
CHAPTER

1

The Importance of Fundamentals

“Rizzutoisms” in practice and why structure matters: Thinking “out of the box” without having a box in the first place can be dangerous.

—Phil Rizzuto and “Rizzutoisms”

Before we can “think out of the box,” it is important to have a box in the first place. Attempting to attack a business problem in a new or inventive way without having a solid foundation in place first can be dangerous. To illustrate what happens to companies that fail to start with fundamentals, we begin this chapter with the story of Phil Rizzuto.

Phil Rizzuto, known in the baseball world as “The Scooter,” was an interesting character. A former shortstop for the New York Yankees and 1954 American League Most Valuable Player, he is enshrined in the Baseball Hall of Fame in Cooperstown, NY. He is perhaps better known as their longtime television announcer (some of you might remember him as the former spokesperson for *The Money Store* or for his being featured in the Meatloaf song “Paradise by the Dashboard Light”). However, he is probably best known for his colorful and convoluted comments.

To illustrate, Phil Rizzuto and his coannouncer, Bobby Murcer, were announcing a game between the New York Yankees and the Milwaukee Brewers. It was a slow Sunday afternoon game, and the two announcers were just trying to kill dead airtime. Now, for non-baseball fans, there are only two things that you need to know about baseball in order for this story to make sense: (1) every game has a winner and a loser—if the game is tied at the end of regulation (nine innings), the two teams go into overtime (extra innings) until one team wins; and (2) games are played during the day and at night. Other than these two facts, you need not know anything about baseball in order for this story to make sense. In any event, here is how Bob Frank, an economist at Cornell University at the time, tells the story:¹

The cable TV system where I live in Ithaca, New York, carries most New York Yankee baseball games. One August night, sportscasters

18 The Importance of Fundamentals

Phil Rizzuto and Bobby Murcer were calling a slow game between the Yankees and the Milwaukee Brewers. Between pitches, Rizzuto was looking over his record sheets and remarked that the Brewers had done much better in day games than in [night] games. Murcer checked his own records and found that the Yankees, too, had a much higher winning percentage during the day. With characteristic enthusiasm, Rizzuto then conjectured that all teams have better records for day games. In a brisk exchange of the sort that makes summer evenings in Ithaca seem to fly by, the two then spent the rest of the inning discussing the poor lighting conditions in American League parks and various other difficulties that might help account for why teams do so poorly at night.

But the “fact” that Rizzuto and Murcer were trying to explain was of course not a fact at all. Without consulting any baseball records, we know that it is mathematically impossible for all teams to have better records during the day than at night. For every team that loses a night game, some other team must win one. Lighting conditions at night may indeed be poor, but they are poor for both sides. Taken as a whole, teams play .500 ball at night, the same as they do during the day.

What is wrong with this picture? As Bob Frank explains: it is simply not possible for *all* teams to have better records during day games or during night games. If every game has a winner and a loser, teams win an average of 50 percent of their games during the day and 50 percent of their games at night. This is an example of the convoluted logic that pervades business thinking today—and what we will refer to as a “Rizzutoism” throughout the book.²

Unfortunately, such convoluted logic isn’t isolated to baseball game announcers; it abounds in business as well. Examples are almost endless and they range from the silly to the sublime to the serious. Australian telecom provider Optus once had a tagline: “We make you feel like you’re the only one in the world with a telephone.” Think about that for a moment. Perdue Chicken’s

slogan, “It takes a tough man to make a tender chicken,” was translated into Spanish as, “It takes a particularly virile man to impregnate an affectionate chicken”—leading customers to wonder exactly what Perdue was selling.

Rizzutoisms in business aren’t limited to silly taglines—substantive examples abound. Cost-plus pricing, product-based segmentation, and distributional asymmetric incentive structures are all serious examples that we’ll discuss later. For now, however, we will use the term Rizzutoism to refer to the use of convoluted logic in business.

A concrete business example of a Rizzutoism in practice is that of R.J. Reynolds Tobacco Co.’s introduction of Premier cigarettes in the late 1980s—an example made famous in the book *Barbarians at the Gate*.³ R.J. Reynolds Tobacco had developed the first “smokeless cigarette,” an interesting technological innovation. On one tip of the cigarette was a piece of carbon placed in front of the tobacco, while the inside of the cigarette consisted of a piece of aluminum with the tobacco wrapped around it. The filter on the other end also had a piece of carbon in the middle of it. When the cigarette was ignited by a lighter, the carbon essentially “lit” the cigarette from the inside so that it produced virtually no secondhand smoke. The only smoke in the room was that which had already been filtered by the smoker’s lungs (i.e., upon exhale)!

In principle, this was a great idea: it attempted to allay peoples’ fear of secondhand smoke, providing a new product push into a staid and declining business. R.J. Reynolds made a \$350 million investment that, at first glance, was a reasonable business move. However, problems began to emerge as the test market results came in—and weren’t that impressive. Less than 5 percent of respondents said that they would try the product again. In fact, the most common terms used to describe the product was that it tasted like “shit” (literally, the word that was used) and it smelled like a “fart.” The problem was that the cigarette tasted horrible and when the carbon tip was lit by a match, rather than the requisite lighter, the sulfur reacted with the

20 The Importance of Fundamentals

carbon to give off a fart smell. Not exactly what you want to use to describe your product—as James Garner’s (playing Ross Johnson, the CEO of R.J. Reynolds at the time) line in the movie by the same name said, “Tastes like shit and smells like a fart; that’s one unique advertising slogan.” When introduced in the market, the product’s repeat rates—so crucial to its success—were less than 1 percent.

Now, all of this isn’t the Rizzutoism; attempting to innovate and introduce a smokeless cigarette had the potential for success. The Rizzutoism occurred *after* Reynolds spent \$350 million developing this product and after it found out that it tasted like \$#!+ and smelled like a #@&+. At that point, the company spent an additional \$350 million *launching* the dang thing! Note that “sunk costs” should be irrelevant in this case: having already lost \$350 million on developing the product isn’t a good reason to lose *another* \$350 million. We could argue as to why they decided to proceed with the launch after the poor test results: *Barbarians at the Gate* provides an excellent account—arrogance, the sunk-cost fallacy, leveraged buyout motives, to name a few. But regardless of the motives, losing nearly three-quarters of a billion dollars on a product that was an abysmal failure in the market could have been avoided early on. The decision to do the research and develop the product was not the Rizzutoism; the decision to *launch* it after knowing the customer reaction was!

Sunk Cost Fallacy

Sunk costs should be irrelevant to future decisions. Yet we all make these mistakes in various decisions in our lives—in both the professional and personal realms. Be honest—have you ever held onto a stock arguing that “I can’t sell it now; I’ve lost so much already”? Your real decision should be making the best investment with the money you have left. In business, executives can become emotionally involved with the projects in which they invest. Not all these projects are good

investments. To avoid deeper losses, it is important to adopt a periodic review process where reviewers are not invested (professionally or emotionally) executives. These reviews (often referred to as non-advocacy reviews) should occur at each key stage of product development (with the option of termination), and again post-launch (if it gets that far). Thus, a non-performing project can be identified early on, and the company may avoid deep financial losses by overcoming the sunk-cost fallacy that leads to escalation bias—throwing good money after bad at a bad investment.

Distinguishing Rizzutoisms and Sheer Folly from Business Brilliance

Distinguishing a Rizzutoism and sheer folly from ingenious insight and business brilliance can sometimes be a fine line. To illustrate: imagine it was 40 years ago and I put the following proposition on the desk of your venture capital (VC) firm. I've presented you with a business plan and a request for \$50 million.

We propose to build a series of retail establishments beginning in one region of the country and eventually expanding throughout the United States and then internationally. We will do no advertising. Our stores will become so ubiquitous that, in some cities, we will position our stores on each corner of various four-corner intersections. We will provide couches and amenities so that customers can just sit in our stores all day for free. And, we will sell only one thing: \$3 cups of coffee. Invest in my company?

This is, of course, a simplistic representation of Howard Schulz's vision for what was to become the behemoth that we know as Starbucks.

The average cup of coffee in the late 1980s when he started to build Starbucks cost \$0.70. It was sold through a deli or convenience

22 The Importance of Fundamentals

store, and its taste often caused people to refer to it as “swill.” Customers were clamoring for better coffee. However, customers were not clamoring to pay *more* for a cup of coffee, which was fine—because Howard Schulz wasn’t selling coffee. His genius was making a connection to the coffee culture in Europe by recognizing the *latent* attributes, the things *besides* coffee that customers were willing to pay for. These, of course, included ambience, image, a reward for a hard day’s work (most of us can afford a \$3 cup of coffee, after all), and a “third place” (that is, a place to go besides home and the office—other than a bar). Howard Schulz recognized that people would be willing to pay for this third place. While San Francisco-based chain Peet’s Coffee was taking the seats out of its retail establishments in order to deter homeless men and women from lounging in its stores, Starbucks was making its couches and chairs more comfortable to *encourage* the coffee culture that it was promoting.⁴ And the rest, as they say, is history.

The Key Is Attributes, Not Core Competencies

A crucial difference between Reynolds’s Rizzutoism and Howard Schulz’s brilliance is the latter’s understanding of the customer’s willingness to pay for attributes. We discuss the use of choice analysis⁵ to assess and quantify preferences in detail in Chapter 6. For now, we begin with some intuition and an example.⁶

The following simple example drives home the importance of focusing on attribute-based decision making rather than core competencies. Although it’s a business-to-consumer example, the principles apply even more strongly in a business-to-business (B2B) environment.

To illustrate, imagine you are in the market for a color printer. Get out a piece of paper and a pen or pencil and write down all of the reasons and qualities that would make you choose one printer over another. Presumably, your list would include things like print resolution, print speed, the cost of the printer and “consumables”

such as ink and toner cartridges, the ability to scan or fax, and so on. Now imagine you are in the market for a new automobile and write down the reasons why you would buy one automobile versus another. This list would likely include things like miles per gallon, body type, brand, price, safety ratings, repair costs, image, and so on.

These are all attributes of the offering at hand—the things that matter when we buy a product, be it at home or at work. Where in the world on these lists of attributes that you have created are the *core competencies*⁷ (capabilities) of Hewlett-Packard or General Motors? Nowhere. And this is because we decide what to buy based on the offering's underlying *attributes*—not on the basis of the company's capabilities or core competencies. Yet time and time again, companies attempt to compete on the basis of their core competencies.

It's not that core competencies aren't important; to the contrary, they are what enable a company to produce the attributes that customers seek out and value. However, the focus should be outward in, rather than inward out. A company must first concentrate on the qualities or amenities that customers value and then develop core competencies that deliver these key attributes—specifically, in a way that provides a competitive advantage on the key salient differentiators. Many companies in the B2B space focus on what they do well rather than focus on what customers want. It is a critical distinction.

A few years back, British Airways conducted an “intercept” survey of business travelers departing London's Heathrow Airport. After screening to ensure that the respondent was traveling on business, surveyors asked travelers to imagine that they were flying from Heathrow to New York's John F. Kennedy Airport. The surveyors had the respondents name the top three reasons why they would choose one airline over another. Think about what your top three would be. In the British Airway's survey, the Heathrow travelers named the following three: (1) safety, (2) route, and (3) schedule.

Let's think about this a bit, one at a time. Which is the safest airline? Though we can't say for sure which one is, we can probably

24 The Importance of Fundamentals

eliminate some. Would you want to fly on Aeroflot on a Yak-42, for example? But aside from those that we eliminate, we can't really differentiate one major airline from another. So, let's examine the second most important attribute: route. I don't know about you, but if I were to fly from London to New York, I would kind of want to fly nonstop; I guess there's always the Icelandair flight that stops in Reykjavik. However, again, in terms of route, I can't differentiate one major carrier from another. What about schedule? Flights are so tightly packed on that route that there are usually seven or eight flights to choose from. So then how do I make my decision?

Enter salient differentiators.

While safety, route, and schedule may be the most important attributes, when all major competitors are equal on these key attributes (as is often the case), consumers typically make their actual decisions based on what we refer to as "salient differentiators." In this case, these would be things like frequent flyer miles, flat beds in business class, on-time performance, and so on. The first three—safety, route, and schedule—are places where you can lose business. However, since they generally aren't points of differentiation in this market, they're not places where you can *win* business. It's certainly necessary to do these successfully; however, it's not sufficient. The firms that focus on the must-haves (here, safety, route and schedule) and end up on par with rivals ultimately lose business—particularly if their rivals focus on the areas that drive customers' purchase decisions, the "salient differentiators." Thus, you won't gain share by highlighting your airline's safety, since all airlines are equally safe. However, emphasizing your superior on-time performance or business class may indeed attract customers from your rivals. Make sure you have the "must haves" right, but recognize that it's the "salient differentiators" that often win or lose the business.

Note that, occasionally, you can turn the must-haves into salient differentiators. Boeing's 787 Dreamliner, for example,

has turned route into a differentiator for both Boeing and its customers. The new, fuel-efficient plane can travel longer-haul point-to-point routes using 20 percent less fuel than traditional aircraft. Hence, airlines may be able to profitably fly routes nonstop that required going through a hub before. This has the potential to create a huge strategic advantage for both the Boeing Company and the airlines that fly the 787—wouldn't you prefer a nonstop flight to one that requires a stop and a change of planes?

Think how important these elements are in your own purchase decisions—convenience with respect to mobile phones, for example. Think about it: is there another product for which we would accept such poor quality—dropped calls, not enough coverage, all those extra fees—as we get from our current mobile phones? Can you imagine getting in your car and having it turn off mid-trip, forcing you to start it again over and over? Or hitting the accelerator knowing that it will only respond some of the time?

So why do we accept such poor call quality in mobile phones? *Convenience*. We gladly trade off—and pay dearly for—the convenience of getting and making a call or using data, at any place, at any time (well, almost). Do we like dealing with these issues? Of course we don't. Would we prefer the call quality of a landline? Of course we would. But, we pay for convenience. All attributes aren't created equal.

Business Question: What are the must-haves in your markets—the equivalent of safety, route, and schedule in the British Airways example? What are the table stakes on which you need to compete, but that won't win the customer's business? And what are the salient differentiators, those that will ultimately win the business?

26 The Importance of Fundamentals

The Master of Salient Differentiators: Apple

Question: What do all of the products below have in common?

1. Motorola ROKR
2. Pippin
3. eWorld
4. Taligent
5. Cyberdog
6. Macintosh TV
7. Macintosh Portable
8. 20th Anniversary Mac
9. Lisa
10. Newton

Answer: They were all made by Apple—that invincible Cupertino, California, machine—and they were all *failures*.

These failures are even more startling to consider when you think of the journey the company has taken in less than 10 years' time. Back in 2006, Apple was the darling of the tech world for its transformation from Apple Computer Inc. to a company known for iTunes and iPods—often cited as the brand to emulate when transforming a company to new market opportunities. However, leader Steve Jobs's brilliance came from his refusal to ever rest—his need to always move forward ahead of market trends. While Apple could easily have continued to build on its success in digital music, proliferating its iPod lineup and distribution, Jobs knew that the market was evolving. Hence, Apple decided to lead the market trend rather than defend its existing market. In mid-2007, while iPods were still selling like hotcakes, Apple released the iPhone—the iPod that is also a phone. Though it was offered at a significantly higher price point, the demand for iPhones skyrocketed. The iPhone cannibalized the demand for iPods—who needs an iPod when we have one in our phone? But, to

Apple, this was just fine since it was ceding sales of lower margin iPods to higher margin iPhones (and eventually iPads). This was creative destruction at its best.

Lesson: Cannibalize your own products or someone else will.

Fast forward to 2013. By this time, over 70 percent of Apple's revenue came from the iPhone and the iPad—products that hadn't even existed five years earlier. It is an excellent and startling example of how successful companies never stop innovating, while other companies spend all their time defending existing turf and, consequently, let the world pass them by (see Figure 1.1).

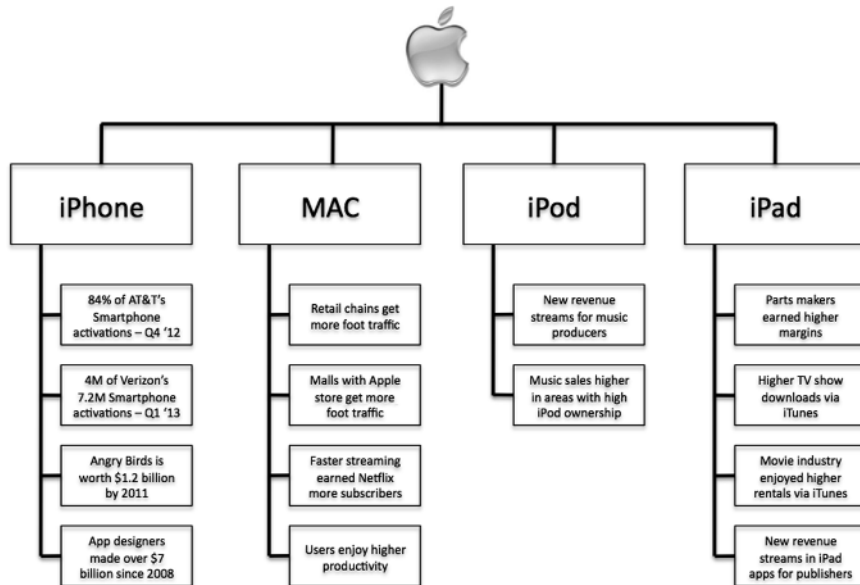


Figure 1.1 Apple's product transformation—Creative destruction at its best.

Source: "84% of AT&T's Smartphone activations - Q4'12" (AT&T Q4 2012 quarterly earning's report); "4M of Verizon's 7.2M Smartphone activations—Q1'13" (Verizon Q1 2013 quarterly earning's report); Angry Birds is worth \$1.2 billion by 2011 (www.mashable.com), 2011/08/12; "App designer made over \$7 billion since 2008" (Apple press Jan. 7, 2013). Remainder of chart: conversation with various experts and industry observations.

28 The Importance of Fundamentals

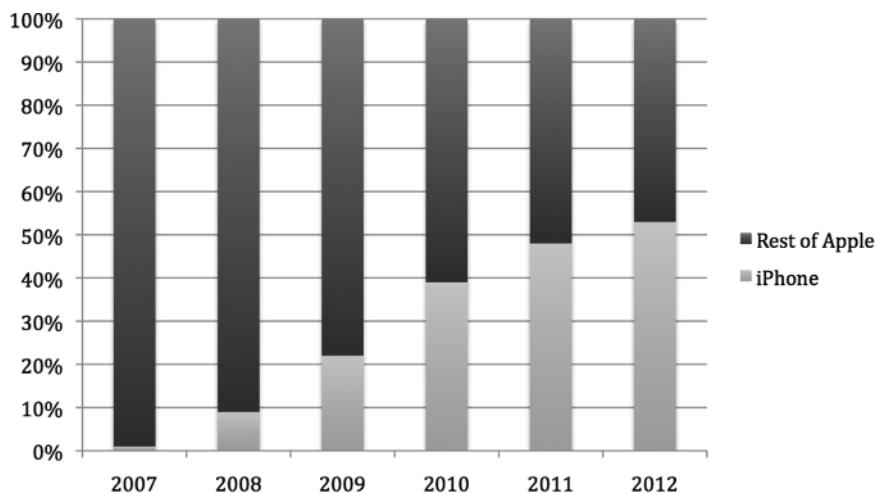


Figure 1.2 iPhone Revenue versus the Rest of Apple.

Apple has come a long way from the Newton—perhaps its biggest failure—to the iPhone—its biggest success—something that is easy to see in Figure 1.2. When the iPhone was introduced in 2007, the revenue it generated was negligible compared to that of the rest of the company. Less than five years later, it accounts for more than half the revenue of the entire company—more than quadrupling from 2007 to 2012. This happened on top of Apple’s already impressive annual revenue growth over the previous five years, and the reason for it is simple: the company was in the right place at the right time. The iPhone wasn’t even remotely the first smartphone; there were already a number of smartphones in the market when Apple entered. Nokia and Erickson had pioneered the category, and, as a result, the mobile phone data network was relatively mature, which meant that the underlying infrastructure was there to support the product. Had the iPhone entered the market when the only available option for mobile data was AT&T’s relatively slow Edge technology, it would have never achieved the success it did.

Accordingly, the logic of strategic decisions ideally follows a process⁸—a process that is outlined next and throughout the book. It begins with an understanding of the external business environment—

those things that we can't control. These macro trends often define the future of disruptive technologies in an industry. No one wants to be the metaphorical equivalent of a 5 $\frac{1}{4}$ -inch floppy drive manufacturer today. Once this broad, big-picture understanding of the market's future direction is clear, you can move on to analyzing the industry "value chain." Until we address this in more detail later, you can think of this process as a flow from raw material all the way through to delivering an offering to a customer—including providing post-sales support once you've delivered it.

The next step is to establish key strategic control points to ensure that you are competing in the right parts of the market. There are countless examples of companies that make all the right strategic moves, hire all the right people, but still do not do well as an organization simply because they are competing in the wrong part of the market—one where the margins are low or strategic leverage or scale economies are not possible.

Once an organization has defined the appropriate part of the market and assessed the broad trends and disruptive technologies affecting its industry, it should have a good sense of where to compete. The next step is to prioritize its focus within that part of the market utilizing segmentation analysis. If conducted properly, a segmentation analysis should be all about focus and prioritization. Hence, segmentation requires companies to focus on priorities and positioning. Only *after* the firm has done this well can it begin to determine its tactics—elements like price, positioning, route to market and points of access, communications and points of touch, and entry strategy. You can only begin to consider broader components such as brand, detailed positioning, organizational structure, customer contact plans, and so on, once this process's outcomes are clear.

Process

As noted previously, the phrase "thinking outside of the box"—popular as it may be—can be dangerous without having a box to

30 The Importance of Fundamentals

provide structure in the first place. This isn't unique to B2C markets; given their complexity, the logic of strategic process becomes all the more important in B2B markets. Good strategic decisions are made based on logic and process. A process doesn't have to stifle creativity. However, it should alert you when the creative process has diverted from the business objective and help focus your efforts on what matters to your objectives. Remember: good companies have a single-minded obsession with following the money.

As noted in the introduction, this book follows a rigorous, proven⁹ five-step process of strategic development. Think of this as a process for the treatment of "Random Strategy Disorder" (RSD), a leading cause of business Rizzutoisms today. In detail, the book will follow this process in the following order:

1. External Business Environment, Market Assessment, Growth Opportunities
 - a. Understand and evaluate the external market environment—assess and understand all of those things that we don't control—examine macro trends, disruptive technologies, and so on.
 - b. Conduct a detailed market assessment—systematically assess the attractiveness of addressable market opportunities—before you compete in a market space, be sure it's attractive enough to invest in.
 - c. Thoroughly evaluate core versus adjacent markets—the objective should be to grow from the core to adjacent markets without straying too far from the core.
2. Value Chain and Strategic Control Points
 - a. Map out the relevant value chain(s)—competing in the right space starts with following the money in order to compete in the parts of the value chain that command the highest margins, generate the most cash flow, enable you to leverage competitively horizontally and vertically, and so on.

- b. Assess strategic control points within the value chain—this is the key to strategy overall, something that companies such as Apple, Google and Amazon have incorporated into their processes.
 - c. Understand customer needs and competency gaps and advantages throughout the value chain on both the B2B and B2C side—employ techniques such as customer choice analysis, competitive capability assessment and capability gap analysis.
- 3. Segment based on Customer Needs—the Pivot to Tactics
 - a. Strategically prioritize segments and follow the money with rigid discipline.
 - b. Create value propositions by segment.
- 4. Align Incentives
 - a. Align across all internal and external constituents.
 - b. Use the concept of “asset specificity.”
 - c. Utilize concept of “virtual vertical integration” where possible.
- 5. Set Tactics—Five Points of Tactics
 - a. Points of Positioning: unique and winning value propositions.
 - b. Points in Time: offering and entry timing.
 - c. Points of Value: principles in extracting value.
 - d. Points of Access: points of customer access.
 - e. Points of Touch: customer touch as the embodiment of your strategy.

This book’s outline and chapters follow the strategic process flow above. First, understand the market. Second, assess the market opportunities. Third, find the opportunity space where margins, profit, and growth are available and where you have competencies that provide a sustainable competitive advantage. Fourth, segment the market properly so that you have the correct

32 The Importance of Fundamentals

priorities. Employ the Willie Sutton rule of following the money by using targeted deployment tactics that match your priorities.¹⁰ Fifth, develop tactics that account for vertical/horizontal and internal/external incentive alignment, utilizing strategic game theory principles. Additionally, use customer discovery tools such as choice and conjoint analysis. Finally, integrate your plan throughout the organization and across internal and external stakeholders. Integrate, prioritize and align; it's what good companies do.

The Importance of Reinforcing Business Models

All aspects of the process detailed above must be self-reinforcing. A high-service, low-price business model is generally not a good idea as the higher costs associated with delivering a high level of service usually require charging higher prices in order to be profitable. Business models build on each other; if even just one element is inconsistent with the rest of the model, achieving success will be difficult at best.

Consider the now-cliché cases of Southwest Airlines and Walmart—organizations that have successfully combined low-cost operations with low-priced market offerings. And there are many others that we will discuss throughout the book: Apple, Amazon, Redfin, and more. Perhaps two quick counter-examples will drive home the importance of lining up all aspects of the process.

Grocery Delivery

The business model for fast-moving consumer goods and grocery products is a high-volume low-margin one that is often cutthroat at the retail level. Home delivery in the United States is generally expensive to provide, given the distances between residences and the various costs associated with delivery. Hence, in any location other than a densely populated urban environment, the cost of delivery and the scale of operations needed are simply inconsistent

with a low-margin business. As a result, grocery delivery has generally been unsuccessful and unprofitable in the United States.

Perhaps the most notorious of these failures was that of Webvan, a San Francisco Bay area delivery service that went bankrupt in 2001. By contrast, leading U.K. retailer Tesco successfully pioneered home delivery of its own products in London, at about the same time Webvan was failing. Of course, London is a densely populated city whose underlying delivery economics are more consistent with the low-margin grocery business. Further, Tesco initiated a launch backed by solid research: detailed consumer investigation indicated that Londoners were willing to pay five pounds sterling—no more—for a typical delivery. Given central London's density and Tesco's market share (about 30 percent), the company estimated that it could make deliveries at or below that five-pound limit. In the end, delivery would break even, but Tesco's market share would increase—as would profitability!

To summarize this discussion:¹¹

Webvan (Silicon Valley, United States)	Tesco (London)
Low margins on grocery products	Low margins on grocery products
Large distances between houses	Short distances between flats
Long delivery time per delivery	Short delivery time per delivery
High fuel and delivery cost per delivery	Relatively low labor but high fuel costs
Delivery costs much higher relative to large-scale willingness to pay	Delivery costs in line with large-scale customer willingness to pay
Low relative volume of home delivery	30 percent share meant larger volumes
Delivery for multiple retailers, so no competitive advantage for any single retailer	Tesco-only delivery meant a competitive advantage by growing share for Tesco

34 The Importance of Fundamentals

Tesco's model reinforced itself: low margins for the products it distributed and relatively low costs for delivery that were commensurate with customer willingness to pay. As a result, the company was able to grow share in the London market. Webvan, by contrast, had a more expensive infrastructure and delivery costs without a significantly higher customer willingness to pay—at least not in sufficient volume to make the business profitable. Webvan eventually tried to offer value-added items in an attempt to recoup delivery costs, but again, there wasn't sufficient volume and willingness to pay to support this effort. Hence, there was an inherent disconnect in terms of higher costs inside of a low-margin business. Thus, unlike Tesco's model, Webvan's included a cost structure that led to its eventual failure.

What's the lesson here? Make sure to use the process in this book to develop a business model and offering that reinforces itself (Tesco) rather than one that contradicts itself (Webvan). Although much of this book won't focus on the reinforcing aspects of business models explicitly, every aspect of the book will utilize this principle implicitly in all that follows.

Chapter Summary and Key Business Principles

- In order to think outside the box, you must first have and understand the box in the first place. Appreciating the business fundamentals is the initial crucial step to sound strategy.
- Beware of Rizzutoisms—a phrase defined as “convoluted logic in business.”
- Investing in innovation, but ending up with an unsuccessful product, isn't necessarily a Rizzutoism because even good companies fail from time to time. However, falling victim to the sunk-cost fallacy and launching product in the face of negative prelaunch evidence is.
- There is a fine line between Rizzutoism and business brilliance.

- Salient differentiators are what drive purchase decisions. Companies should develop/refocus core competencies that would provide competitive advantages on these elements of their offerings.
- Focus on attributes, not core competencies—develop core competencies to meet the needed attributes in the market.
- In order for a new product/service to launch successfully, companies must consider the timing of the entry, that is, supporting business infrastructure must be well in place.
- Business models should *reinforce*; all aspects of the business model must complement each other. You are only as good as your weakest element.

Key Business Tools

- Attribute-based analysis (focusing on salient differentiators in a way that can win the high-priority business).
- Analysis of external market environment, disruptive technologies, and creative destruction (examining external market forces, which are all of those things that we can't control), trends and understanding the market in a way that prioritizes creating new market opportunities.
- Market assessment (prioritizing markets based on opportunities available using objective metrics of market attractiveness).
- Strategic control points (areas of the market or value chain that, if owned or controlled, allow firms to extract greater margins and control other parts of the opportunity space).
- Value chain and capabilities map (tracing value creation throughout the scope of a firm's operations and mapping the key capabilities needed in these areas in detail).

