by their choice of revenue stream.

It seems that the first place leaders turn to when a business model isn't working is to the cost component. Costs are described in many different ways, including fixed, variable, direct, indirect, and sunk, depending on the structure in place. While cutting costs is a common reflexive response when a business is not generating sufficient profit, it may only provide short-term relief at the expense of long-term growth. The key is a solid understanding of the costs involved in providing the offering and how they contribute to the value being produced.

In the previous discussion of the value chain, once the activities have been identified and arranged in order of use, costs can be assigned to each. This exercise helps to establish a clear view of both the benefit and the cost of each activity in the value chain so a leader can ensure any cost reductions are not jeopardizing the important value-generating activities. For a professional services firm providing accounting software solutions, cutting costs in research and development activities may lead to short-term profit but a long-term loss of valuable intellectual property. However, an industrial supplier of construction materials able to reduce costs in their manufacturing processes can boost margins, and potentially pass along some of the cost savings to customers in the form of lower prices.

The final element of the capture phase is profit. Research by UCLA business professor Richard Rumelt showed that the number-one factor in a business unit's profitability was its choice of strategy.[33] While we've covered price, revenue, and costs—the components of profit—it's still important to isolate and study profit. As professor Paul Rubin writes:

> *Profit maximization is good because it leads directly to maximum benefits for consumers. Profits provide the incentive for firms to do what consumers want. . . . What if a business does not maximize profits? Then it is either not making the products that consumers want the most, or it is not producing its products at the lowest cost. In either case, consumers are harmed.*[34]

A long list of companies have been lured into the rocks of bankruptcy by the siren song of growth for growth's sake. In fact, growth at the expense of profit can lead to a colossal collapse. A five-year study of 600 companies showed that less than half the companies with annual revenue growth rates of 5 percent or more also attained increasing operating margins. In fact, more than 20 percent experienced an absolute decline in profits. As the researchers concluded, "While revenue growth must be part of any strategy to enhance profitability and shareholder value, it's not sufficient in itself."[35]

When it comes to generating profit, you have two primary levers: revenue and costs. You can increase revenue through greater volume, higher prices, or lower costs. Which lever you pull will be determined by a number of factors including the context of the business, competitive landscape, core competencies, and capabilities to name just a few. But recent research by Michael Raynor and Mumtaz Ahmed on business performance shows the revenue lever may be more effective than the cost lever. They concluded:

> *. . . by an overwhelming margin, exceptional companies generate superior profits through higher revenue than their rivals, with higher prices more popular than higher volume . . . the highest-performing companies tended to rely more on higher gross margins than on lower cost as a source of performance advantage, suggesting a better before cheaper bias.*[36]

To summarize, the three phases of a business model can be described as follows:

Phase I: Value Creation

Core competency: Primary area of expertise (what you know)

Capabilities: Activities performed with key resources (what you do)

Value proposition: Rationale for the offering (customer, need/job, approach, benefit)

Phase II: Value Delivery

Value chain: Configuration of capabilities to provide value (how you do it)

Channels: Customer access points for offerings (where you offer it)

Phase III: Value Capture

Price: Amount customers pay for the offering

Revenue: Price multiplied by volume sold

Cost: Expenditure of resources to provide offering

Profit: Revenues minus costs

Profitable Growth

The point of coalescing insights into strategic direction is to generate profitable growth. Ford Motor Company President and CEO Alan Mulally realized that was his charge when he took over the leadership reigns at Ford in 2006 as it posted a $12.6 billion loss. Implementing his One Ford Plan, he has steadily driven the American auto manufacturer back into profitability. Mulally explains, "Business is about profitable growth and creating value. So everything, every input that you get, the filter that it goes through is, what's the plan to profitably grow the business?"[37] Starbuck's CEO Howard Schultz echoes this approach when he says, "When you look at growth as a strategy, it becomes somewhat seductive, addictive. But growth should not be—and is not—a strategy . . . as we return the company to growth, it'll be disciplined, profitable growth for the right reasons—a different kind of growth."[38]

Building pipelines of continuous, profitable growth is the lifeblood of any business. Therefore, it's important to understand the potential levers for growth as well as the pitfalls that can stall it. Research was conducted on 500 companies to better understand what causes successful organizations to stop growing and struggle financially for extended periods of time. The study found that 87 percent of stall points, a term for the start of a prolonged financial decline, are caused by factors that are within management's control. A staggering 70 percent of these stall factors result from choices about strategy. The effects of these stall points can be devastating. The researchers reported that, "On average, companies lose 74 percent of their market capitalization as measured against the S&P 500 index in the decade surrounding a growth stall."[39]

As the results show, your ability to craft, communicate, and execute sound strategy will determine the firm's financial results. It's one thing to ask a manager to reduce costs by 15 percent. She will readily come up with a laundry list of ways to reduce costs. It's an entirely different thing to ask a manager to profitably grow the business 15 percent. She will most likely be stumped or trot out the same old line-up of tired tactics. When senior leaders are tasked with growing a business, many quickly turn to the acquisition of other companies. Mergers and acquisitions capture many of the headlines in business publications, but do they capture profitable growth? While some companies have become experts at identifying M&A candidates and then successfully blending the new business into the existing one, it's not necessarily the norm. Multiple studies over the past 20 years have shown that the majority of acquisitions actually destroy their own shareholder's value.[40]

To spur your thinking on organic growth, it's helpful to have an understanding of the range of potential pathways to increase profits. A tool I've developed to help leaders explore their growth options is the Strategy Spectrum. The Strategy Spectrum visually lays out the full gamut of levers for creating new value for customers that can stimulate profitable growth. There are six levers that comprise the Strategy Spectrum:

1. **What:** Offerings (products/services)
2. **Who:** Potential target customers
3. **Why:** Customer need or job fulfilled
4. **Where:** Channels to access offerings
5. **When:** Time of access to offerings
6. **How:** Activities

Beginning with the current business model, items are placed into each column representing the business as it operates today. Then new items borrowed from other companies and industries are used to complete the columns. The key is to play with combinations from the various columns to generate new ways to profitably grow the business. Table 1.4 is an example of the Strategy Spectrum as it might be applied by a financial services firm.

Playing with the elements from the different columns, one combination would be to provide financial education to teenagers at high schools during lunch to educate them on finances using a mobile app. Another example might have the firm offer debt reduction to trade laborers using mobile units at job sites to provide financial relief via videos.

The Strategy Spectrum offers a graphical way to explore the range of options available in stimulating profitable growth for a business. As you develop the Strategy Spectrum, it's helpful to pull in people from various functional areas and outside the company to offer different frames of reference and a greater variety of menu items. If your company primarily provides products or hard goods, consider what types of complementary services could help them more effectively or efficiently complete their jobs to be done (e.g., truck manufacturer offering maintenance and logistics services). In the same token, if your company is a service provider, think about the services your customers need with the products to fulfill their needs (e.g., internet search engine selling mobile phones) and populate the Strategy Spectrum with those ideas as well.

Another tool for exploring new ways to profitably grow is the Value Mining Matrix. The Value Mining Matrix considers customers and the jobs they need fulfilled. As you'll recall, these are two of the primary elements of the value proposition discussed earlier. In this exercise, customers and jobs are used to catalyze thinking on methods for creating new value. Customers are thought of as current, those you're actively marketing to, selling to, serving, or supporting today. Or, customers are thought of as potential, meaning groups or types of customers you're not actively marketing to, selling to, serving or supporting

Table 1.4 Strategy Spectrum

What	Who	Where	When	Why	How
Investment	Business people	Colleges	At night	Education	Kiosk
Insurance	Teens	Airport	Weekends	Advice	Offices
Estate planning	Trade laborers	Retirement communities	Graduations	Financial relief	Mobile app
Financial education	Retirees	High school	Lunch	Wealth creation	Videos
Debt reduction	Kids	Mobile units	At work	Business growth	One-to-one meeting
Real estate	Travelers	Mega churches	During school	Investment opportunity	Group seminars
Business planning	College students	Big box stores	While traveling	Security	TV

today. These potential customers may be influencers, decision makers, or end users that may find value in what you're able to provide.

The job axis views customer jobs that need to be fulfilled as either existing today (current needs) or emerging. Emerging jobs would consist of future needs that customers would find value in having fulfilled by your organization. The jobs to be done may not be identified, talked about or even noticed by your customers, but often manifest themselves as the problems, pains, or challenges they face. While "Voice of the Customer" programs are helpful in gaining a deeper understanding of their reactions to current offerings, they may not elicit the deeper insights about their real needs. These deeper insights can often be gleaned by simply observing your customers in their day-to-day activities and noting the issues, problems, and challenges that arise. Creating a list of their "jobs to be done" is an effective way to begin the Value Mining process. Figure 1.7 is the Value Mining Matrix with an example in each quadrant.

Starting in the lower-left quadrant, an example of a company finding new profitable growth by fulfilling an existing need for current customers is CVS Caremark's MinuteClinic. Their current customer

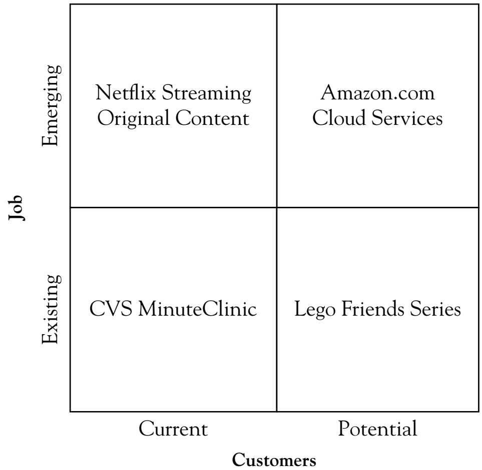

Figure 1.7 Value Mining Matrix

base had a need for an existing service, which was quick, convenient care for non-emergency medical conditions. This job was not being fulfilled adequately by physicians, who require appointments that are often not convenient or soon enough for patients. By offering the MinuteClinics in their store locations, CVS Caremark was able to drive profitable growth by serving current customers with an existing job to be done (quick, convenient medical care).

In the lower-right quadrant, new profitable growth comes from potential customers with an existing need to be filled. The example here is from Lego, the manufacturer of plastic bricks in sets of branded series. Lego was able to tap into the existing need for an entertaining toy that helps to promote children's spatial skills. The company chose to focus on young girls, who had been less engaged with the brand than boys. The Lego Friends series provides young girls with the opportunity to build, socialize, and create with female characters in settings such as horse stables and campgrounds.

In the upper-left quadrant, Netflix provide an example of a company generating growth by serving current customers with an emerging need that was previously unfilled. The need was to find new television programs that can be consumed in a binge format instead of waiting a week to watch the next episode. The convenience of being able to stream the original content on different devices provides current customers of Netflix with both new content and new access to entertainment.

Finally, in the upper-right quadrant, Amazon.com's cloud services has tapped into potential customers with the emerging unfulfilled need of hosting content in a conveniently accessed medium. By providing on-demand computer services via the cloud to other businesses ranging from Netflix to NASA, Amazon.com has generated profitable growth by helping new customers get a job done.

Too often, ideas for growth are seen from a product point-of-view, instead of a need or job to be fulfilled perspective. The Value Mining Matrix shifts your focus to both current and potential customers and existing and emerging jobs to be done can offer new avenues for profitable growth. As ideas fill the four quadrants, it will become apparent that they may require different time frames to bring to market. Once you've generated the ideas, you can begin to place them into one of three time horizons.[41] Horizon 1 consists of ideas to grow the business during the next year as you extend and defend your current business. Horizon 2 is comprised of ideas to generate profitable growth in the next two to three years by changing an element or elements of your business model. Horizon 3 includes ideas for growth beyond three years that may require new capabilities or a new business model to carry the organization into the future.

Growth Horizons

Horizon 1: First year; extend and defend current business.

Horizon 2: Years two and three; modify parts of the business model.

Horizon 3: After three years; consider new business model.

Strategy and Innovation

Strategy and innovation are often shown to be two primary contributors to sustained financial excellence and competitive advantage. The common denominator for both strategy and innovation is insight. An insight is described as the joining together of two or more pieces of information or data in a unique way to come up with a new approach, new product, new service, or new solution that delivers value. Insights come from the ability to wade through the waves of input we receive each day and mentally connect the dots in new and creative ways. As Apple founder Steve Jobs remarked, "Creativity is just connecting things."[42]

Prolific inventor James Dyson built his billion-dollar business through insights on what frustrated people. His first significant invention—the Ballbarrow—was a wheelbarrow that used a ball instead of a wheel. This insight came from the frustration people had with the wheels getting stuck in the mud and rendered useless. Dyson recounted how insight also fueled the birth of his famous vacuum:

Sometimes you see a bit of technology working in one application and you wonder whether that might solve the problem that's been gnawing

> *at your brain. That's how the vacuum cleaner worked. I went to a lumberyard one day to buy some tinder and saw these massive 30-foot high cyclones collecting the sawdust on top of the roof. So I rushed home and started building small cyclones.*[43]

Innovation, defined most simply as creating new value for customers, begins with an insight. The insight often centers on a solution to a problem or way to fulfill an unmet need of a customer. To create new value, you need this insight. Business strategy is defined as the intelligent allocation of limited resources through a unique system of activity to outperform the competition in serving customers. The only way to truly intelligently allocate resources is to have strong insight into how your product or service provides value to customers in ways that are different than competitive offerings. Doing the same things in the same way as the competition is a common formula for bankruptcy.

If the value is new, then it's likely to be different from current offerings. As James Dyson said when he seized leadership of the upright vacuum market from Hoover with his cyclone technology, "And so I have sought originality for its own sake, and modified it into a philosophy which demands difference from what exists if only to redefine a stale market."[44] The intent then of both business strategy and innovation is to create value for customers. Too often, in the day-to-day competitive battles and the weeds of the business, we lose sight of the fact that competitive advantage is nothing more than "creating superior value for customers." Innovation is the continual hunt for new value; strategy is ensuring that we configure our resources in the best way possible to deliver that value.

Types of Innovation

The goal of creating new value is something that many managers aspire to and few truly achieve. Prior to attempting to create new value, it's wise to understand how the new value will enhance the position of your business. When a leader embarks on innovation efforts, there are four potential outcomes:

1. Differentiation: providing a distinct offering that leads to new profits
2. Neutralization: eliminating a gap in offerings or performance relative to the competition and market standards
3. Productivity: increasing efficiency or efficacy of processes in order to reduce costs
4. Waste: efforts that don't result in the first three outcomes and miss the mark of providing new value at an acceptable cost[45]

Obviously, no one is seeking waste, the fourth potential outcome of innovation efforts. The key to avoiding wasted innovation efforts is to understand the strategic context the business is in and select the type of innovation initiatives that have the greatest likelihood of economic value at that point in the category's evolution. As Harvard Business School Dean Nitin Nohria wrote, "A lack of contextual sensitivity can trip up even the most brilliant of executives . . . the risks of contextual insensitivity are concrete. If you can't read the business landscape, you risk leading your organization in the wrong direction."[46]

As you identify and vet ideas for creating new value, research by author Geoffrey Moore provides a powerful analytical framework for matching different types of innovation options with the context of the business.[47] Building off the value disciplines research of Michael Treacy and Fred Wiersema, Moore proposes that there are 14 different types of innovation that could be leveraged when aligned with the appropriate category life cycle (growth, mature, or declining).[48] The value-disciplines concept uses research to support the fact that financially successful firms focus a disproportionate amount of resources in one of the following three value disciplines:

1. **Product leadership:** cutting edge offerings
2. **Customer intimacy:** tailored solutions
3. **Operational excellence:** low cost and/or convenience

Coupled with these concepts are the four phases of the buying hierarchy described by professor Clayton Christensen:[49]

Functionality → Convenience → Reliability → Price

The buying hierarchy explains that when no current offering satisfies a customer's need for functionality, the decision-making factor becomes functionality. Once two or more offerings demonstrate adequate functionality, the buying criterion shifts to reliability—does the offering consistently perform at the desired level? As reliability is shown by two or more players, the purchase decision moves to convenience—is it easy to use and hassle-free? Finally, if offerings demonstrate reliable functionality and similar convenience, the decision point in the buying hierarchy shifts to price.

The buying hierarchy can be overlaid onto the Innovation Zones framework from left to right, with functionality lining up with product leadership, reliability and convenience with customer intimacy, and price with operational excellence. As an example, working on customer intimacy innovation initiatives for an offering in a relatively new market will probably not be as productive because customers will be more focused on functionality (*Does it work?*) and reliability (*Does it work consistently?*).

Figure 1.8 shows the stages of the category life cycle aligned with the value disciplines and 14 types of innovation. According to Moore, in a growth market, the product leadership value discipline tends to produce more effective types of innovation that relate to disruption, product, application, and platform. Here, the market is searching for improvements in functionality and reliability. In an early maturing market, the customer-intimacy value discipline has a greater likelihood of yielding fruitful innovation in the form of line extensions, enhancement, marketing, and user experience. At this point in the buying hierarchy, market entrants are reaching parity as it relates to an offering's features and benefits. Therefore, an investment in customer intimacy types of innovation helps deepen relationships with current customers.

As the category life cycle moves to late maturity, the operational excellence zone featuring value engineering, integration, process, and value migration innovation offer greater chances of producing value. While both in the mature market part of the category life cycle, the

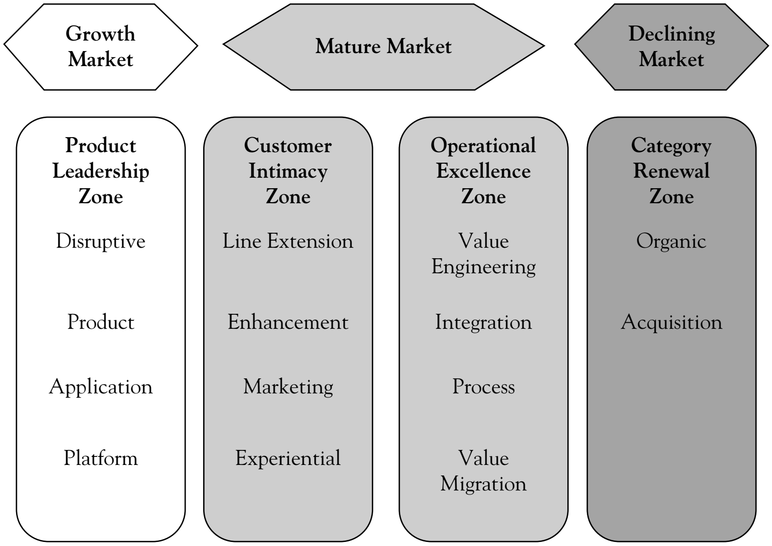

Figure 1.8 Types of Innovation

Customer Intimacy Zone works on differentiating the offering by making it more attractive to the customer (e.g., external, demand side). The Operational Excellence Zone focuses on enhancing the offering from the perspective of the company (e.g., internal, supply side). Finally, as the market declines, efforts around organic innovation and acquisitions provide opportunity for creating new value.

There are 14 different types of innovation that can create new value, depending on where you are in the category life cycle and what capabilities your firm possesses. Table 1.5 provides brief definitions and examples of the types of innovation in the Product Leadership Zone.

Table 1.6 provides brief definitions and examples of the types of innovation in the customer intimacy zone.

Table 1.7 provides brief definitions and examples of the types of innovation in the Operational Excellence Zone.

Finally, Table 1.8 provides brief definitions and examples of the types of innovation in the Category Renewal Zone.

The following questions can help you facilitate thinking and conversation around using the Innovation Zone framework to find areas for creating new value:

Which phase of the category lifecycle are we in: growth, early maturity, late maturity, or decline?

Which phase of the buying hierarchy are potential customers looking to satisfy: functionality, reliability, convenience, or price?

Table 1.5 Product Leadership Zone

Type	Definition	Example
Disruptive	Discontinuous technology change or business model	CVS Caremark MinuteClinics
Application	Develop new markets for existing products by finding untapped uses for them	LinkedIn for talent management
Product	Differentiate via features and functions not currently available	Corning's Gorilla Glass for iPhones
Platform	Create a simplifying layer over a complex layer	Facebook

Table 1.6 Customer Intimacy Zone

Type	Definition	Example
Line extension	Structural changes to offering to create a unique subcategory	Lego Friends series for girls
Enhancement	Alter a single dimension of the offering to stimulate interest	Coors Light Cold Activation bottles
Marketing	Create a unique interaction with a prospective customer during the purchase process	Apple retail stores
Experiential	Experience of the offering as primary value driver	Xbox Live gaming with users around the world

Table 1.7 Operational Excellence Zone

Type	Definition	Example
Value engineering	Remove cost from materials and manufacturing of offering without altering benefits to customer	LCD televisions
Integration	Decrease customer's cost of maintaining a complex operation by offering a centrally managed system	Amazon.com cloud services
Process	Remove waste from the processes producing the offering	IKEA
Value migration	Alter business model elements to shift from commodity points to profit points in value chain	Netflix original content distributed through streaming video versus DVDs delivered by mail

Table 1.8 Category Renewal Zone

Type	Definition	Example
Organic	Employ resources to reposition into a growth phase	McDonald's specialty drinks
Acquisition	Merge or acquire	Google (Motorola)

Based on the phase of the category lifecycle and buying hierarchy you're in, utilize the following questions from the corresponding Innovation Zone to stimulate thinking:

Product Leadership Zone—Innovation Types

Disruptive: How can we develop offerings that are simpler, more convenient, and less expensive than established offerings to attract new or less demanding customers?

Application: How can we use our capabilities to develop new markets for our existing offerings and what untapped uses can they fill?

Product: What functions and features can we create in our offerings to fulfill customer's unmet needs and jobs to be done?

Platform: Is there an opportunity to create a simplifying layer over a complex layer in the market to provide value to customers?

Customer Intimacy Zone—Innovation Types

Line extension: How can we modify one or more dimensions of our current offering to create a new subcategory that expands the market by bringing in new customers?

Enhancement: What one dimension of our offering can we improve to increase share of wallet with existing customers?

Marketing: How can we make the current offering more competitive by leveraging other elements of the marketing mix (promotion, place, price)?

Experiential: Is there an opportunity to create differentiated value within the time span customers are engaged with our offering?

Operational Excellence Zone—Innovation Types

Value Engineering: In what ways can we comprehensively remove cost from our system and still provide the same level of benefits in our offering?

Integration: Is there a way to pull together different components of a business and provide customers with a single system?

Process: In what ways could we enhance or cost-reduce the process used to produce our offering?

Value migration: Which areas of the industry value chain could we move into that would provide greater profit points?

Category Renewal Zone—Innovation Types

Organic: In what ways could we use our capabilities to transition into a growth category?

Acquisition: What offerings could we acquire that would position us favorably for the future?

1,000-Foot View

A pattern is a combination of qualities, acts, or characteristics forming a consistent arrangement.

A system is a set of things—people, cells, molecules—interconnected in such a way that they produce their own pattern of behavior over time. It's an interconnected set of elements that is coherently organized in a way that achieves something.

An Activity System Map provides an elevated view of the business by capturing the strategy and tactics, and the relationships between the two, on a single page.

A platform is a foundation comprised of a product, service, technology, or system on which other complementary offerings can be built.

A business model is a structural description of how the organization creates, delivers, and captures value. The three phases of the business model and their components include:

Phase I: Value Creation

Core competency: Primary area of expertise (what you know)

Capabilities: Activities performed with key resources (what you do)

Value proposition: Rationale for the offering (customer, need/job, approach, benefit)

Phase II: Value Delivery

Value chain: Configuration of capabilities to provide value (how you do it)

Channels: Customer access points for offerings (where you offer it)

Phase III: Value Capture

Price: Amount customers pay for the offering

Revenue: Price multiplied by volume sold

Cost: Expenditure of resources to provide offering

Profit: Revenues minus costs

A Strategy Spectrum is comprised of six levers:

1. **What:** Offerings (products/services)
2. **Who:** Potential target customers
3. **Why:** Customer need or job fulfilled
4. **Where:** Channels to access offerings
5. **When:** Time of access to offerings
6. **How:** Activities

The Value Mining Matrix considers both customers and jobs to catalyze thinking on methods for creating new value.

Innovation is creating new value for customers.

There are 14 different types of innovation used strategically depending on the stage of market maturity the business is in.