PART
TWO

CREATING, ADAPTING, AND IMPLEMENTING STRATEGY

CHAPTER SEVEN

Creating Advantage: Synergy and Commitment vs. Opportunism vs. Adaptability

All men can see the tactics whereby I conquer, but what none can see is the strategy out of which great victory is evolved.
—Sun-Tzu, Chinese military strategist

Don't manage, lead.
—Jack Welch, GE

Where absolute superiority is not attainable, you must produce a relative one at the decisive point by making skillful use of what you have.
—Karl von Clausewitz, On War, 1832

Our attention now shifts from strategic analysis to the development of a business strategy. What strategic alternatives should be considered? What assets and competencies, target segments, value propositions, and functional strategies? What investment and disinvestment decisions should be raised? These questions will be the focus of the balance of the book. One goal will be to provide a wide scope of available strategic alternatives in order to increase the likelihood that the best choices will be considered. Even a poor decision among superior alternatives is preferable to a good decision among inferior alternatives.

The nine chapters remaining in this book are portrayed in Figure 7.1. This chapter will discuss the concept and creation of a sustainable competitive advantage (SCA), the key to a successful strategy. It then turns to the challenge of creating and leveraging synergy as one basis for an SCA. Finally, three very different strategic philosophies—strategic commitment, strategic opportunism, and strategy adaptability—are presented that provide different routes to a strategic advantage.

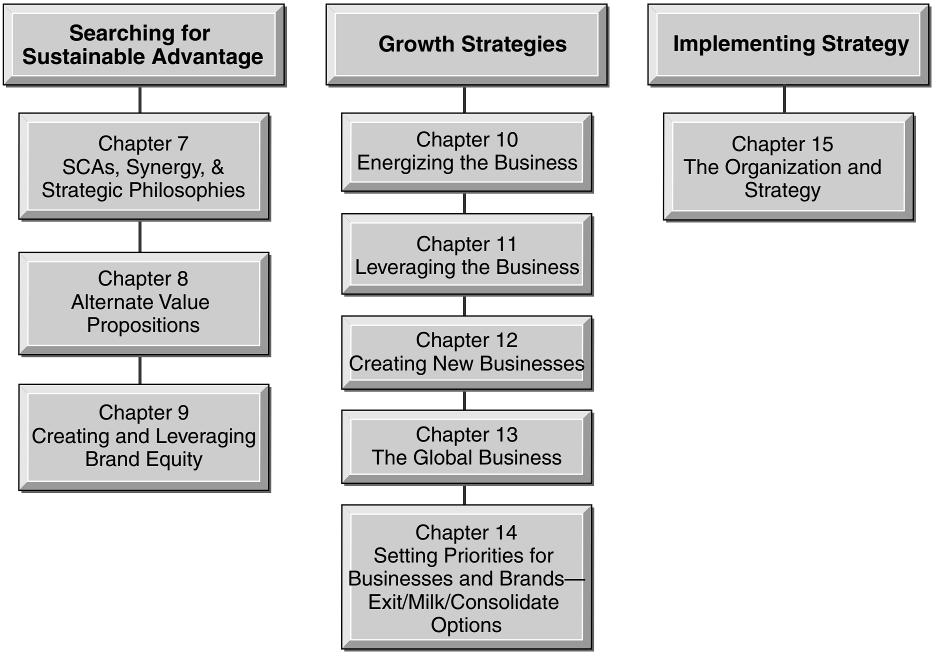

Figure 7.1 Creating and Implementing Strategy

Chapter 8 provides an overview of alternative value propositions. A value proposition is often an umbrella concept under which the supporting assets and competencies and functional strategies and programs can be grouped. In that sense, it represents a good overview of alternative strategies. Chapter 9 describes how to create and leverage a key asset, brand equity. The next four chapters present growth strategies: energizing the business (Chapter 10), leveraging the business (Chapter 11), creating new business models (Chapter 12), and going global (Chapter 13). Chapter 14 discusses setting priorities among business units and making disinvestment decisions, a key determinate in providing growth resources. Finally, Chapter 15 introduces organizational issues focusing on creating cooperation and communication between organizational silos in order to gain synergy and efficiency.

THE SUSTAINABLE COMPETITIVE ADVANTAGE

As defined earlier in this book, a sustainable competitive advantage is an element (or combination of elements) of the business strategy that provides a meaningful advantage over both existing and future competitors (see Figure 7.2). Wal-Mart has a cost advantage because of its scale economies, market power and logistical efficiencies, value reputation, and site location assets. Southwest Airlines has a fun personality and a point-to-point model that provides for convenient, reliable, uncomplicated travel. Netflix's efficient direct-delivery model eliminates inconvenient trips to a store and annoying late fees.

Figure 7.2 The Sustainable Competitive Advantage

An SCA needs to be both meaningful and sustainable. It should be substantial enough to make a difference; a marginal superiority in quality, especially when "good" quality is good enough for most customers, will not generate an SCA. Meanwhile, sustainability (in the absence of an effective patent) means that any advantage needs to be supported and enhanced over time. There needs to be a moving target for competitors. For example, Gillette maintained its technological superiority in razors over a long time period with innovation after innovation, making copying its competitive advantage difficult.

An SCA will in part depend on the functional strategies and programs, how you compete. Wal-Mart's discount store, Southwest's point-to-point system, and the Netflix direct-delivery model all have SCAs based in part on their functional strategies and programs. In these cases and others, however, an effective SCA will also involve other aspects of the business strategy—assets and competencies, the value proposition, and the selection of the product market.

The Basis of Competition: Assets and Competencies

The assets and competencies of an organization represent the most sustainable element of a business strategy, because these are usually difficult to copy or counter. There is no point in pursuing a quality strategy, for example, without the design and manufacturing competencies needed to deliver quality products. Anyone can try to distribute cereal or detergent through supermarkets, but few have the competencies in logistics, shelf space management, and promotions or relationships with chain executives that make product distribution efficient and effective. Similarly, a department store's premium-service positioning strategy will not succeed unless the right people and culture are in place and are supported. Who you are, in other words, is as important as what you do.

As discussed in Chapter 3, several questions can help to identify relevant assets and competencies. What are the key motivations of the major market segments? What are the large value-added components? What are the mobility barriers? What elements of the value chain can generate an advantage? What assets and competencies are possessed by successful businesses and lacking in unsuccessful businesses?

What You Offer—The Value Proposition

An effective SCA should be visible to customers and provide or enhance a value position. The most widely employed value propositions such as quality, low price, or social values are described in the following two chapters. The key is to link a value proposition with the positioning of a business. A product's reliability may not be apparent to customers, but if it can be made visible through a brand strategy, it can support a reliability positioning strategy. Maytag is an example of a firm whose reliability positioning is supported by advertising that communicates the value proposition provided by its product design and performance.

A reputation for delivering a value proposition can be a more important asset than the substance that underlies that reputation. A business with such a reputation can falter for a time, and the market will either never become aware of the weakness or will forgive the firm. Conversely, competitors often have a much easier time in matching the quality or performance of a market offering than in convincing customers that they indeed have done so. Enduring impressions are why a visible value proposition that is meaningful to customers is strategically valuable.

A solid value proposition can fail if a key ingredient is missing. Procter & Gamble's Pringles potato chips had a host of assets, such as a consistent product, long shelf life, a crushproof container, and national distribution. The problem was that these attributes were valued only if the taste was perceived to be good. As a result, Pringle's ability to penetrate the snack market was limited for decades until it made progress in terms of both actual and perceived taste. Kingsford Charcoal failed in the barbeque sauce market simply because there was no room for a third entrant in the premium segment.

Where You Compete: The Product Market Served

An important determinant for an SCA is the choice of the target product market. A well-defined strategy supported by assets and competencies can fail because it does not work in the marketplace. A product market needs to be selected for which the value proposition is relevant. As noted in Chapter 4, it does no good to offer the best minivan in the market if most of your target customers now want to buy SUVs.

The scope of the business also involves the identity of competitors. Sometimes an asset or competency will form an SCA only given the right set of competitors. Thus, it is vital to assess whether a competitor or strategic group is weak, adequate, or strong with respect to assets and competencies. The goal is to engage in a strategy that will match up with competitors' weak points in relevant areas.

SCAs versus Key Success Factors

What is the difference between key success factors (KSFs), introduced in Chapters 1 and 4, and SCAs? A KSF is an asset or competence needed to compete. An SCA involves an asset or competence that is the basis for a continuing advantage. For example, an automobile firm needs to have adequate distribution given its business model and objectives, so distribution is a KSF. Lexus has turned its dealer network into an SCA, however, because it is capable of delivering a superior customer experience. A KSF for value-priced economy cars is the ability to control costs in order to create profit margins. Hyundai's ability in this regard is markedly superior to its competitors, and thus it becomes an SCA.

To be a winner at poker requires skill, nerve, and money. In also requires a player to ante—to put up a certain amount of money just to see the cards and engage in betting. A KSF can be an ante in terms of the marketplace. Generating a superior quality car may have been an SCA for Lexus or Mercedes and a point of differentiation in the mid-1990s. As BMW and Cadillac improve their own quality, though, the quality dimension starts to be an attribute all luxury cars are assumed to have, and thus becomes a KSF but not a basis for an SCA. Instead of winning the competitive hand, a KSF merely buys an organization a seat at the table.

Reviewing the concepts of points of parity (POPs) and points of differentiation (PODs) introduced in Chapter 1 will provide additional insight into this distinction.[1] PODs are strong, favorable, and unique brand associations based on some attribute or benefit associations. Ikea, for example, provides unique designs and low prices based in part on having customers handle and assemble the products. A POP, in contrast, is an association that is not necessarily unique to the brand. POPs may be necessary to present a credible offering within a certain category, as in the case of ATMs and convenient hours for a bank. A POP might also be designed to negate a competitor's point of distinction. A low-carb food brand, for example, seeks to create parity with regard to taste, thereby negating the taste POD of its competitors and leading customers to base their selection on its own POD (namely, low-carb ingredients). An SCA is analogous to a POD, whereas a KSF can be analogous to either a POP or a POD.

What Business Managers Name as Their SCAs

Managers of 248 distinct businesses in the service and high-tech industries were asked to name the SCAs of their business.[2] The objectives were to identify frequently employed SCAs, to confirm that managers could articulate them, to determine whether different managers from the same businesses would identify the same SCAs, and to find how many SCAs would be identified for each business. The responses were coded into categories. The results, summarized in Figure 7.3, provide some suggestive insights into the SCA construct.

The wide variety of SCAs mentioned, each representing distinct competitive approaches, is shown in the figure. Of course, the list did differ by industry. For high-tech firms, for example, name recognition was less important than technical superiority, product innovation, and installed customer base. The next two chapters discuss several SCAs in more detail.

	High-Tech	Service	Other	Total
1. Reputation for quality	26	50	29	105
2. Customer service/product support	23	40	15	78
3. Name recognition/high profile	8	42	21	71
4. Retain good management and engineering staff	17	43	5	65
5. Low-cost production	17	15	21	53
6. Financial resources	11	26	14	51
7. Customer orientation/feedback/ market research	13	26	9	48
8. Product-line breadth	11	23	13	47
9. Technical superiority	30	7	9	46
10. Installed base of satisfied customers	19	22	4	45
11. Segmentation/focus	7	22	16	45
12. Product characteristics/differentiation	12	15	10	37
13. Continuing product innovation	12	17	6	35
14. Market share	12	14	9	35
15. Size/location of distribution	10	11	13	34
16. Low price/high-value offering	6	20	6	32
17. Knowledge of business	2	25	4	31
18. Pioneer/early entrant in industry	11	11	6	28
19. Efficient, flexible production/ operations adaptable to customers	4	17	4	25
20. Effective sales force	10	9	4	23
21. Overall marketing skills	7	9	7	23
22. Shared vision/culture	5	13	4	22
23. Strategic goals	6	7	9	22
24. Powerful well-known parent	7	7	6	20
25. Location	0	10	10	20
26. Effective advertising/image	5	6	6	17
27. Enterprising/entrepreneurial	3	3	5	11
28. Good coordination	3	2	5	10
29. Engineering research and development	8	2	0	10
30. Short-term planning	2	1	5	8
31. Good distributor relations	2	4	1	7
32. Other	6	20	5	31
Total	315	539	281	1,135
Number of businesses	68	113	67	248
Average number of SCAs	4.63	4.77	4.19	4.58

Figure 7.3 Sustainable Competitive Advantages of 248 Businesses

Most of the SCAs in Figure 7.3 reflect assets or competencies. Customer base, quality reputation, and good management and engineering staff, for example, are business assets, whereas customer service and technical superiority usually involve sets of competencies.

For a subset of ninety-five of the businesses involved, a second business manager was independently interviewed. The result suggests that managers can identify SCAs with a high degree of reliability. Of the ninety-five businesses, seventy-six of the manager pairs gave answers that were coded the same and most of the others had only a single difference in the SCA list.

Another finding is instructive—the average number of SCAs per business was 4.58, suggesting that it is usually not sufficient to base a strategy on a single SCA. Sometimes a business is described in terms of a single competency or asset, implying that being a quality-oriented business or a service-focused business explains success. This study indicates, however, that it may be necessary to have several assets and competencies.

THE ROLE OF SYNERGY

Synergy between business units can provide an SCA that is truly sustainable because it is based on the characteristics of a firm that are unique. A competitor might have to duplicate the organization in order to capture the assets or competencies involved.

A core element in the GE strategic vision has always been to achieve synergy across many businesses. The concept was that a GE business can call on the resources of the firm and of other GE businesses to create advantage. The turbine technology that GE pioneered as it established the infrastructure for electricity helped in the jet engine business. The SCAs of General Electric in the CT scanner (an X-ray-based diagnostic system) business were in part based on its leadership in the X-ray business, in which it had a huge installed base and a large service network, and in part based on the fact that it operated other businesses involving technologies used in CT scanners. Technologies in one business can become innovations in another.

Sony exploits the synergy of its many product groups by showcasing them together in stores (such as one on Chicago's Michigan Avenue) and even on several Celebrity Cruise ships. The ships are outfitted with Sony entertainment products, including television sets, movie theaters, and sound equipment. The result is an integrated package that has the cumulative impact of reinforcing Sony's role of providing high quality and technologically advanced entertainment.

Synergy can be generated by leveraging assets and competences. Amazon leveraged its warehouse, ordering and distribution system over hundreds of products and allows other firms to use their system, which generates more scale and margin dollars. Disney leverages its brand and its connection to kids and family over a wide variety of offerings including Broadway shows and cruise ships.

Synergy means that the whole is more than the sum of its parts. In this context, it means that two or more businesses (or two or more product-market strategies) operating together will be superior to the same two businesses operating independently. In terms of products, positive synergy means that offering a set of products will generate a higher return over time than would be possible if each of the products were offered separately. Similarly, in terms of markets, operating a set of markets within a business will be superior to operating them autonomously.

As a result of synergy, the combined businesses will have one or more of the following:

1. Increased customer value and thus increased sales.
2. Lower operating costs.
3. Reduced investment.

Generally the synergy will be caused by leveraging some commonality in the two operations, such as:

- Customers and sometimes customer applications (potentially creating a systems solution)—IBM leverages its customer knowledge and relationships across products.
- A sales force or channel of distribution—P&G's channels support some 80 products.
- A brand name and its image—HP leverages its brand over products and countries.
- Facilities and methods used for manufacturing, offices, or warehousing—The Wal-Mart systems work in various countries.
- R&D efforts—The divisions of Texas Instruments draw on a central R&D operation.
- Staff and operating systems—All the divisions of Market Facts, the global market intelligence firm, access their statistical staff and operation systems.
- Marketing and marketing research—Coke market research technology helps all the Coke product lines.

Synergy is not difficult to understand conceptually, but it is slippery in practice, in part because it can be difficult to predict whether synergy will actually emerge. Often two businesses seem related, and sizable potential synergy seems to exist but is never realized. Sometimes the perceived synergy is merely a mirage or wishful thinking, perhaps created in the haste to put together a merger. At other times, the potential synergy is real, but implementation problems prevent its realization. Perhaps there is a cultural mismatch between two organizations, or the incentives are inadequate. In Chapter 11, the difficulties of realizing potential synergy will be revisited.

Alliances

Obtaining instant synergy is a goal of alliances. Pairing McDonald's with an oil company's convenience store, for example, provides traffic and added value for the oil company and valuable locations for McDonald's. Dentsu, the largest Japanese advertisting agency, has more than a hundred alliances—many based on partial ownership—that allow it to offer a broader communication solution to clients.

Alliances are often the key to a successful Internet strategy. Yahoo! and Amazon have hundreds of major alliances and thousands of smaller ones that combine to help them reach their goals of driving Internet traffic and offering differentiated value to their visitors. Chapter 13, Global Strategies, covers the difficult process of putting together alliances and joint ventures and making them work.

Core Assets and Competencies

A firm's asset or competency that is capable of being the competitive basis of many of its businesses is termed a core asset or competency and can be a synergistic advantage. Consider a tree metaphor, in which the root system is the core asset or competency, the trunk and major limbs are core products, the smaller branches are business units, and the leaves and flowers are end products. You may not recognize the strength of a competitor if you simply look at its end products and fail to examine the strength of its root system. Core competence represents the consolidation of firm-wide technologies and skills into a coherent thrust. A core asset, such as a brand name or a distribution channel, merits investment and management that span business units.

Consider, for example, the core competencies of Sony in miniaturization, 3M in sticky-tape technology, Black & Decker in small motors, Honda in vehicle motors and power trains, Samsung in semiconductors (which underlies its product innovation in consumer electronics and cell phones), and Canon in precision mechanics, fine optics, and microelectronics. Each of these competencies underlies a large set of businesses and has the potential to create more. Each of these firms invests in competence in a variety of different ways and contexts. Each would insist on keeping its primary work related to the core competency in-house. Outsourcing would risk weakening the asset, and each firm would rightfully insist that there is no other firm that could match its state-of-the-art advances.

Highly effective business processes often represent a core competence that can be applied across businesses leading to a sustainable advantage. One such process is the new product development and introduction process. Japanese automobile firms that have reduced the process from five years to three years while making it more responsive to the needs of the market have achieved a huge advantage. Another is the management of international operations, considered an SCA by IDV, the spirits subsidiary of Grand Metropolitan. Still another is the order and logistics process in retailing. By developing dramatic improvements in its order and logistics process through distribution center innovations, a dedicated trucking system, and computerized ordering, Wal-Mart developed huge cost and inventory handling advantages over its competition. Uniqlo, a Gap-like retailer in Japan, ties its retailers directly to suppliers in China, thereby creating the ability to respond to style trends in weeks instead of months.

Developing superior capabilities in key processes involves strategic investments in people and infrastructure, the use of cross-functional teams, and clear performance targets. True process improvement does not occur without control and ownership of the parts of the process. Thus, the virtual corporation, which draws pieces from many sources in response to the organizational task at hand, often struggles to deliver a capabilities-based synergy.

STRATEGIC COMMITMENT, OPPORTUNISM, AND ADAPTABILITY

There are three very different philosophies or approaches to the development of successful strategies and sustainable competitive advantages that can be labeled strategy commitment, strategy opportunism, and strategic adaptability. Descriptions of each, summarized in Figure 7.4, provide a good perspective on choices as to management style, processes, and philosophy of business. There is no one best way; given the right context, people, culture, and strategy, each can work. Further, in dynamic markets, most firms will need to employ all three. Firms need to learn to multitask.

Strategic Commitment

Strategic commitment involves a passionate, disciplined loyalty to a clearly defined business strategy that can result in an ever stronger and more profitable business over time. This "stick to your knitting" focus avoids being distracted by enticing opportunities or competitive threats that involve expending resources which do not advance the core strategy. Wal-Mart with its single-minded focus on costs and value has excelled with a strategic commitment philosophy. Starbuck's has a focus on the coffee and the experience.

Google established its position with a single-minded focus on the search engine when its competitors such as Yahoo and Microsoft were expanding their services in order to drive traffic and exploit their customer visits. Google based its strategy on several core beliefs. One is the unwavering drive to be the best search engine as exemplified by the concept that "it's best to do one thing really, really well" and "best is a starting point, not an end point."[3] Another is the value of focus on the user to deliver a simple interface, fast loading, placement based on popularity not bribes, and advertising content that appears to be relevant.

Strategic commitment is based on an assumption that the future will be enough like the past that today's effective business model will also be successful in the future. There is a long-term perspective; the focus is on the future in investment decisions and strategy development. The planning horizon may extend into the future two, five, or more than ten years, depending on the business involved.

Organizational Characteristics	Strategic Commitment	Strategic Opportunism	Strategic Adaptability
Perspective	Continuous improvement	Opportunistic	Adapt to changing marketplace
Orientation	Commitment	Fast response	Being relevant
Leadership	Charismatic	Tactical	Visionary
Structure	Centralized	Decentralized	Flat
Future perspective	Long term	Short term	Medium term
People	Eye-on-ball	Entrepreneurial	Diverse
Risk	Lose relevance	Also ran	Misread trends

Figure 7.4 Three Strategic Philosophies

There should be an understanding and buy-in throughout the organization as to what the strategy is and why it is persuasive, achievable, and worthwhile. In particular, people should know and believe in the value proposition, the target market, the functional strategies, and the role of assets and competencies. The business rationale should be more than achieving financial objectives; there should be a purpose that is valued, if not inspirational.

Execution and improving the strategy are the keys to success. The emphasis is on continually improving (rather than changing) the existing implementations of the strategy, reducing the cost, improving efficiency, enhancing the value proposition, improving customer satisfaction, and strengthening the assets and competencies. Each year the operations and its output should be better than the last. Japanese firms such as Shiseido or Canon call this continuous improvement *kaizen* and have built successful companies around it. In pursuing continuous improvement, what is needed is incremental rather than transformational or even substantial innovation. The goal is improvement of the existing strategy rather than the creation of a new strategy. In that regard, the information needs are on technology developments and consumer attitudes within the framework of the existing competitive context.

Strategic commitment places demands on the organization and its people, culture, structure, and systems. In general, a centralized organization that can be disciplined in resource allocation and keep it "on strategy" will be helpful, as will the presence of a strong, charismatic leader who can sell the vision to relevant constituencies inside and outside the organization. The people should be specialized, each with skills that will advance the strategy and its underlying assets and competencies. The culture should revolve around the strategic vision that is supporting the strategy. It should go beyond financial goals to include those that will inspire those implementing the strategy.

Strategic commitment has some commonalities with strategic intent, a concept conceived by Hamel and Prahalad nearly two decades ago, namely a clear strategic vision and commitment to that vision.[4] There are some meaningful differences as well. Strategic intent was more oriented toward a firm starting from an also ran or entry position rather than enhancing an established or leading position. It therefore encouraged transformational rather than incremental innovation in order to change the existing market order. It also advocated stretching the organization to identify and develop new SCAs. The focus was on overcoming the major competitor in part with a sustained obsession with winning at all levels of the organization and a clear idea as to what winning would take.

Strategic Stubbornness

The risk of the strategic commitment route, as suggested by Figure 7.5, is that the vision may become obsolete or faulty and its pursuit may be a wasteful exercise in strategic stubbornness. Of the host of pitfalls that could prevent a vision from being realized, three stand out.

Implementation barriers. The picture of the future may be substantially accurate, but the firm may not be able to implement the strategy required. That was, in part, the problem with the efforts of GE and others to crack the computer market in

Strategic Approach	Strategic Risk
Strategic commitment	Strategic stubbornness
Strategic opportunism	Strategic drift
Strategic adaptability	Strategic blunders; misread trends

Figure 7.5 Vision versus Opportunism

the 1960s and with the attempt of Sony to promote its beta VCR format as the industry standard.

Faulty assumptions of the future. The vision might be misguided because it is based on faulty assumptions about the future. For example, the concept of a one-stop financial services firm was based, in part, on the erroneous assumption that customers would see value in a one-stop financial service. It turned out that consumers preferred to deal with specialists. GE's concept of factory automation was similarly faulty, as it discovered after some big losses. Customers wanted hardware and software components, not a factory system.

A paradigm shift. A third problem occurs when there is a paradigm shift, perhaps brought about by a transformational innovation. For example, computers changed from mainframes to minicomputers to workstations to servers. In the semiconductor industry, the vacuum-tube business first gave way to transistors and then, in sequence, to semiconductors, integrated circuits, and microprocessors. In both cases, each new paradigm brought with it a remarkable change in the cast of characters. It was extremely rare for a leader in one paradigm to be a leader in the next, often because of strategic stubbornness.

New operating models can also change the paradigm. Starbucks and others have changed the way coffee is purchased and consumed, leaving those selling canned coffee in supermarkets to fight in a declining, unprofitable segment. Dell changed the way both individuals and organizations buy their computers, leaving those selling through retail channels at a disadvantage. Nucor changed the steel industry by creating dispersed minimills that used scrap steel as raw material, leaving the big steel companies to compete on price and watch their sales decline and profits disappear. In each case, it is no coincidence that the new paradigm has been dominated by new entries or by entries that had been considered insignificant niche players by the leading companies.

Strategic Opportunism

Strategic opportunism is driven by a focus on the present. The premise is that the environment is so dynamic and uncertain that it is at least risky, and more likely futile, to predict the future and invest behind those predictions. The more prudent and profitable route is to detect and capture opportunities when they present themselves, with a goal of achieving immediate profits. When short-term successes flow, the long term will take care of itself as at least some of these short-term winners will grow to major businesses and the rest, in the aggregate, will not be a burden.

One key to success in strategic opportunism is an entrepreneurial culture and the willingness to respond quickly to opportunities as they emerge. The people should be entrepreneurial, sensitive to new opportunities and threats, and fast to react. The organization needs to be decentralized, with people empowered to experiment and invest behind emerging opportunities. The culture needs to support empowered managers, new ventures, and change. The strategy will be dynamic, and change the norm. New products will be continuously explored or introduced and others de-emphasized or dropped. New markets will be entered and disinvestment in existing ones will always be an option. The organization will be on the lookout for new synergies and assets and competencies to be developed.

Another key is to be close to the market. The management team needs to be talking to customers and others about the changing customer tastes, attitudes, and needs. Information systems must monitor customers, competitors, and the trade to learn of trends, opportunities, problems, and threats as they appear. Information gathering and analysis should be both sensitive and continuous. Frequent, regular meetings to analyze the most recent developments and news may be helpful. The organization should be quick to understand and act on changing fundamentals.

Strategic opportunism provides several advantages. One is that the risk of missing emerging business opportunities is reduced. Another is that the risk of strategic stubbornness is also reduced. Firms such as General Mills in cereals, Purina in pet foods, and Ziff Davis in media all seek emerging niche segments and develop brands tailored to specialty markets. Thus, Purina brands such as ALPO, Beneful, ProPlan, Mighty Dog, and Purina One and General Mills brands such as Berry Burst Cheerios and Cinnamon Toast Crunch are designed to appeal to a current taste or trend. Ziff Davis is continuously introducing niche publications around its PCMag.com brand.

Strategic opportunism tends to generate a vitality and energy that can be healthy, especially when a business has decentralized R&D and marketing units that generate a stream of new products. Within 3M, for example, new businesses are continually created and evaluated with respect to their prospects. HP is another firm that believes in decentralized entrepreneurial management. These decentralized firms are often close to the market and technology and are willing to pursue opportunities.

Strategic opportunism results in economies of scope, with assets and competencies supported by multiple product lines. Nike, which applies its brand assets and competencies in product design and customer sensing to a wide variety of product markets, is a good example. A key part of the Nike strategy is to develop strong emotional ties and relationships with focused segments through its product design and brand name strengths. The organization is extremely sensitive to emerging segments (such as outdoor basketball) and the need for product refinements and product innovation. Nike has strategic flexibility, which characterizes successful strategically opportunistic firms.

Strategic Drift

The problem with the strategic opportunism model is that, as suggested by Figure 7.5, it can turn into strategic drift. Investment decisions are made incrementally in response to opportunities rather than directed by a vision. As a result, a firm can wake up one morning and find that it is in a set of businesses for which it lacks the needed assets and competencies and that provide few synergies.

At least three phenomena can turn strategic opportunism into strategic drift. First, a short-lived, transitory force may be mistaken for one with enough staying power to make a strategic move worthwhile. If the force is so short-lived that a strategy does not pay off or does not even have a chance to get into place, the result will be a strategy that is not suitable for the business or the environment.

Second, opportunities to create immediate profits may be rationalized as strategic when, in fact, they are not. For example, an instrumentation firm might receive many requests from some of its customers for special-purpose instruments that could conceivably be used by other customers but that have little strategic value for the company. Such opportunities might result in a sizable initial order, but could divert R&D resources from more strategic activities.

Third, expected synergies across existing and new business areas may fail to materialize owing to implementation problems, perhaps because of culture clashes or because the synergies were only illusions in the first place. A drive to exploit core assets or competencies might not work. As a result, new business areas would be in place without the expected sustainable advantages.

Strategic drift not only creates businesses without needed assets and competencies, but it can also result in a failure to support a core business that does have a good vision. Without a vision and supporting commitment, it is tempting to divert investment into seemingly sure things that are immediate strategic opportunities. Thus, strategic opportunism can be an excuse to delay investment or divert resources from a core vision.

One example of strategic drift is a firm that designed, installed, and serviced custom equipment for steel firms. Over time, steel firms became more knowledgeable and began buying standardized equipment mainly on the basis of price. Gradually, the firm edged into this commodity business to retain its market share. The company finally realized it was pursuing a dual strategy for which it was ill suited. It had too much overhead to compete with the real commodity firms, and its ability to provide upscale service had eroded to the point that it was now inferior to some niche players. Had there been a strategic vision, the firm would not have fallen into such a trap.

Another example is a discounter that did well when operating a limited product line in a local market with a low-cost message. The customer value was clear, and the hands-on management style was effective. However, when the firm expanded its geographic and product scope (even going into groceries), the management systems were no longer adequate and the value proposition become fuzzy as well. It had drifted into a business requiring assets and competencies it did not have.

Strategic Adaptability

Strategic adaptability, like strategic opportunism, is based on the assumption that the market is dynamic, the future will not necessarily mimic the past, and an existing business model, however successful, may not be optimal in tomorrow's marketplace. Unlike in strategic opportunism, however, there is also an assumption that it is possible to understand, predict, and manage responses to market dynamics that emerge and even create or influence them.

Strategic adaptability is about managing relevance, a topic introduced in Chapter 4. As the market dynamics evolve and the niches and submarkets emerge, one goal is to adapt the offering so that it maintains its relevance. The firm wants to avoid investing behind SUVs when the market is shifting to hybrids. Another is to seize opportunities to influence the creation of markets and submarkets. One study determined that such an opportunity occurs about once or twice a decade on average, and that the window of opportunity is often short. A strategically adaptable firm does not want to miss such an opportunity. In that respect, it is more likely to go beyond incremental innovation to substantial and even transformational innovation if that is what it takes to create new markets.

A firm that aspires to be strategically adaptable needs to have competence in identifying and evaluating trends, a culture that supports aggressive response, and organizational flexibility so that business creation and modification can occur quickly.

Identifying and evaluating trends. The strategically adaptable firm needs to have a good external sensing mechanism to detect underlying customer trends and market dynamics involving drivers such as technology and distribution. In addition, the organization will need to be able to distinguish fads from trends and to evaluate the substance, dynamics, and implications of those trends. This is not an easy assignment. Being close to the customer, through direct contact and through research, will be important.

Adaptation-supporting culture. When trends are detected, the strategically adaptable firm needs to have a culture that supports aggressive response to opportunities represented by the trend analysis. That means that innovation, entrepreneurship, and experimentation should be valued and that it is okay to fail. Innovation is a mindset, but it also involves an R&D capability, in house or with alliance firms, to provide the potential to broaden the firm's offerings. The entrepreneurial style should be supported by organizational structures and reward systems that encourage managers to exploit opportunities with action-oriented strategies. There has to be some ability to tolerate a "ready, fire, aim" mentality and to allow pilot tests to thrive. Unlike strategic opportunism, the short-term product will be less important than the priority of getting the offering right and establishing a value position in the emerging market.

Strategic flexibility. Strategic adaptability usually requires flexibility so that the firm will be ready when a window of opportunity arises. Strategic flexibility—the ability to adjust or develop strategies to respond to external or internal changes—can be achieved in a variety of ways, including participating in multiple product markets and technologies, having resource slack, and creating a flexible brand portfolio.

Participation in multiple product markets or technologies means that the organization is already "on the ground" in different arenas and has purchased strategic options. Thus, if it appears that demand will shift to a new product market or that a newer technology will emerge, the organization can just expand its current product market rather than start from zero with all the risks and time required. An organization may also participate in business areas with weak returns in order to gain the strategic flexibility to deal with possible market changes.

Investing in underused assets provides strategic flexibility. An obvious example is maintaining liquidity (as with Toyota's $20 billion cash hoard) so that investment can be funneled swiftly to opportunity or problem areas. Maintaining excess capacity in distribution, organizational staffing, or R&D can also enhance a firm's ability to react quickly.

A flexible brand portfolio may be needed so that brand assets will be in place to support a move in a new direction. Such flexibility can be based in a strong umbrella brand; GE not only has the GE brand but other brands, like NBC and Universal, that can be the basis of a growth platform. It can also be based on a system of endorsed brands, subbrands, and branded features such as Marriott's portfolio that includes Fairfield Inn, Courtyard, and others. The idea is to have a portfolio robust enough so that a new offering does not have to create a brand asset in order to compete.

Nucor has exhibited strategic adaptability over the years. In the 1970s, facing price pressures from fully integrated steel firms plus efficient Japanese brands, Nucor developed a strategy of producing joists (higher-value products used in construction) in rural minimills that employed nonunionized labor and used scrap steel as raw material. For a decade, this model made Nucor a strategic and financial success. By the mid-1980s, however, others had started to copy the strategy, scrap steel was no longer as plentiful, and aluminum had made serious inroads into traditional steel markets. In response to these changes, Nucor again reinvented the paradigm by focusing on flat-rolled, upmarket products using a scrap steel substitute, and drawing on iron ore in Brazil and a processing plant in Trinidad.

Two other firms also illustrated strategic adaptability. Charles Schwab shifted from being a discount broker for individual investors to being an innovative supplier of no-load, no-transaction-fee mutual funds under the Schwab OneSource brand. It has now enlisted an army of fee-only financial advisers called Schwab Institutional to guide investors who are attracted to the Schwab investment options. Microsoft's focus progressed from operating systems to applications to the Internet. Both Schwab and Microsoft chose not to abandon the old vision, but rather to augment it with a new direction.

Strategy Blunders—Misreading Trends

Investing behind trends and emerging submarkets is inherently risky because of the uncertainty and judgment involved and because the execution of the strategy is often difficult.

An error in interpreting a trend or emerging submarket can result in a substantial blunder that can damage or even cripple the firm. Not only will resources be wasted that could have been productively used elsewhere, it can also have a deleterious impact on the brand assets and on the internal culture. A visible failure can inhibit future strategy choices. Consider, for example, Nabisco's Snackwells, which responded to a low-fat eating trend that turned out to be less of a long-term phenomenon than expected. The loss of equity for both the Snackwell and Nabisco brands was significant to the firm.

In addition to a trend being misinterpreted, there is an execution issue. The most astute and insightful analysis can lead to a strategy that simply cannot be implemented. Consider the merger of AOL with Time Warner. Time Warner hoped to provide content to the then-leading Internet portal and in the process become relevant in the Internet world. The failure of this concept was at least in part due to the inability to execute behind the strategy. The two organizations, with very different cultures and incentives, were unable to work together to execute the vision. Even had the vision been on target, the execution difficulties doomed the effort.

Blended Philosophies

There are firms that have a dominant strategic philosophy. It can be argued that Google and Starbucks are primarily strategic commitment firms, that General Mills is more in the strategic opportunistic group, and that P&G and GE are strategic adaptable. But it is not that simple. Most firms are and should be a blend.

Firms can engage in strategic commitment in one business arena, strategic opportunism in another, and strategic adaptability in still another. Starbuck's ice cream is available in supermarkets and Starbuck's coffee can be had on United Airline flights, reflecting strategy opportunism. Further, Starbuck's has a soluble coffee, Via, in supermarkets and Starbuck's kiosks at airports and in supermarkets, indicating some strategic adaptability. Google has adopted a strategic adaptability by acquiring a host of capabilities and firms along with some strategic opportunism based on knowing about traffic flows from its database. Among its many acquisitions were YouTube, Dodgeball (mobile social networking), and Double Click (an Internet advertising agency).

While General Mills has a strong opportunistic philosophy, it also has a strategic commitment with respect to the Cheerios brand and has pursued strategy adaptability with respect to health trends. And GE is strategic adaptable but it too has commitment to business units such as jet engines and has been opportunistic in its acquisition strategy over the years.

The philosophies can also overlap within a business. Toyota, for example, has a very real strategic commitment with respect to some of its business strategy elements.[5] All Toyota businesses believe passionately that their ability to execute *kaizen* (continuous improvement), internal innovation enhanced by trial-and-error experimentation, and putting the customer first informed by first-hand customer contact are the basis for strategy. At the same time, Toyota has elements of strategic adaptability. In particular, it is in virtually all automotive and truck markets both with respect to models and countries. Thus, it is participating in a wide variety of niches and is unlikely to be caught on the wrong side of an emerging trend. Further, its conservative finance strategy with its cash hoard allows flexibility.

The real question is not which philosophy to have. The real challenge is which blend of philosophies makes sense to provide a successful and coherent strategic path to success and which, if any, should be dominant.

A blended organization represents a challenge. The need to be opportunistic and adaptable can undercut a commitment thrust, for example. But in dynamic markets, firms that can execute a successful blended philosophy will have a significant ongoing advantage.

KEY LEARNINGS

- To create an SCA, a strategy needs to be valued by the market and supported by assets and competencies that are not easily copied or neutralized by competitors. The most frequently employed SCAs are quality reputation, customer support, and brand name.
- Synergy is often sustainable because it is based on the unique characteristics of an organization.
- Strategic commitment, involving a stick-to-your-knitting focus on a clearly articulated strategy, is based on an assumption that the business model needs to be refined and improved, not changed.
- Strategic opportunism assumes that the environment is so dynamic and uncertain that it is futile to predict the future and invest behind those predictions. The more prudent and profitable route is to detect and capture opportunities when they present themselves, with a goal of achieving immediate profits.
- Strategic adaptability, based on the assumption that it is possible to understand, predict, and manage responses to market dynamics that emerge and even create or influence them, is about managing relevance.
- In dynamic markets, firms should strive to develop an organization that can blend commitment, opportunism, and adaptability.

FOR DISCUSSION

1. What is a sustainable competitive advantage? Identify SCAs for HP, P&G, Tide, and Wells Furgo.
2. Pick a product class and several major brands. What are each brand's points of parity and point of difference? Relate POPs to KSFs, and the POD to SCAs.
3. What is synergy? What are the sources of synergy? Give examples. Why is it so elusive?

4. What is strategic commitment? Can you name examples that fit besides those mentioned in the book? What examples of strategic stubbornness come to mind? Why are good strategists so blind to this problem? How does strategic commitment differ from strategic intent? Illustrate with examples.
5. What is the difference between strategic opportunism and strategic adaptability? Can you give examples of each? What is the difference between the risks of both? Can you give examples of firms that have experienced drift or misread trends?
6. Examine a major firm and determine its philosophy blend. Where does each of its philosophies become visible?

NOTES

1. Keller introduced points of parity in the branding context in Kevin Lane Keller, *Strategic Brand Management,* 2nd edition, Upper Saddle River, New Jersey: Prentice Hall, 2003, pp. 131–136.
2. David A. Aaker, "Managing Assets and Skills: The Key to a Sustainable Competitive Advantage," *California Management Review,* Winter 1989, pp. 91–106.
3. These quotes come from The Google Corporate Information site on Google.com. Accessed May 2009.
4. Gary Hamel and C. K. Prahalad, "Strategic Intent," *Harvard Business Review,* May–June 1989, pp. 63–76.
5. A good source for the Toyota strategy is Emi Osono, Norihiko Shimizu, and Hirotaka Takeuchi, *Extreme Toyo,* New York: John Wiley & Sons, 2008.