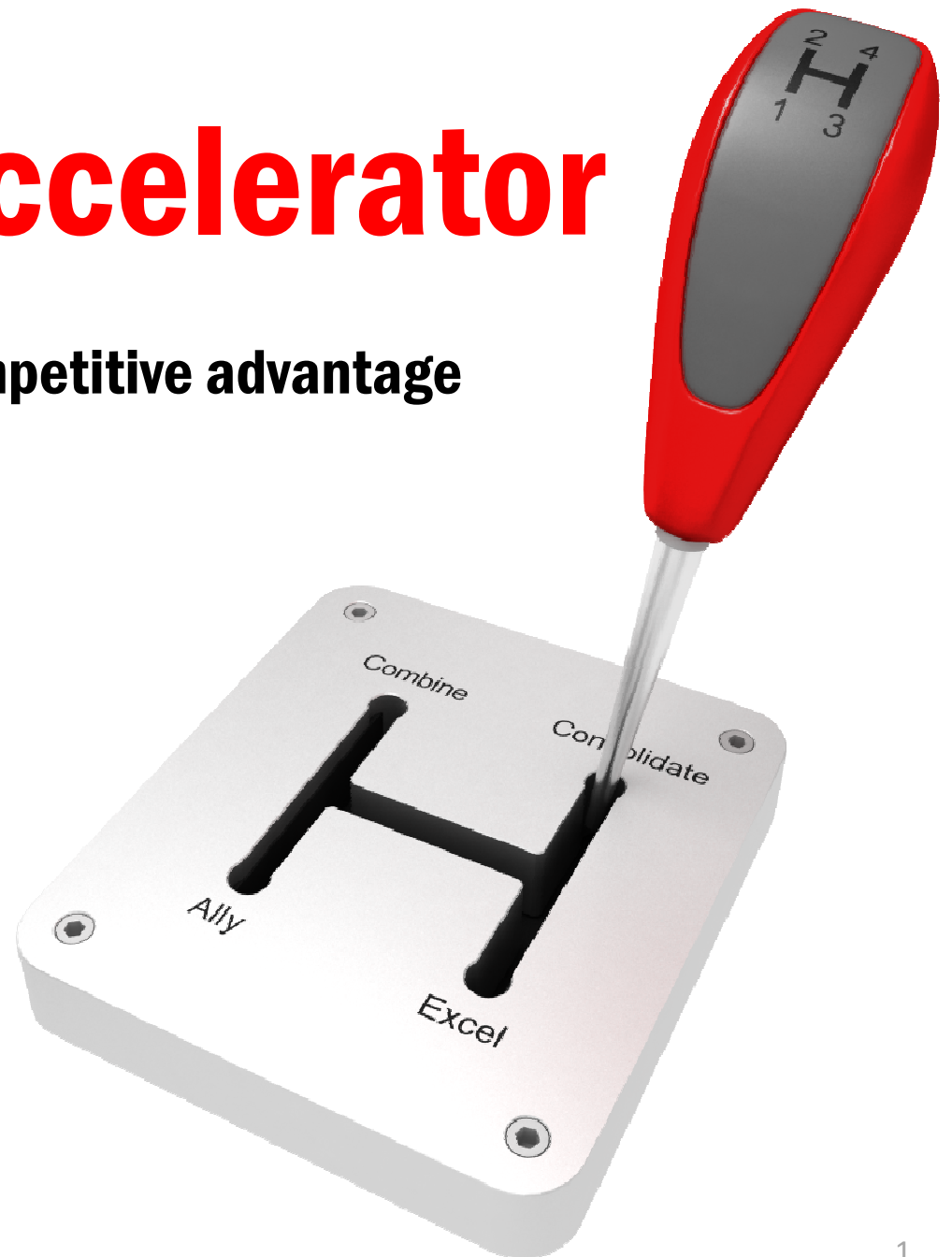


ALFRED GRIFFIOEN

The Strategy Accelerator

Business models for sustainable competitive advantage

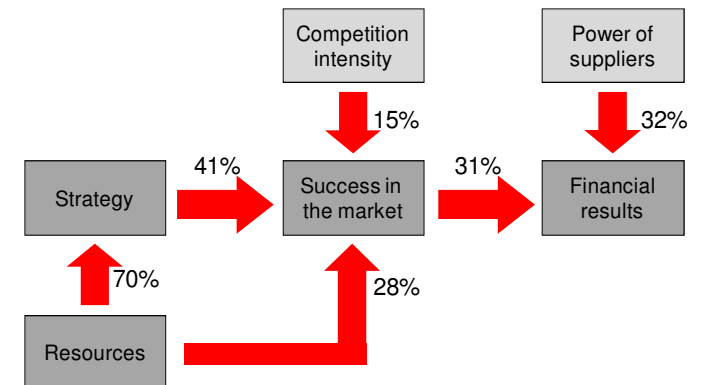


Introduction: why are some companies making a big profit and others not?

Why are Wall mart and Google performing, and General Motors and City group suddenly not any more? What makes it that one shop in a street is 'hot', and the other is not?

A lot has to do with the people that thrive the company, and their talents. Of course, working hard is also important, but it is no guarantee for success. Decisive is what you offer, to whom your are offering it and how you do it. That's your business model.

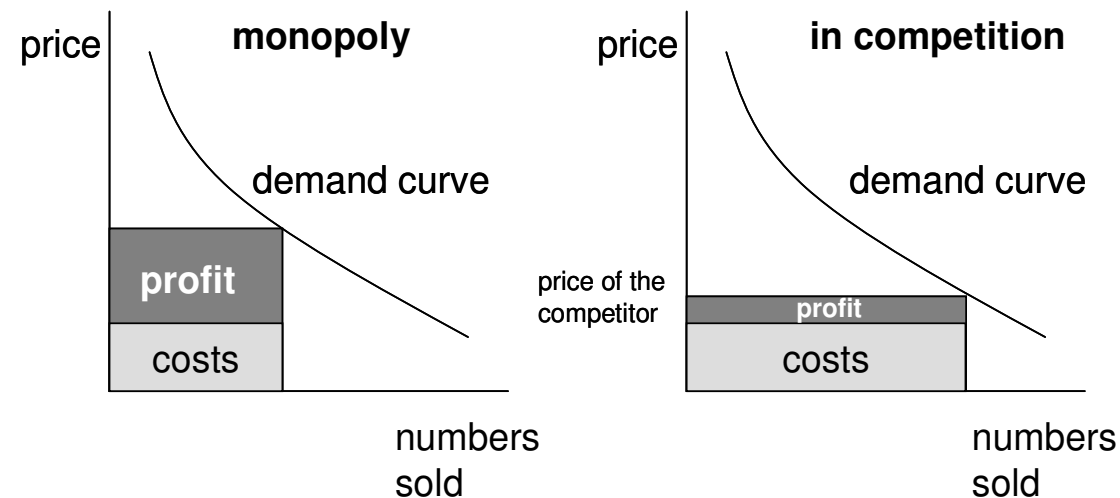
Research has shown that your resources and your strategy are the most important influencers on your success in the market. Respectively 28% and 41% of the variance in success is caused by variances in recourses and strategy. The intensity of the competition is not that important. Only powerful suppliers can bargain out their share of your financial results.



The concept of the Strategy accelerator combines aspects from 'outside-in' theories that primarily focus on market opportunities and 'inside-out' theories like the Resource Based View that take the capabilities of the company as a starting point. No model can give a complete answer how to manage your company. But the value of this concept is that, on the basis of a simple assessment of the firm's position, it gives clear directions how to further develop the company towards profitability.

Only by developing new business models you can make more profit than the average in your branch

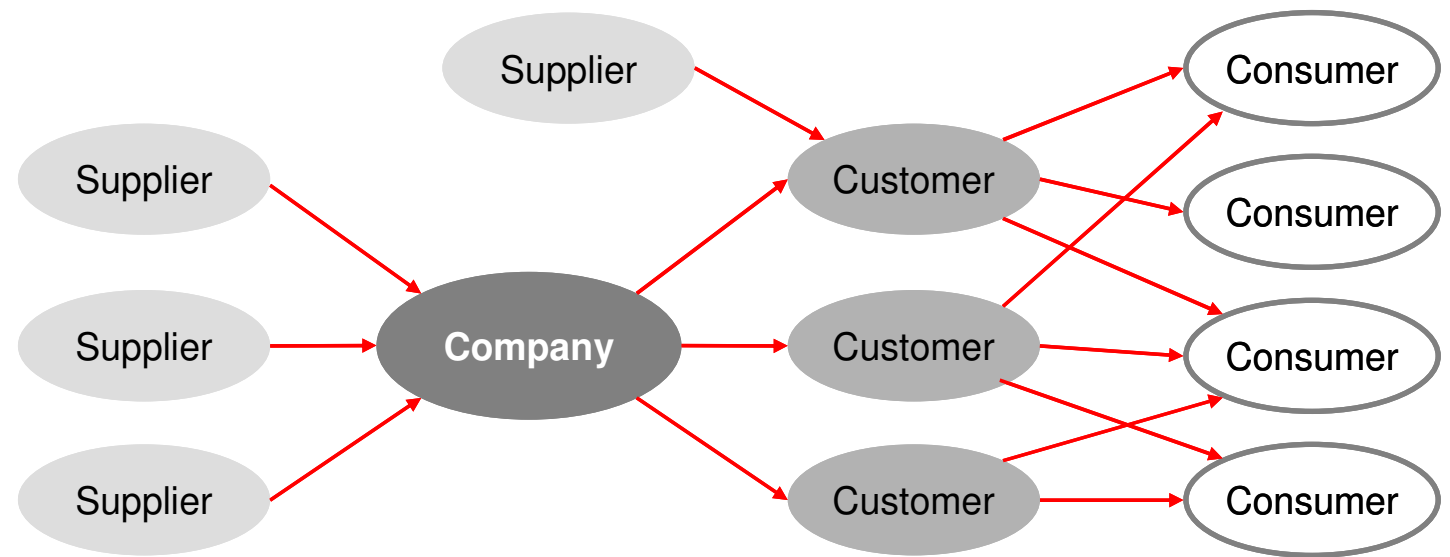
How to achieve growth and to make a profit? Mainly by being different than others. By coming up with new business models: completely new products, added services, different ways to pay, surprising experiences. In that way you can create a sort of monopoly, in which you determine the price at which your profit is maximised.



As soon as your business model is copied and more competitors arise, you can't determine the price yourself any more. You can only sell when you're asking the same or a lower price than your competitors. Your profits will decline.

You can do this by finding new chances in the value network: chances that you can utilise with your organisation

Your company does not stand alone but is part of the value network: a network that has branches and funnels, that extends itself even to the consumer and that does not only contain money and goods, but also information. Where is your expertise? Can you skip steps, make combinations with other suppliers or incorporate their offerings? What means or competences do you have that are valuable, scarce, difficult to imitate for others and easily applicable for you?

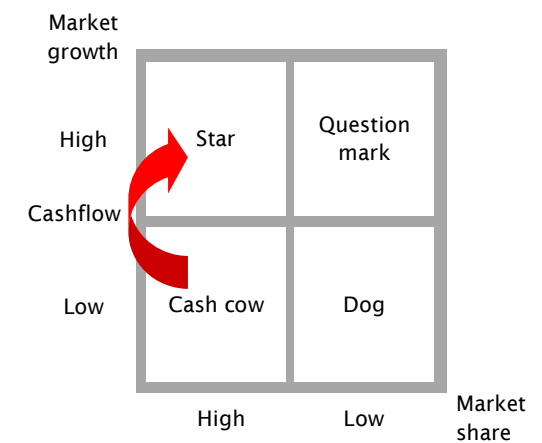
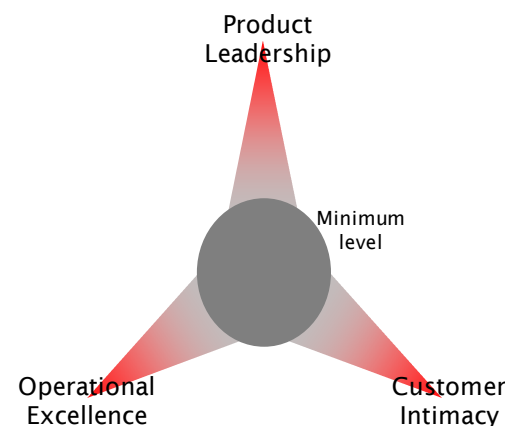
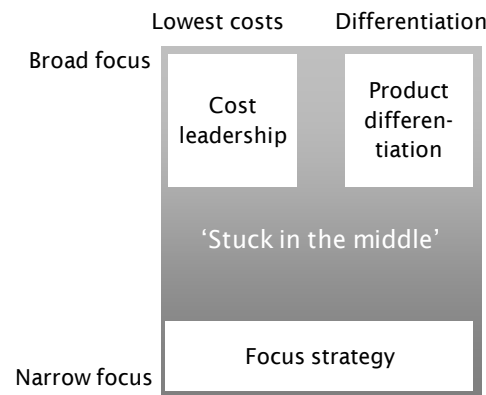


What classical strategies are there to help us? Porter, Treacy & Wiersema and the BGC portfolio matrix are used most

Michael Porter (1980) suggests either to choose for (product) differentiation or for cost leadership. To strive for both, a differentiated product and the lowest price, will get you 'stuck in the middle'. The only possibility for this combination is in a well defined niche market, the focus strategy.

Michael Treacy and Fred Wiersema (1995) see three directions for standing out from your competitors: *product leadership*, which is constantly improving and reinventing your product range, *customer intimacy*, providing the best-to-fit solution for well defined and well known customer groups and *operational excellence*, providing a solution with the most efficient process and in general lowest costs for the customer

If you have more products, the **Boston Consulting Group** portfolio matrix gives guidance how to direct the cash flows in your company: depending on market growth and market share, one should invest or divest in certain activities. Cash cows are used to finance the growth of the Star products. Divest the Dogs, and keep a close watch on Question marks. The basic presumption of the model is that with high market share you can get scale advantages.

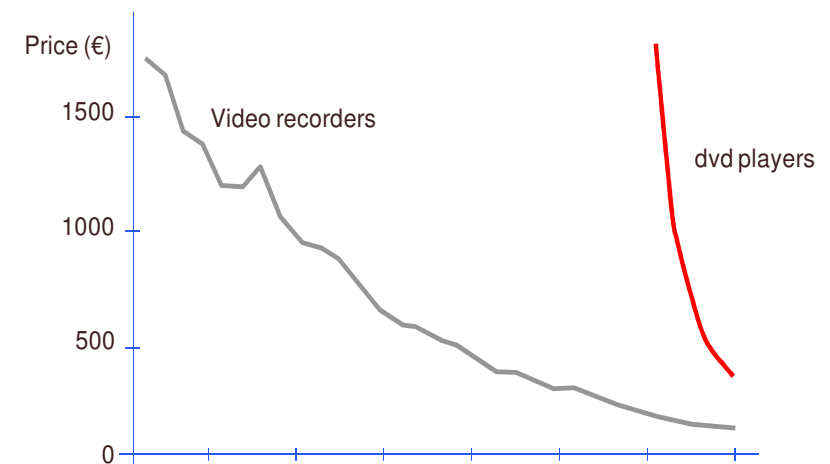


Internet has made it easier to copy good ideas and to make price comparisons

If one development has been dominant in the last decade in the way consumers and companies do business, it is the ever growing availability of information, facilitated by the internet. Consumers, purchasing companies and governmental institutions have increasingly better knowledge of the market and can compare products from several companies. With a few mouse clicks and phone calls they can fulfill their needs with suppliers from all over the world. Internet search and even online auctions replaces more and more the relationship based purchasing process.

Through this availability of information it is also easier for small innovative companies to offer their services and to compete with large players. This leads to faster product rationalisation. With easier distribution of technology the number of competitors for a certain product increased and prices decline.

A good example can be found in two comparable products, the video recorder and the dvd-player. The video recorder is developed in a time that information exchange was slow, and it took competitors a long time to develop a comparable product. With the dvd-player this was already different.





Capital flows are going outside the company: not the board of directors, but the shareholders decide where to invest

In the twentieth century the main objective of practically every company was growth. Growth provided economies of scale, made a lucrative position as market leader possible and above all: growth and the connected investments were a logical way to reinvest profits.

When also the financial sector globalised, it became easier to reinvest profits from one company into another if that had a better performance or lower risk profile. In recent years under influence of large private investors transparency has increased, moving the investment decision from a company level to an activity level. The added value of a holding company or corporate head office is discussed more frequently.

Together with the internet this makes the resources available in a company less relevant. Knowledge can be more easily obtained, relevant components and partners can be found all over the world, and with a good idea financial resources can be more easily obtained. Active investors can choose in which company to invest and which capabilities to combine. This makes not large corporations, but specialised organisations with high added value activities leading in the new economy.

Internet and the globalisation of financial markets have changed business: classical strategies do not apply any more

| The three strategies of Michael Porter (1980) | The three directions of Treacy & Wiersema (1995) | What happened in the internet age? | Current validity |
|---|---|--|--|
| Cost leadership: having the lowest costs | Operational excellence: having the lowest total costs, including costs of your client | Cost advantage is easily copied or leveled down. Scale can be bought | No sustainable strategy |
| Product differentiation: having a better product | Product leadership: continuously introducing new products | The enormous diversity of products makes it hard to stand out | (Continuously) having unique products |
| Focus strategy: targeting on a niche | Customer intimacy: having a complete offering for specific customer groups | There are many suppliers with a broad offering. Customers can choose | Market relevancy: being seen as relevant by your customer group |

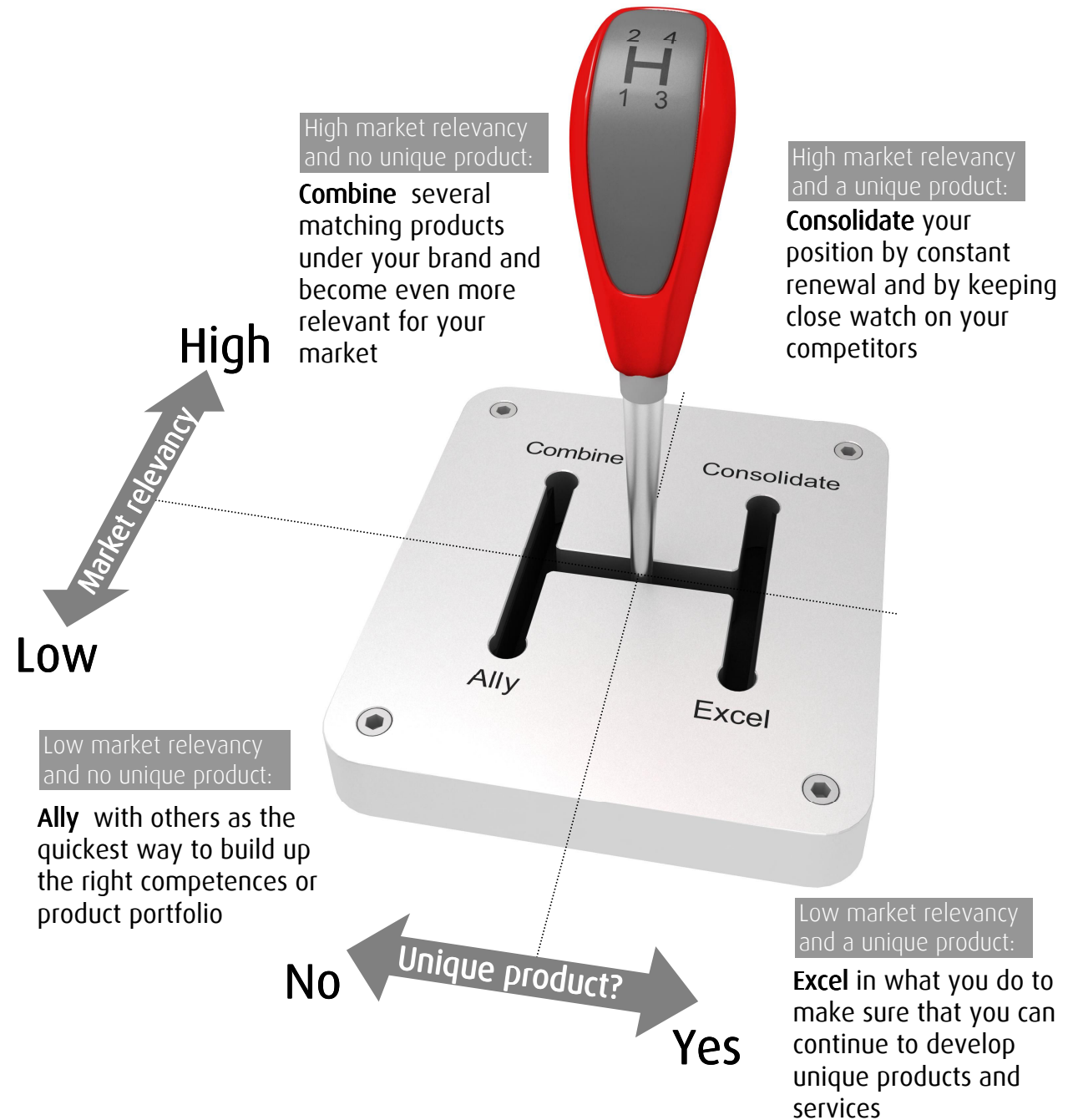
Cost based strategies and scale advantages can easily be copied in a transparent world where always is cash for a good business idea. Operational excellence is only a constraint, but not a differentiator any more.

Sustainable competitive advantage can only be achieved by having a unique product or by really being relevant for your customer

Depending on your sustainable competitive advantage you can choose your strategy

As indicated before there are two generic forms of differentiation that bring sustainable competitive advantage in the current transparent world: (continuously) having a unique product and having market relevancy. The two forms have different dimensions and can be set out in a matrix, the Strategy accelerator. With this model you can decide on your optimal strategy, depending on your competitive advantage: **ally**, **combine**, **excel** or **consolidate**.

Just as with a car you don't start a company in the fourth gear: you have to carefully build on your sources of profitability. The strategy accelerator forces a clear choice for one of the two directions to differentiate yourself: either with a unique product or through market relevancy. Both options don't exclude each other, but with limited means you can only focus on one.



***Ally** to expand your market relevancy or to develop new products faster*



The majority of the companies starts in the first gear: they have low market relevancy and no unique product. Their profitability is often limited and is mainly determined by the balance between supply and demand in the market. Instead of investing yourself, hiring these competences or taking over a company with these competences you can better start an alliance. In this way you gain extra market relevancy or develop a new product with a limited investment and less risks.

When starting an alliance three aspects are important: the 3 B's of partnerships

Business model

In what way will more profits be made jointly than by the partners separately?

How will the profits be divided?

Contractual Basis

What legal form will be most appropriate?

In which way are agreements described?

What happens in case of a conflict or when the alliance terminates in another way?

Balance between partners

Do both partners have equal influence?

How to ensure that the employees support the alliance as well?

How to resolve conflicts of interests?

The business model, the contractual basis and the balance between partners are three important aspects



mechatronics partners
engineering tomorrow's world



Example: Mechatronics Partners

Six small technological companies working together in client projects



In 2006 a number of Dutch companies active in the field of electronics, optical equipment, injection molding and metal working found each other and started to cooperate under the name Mechatronics Partners. All are relatively small in size and turnover, but together they have around 600 employees, of which 100 engineers in the field of designing, engineering and constructing of electronic equipment like dvd-players, control cabinets and industrial machines.

The basis rules for the cooperation were put on only three sheets of paper:

- Every company does acquisition from its own network. Joint sales and marketing activities are paid together
- Every month representatives from the companies sit together to discuss the market opportunities and to decide in which combination a bid will be made. Each participating company will calculate its cost price, the margin is decided jointly. External quotations are used to monitor the competitiveness of the prices.
- In case of a successful bid, one of the companies will provide a project leader, who coordinates the joint efforts and is contact person for the customer

The expected extra turnover as a result of this team approach for 2009 is between 2 and 3 million euro, which is on a total of around 100 million joint turnover relatively small, but most of it is yearly returning revenue. Apart from that the sharing of contacts and market information has helped the individual companies to expand their own activities.

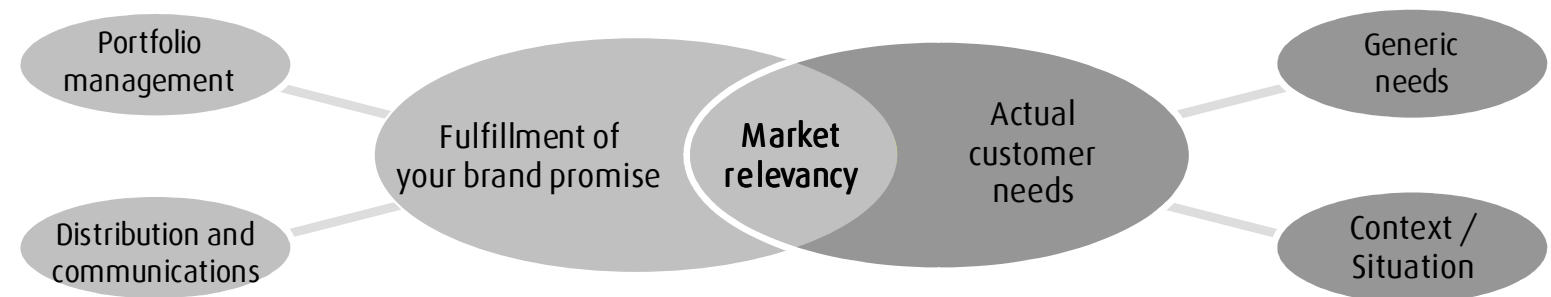


***Combine** products and services to create market relevancy: the overlap between the customer needs and your brand promise*



Customers pay attention to your product when your message is relevant to them at that moment. That will happen if their actual need is answered by the promise that your brand makes, and how this is fulfilled in products, services, distribution or your marketing communications. Market relevancy always starts with a clear brand promise.

Every person has a number of generic needs: security, friendship, relaxation, efficiency and success. Depending on the context or situation you are in, these generic needs are translated to actual needs. When you want to have dinner with your friends you will probably choose another restaurant than with your parents.

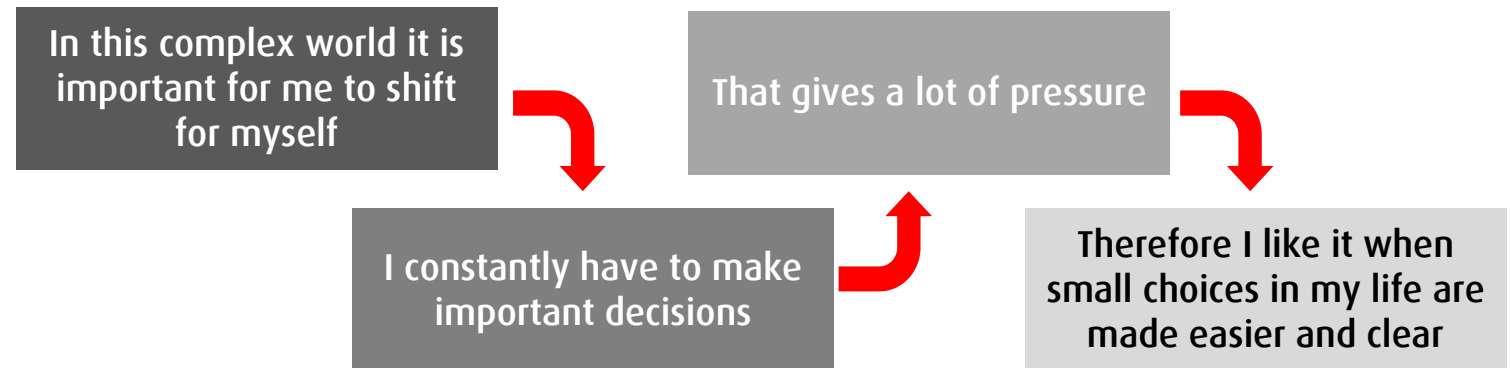


Market relevancy is created by combining the right products and services. Your brand stands for the overall promise: the cheapest, the coolest or the most reliable products. By combining more 'matching' products and services in your offering, your turnover and profit grow.

Example: variety store Hema has strict portfolio management to make their clients' selection process a bit easier



The variety store Hema provides a large number of basic products from clothing, household products, food and personal care items up to simple insurances. Working from the motto: "An easier and nicer life must be accessible for everyone", Hema has based its proposition on the following customer insight:



This insight perfectly places the generic need for independency in the context of shopping for basic products. Hema has responded to that with a portfolio management in which there are at maximum three variants per product: good, better and best. For most products there is only one choice: a reliable alternative, only with the Hema brand, that is not expensive, but also not the cheapest you can get on the market.

The concept is supported with a bright, consistent furnishing of the stores and people oriented advertising and an extensive distribution network, e.g. on railway stations.



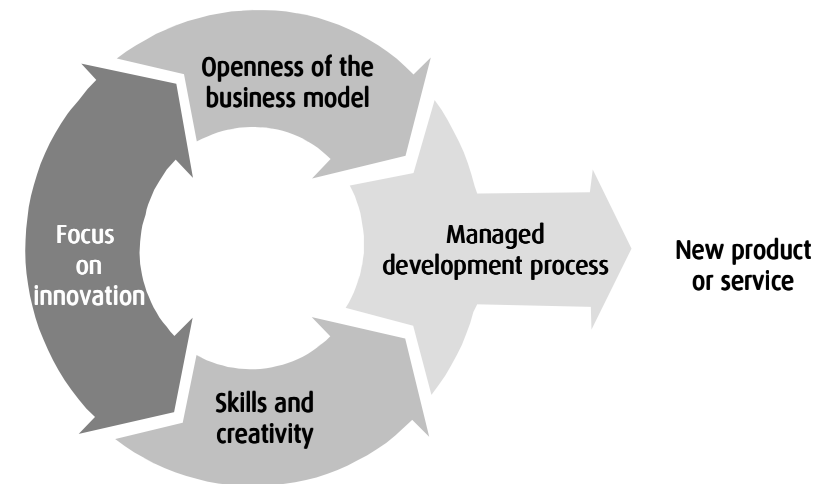
*Only if you **excel** in a certain specialism you can continuously develop clearly unique products*



Within a business model a unique product always has a clear, not easy to imitate, advantage compared to competing products. It is not about having a coffee machine in a different colour, a camera with a few more mega pixels or a family car with a bit different design. Being different is not good enough, it's about being extraordinary.

Developing a unique product or service requires continuous investments in building the right competences, in idea selection, development and the right way of market introduction. Research learns us that four aspects are essential to continuously come up with new products or services:

- A strong management focus on innovation. When the director or CEO is not convinced, nothing will happen;
- Openness of the business model: talk with clients, make contact with universities, find partners;
- Skills and creativity: train people and cherish their ideas;
- A managed development process: regularly review the status of your innovations and don't be afraid to stop with inferior ideas.





Example: 3M focuses on being a technology leader and selects it employees on being innovative



3M is a worldwide company with around 76.000 employees in more than 60 countries. For most consumers only known from the post-it memo's, 3M has a wide product range with highly technological products. And even the post-it memo is not that simple: "It's not just a paper with poor glue. If you take it off, the glue has to stick on the memo, and not on the object you placed the memo on."

7000 researchers are working on new knowledge and solutions for the 45 technology platforms that 3M has created. People are stimulated to come up with new solutions, for 3M products but also for their everyday work. This is stimulated by top management with awards and by actively sharing success stories.

All employees are hired and evaluated on basis of six types of behaviour, like inside-out thinking, openness for innovation and taking brave decisions. Most products are developed together with a number of leading customers, to make sure that they really fulfil a need.

Since around 10 years 3M has a structured product introduction program. There is a clear development process with 'gates', moments when is decided whether 3M will proceed with a new product. In this way R&D is kept efficient.

***Consolidate** by continuously working on your market relevancy and on new unique products*



You have high relevancy for your market and unique products or services. What to do to maintain this strong status? The strategy for companies in this gear is both to combine and excel. Keep a close watch on your competitors, when necessary incorporate them or chase them away.

Apple is certainly an example. With first the Mac, later the iPod and now the iPhone Apple has a keen sense of what customers want and the ability to translate the newest and patented technology into unique products. Although one can argue that there are multiple MP3-players on the market, only Apple has its patented click wheel and its intuitive customer interface. On being a relevant supplier for your customers, Apple combines its own products with a range of software products and music and video from various artists and amateurs in The Apple Store.

And keep a close watch on your competitors

Don't take your position for granted. Competitors are constantly trying to copy your products, services and brand characteristics. Keep a close watch on them, and where necessary defy or incorporate them. Also alliances can be a powerful tool to strengthen your market position or to create even newer products or services.

SECURITY



Example: Singapore Airlines leads with innovation on board and with a strong brand promise: “A great way to fly”



Singapore Airlines has a consecutive record of being the first: in the 1980's it had the first A300 Superbus, the B747-300 Big Top, the B757 and the A310-200. It was also the first airline in the world to operate an commercial flight across the Pacific Ocean.

In the 1990s, Singapore Airlines revolutionized inflight communications and entertainment through the KrisFone - the first global sky telephone service – and a full interactive inflight entertainment system – even in the economy class. In 2007 it was the first airline that had an A380 operational, offering something that no other airline did: privacy, with the personal suites in the ‘beyond first class’.

This product leadership was combined with the establishment of a strong brand. The brand promise ‘A great way to fly’ has been filled in with impeccable service, extensive and user-friendly internet ordering and check-in, meals developed by internationally known chefs and –despite all that – fairly competitive pricing.

Singapore Airlines became a full member of the global Star Alliance in 2000 and with it came ‘seamless’ worldwide air travel. With the extensive network of partner airlines, connecting flights, frequent flyer points, and baggage clearance this has helped them to consolidate their position



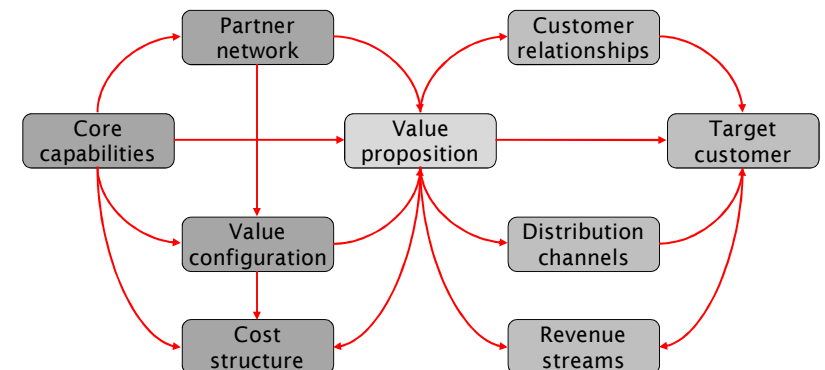


The core of your business model is the added value for your customer



Once you have determined your competitive strategy, you can work it out into a business model description. Such a description helps to communicate your plan with your stakeholders, such as banks, partners and employees.

There are many ways to describe your business model. Slywotzki has made a structure and 22 archetypes, Kaplan and Norton have created their Strategy maps. One of the most complete structures is of Alexander Osterwalder, consisting of nine aspects.



Banks and (potential) shareholders will always look at the validity and potential of your business model. This can be easily tested with just three questions:

- Does your value proposition take away pain or discomfort for your customer? Is there really a need for it?
- Is your business model scalable, or does it only build on very specific resources, like a location or the personal skills of the entrepreneur?
- Is there a lock-in, or can customers easily go to competitor? If you're using Microsoft Windows, it's a big step to go to Linux. It's a smaller step to choose another brand of toothpaste.

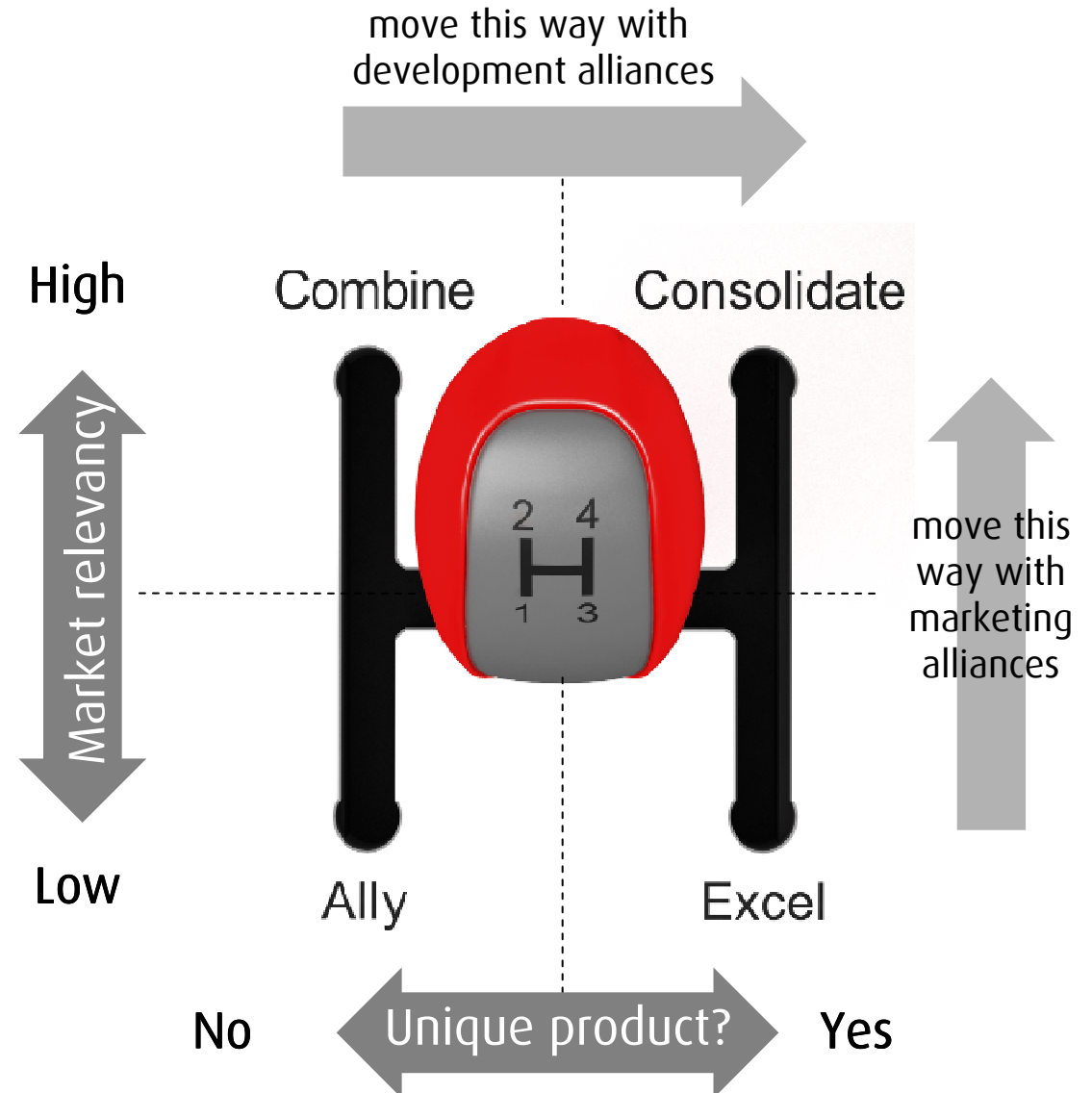
The Strategy accelerator completed



To summarise, think of these three points:

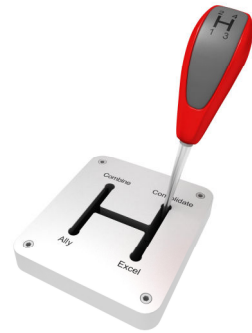
1. Determine which kind of sustainable competitive advantage you currently have. Do you have unique products or services or are you really relevant to your customers? How easy can this be copied?
2. Build on your existing competitive advantages by excelling in what you do or by combining more products and services under your brand. If you have no real competitive advantages, focus then on only one of these directions.
3. Uses alliances and partnerships to strengthen your strategy and to profit from resources that you don't have yourself. Look for complementing companies and use their skills or market.

Just go and gear up!





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New insights are regularly placed on the weblog, do comment if you want!



Alliance experts

Specialists in partnerships



Alfred Griffioen, specialist in the effect of alliances on your business model

Alfred Griffioen (1972) has a background as strategic marketing manager and business development manager. After a period as manager at a strategy consultant he is now partner of Alliance experts, advising on strategic partnerships and matching companies that are looking for an alliance partner. He is the author of the book "Het Senseo-effect" which is a practical guide on alliances and "De Strategieversnelling".

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