MASTERING THE COMPLETE STRATEGY LANDSCAPE[1]

VALUE CREATION, CAPTURE and REALISATION

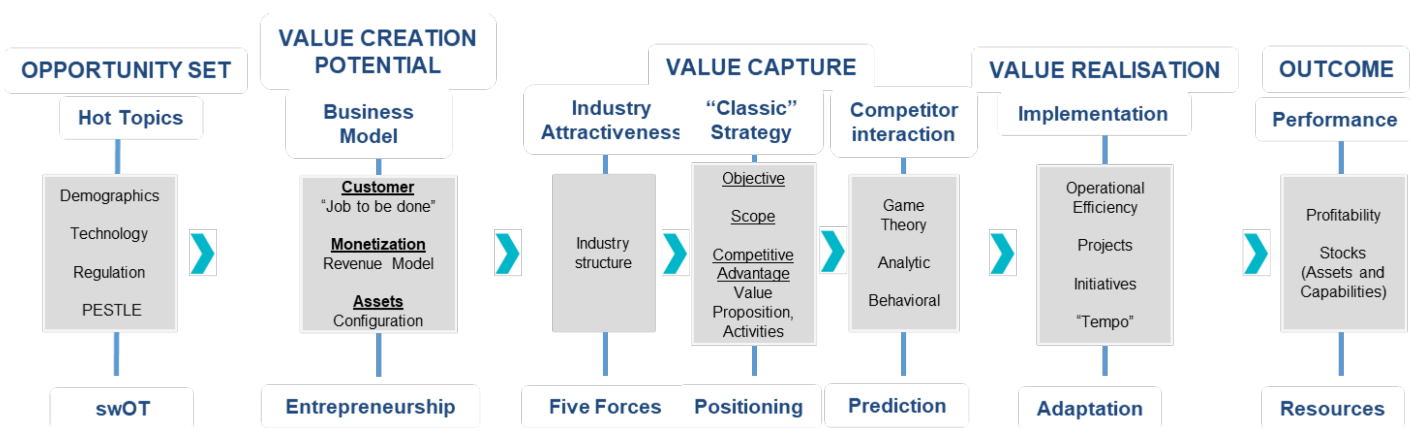
As CEO, whether of a large established firm or an entrepreneurial startup, you have the responsibility to craft a strategy capable of creating, capturing and realizing value. And yet, too often, the holistic perspective required to integrate those discrete tasks gets lost in a narrowly focused or fragmented approach.

Established companies, like textbook publishers, get drawn to the fight among themselves for incremental market share only to be blindsided by upstarts, like Coursera and Duolingo, with radically different "business models". Meanwhile, fast growing entrepreneurial ventures, like Casper, the bed-in-a-box mattress firm, discover that however highly customers value their innovative offering, they never develop a competitive advantage (against the 147 rivals they face) to justify the market valuation given their novel model.

These failures stem from not aligning a firm's strategy across all elements of the strategy landscape (Figure 1 and Appendix). Understanding that complete landscape rather than **independently** addressing its discrete components or worse, **ignoring** some elements; recognizing **interdependencies** so that what might look attractive in one part can cause problems in other parts; and developing an **integrated** approach across all elements enables a CEO to deliver a strategy that can successfully navigate the challenges of today's VUCA (volatile, uncertain, complex, ambiguous) world.

FIGURE 1

THE COMPLETE STRATEGY LANDSCAPE



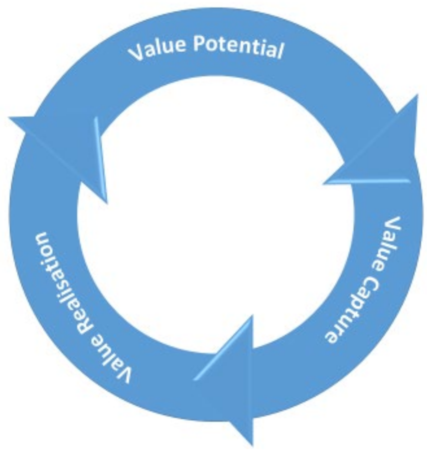
That landscape begins with the external environment which shapes the playing field for all firms and concludes with the performance outcome for the particular firm. In between lie the strategic choices made by the firm that cover three discrete tasks – crafting a business model that maximizes the **future value creation potential** of the product or service offering; clearly articulating a sustainable competitive position that **captures value today**; and designing an organization capable of continuous adaptation to **realise value over time**.

[1] See also Collis D, "Why do so many Strategies Fail?" Harvard Business Review, July/August 2021 pp 82-93

While shown as a linear progression the landscape is best conceived of as a continuous and iterative system (Figure 2). Performance outcomes resulting from strategic choices establish a firm's capabilities and resources which, in turn, drive the search for new opportunities and trigger a response to exogenous threats.

FIGURE 2

AN INTEGRATED SYSTEM OF VALUE CREATION

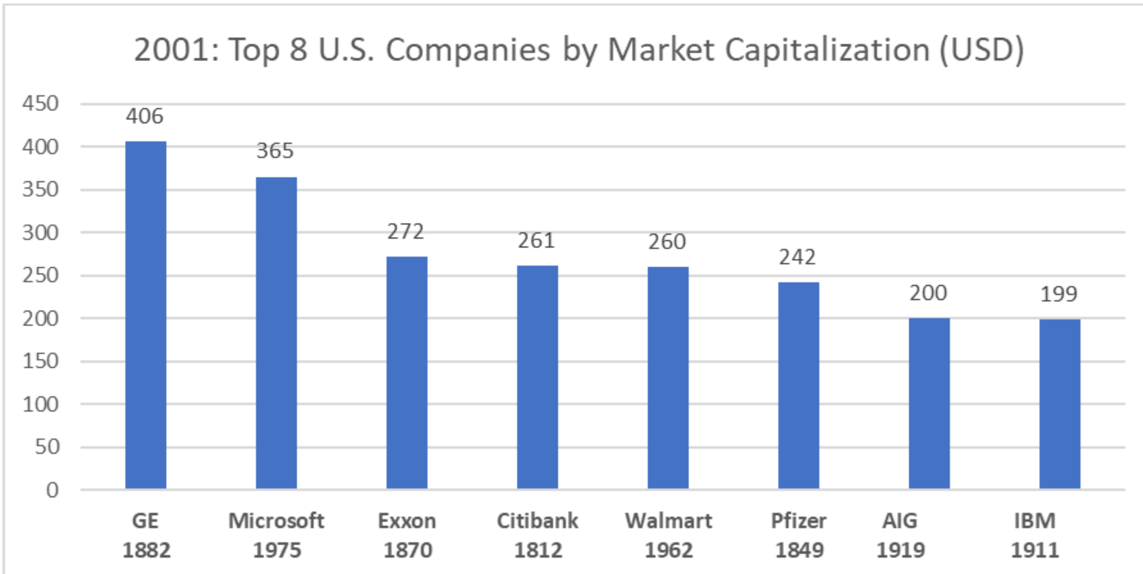


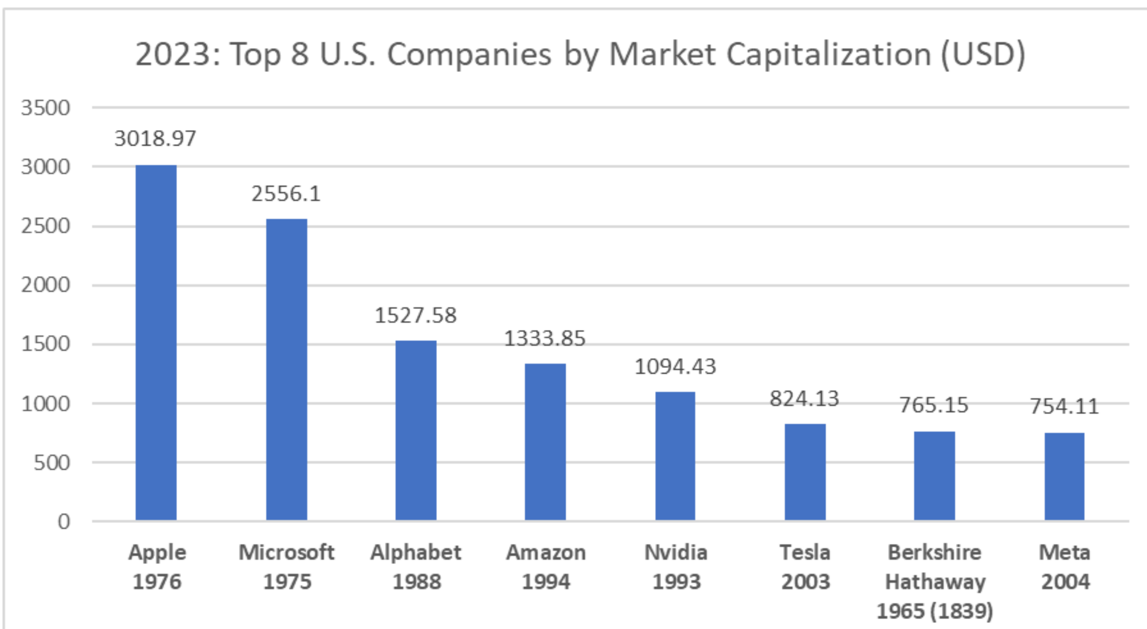
RC Strategy almost exclusively focused on **value capture**. This follows the traditional approach of the strategy field and owes a lot to the seminal work of Michael Porter at HBS. He ported over from industrial organization economics notions of industry structure and differential firm performance to explain how to build a **competitive advantage in an attractive industry**. Classic strategy sought to deliver a unique competitive position by making choices to align the firm's activities in support of a distinctive value proposition.

Important as this insight is, recently the emphasis has shifted to value creation. We only have to look at the list of most valuable companies in the US to see that discovering and exploiting new business models to satisfy hitherto unmet, unexpressed, or even unknown customer requirements in unique ways has been where the action has been for twenty years (Figure 3). Yet none of these new companies collectively created trillions of dollars of value by out-positioning their rivals. When they started they simply did not have rivals. Indeed, the businesses they created did not exist when they began operation. The fact that most of these companies now refer to themselves as "platforms" – a term that, other than referring to railroad stations, was almost unknown twenty years ago – only proves the point.

Figure 3

Top Eight U.S.Companies by Market Capitalization (And date of founding)





In response, strategy has shifted its attention to **value creation** and recognised the importance of the **business model** as a contribution to the field. While there has been handwringing over the “disruptive” threat posed to incumbents, the good news is that the majority of novel business models are “expansive” opportunities which should be embraced! Would you rather be the one- time seller of a product, or build a long term client relationship delivering customized solutions? The latter is the opportunity new digital business models can offer firms that effectively leverage data and analytics. Siemens, for example, now offers a digital platform instead of just selling factory control systems, and Hitachi Rail can enter into billion dollar twenty year performance based contracts for rail service rather than being paid only the initial price of the train.

To **realize value over time** execution has to be more than a one-time change management process which aligns activities to deliver the unique competitive position of the "classic" strategy. Rather **implementation** involves:

- Driving current operational efficiency
- Continuously adapting firm activities to an ever-changing opportunity set. Consider how a fast food restaurant responds to mobile phone ordering without changing its core value proposition: altering menu items, store configuration and maybe even store locations
- Investing in the capabilities and resources that sustain the competitive advantage over time

Each of these tasks is non-trivial. Even plants within the same firm can struggle to achieve half the productivity / operational efficiency of the best performer[2]. A recent global survey found that large differences in firm performance are accounted for by variance in the adoption of basic managerial tools. The authors then argue in an award winning HBR article that strategy has undervalued the importance of managers in driving performance[3]. Even in developed countries the ability and pace at which firms adapt to the evolving opportunity set varies widely. Thus, design of the organizational processes for the projects (micro-battles) that continuously adapt activities within the bounds of the strategy becomes a key component of realising value over time. Finally, continuing to maintain a position of competitive advantage over time requires commitment to the core long term initiatives (must-win battles) which support investment in the capabilities that underpin the firm's success.

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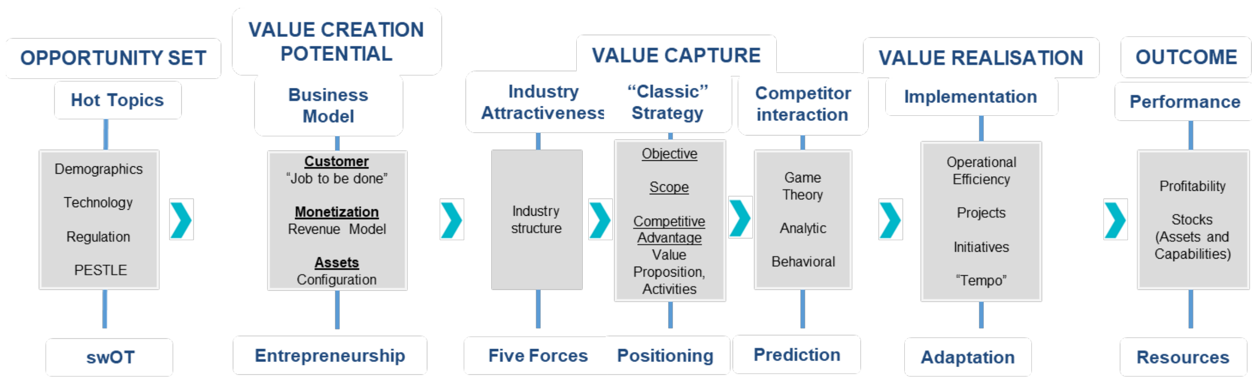
[2] Original work on, so-called, X-inefficiency goes back to Leibenstein, Harvey. "Allocative efficiency vs." X-efficiency"." *American Economic Review* 56.3 (1966): 392-415

[3] Sadun, Raffaella, Nicholas Bloom, and John Van Reenen. "Why do we undervalue competent management." *Harvard Business Review* 95.5 (2017): 120-127.

APPENDIX

THE COMPLETE STRATEGY LANDSCAPE



Opportunity Set: Developments in technology, demographics, politics etc[4], represent the shifting tectonic plates of the business landscape. Their evolution throws up an ever-changing list of current "hot topics" confronting executives, from coronavirus to cybersecurity, block chains to bitcoins….. This context is the raw material that a strategist has to work with because it generates the set of production possibilities firms can exploit. It is the OT from the SWOT (strengths, weaknesses, opportunities, threats) framework.

Value Creation Potential: The first step in translating the opportunity set into a firm strategy is to define a business model and assess its inherent value creation potential. That comes from a combination of increasing customer willingness to pay; satisfying, even if inadequately, a previously unmet need; or reducing cost with a monetization scheme that makes sense to those in the ecosystem. Thus the business model describes the *"job to be done"* – which determines the willingness to pay and potential market size; the *asset configuration* – which determines the cost to deliver the product or service; as well as the *monetization mechanism* – which determines how all of this is paid for. Novel business models deliver on one or other of these dimensions.

These elements also underpin the competitive market outcome, such as whether returns will be concentrated on a few winners because of scale economies or network effects, and appropriate strategies, such as whether being a first mover is important. The business model therefore determines the opportunity's value creation potential, and suggests how the resulting value might be distributed among participants pursuing that model.

Value Capture/ Industry Attractiveness: Regardless of the value created, the industry structure that results from competitors pursuing a particular business model must allow participants to earn decent returns – to capture some of the value they create. This was the contribution of Michael Porter and the "Five Forces" framework which demonstrated that all industries are not created equal.

Value Capture / Competitive Positioning: You can always outperform the industry average rate of return, if you have a great "classic strategy". Identifying a unique value proposition for a defined

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[4] These are categorized in the PESTLE framework - Political, Economic, Social, Technological, Legal and Environmental.

customer group, and a distinctive configuration of activities is still the way to build competitive advantage, even when others pursue the same business model[5].

Value Capture / Competitive Interaction*:* To add dynamics to assess the sustainability of any competitive advantage, you must predict how the interaction among competitors will play out over time. To this end, behavioural and game theoretic approaches can usefully map competitors' future moves.

Value Realisation*:* Companies rarely, if ever, do a complete volte face and throw out their entire past strategy. Occurrences, like Compaq shifting from the high end to being low cost in personal computers, are so few and far between that they are the exception that proves the rule. Rather, to realise value over time companies incrementally alter aspects of the strategy to adjust to new realities. Execution is therefore less about holistic reformulation, and more about ongoing adaptation that continuously adjusts the firm's activities to the external environment while investing to build capabilities for the long term.

Performance: The outcome of the firm's strategy and its interaction with competitors determines its financial performance and, importantly, the accumulation of assets and capabilities that form the stock of resources that will be the basis for future competitive advantage.

[5] Collis, David J., and Michael G. Rukstad. "Can You Say What Your Strategy Is?." H*arvard Business Review* (2008): 1