

Strategy

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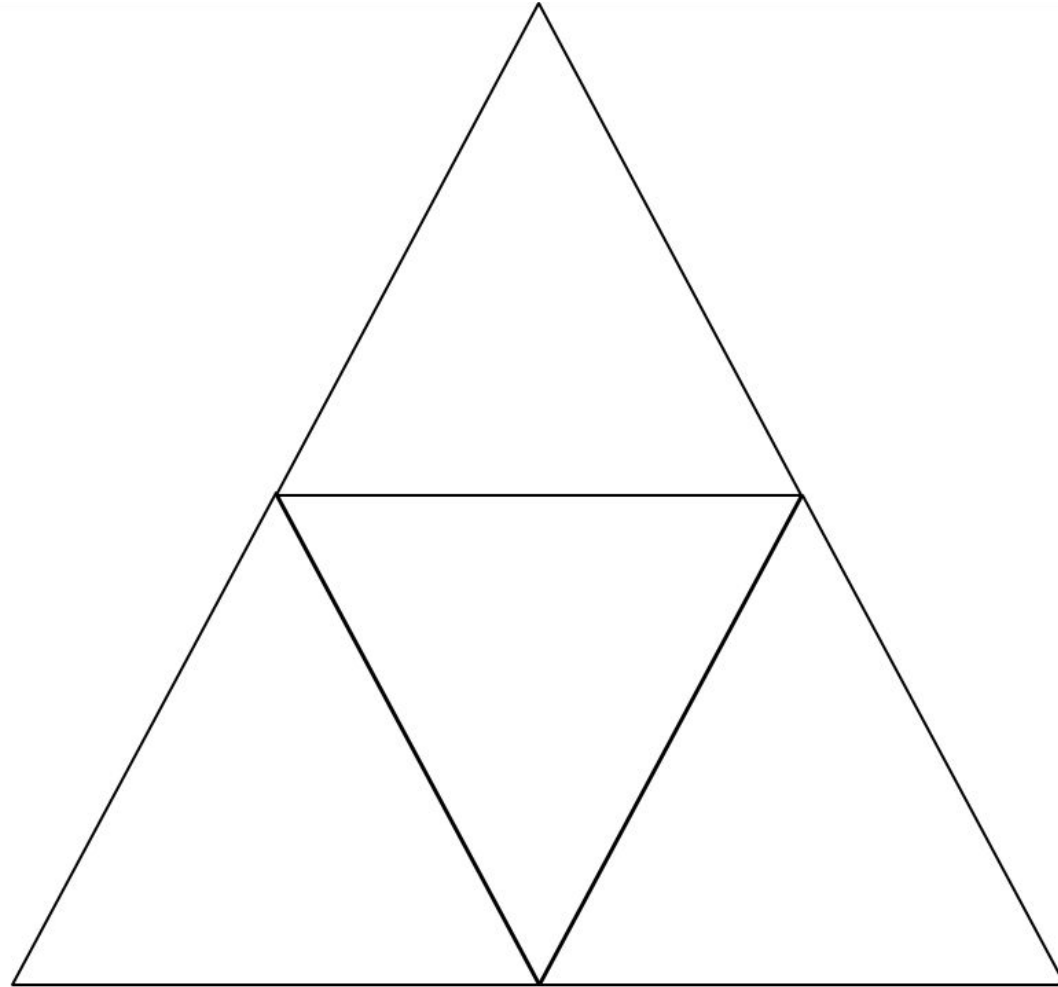
So What is Strategy?

- A problem solving system – two problems
 - Users/Buyer's concerns/Issue/Pain Points
 - How I organizational to solve them
- So, what is the problem you are solving?
- We follow a 7-element system to answer these questions

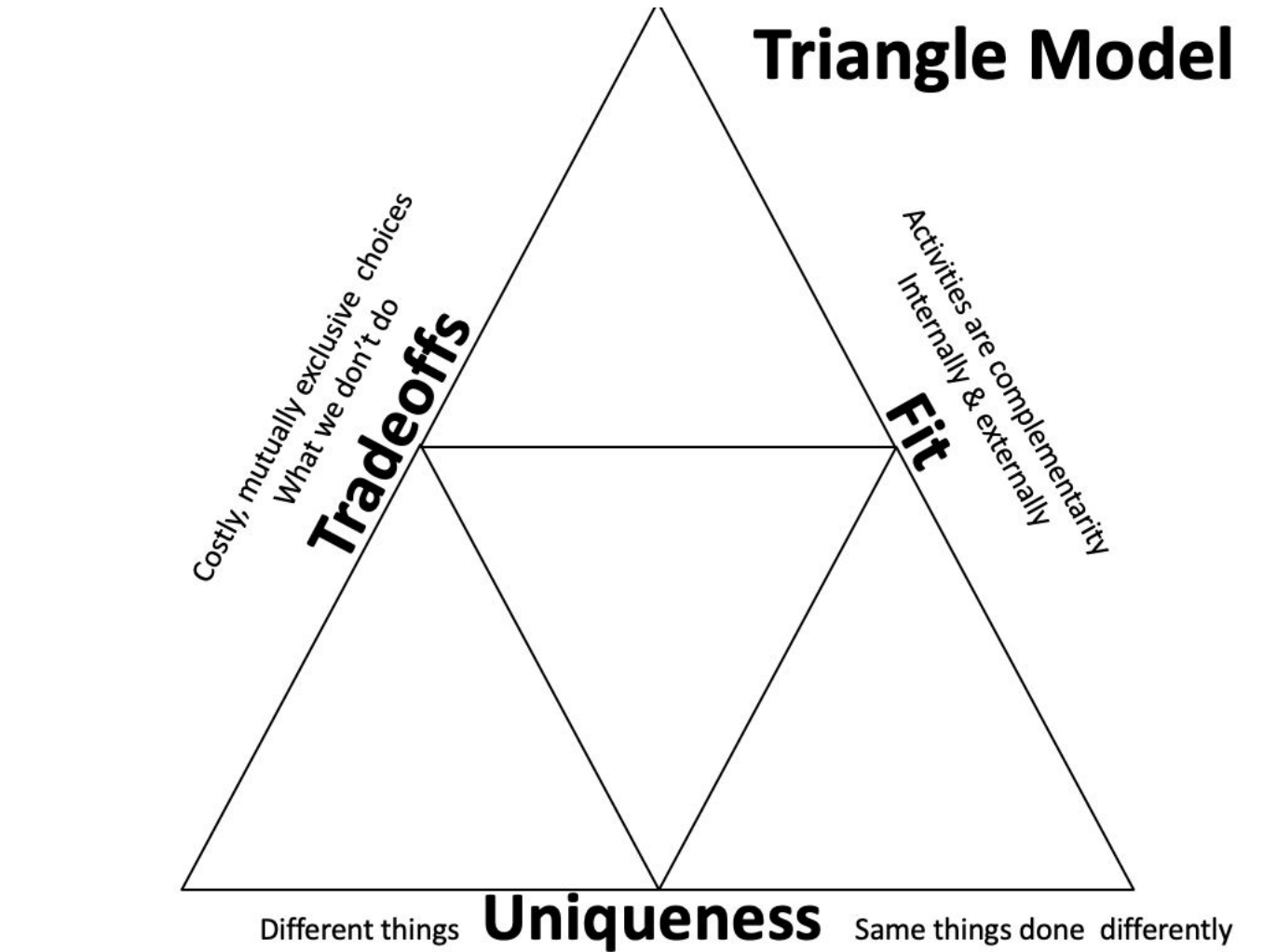
Triangle Model



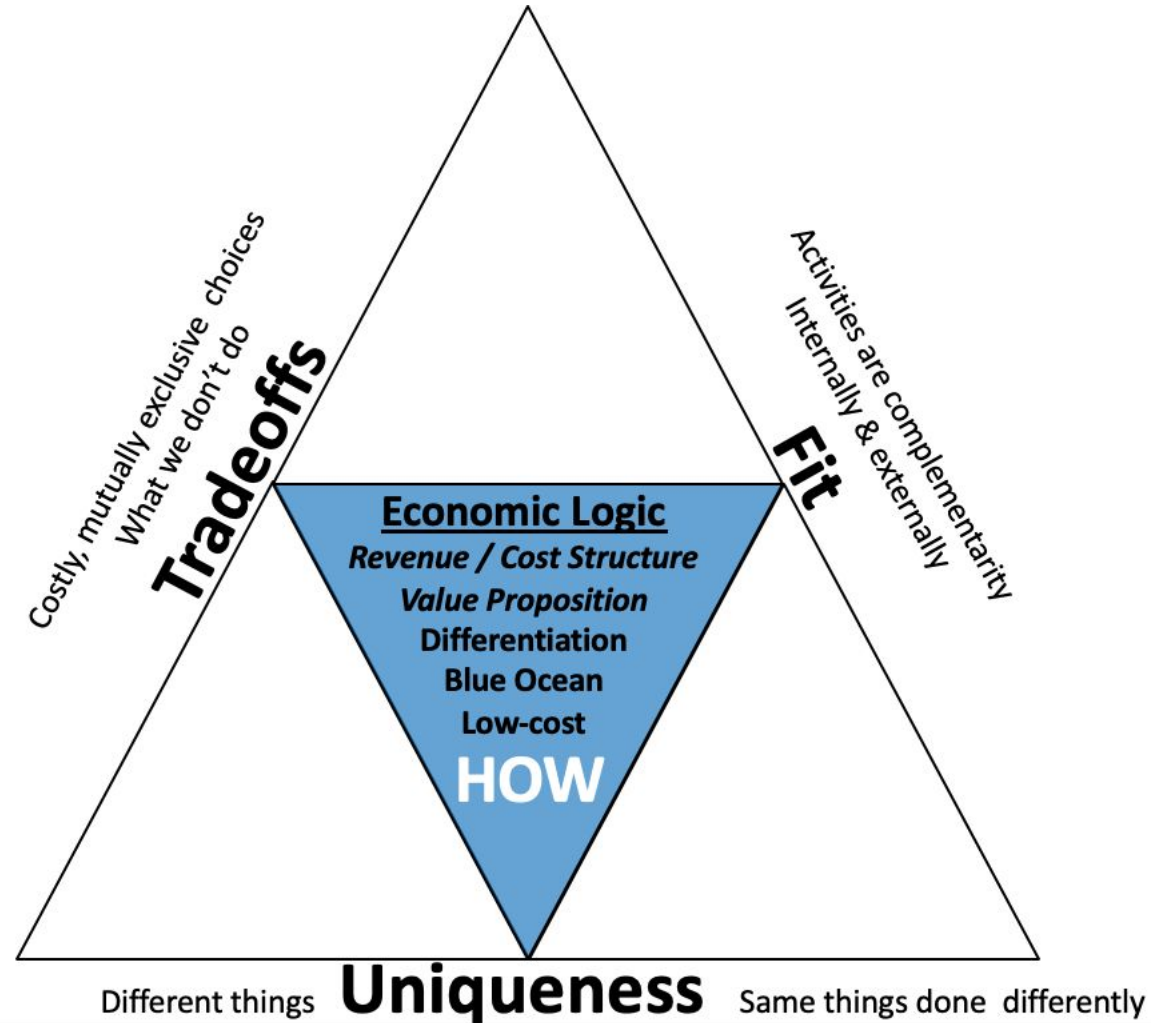
Triangle Model



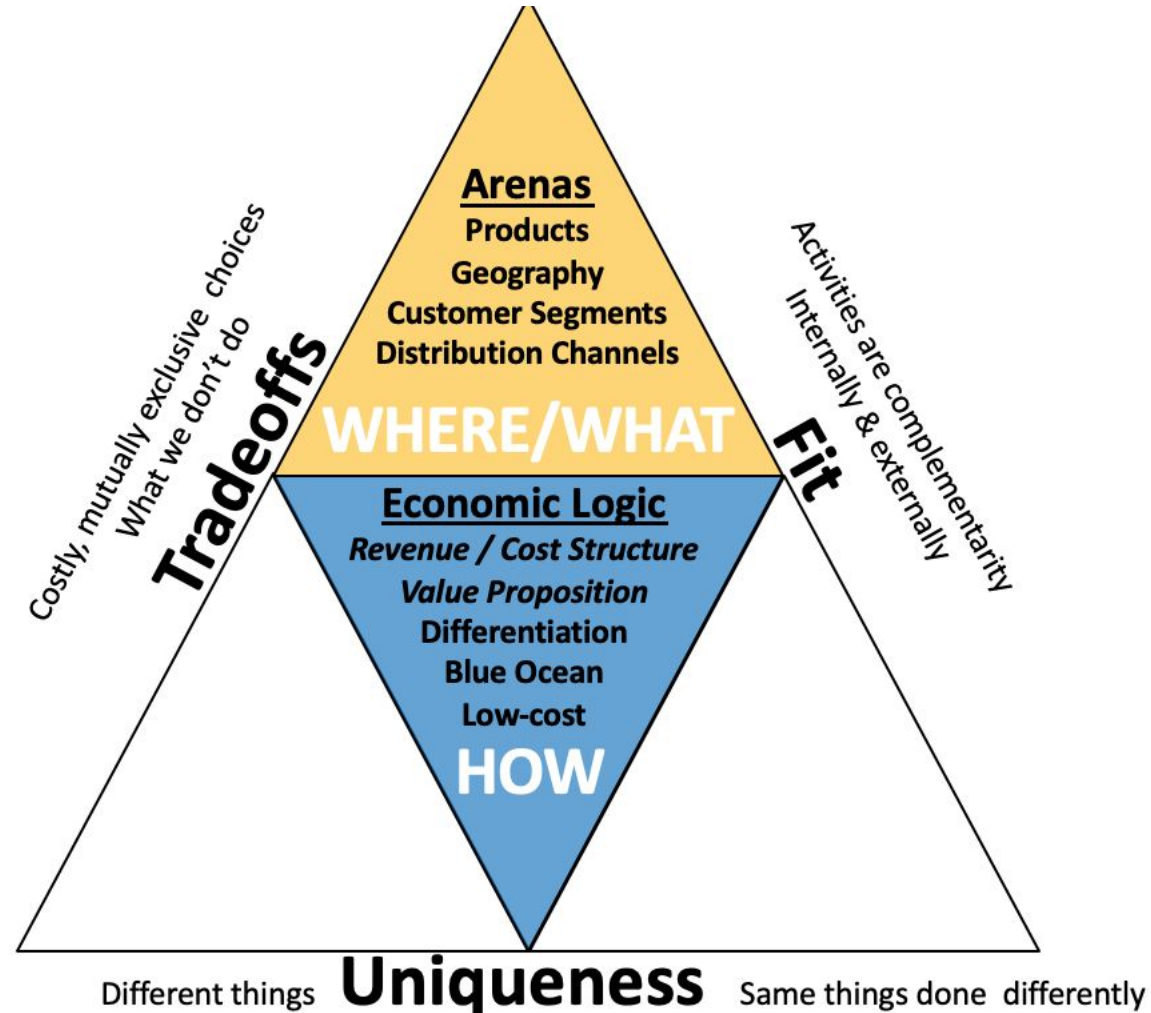
Triangle Model



Triangle Model

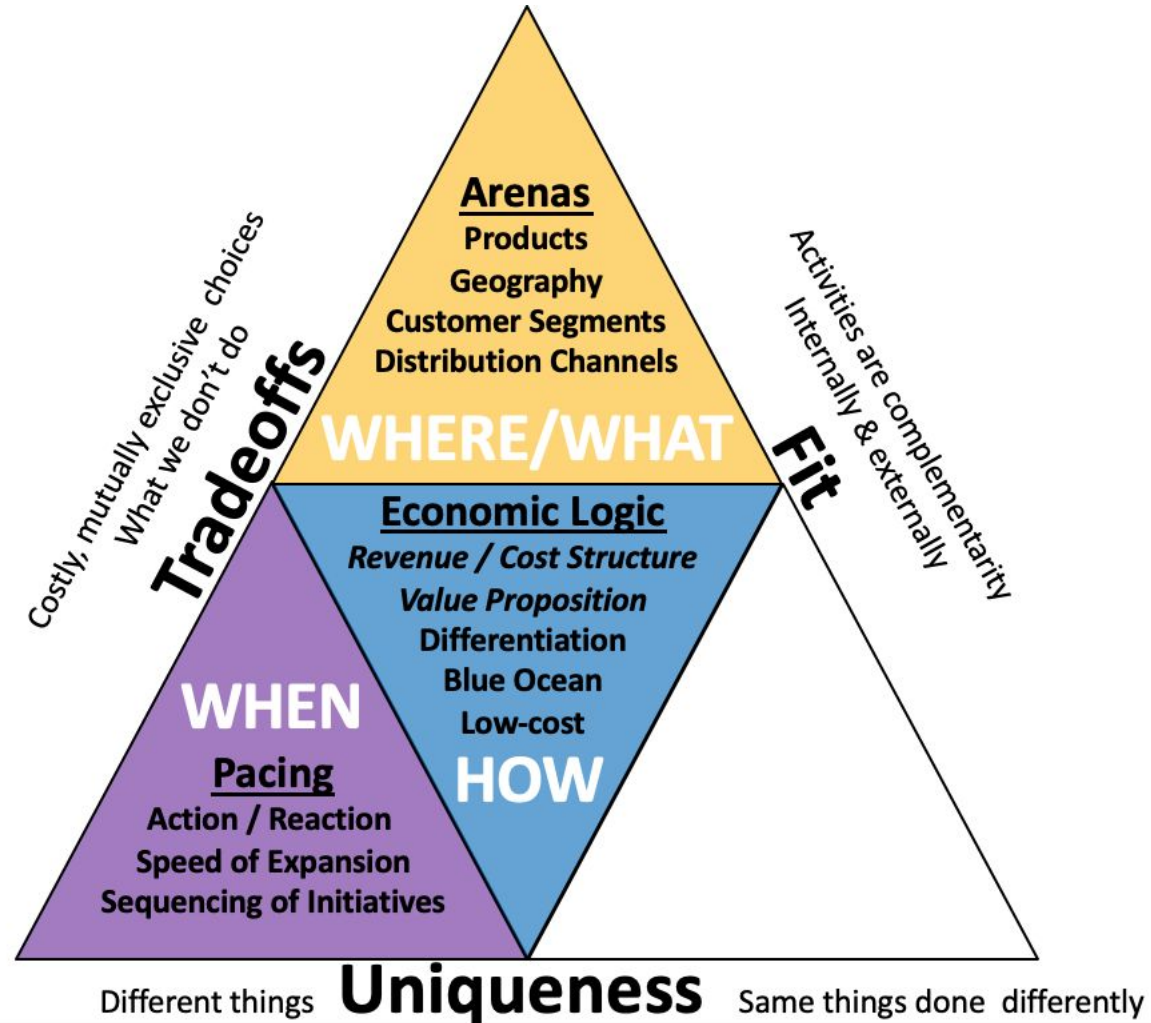


Triangle Model



Triangle Model

Choices: How to Win



Triangle Model

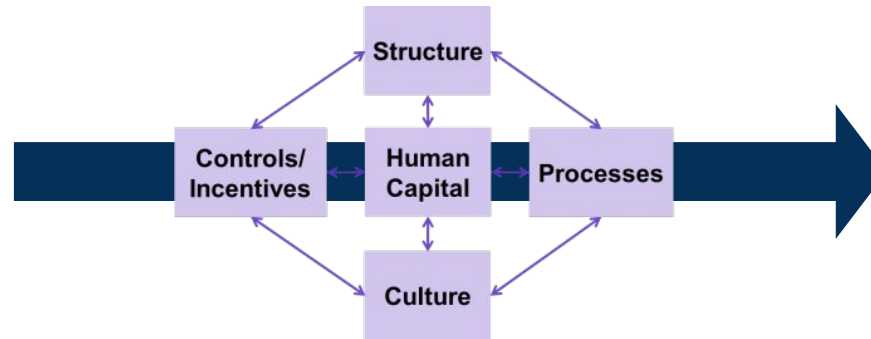
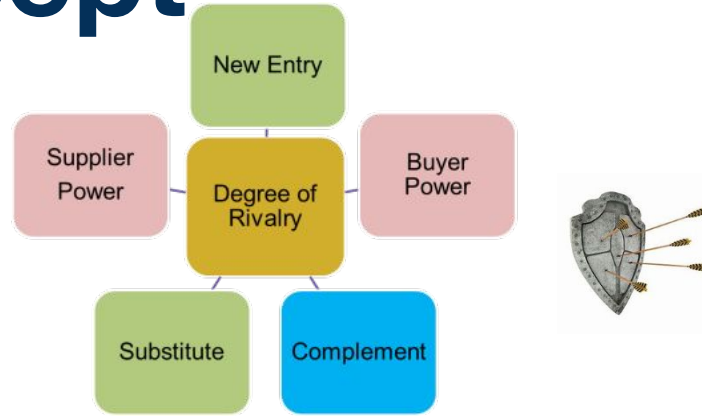
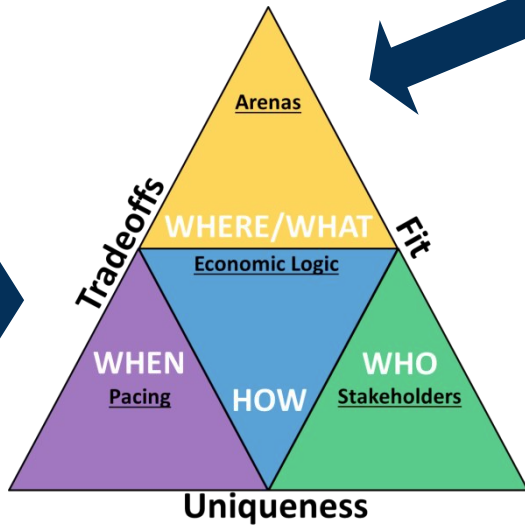
Choices: How to Win



The Strategy Concept

Aspiration

Objective



VRIO

OBJECTIVES	STRATEGY	METRICS
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David vs. Goliath Reading

- Give some examples
- Uniqueness?
- Tradeoffs?
- Fit?
 - Internal
 - External



What Strategy is Not

- NOT
 - a singular focus on profit (this is a metric)
 - a static idea (strategy is dynamic)
 - a once a year plan (strategy is so much more)
 - a set of tactical actions (related to functional-level)
 - or even operational excellence (a different metric)



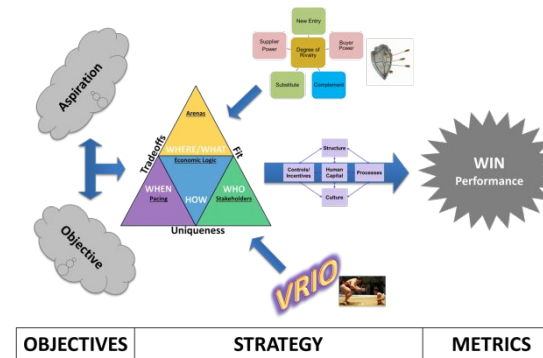
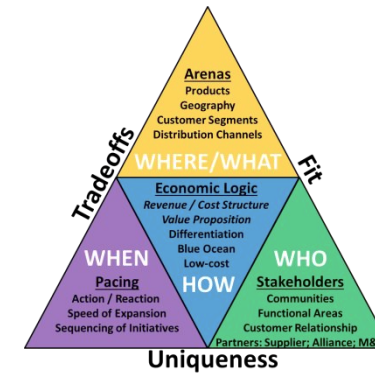
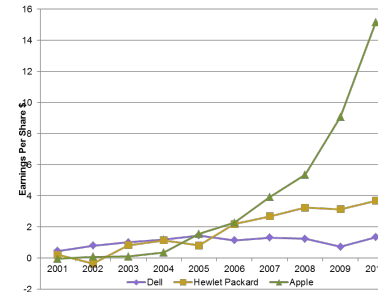
Symptoms of “Bad” Strategy

- Failure to Face Problem
- Mistaking what (objectives) for how (strategy)
 - Grow Revenues by 20%; Margins above 20%!
- Fluff
 - “Our Strategy is customer-centric intermediation”
 - What the heck??? Intermediation = banking; Customer-centric = attention on patron;
 - Attention on patron banking!
 - “Big words” does not make a strategy



Review Today

- Strategy is worth learning
- Strategy:
 - NOT objectives, buzz words, or fluff
 - Choices regarding how to win
 - Triangle Model: 7 elements
 - Uniqueness, Fit and Tradeoffs
 - Economic Logic, Arenas, Stakeholders, Pacing
- Course model is comprehensive
 - Great climate enhances learning



Blue Ocean / Value Innovation

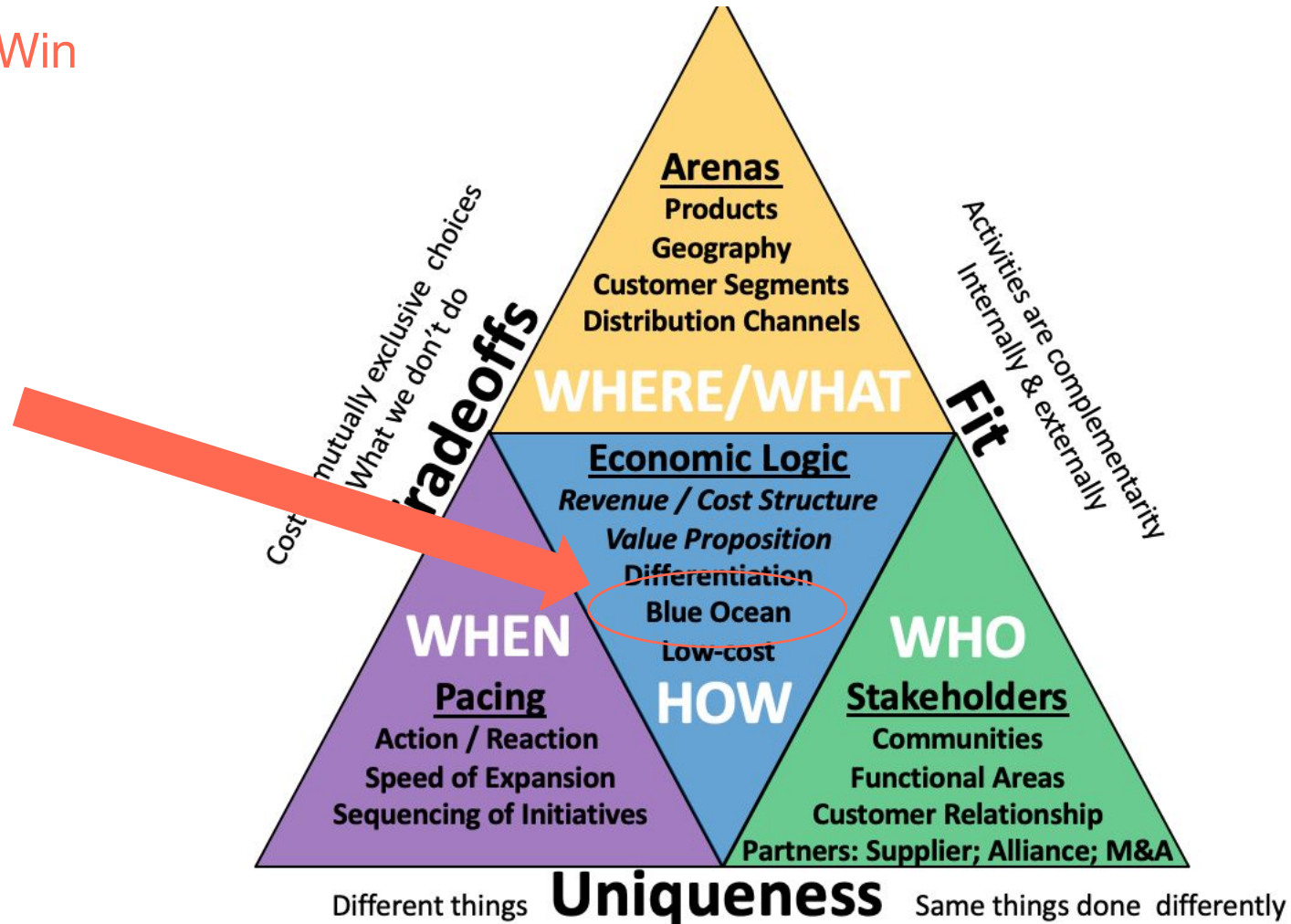
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University of Washington Foster School

Triangle Model

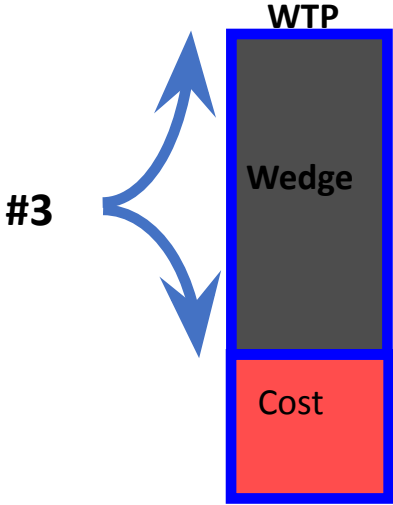
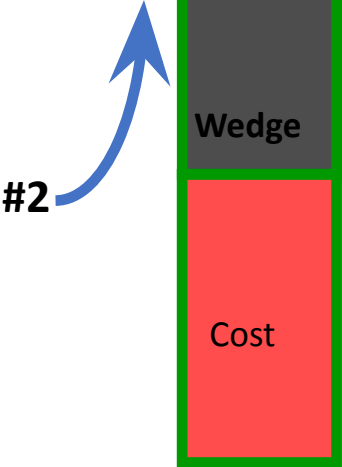
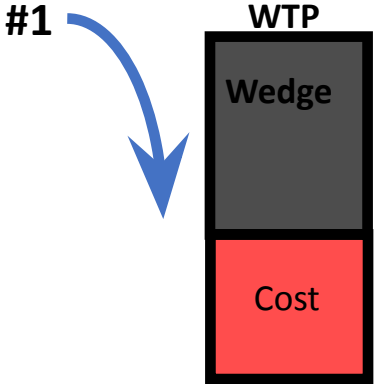
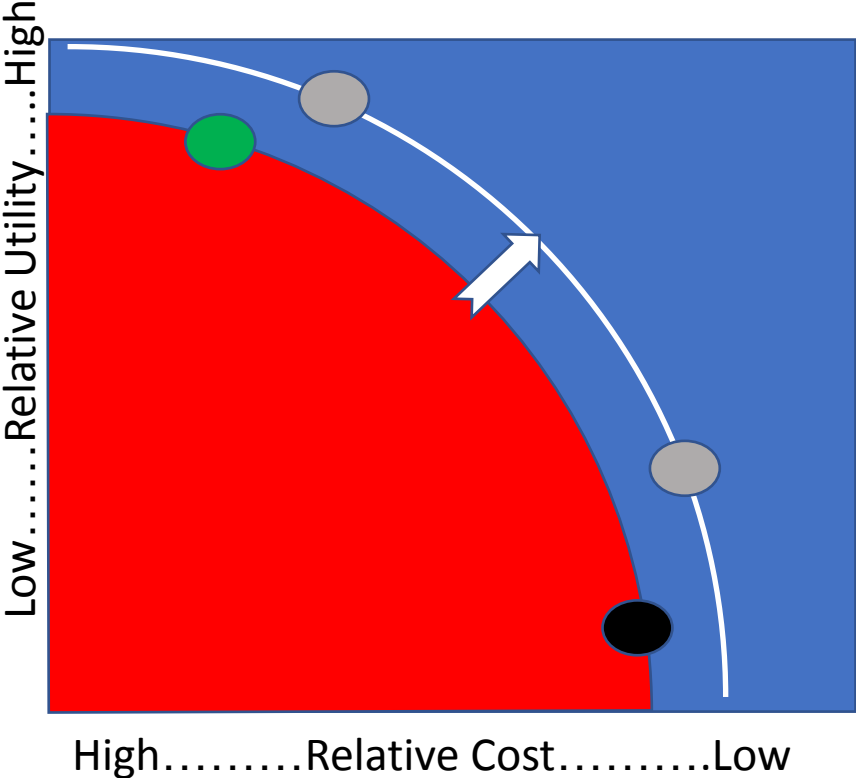
Choices: How to Win



Describe Blue Ocean

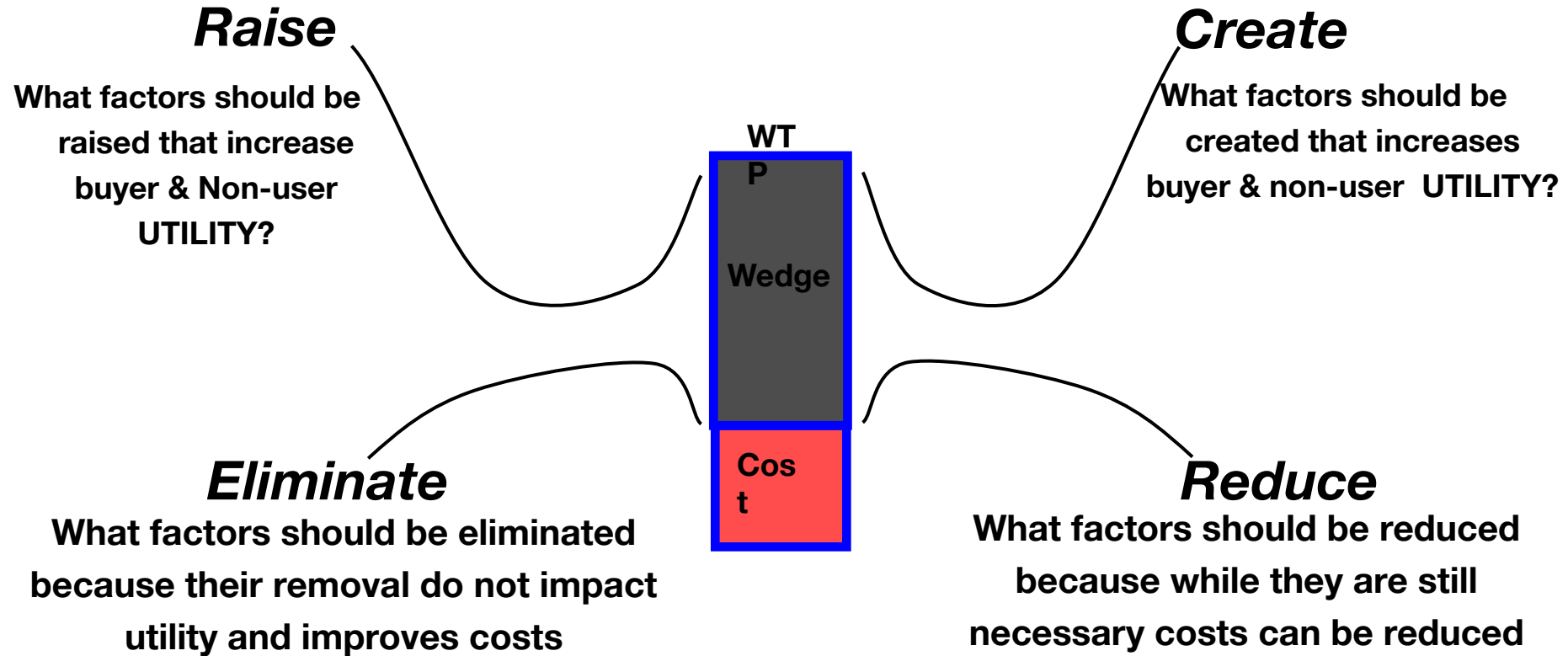
Red Ocean Strategy	Blue Ocean Strategy
Choose Low Cost or Differentiation	Simultaneously pursue both
Compete in existing market space with existing demand	Find new unmet demand via non-users
To beat the competition	To move away from competition

BO Moves Off the Frontier...



How to do both:

4Actions



Misconceptions of Blue Ocean

-is technology driven
 - NO: often recombines existing tech
-is for small/young firms
 - NO: incumbents & new
-includes tradeoffs
 - YES, but in new ways: shifts frontier
-is buyer utility focused
 - YES: but sequence is uncommon: Utility, Price, then Cost
-is stealing existing customers
 - NO: reaching non-users with different set of activities



Traditional CRM Industry

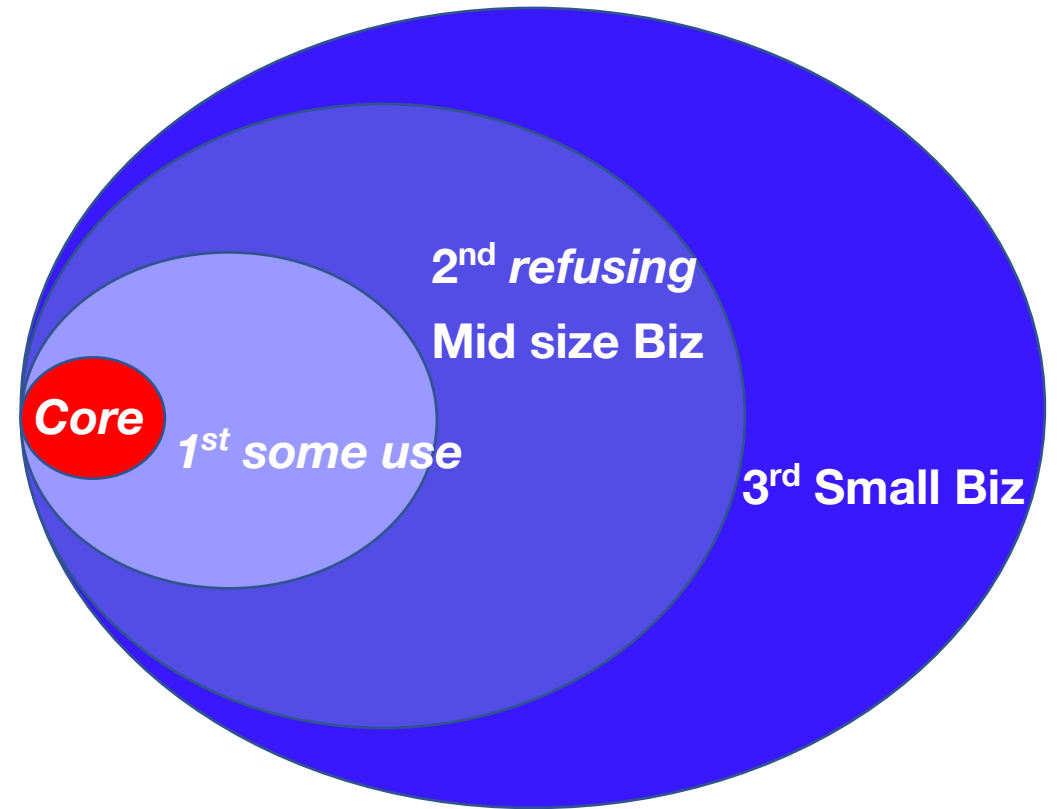
- **Suppliers:** really none
- **Buyers:** are powerful, large enterprises
- **Rivals:** Numerous large ERP vendors
- **Substitutes:** limited
- **Entry barriers:** capital, distribution, competitive retaliation
- **Complementors:** limited
- Product is highly customized, expensive to build and buy, difficult to learn. Rivalry is intense and feature richness (expensive) is increasing.

**How would you
compete?**

Who is not using? WHY NOT?

- Core/1st: large enterprises who can scale out the costs, but so many pain points ready for better alternative
- 2nd – Mid-size who resist due to \$ and challenges
- 3rd – Small biz, never really thought of

Think DE-SEGMENTATION



User/Non-User Pain Points?

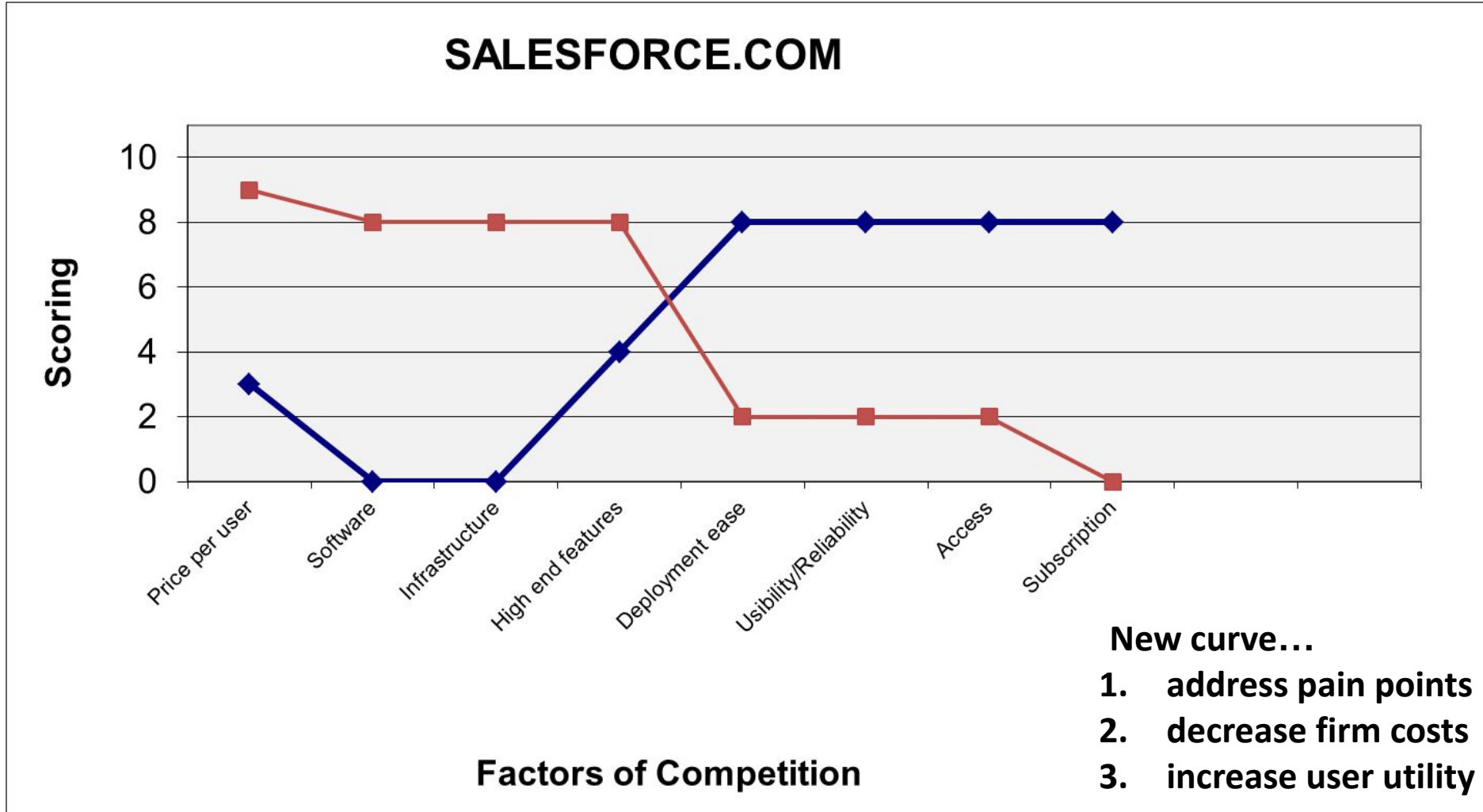
The Six Stages of the Buyer Experience Cycle

		1.	2.	3.	4.	5.	6.
		Purchase	Delivery	Use	Supplements	Maintenance	Disposal
The Six Utility Levers	Customer productivity		✖	✖			
	Simplicity	✖		✖		✖	
	Convenience	✖	✖	✖	✖		
	Risk	✖			✖		✖
	Fun and image						
	Environmental friendliness						

Salesforce removed Pain Point

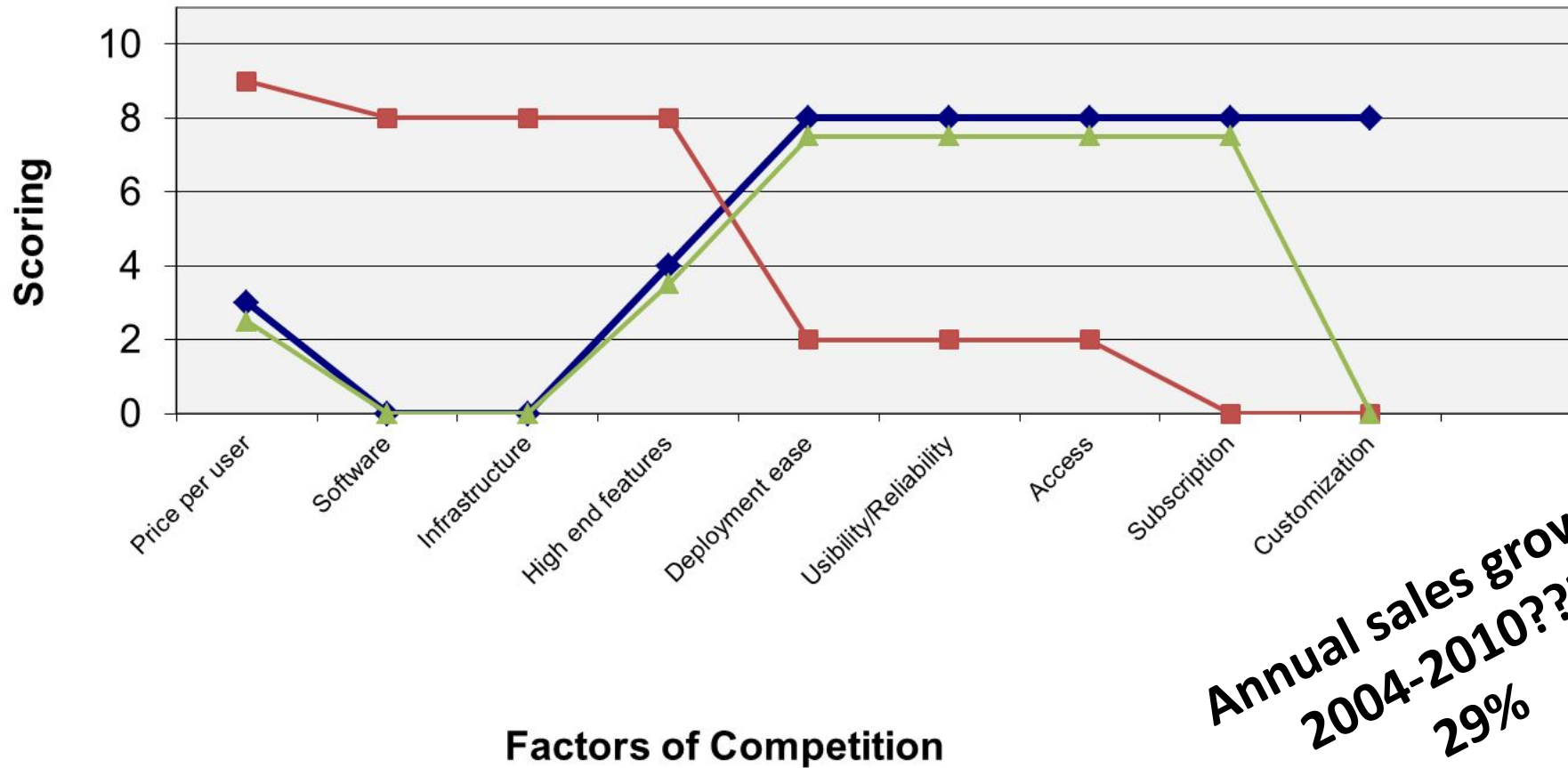
ELIMINATE <i>Software</i> <i>Capital investment</i> <i>Maintenance costs</i>	REDUCE <i>Time to use</i> <i>Set up time</i> <i>Training</i> <i>Complex function</i>
RAISE <i>Ease of Deployment</i> <i>Simplicity</i>	CREATE <i>Subscription</i> <i>Accessibly</i>

Salesforce.com Value Curve 1.0



Salesforce.com Value Curve 2.0

SALESFORCE.COM



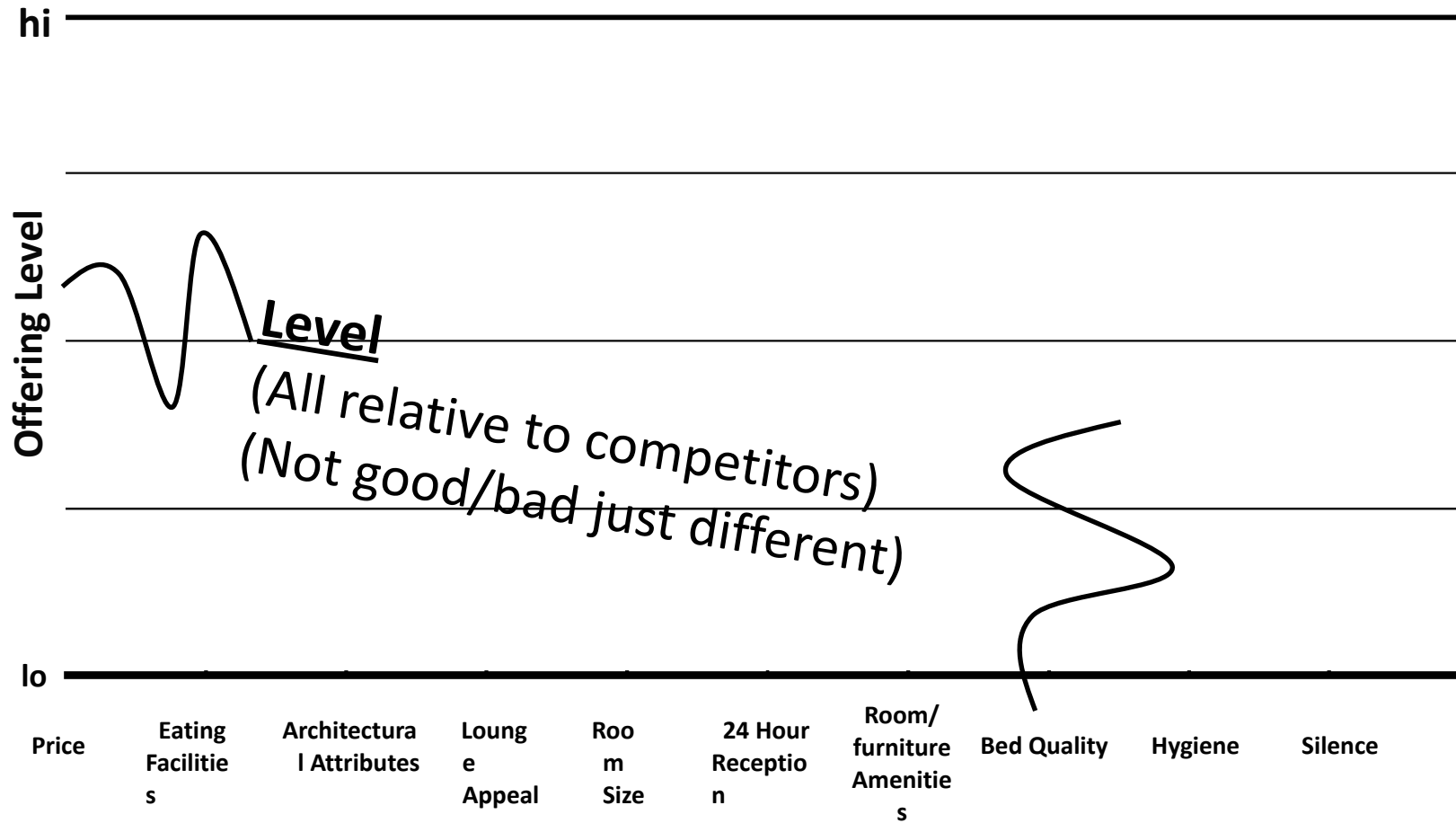
Easily copied....
Creates
"stickiness" and
value via a
customization
marketplace

Annual sales growth
2004-2010???
29%

Blue Ocean's Tools

- Primary tools: Value Curve & 4Actions
- Understand: Buyer/Non-buyer Utility
 - Finding Opportunity: 6 Paths
 - Viability: Sequence

Value Curves:



Elements of Great Value Curve

Divergent: different from competition

- Failure: me-too; no new cost saving

Focus: Buyers utility clearly seen

- Failure: incoherent; inconsistent

Tagline: Must be communicable

- Failure: internally focused; misses mark

- Not only Drives Formulation, but Communication

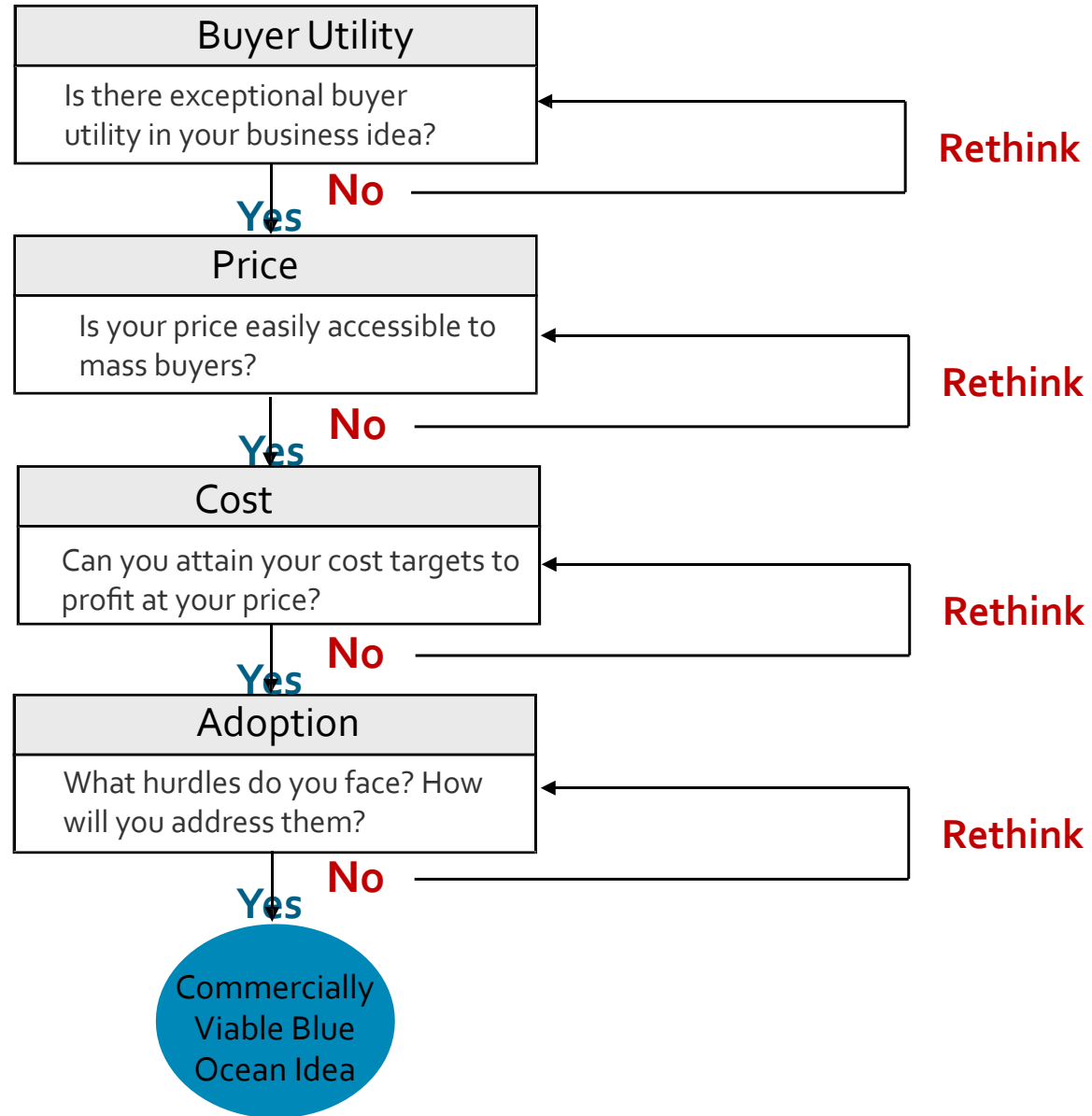
Utility by Removing Pain Points

- Unlock utility by identifying and removing pain points...

Search Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Customer productivity: efficiency – less time, effort, and/or money					
Simplicity: anything that eliminates or minimizes complexity or hassle					
Convenience: when and where you want something, like 24/7, 365 days a year.					
Risk reduction: including financial, physical and reputational risk.					
Fun & image: the look, feel and attitude the offering conveys					
Environmental friendliness: how green your product or service is, and does it matter					

Sequence

Price Before Cost

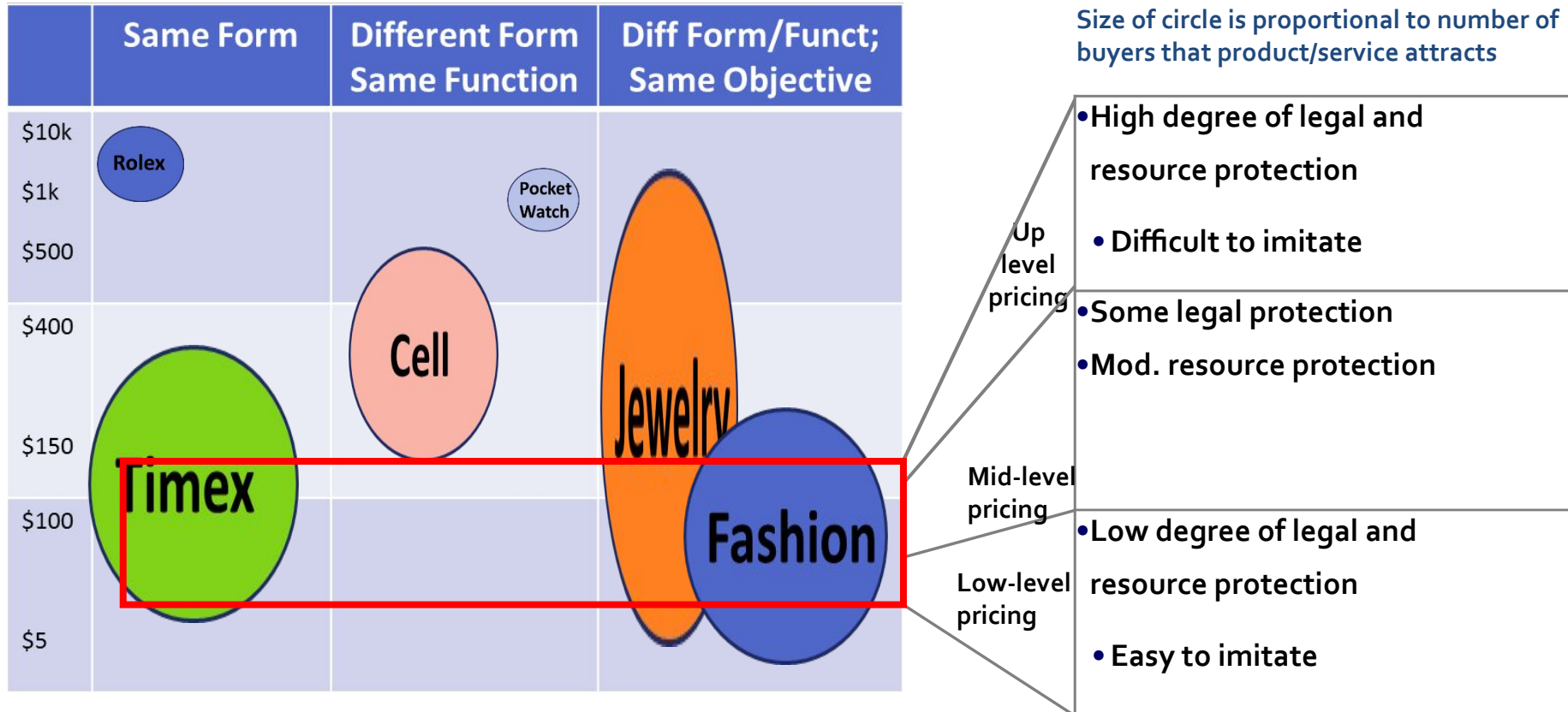


Sequence

From Utility to Pricing

Step 1. Identify price similarity to

Step 2. Specify a level within the price



Sequence for Viability



Buyer Utility

Cross emotion/function appeal to create utility

Price

Set price @ \$40, capture market and dissuade imitators

Cost

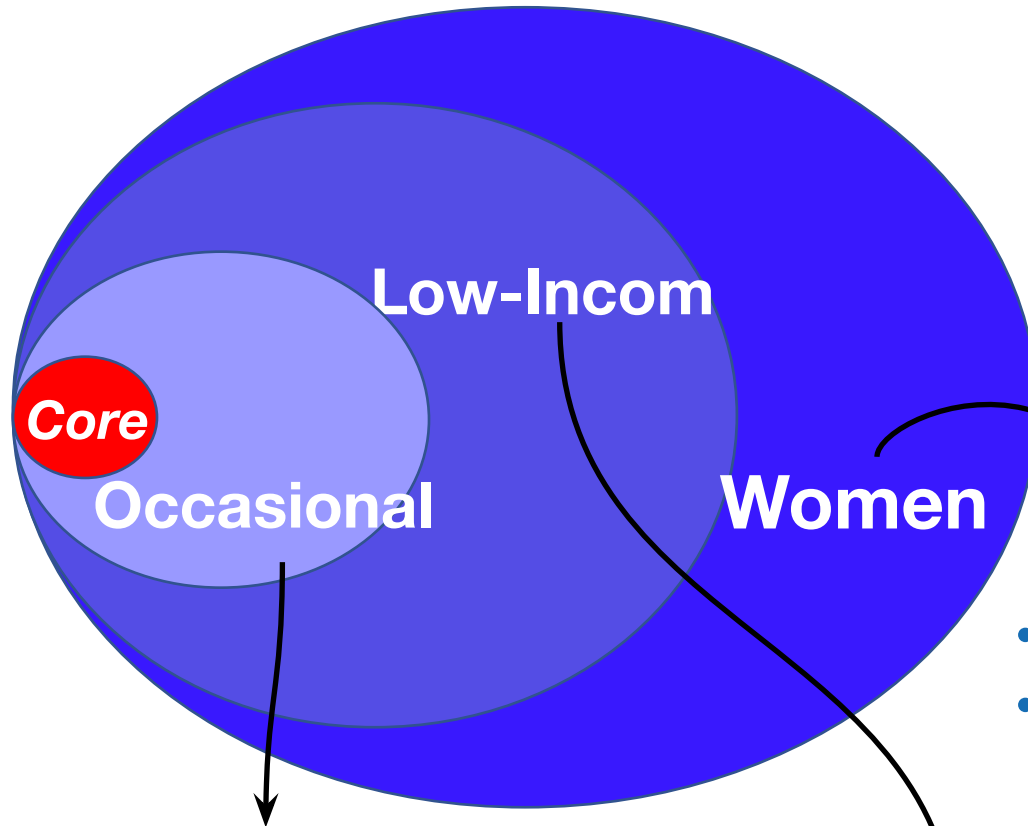
Worked backwards:
Reduce parts: 150 to 51;
used plastic; no screws

Shaving in the 1900s



- Life-lasting razors
- Forged blades
- Size of blade
- Price of razor

The Three Tiers of Noncustomers

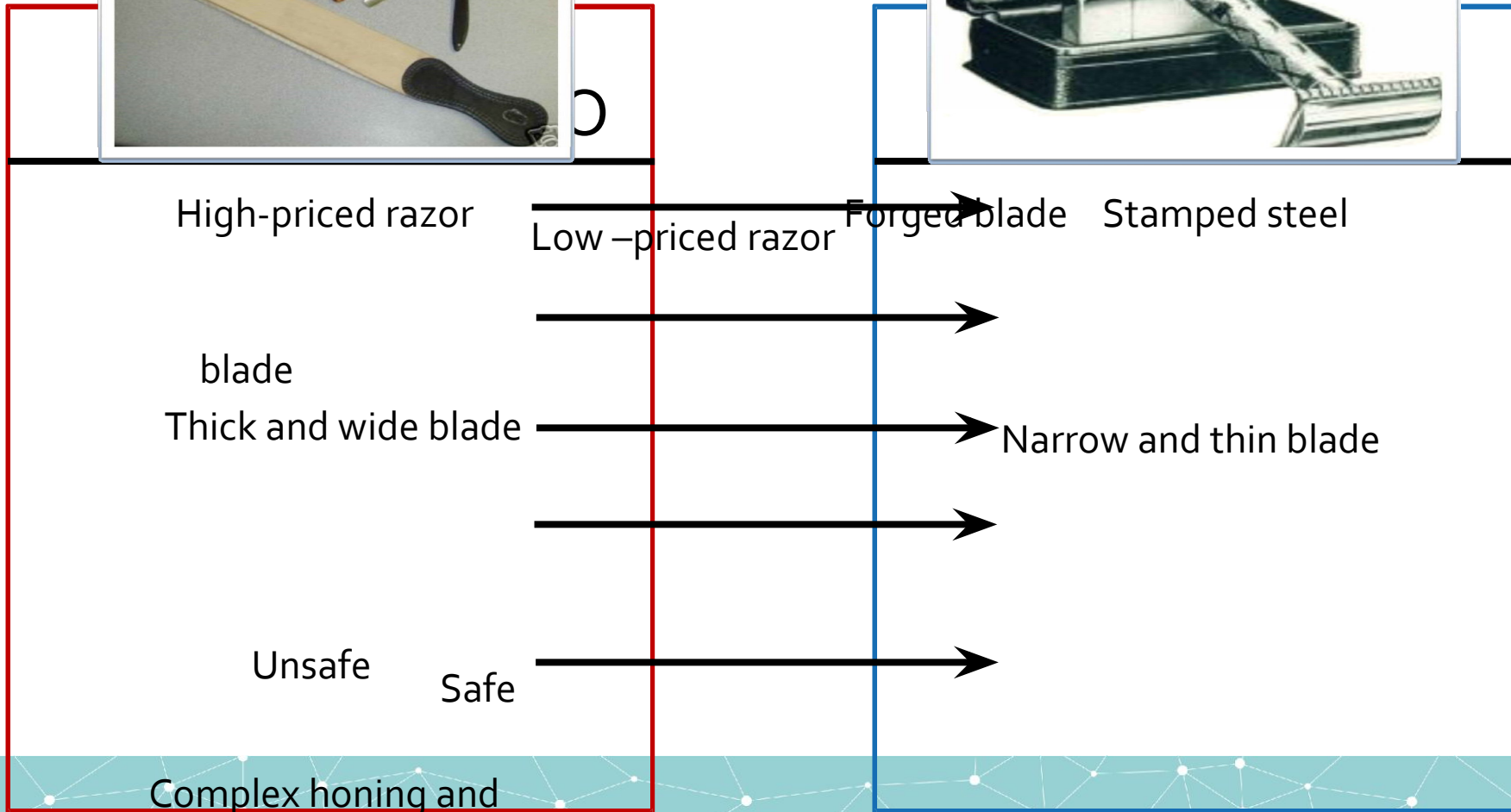


66 million don't have a barbershop close

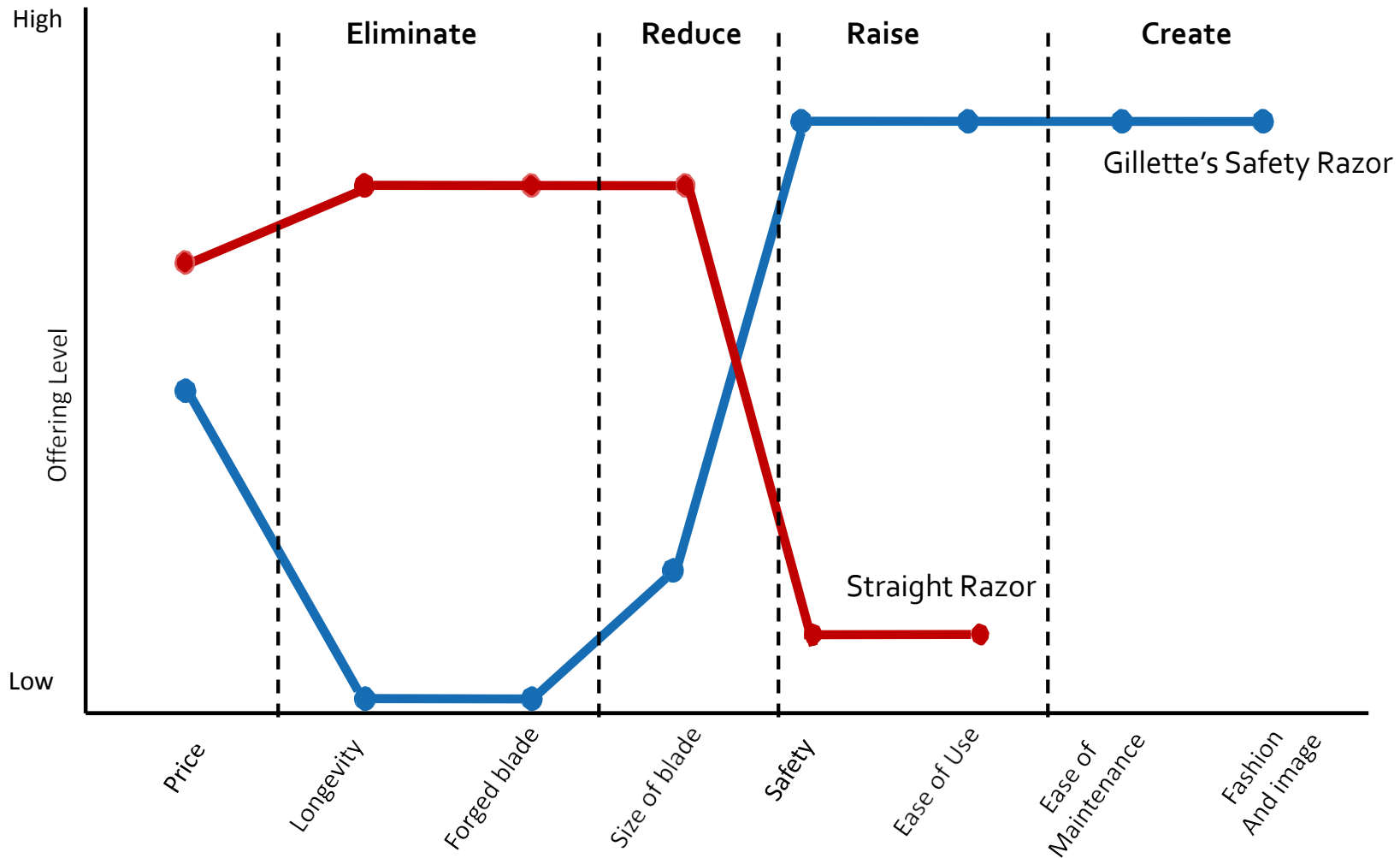
- 40% of total population are too poor for barber

- 12 million women 20-39
- Barbershop, really?

Gillette's Strategic Move



Strategy Canvas

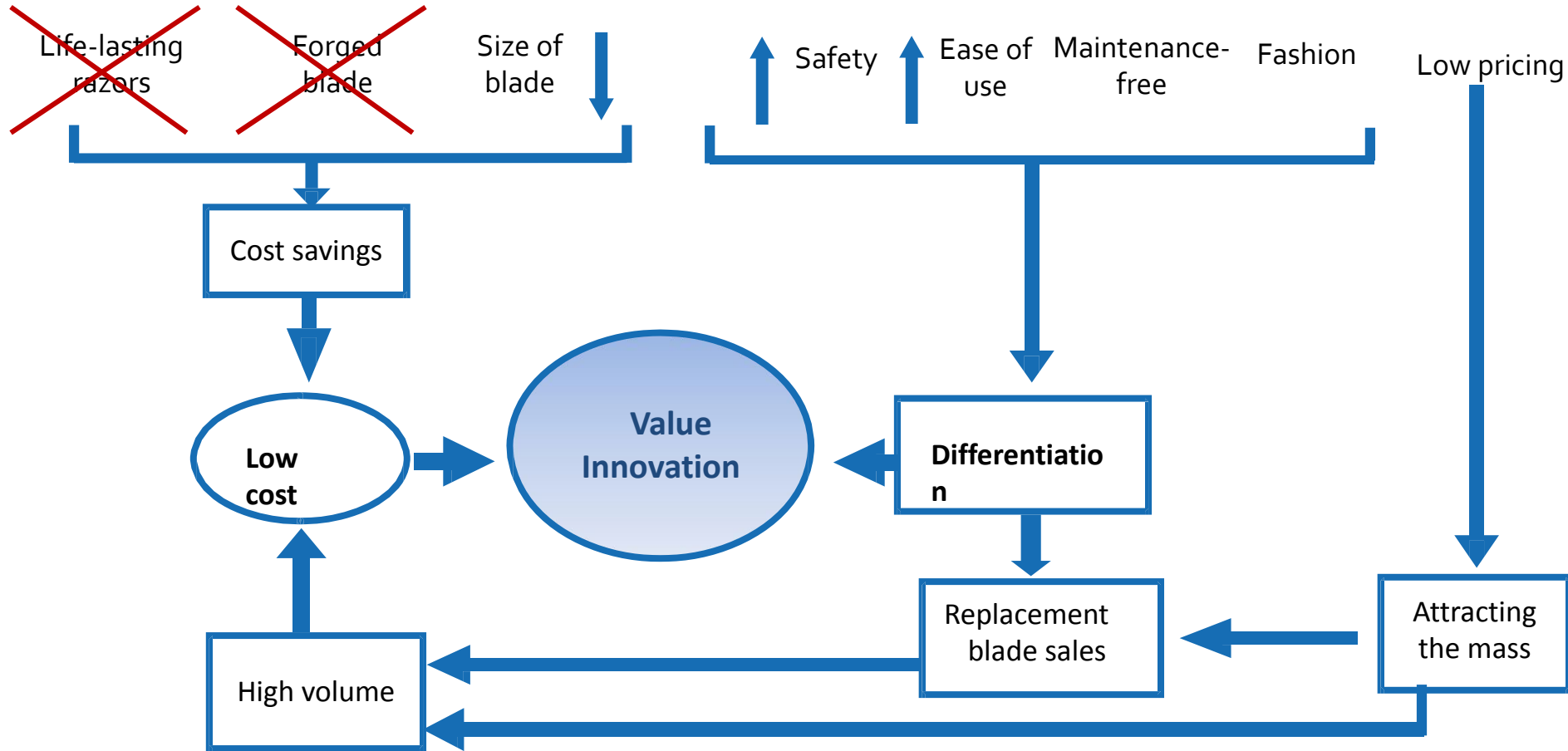


Gillette's Strategic Move

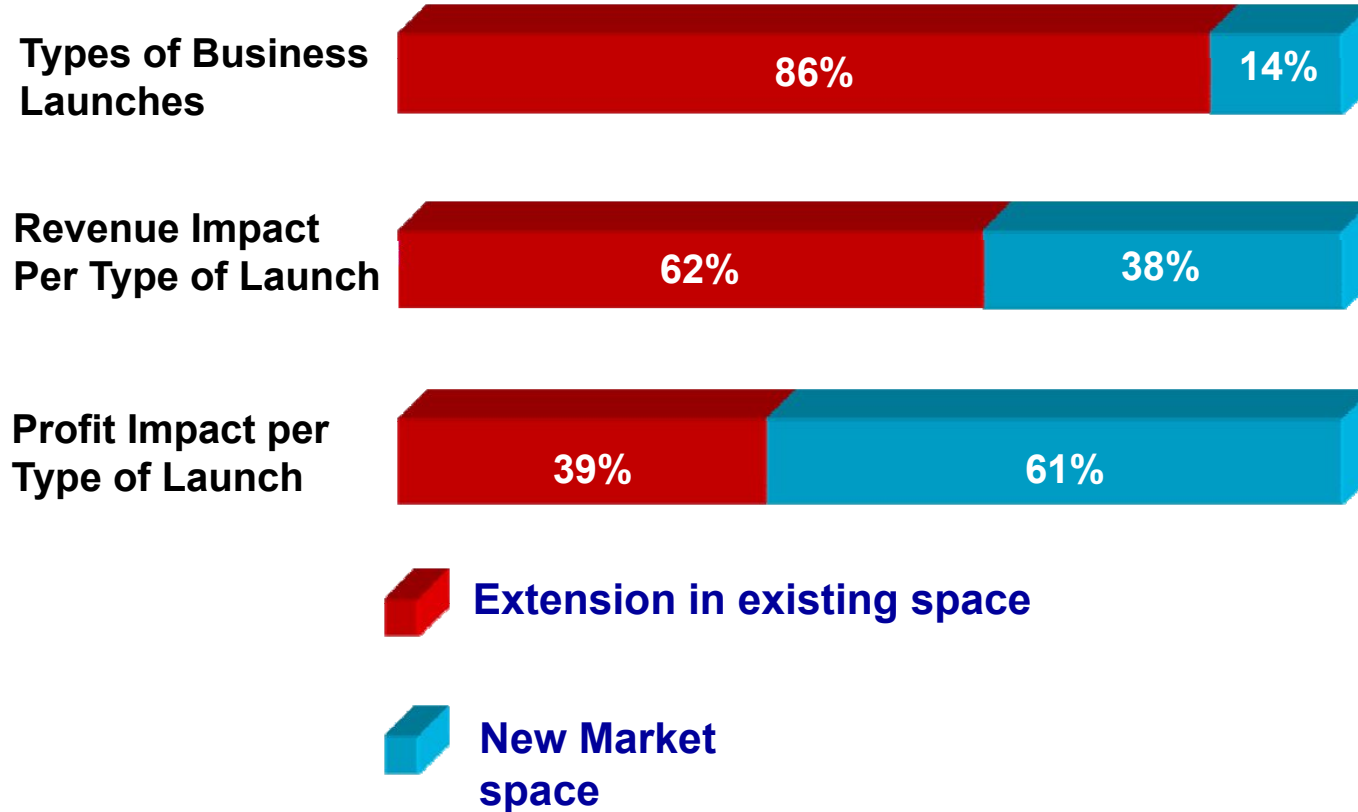


These Actions Aren't Fluffy

They Change Cost and Revenues Structures



New Market Actions Produce Profit



Your Turn with Value Curves

1. Get into groups
2. Pull up Excel Value Curve Template
3. Consider your firm and your major competitors (2)
4. Draw the value curves for each on the same canvas
 - What factors did you specify?
 - How do they compare?
 - Do your curve show utility? Is it focused? Does it diverge? Is there a clear tagline?
5. Present to Class
 - Describe your canvas to class

Now, turn attention to Six Paths

Systematic way to reconstruct market boundaries and create new market space

From Competing Within



To Creating Across

Care When Thinking via Analogy

- Powerful: Drive to insight.....Can also Drive to failure



- Articulate the analogy explicitly
 - Evaluate soundness: similarity / difference
- Test idea forward with thought experiments
 - User / Non-User utility?
 - Effect on the 5Forces
 - Utilization and fungibility of current resource for new context

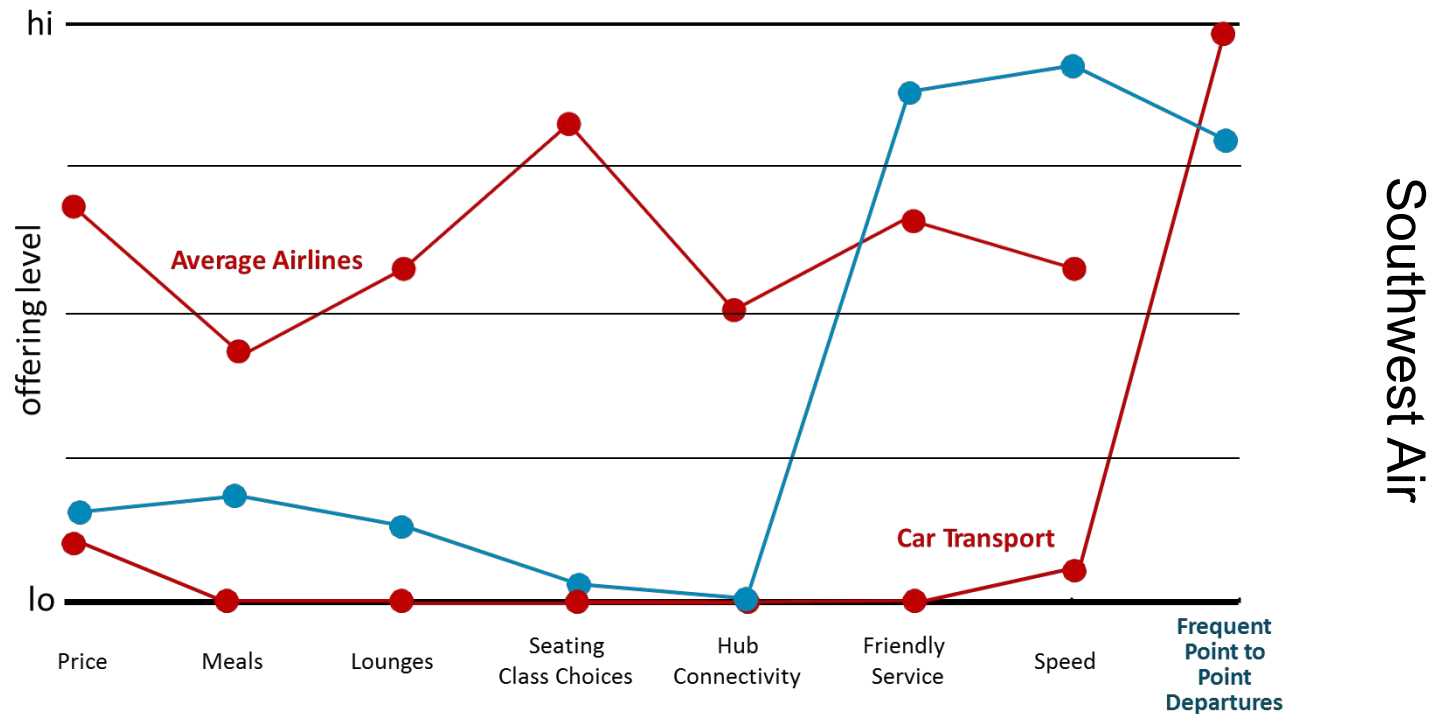


1. Look Across Alternative Industries

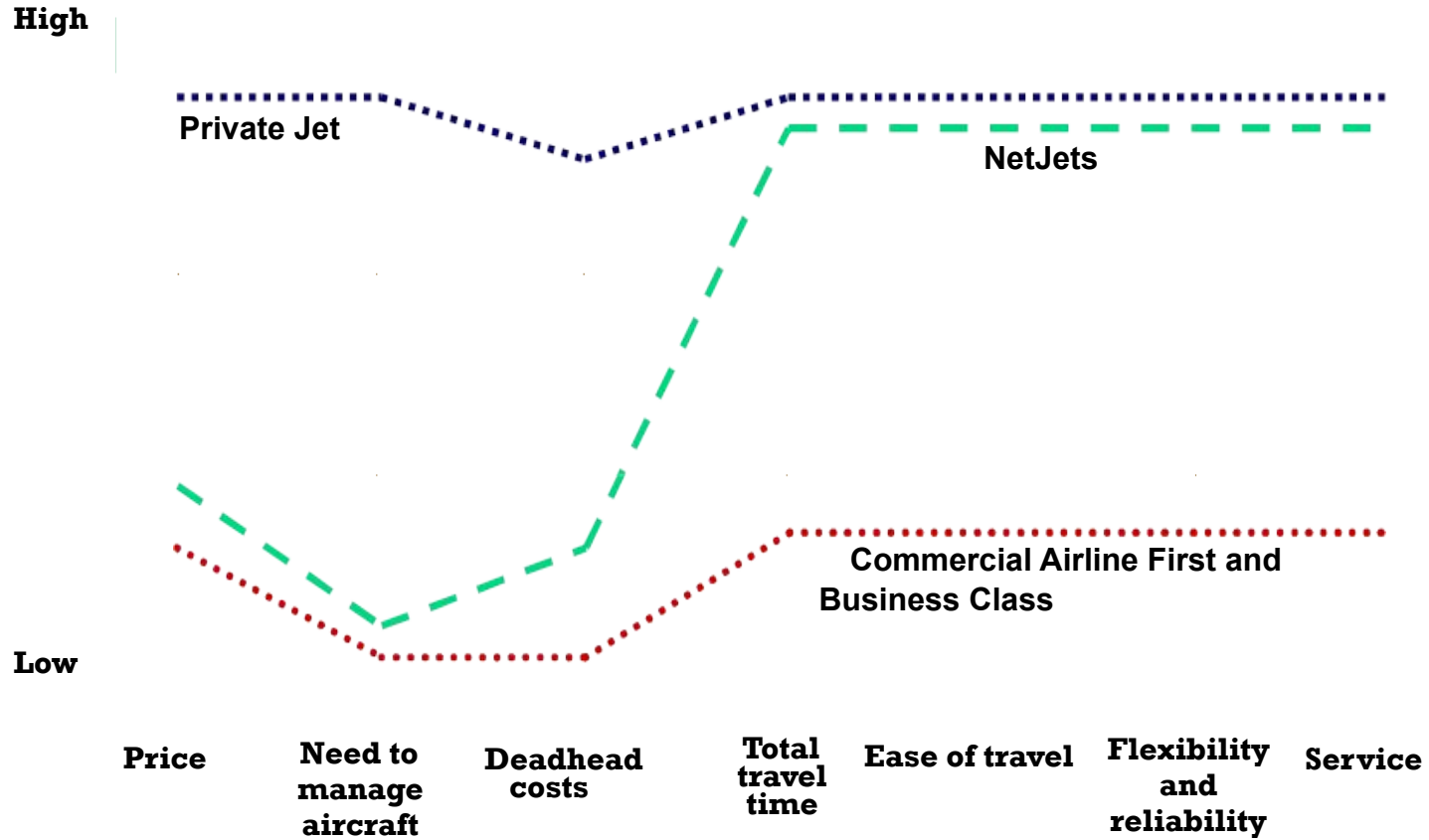
The Logic:

Buyers often implicitly weigh alternatives across industries:

- Drive / Train / Fly -> What pushes them?



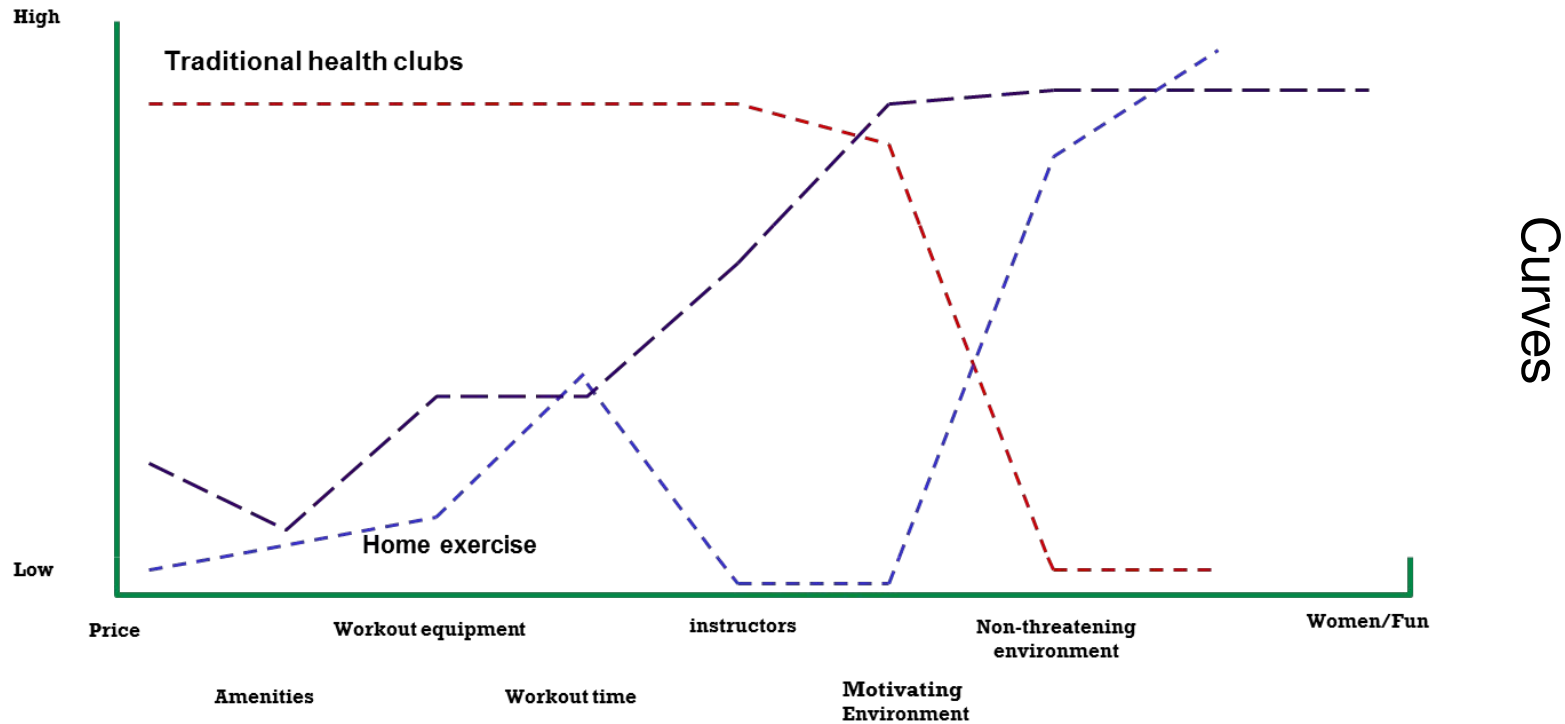
NetJets



2. Look Across Strategic Groups

The Logic:

Strategic groups rightly segment the market. But is there an offering that unites segments?



Path 3. Chain of Buyers

- Purchasers, Users and Influencers are actually different groups. Their views of value likely differ!
 - Can shifting focus creating new demand?



Bloomberg changed focus from Buyer (IT) to Users (TRADERS)



Change focus from Influencer (Doc) to User (Patient) **ADDED** easy use



Help Dad say yes for Daughter



Path 4. Complementary Offerings

- Other products or services affect the value of your offering. Value can be created by offering a total solution.
 - What happens before/during/after the use of your offering?

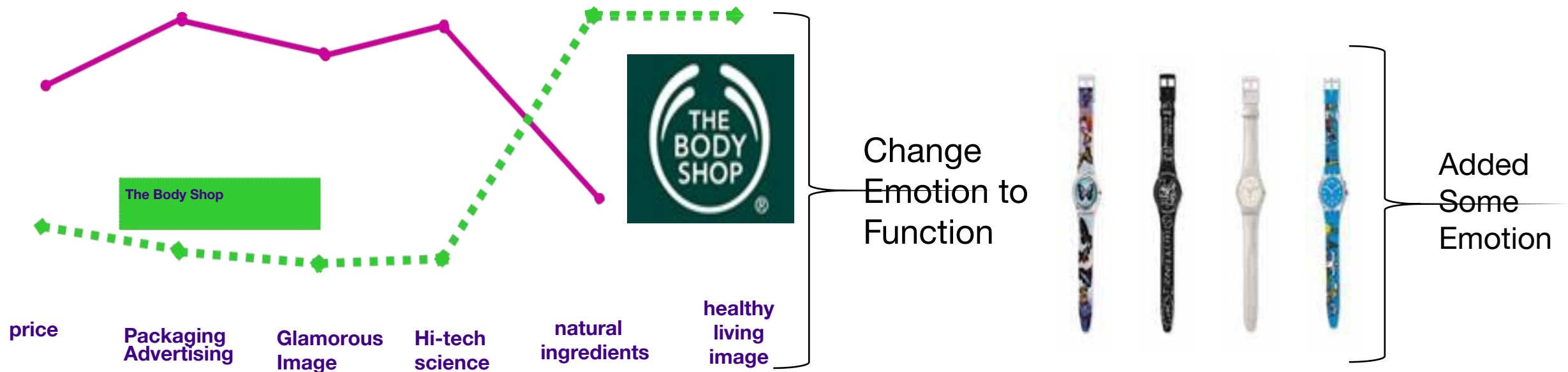
IKEA offer complementary services



Starbuck's 3rd place: couches, music, Wi-Fi, nice place for visiting

Path 5. Functional/Emotional Appeal

- Some industries compete principally on functionality or emotion. Switch it up.



6 Paths Shift Focus

	<u>Conventional Logic Focuses on</u>	<u>Value Innovation Looks to</u>
1. Industry	Rivals within its industry	Cross alternative industries
2. Strategic Group	Competitive position within strategic group	Cross strategic groups within industry
3. Buying Group	Better serving the buyer group	Redefine who derives value
4. Complementary	Maximizing the value of product and service offerings within the bound of its industry	Cross complementary products and services
5. Function/Emotion	Improving price-performance within the functional-emotional orientation of its industry	Invert the functional-emotional orientation
6. Time	Adapting to trends over time	Shape trends over time

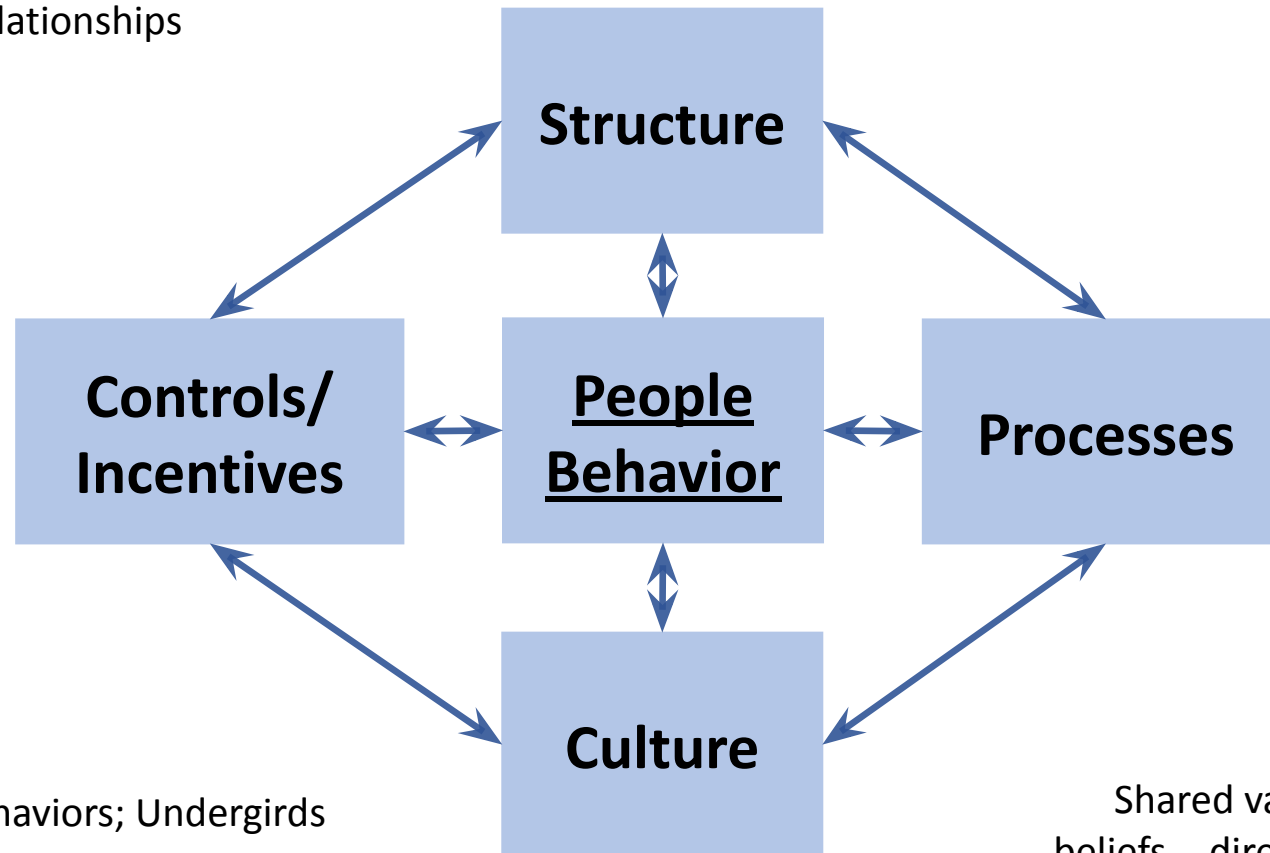
Remember, Strategy...

- A problem solving system – two problems
 - Users/Buyer's concerns/Issue/pain points
 - **How I organize to solve them**

Organizational Design Elements

Delineates groups; Determines reporting and authority relationships

Routines; Approach to decision making; How work is performed



Modifies behaviors; Undergirds processes

Shared values, norms, beliefs...directs expectations

Big Picture on Org Design

- Relationship with Strategy
 - strategy is implemented via organizational design
 - should match strategy in discriminating ways
 - elements can be made complementary in various ways. Not set in stone.
- Relationship with VRIO
 - can be valuable, rare and inimitable, thus creating a strength
 - can be inertial in its dysfunction, and thereby a weakness that promotes disadvantage

Incentives must drive productivity (not cost)

- Good
 - Transparent
 - Rewarding
 - \$
 - Recognition
 - Advancement
 - Tied to Strategy
- Bad
 - Opaque
 - Excuses abound
 - Shirking increases
 - De-motivating
 - Too much team
 - Too much me
 - Not differentiating among level of achievement



→ \$50K

Controls

- Strategic (behavioral)
- “Show me the effort”
 - Principles
 - Need to coach desired behaviors
 - Cold calling
 - Time in office
 - Risk taking
 - Experimentation

- Financial (output)
 - “Show me the \$”
 - Ratios
 - Sales
 - Costs
 - Job specific metrics
 - You do not need to coach, just count!



Which are needed per Strategy?

Organization Culture

- Culture....
 - Espoused values and norms of behavior within organizations.
 - Taken for granted ways of behaving within an organization
 - Nordstrom: “Our number one goal is to provide outstanding customer service”
 - Don’t point, walk customers to a location; Walk bagged purchase to customer, don’t hand across counter; Offer to ring up purchase (avoid standing in line)
 - Reinforced by symbols and stories
 - Any good stories of your firms culture?
 - Comes in both **formal** and **informal** flavors
 - GM’s informal culture: People who show too much initiative don’t get promoted
 - Microsoft’s informal culture values autonomous action
 - It is a different means of control
 - Can be the most powerful element (along with incentives)

Organization Culture (Cont.)

- Management can shape culture through structure, controls, incentives
 - A “bad” culture can be the end of a firm!



Bottom up Organization
Autonomous action

Good ideas come from deep in organization.

Value of serendipity

Make a little sell a little

Don't overly manage new pro development

Identify needs

Family like; low turn



Highly aligned
Loosely coupled

Great Performance

Creativity: Focused

Responsible: Keeper test

Self-discipline: Context

Freedom: Avoid rules

Team: No Jerks

Professional not family

Organization Processes

- How decisions are made and/or how is done
- Examples:
 - Strategy formulation processes
 - 3 year rolling plan at Microsoft
 - Product development processes
 - Stage-gate processes at Google
 - Quality improvement processes
 - Lean production at Toyota
 - Decision making processes
 - Consensus decision making processes at IBM
 - Performance evaluation processes
 - Stack ranking at GE and Microsoft

Example: Performance Evaluation

Stack Ranking

- Not a good or bad thing!
- Fosters competitive environment
- Rewards best, fires the poorest
- Does not promote collaboration
- But other elements can!

360 Review

- Not a good or bad thing!
- Fosters collaborative environment
- Makes responsiveness a priority
- Does not promote competition
- But other elements can!



STACK RANKING AT MICROSOFT

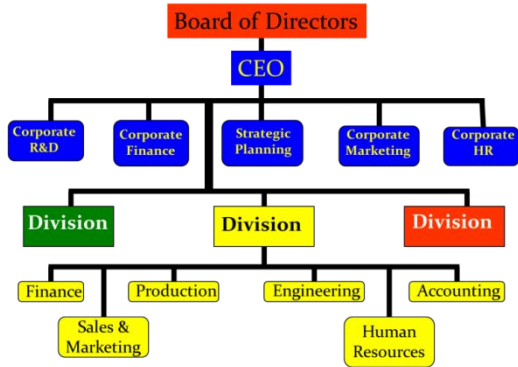
- One of the best-known stacked ranking systems is former General Electric [CEO](#) Jack Welch's *Vitality Curve*, which assigns high-achieving employees, which he called "**A players**," to the **top 20 percent**, normally productive employees (**B players**) to the **middle 70 percent** level and unproductive employees (**C players**) to the **bottom 10 percent** rank.
- According to Welch, the **top employees should be further motivated with bonuses and other rewards** and the **bottom 10 percent should be fired**.

Introduction to Stack Ranking

Customer adds to revenue | Customer provides | Customer provides

Customer 20% | Middle 70% | Bottom 10%

Structure



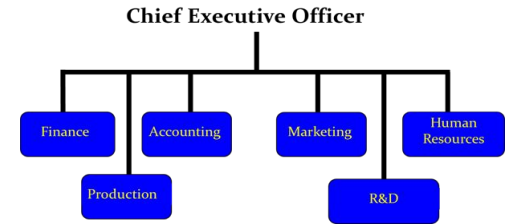
1. What is it?
Divisions are profit centers
Duplicated functions
2. Why?
Scope overwhelms Functional's information processing

Simple

Match Structure to Strategy
Do NOT over structure

M-Form

Functional



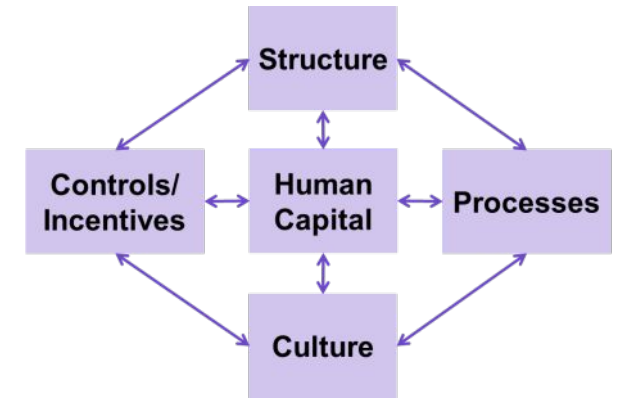
Limitations:
Information processing breaks down as scope increases

Owner most often CEO
CEO is expert
Limitation: Information processing breaks down as size increase

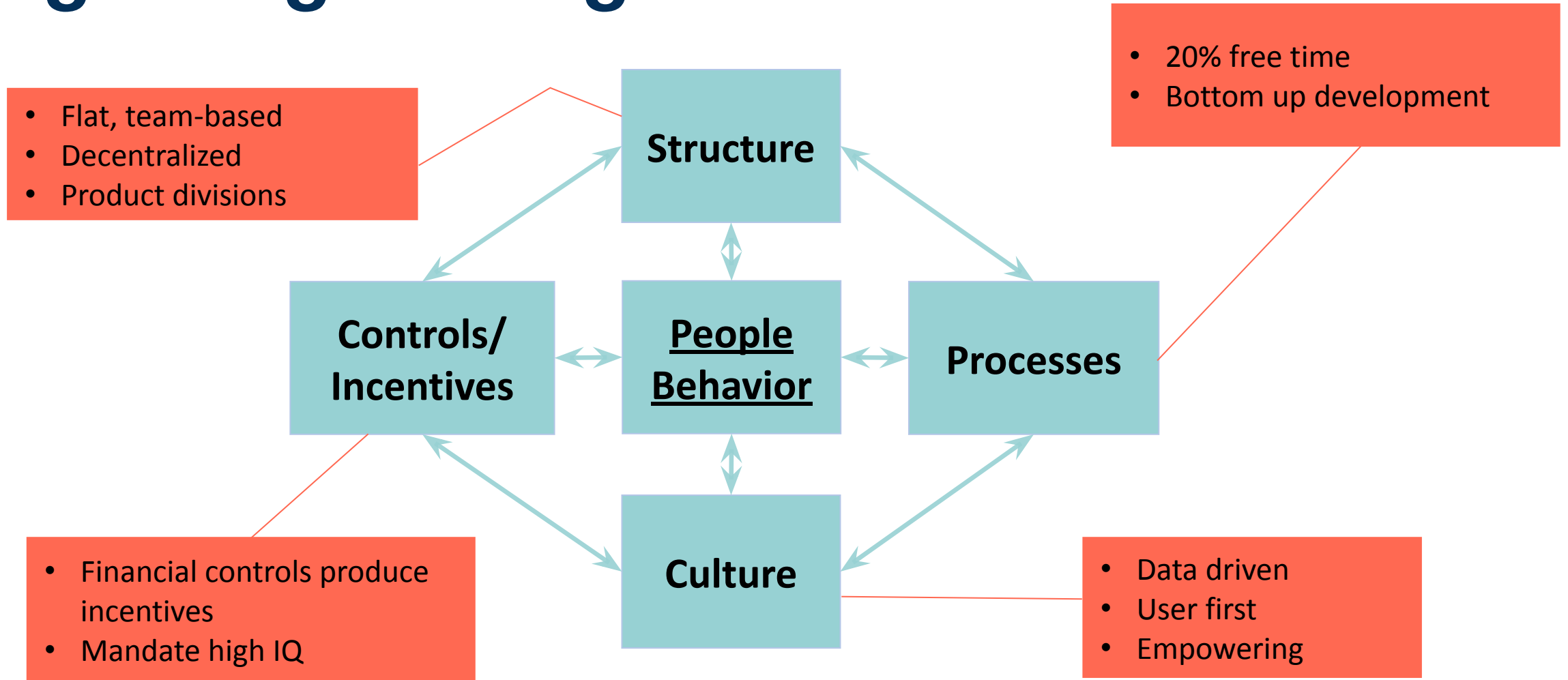
Take-Aways...

General for Org Design

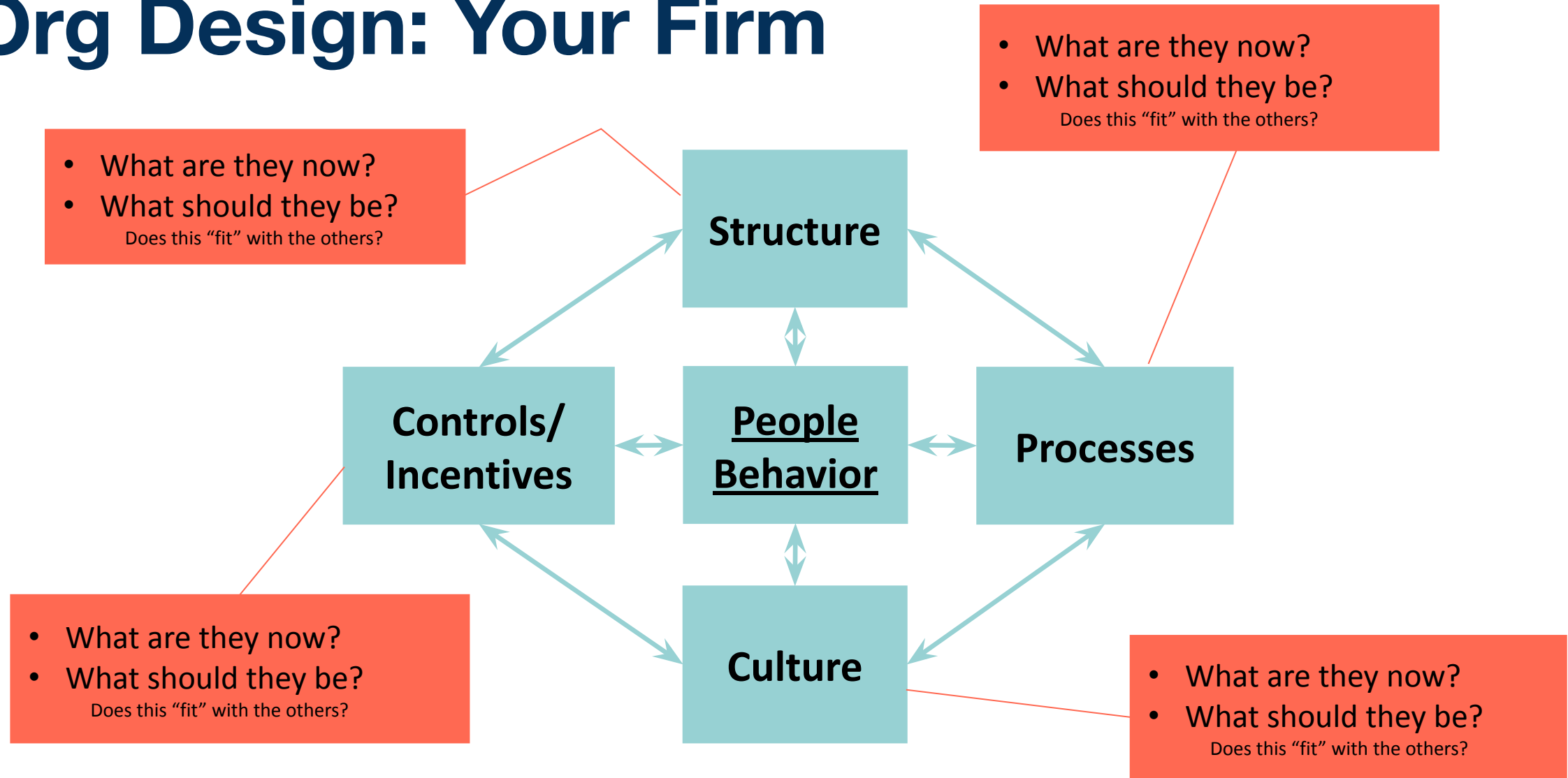
1. Critical to winning
2. Often overlooked – but needs significant attention
3. All elements work together, but different per strategy

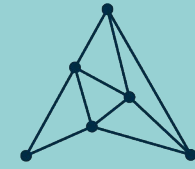


Org Design: Google



Org Design: Your Firm





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Thank you.

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