

DAVIDE SOLA & JEROME COUTURIER



'Quite a tour de force! Davide Sola and Jerome Couturier have managed to produce a thoughtful and practical strategy handbook, full of step-by-step advice and concrete examples. A must read - and a must use - for any leader eager to position their business for success.'

Hubert Joly, President and Chief Executive Officer, Best Buy Co., Inc.

'Finally... a clear and comprehensive guide that sets out, step by step, how to create a compelling and actionable strategy. This book is a must read for anyone who needs to create a strategic plan and then execute it! The book gives straightforward and practical advice on how to think and act strategically. Best of all, it is written in plain English and not full of impenetrable business speak.'

Andy Ransom, Chief Executive Officer, Rentokil

With strategy, timing is everything. This book is a reminder that strategic thinking is the first step to change management and success. It makes it clear that strategic thinking should not be daunting compared to the other day to day challenges we all face; it might even make those challenges easier! I love it, it helps me to clarify and structure my entrepreneurial ideas."

Eric Babolat, President and Chief Executive Officer, Babolat

'In a sea of very useful frameworks and great cases about strategy, what really strikes me is the lean testing methodology which is truly compelling. This is a great way to hedge uncertainty across cycles, geographies, business models and also personal biases. I really see a way to transform the strategic process into a learning process for my organisation.'

Aldo Bisio, Chief Executive Officer, Ariston Thermo

'I have been impressed by both the quality and practicality of the book. On one hand it is built as a guidebook that managers can use on an ad-hoc basis, particularly for large transformational initiatives. On the other hand, it reads fantastically well in one go, providing a holistic and fascinating view of what strategic thinking is about. The ideas and tools proposed in the book are definite success factors for all organisations.'

Nicolas Japy, Group Chief Operating Officer, Sodexo

'This book is an absolute must read for anyone who aims to successfully manage a business. Jerome and Davide have definitely succeeded in redefining strategic thinking, in a vibrant, thought-provoking and convincing manner. This book is really about the future of management.'

Albert Bourla, President & General Manager, Established Products Business Unit at Pfizer

'How to Think Strategically provides a simple and useful approach to the most misused word in business: strategy. Together with the app, it helps to focus on what is relevant.'

Daniel John Winteler, Chief Executive Officer, Miroglio Group

average profits. You may have great staff, a can-do culture and a cool brand, and these things are really helpful, but without the profits you do not have competitive advantage. But what if you are not in profit, or if your profits are below the industry average? If this is just a short-term blip there is no cause for alarm – yet. But you do need to start investigating what is going on. However, if having poor or absent profits is a recurring pattern there is no avoiding a diagnosis of no competitive advantage. This may not be what you want to hear, but it is best to know the truth so that swift action can be taken.

Because competitive advantage is about a result or an outcome, not just about potential, the first question companies need to ask is not 'What is our competitive advantage?' but 'Do we actually have a competitive advantage?' And if a company realises that it has no competitive advantage it can at least trigger a process to identify what needs to change.

How do you create competitive advantage?

So far we have talked about the importance of having a sustainable competitive advantage. The question now is how we build a competitive advantage in the first place. Competitive advantage is a great dish but we need the right ingredients (the sources of competitive advantage) and know-how to combine them – a recipe (the strategic options). Having either the best ingredients or a recipe is not enough, you need both.

The right ingredients: the sources of competitive advantage

There are many ingredients that can be used to build a competitive advantage. So we have grouped them into three categories: structural, execution and insight/foresight. Structural sources of competitive advantage are resources or assets that an organisation owns or controls and which cannot be accessed or copied by competitors. Execution refers to the superior efficiency and effectiveness of a company in utilising its resources. Insight/foresight is a superior ability to understand and anticipate the future. (A fourth source of competitive advantage is corporate culture, the deeply embedded belief systems and shared mental models that guide the decisions and actions of an organisation. But we will discuss this in more depth in Chapter 6.)

Structural sources

A structural advantage is something one company has that prevents other companies entering its market or competing effectively. It comes when, for structural reasons, competitors cannot copy a company's value proposition. It has been described as akin to a protective moat around the company.

Examples of structural sources

Structural sources might be any of the following:

- Proprietary technology. Google's rise to success was in large part due to a patented algorithm called PageRank that helps rank web pages that match a given search string.
- An unrivalled access to a vital resource. De Beers' long-held competitive advantage in the diamond trade, can be traced back to its ownership of the mineral rights to the vast majority of diamond mines.
- Superior scale economies. The Coca-Cola Company, through excellent plant capacity utilisation, achieves a cost of production that its competitors find almost impossible to match.

- **Low-cost manufacturing facilities.** ZTE, the up and coming telecom and mobile infrastructure provider, is becoming a formidable player in the market thanks to its access to high-quality, low-cost manufacturing.
- A strong brand name. Luxury conglomerate LVMH relies on the power of its brands such as Luis Vuitton, Puma and Bulgari to sustain its competitive advantage.
- A large existing customer base. Amazon is continuously conquering new market segments and offering new products and services to its ever-increasing and loyal customer base, which represents an asset difficult to replicate.

Execution

Some companies achieve their dominant position by consistently outperforming their competitors in the execution of their day-to-day business. High-quality execution allows a company to set itself apart from its competitors by performing better in critical aspects of its business system. This could take the form of delivering a superior or more convenient value proposition to its customers in terms of service or product features. Execution can be a source of competitive advantage when the following occur:

- The entire business system is highly efficient. McDonalds with its sophisticated franchising process, excellent staff training, careful selection of suppliers and remarkable global consistency in quality, cleanliness, taste and value for money has created a highly efficient and difficult to replicate business system.
- Critical activities are executed distinctively. Think of activities such as:
 - customer service for companies like Amazon that deal with hundreds of thousands of requests, complaints and other demands from customers that require an immediate answer:

- workflow and process compliance for companies like
 GE Capital where on a daily basis they review thousands of financing requests that require multiple checks to be carried out in a matter of minutes.
- alignment of skills and incentives for companies like
 Natura Cosmeticos of Brazil which manages a network of thousands of self-employed agents that sell its products.

Insight/foresight

Another source of competitive advantage lies in having unique knowledge or insight. This might be scientific or technical expertise, creativity or the ability to recognise patterns and trends.

Insight allows organisations to take decisions and implement activities based on a superior ability to understand and interpret data about the past. Take for example Amazon, who is able to recommend to individual customers, based on their past history with Amazon, products that they might want to buy. Features such as 'Frequently bought together' represent one of the most lucrative sales channels for Amazon. These features are built on insights into people's purchasing behaviour derived from the effective use of customer information.

Foresight, on the other hand, is the ability of organisations to anticipate future trends before they become mainstream. You might think that Madonna has access to a crystal ball, since for the past 30 years or so, she has been able to successfully anticipate and exploit many new trends in the music business. She has developed a remarkable ability in understanding the process of how innovations are gradually adopted by more and more people. In particular, she has learned how to spot new trends that have passed the first two stages of adoption (innovators and early adopters) and are about to reach the mainstream (see Figure 4.3).

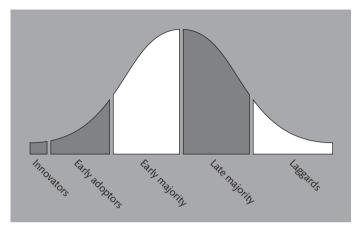


FIGURE 4.3 The technology adoption lifecycle

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Using insight and foresight enables organisations to anticipate trends and respond to them swiftly. These organisations are also better equipped to manage in conditions of uncertainty. They are tuned in to what their customers value and they can translate this knowledge into products and services.

A recipe: the value-creating options

We still need a recipe that will take some of these ingredients described above and turn them into competitive advantage. There are two fundamental recipes, or value-creating options: cost leadership and differentiation. Until recently it was believed that these two options were mutually exclusive. The advent of globalisation has changed such assumptions. Today we can find organisations that are able to pursue both options. We call this approach dual strategy.

Cost leadership

The **cost leadership strategy** is one designed to deliver products or services with features that are acceptable to

customers and sold at a price that is in line with the average, but which the organisation is able to produce at a lower relative cost

Cost leadership → Relative price = Average and Relative cost < Average

A well-known example is the European airline company Ryanair. Ryanair has pursued a cost leadership strategy by eliminating all 'frills' and focusing on efficiency. For example, Ryanair makes its flight crew members buy their own uniforms and charges customers extra for hold luggage.

Even when facing large increases in fuel prices in 2006, Ryanair increased its profits. Its mission is to 'simply continue to be the Low Cost Leader in the European airline industry'. To achieve such impressive results, Ryanair has developed and maintained a business model dedicated to low-cost performance in every element of the value chain: quick gate turnarounds, non-union operations, performance-based incentive compensation plans, standardisation on one type of aircraft and flying (in most cases) to secondary airports.

Differentiation strategy

Does your product stand out from the crowd? Does something make the service you offer distinct from other similar products in the marketplace? Do your customers agree, and are they therefore willing to pay for this difference?

A differentiation strategy is a strategy that enables a firm to offer products and services that the end customer perceives to be unique, to the point that they are prepared to pay a relative price that is well above the average. Simultaneously, the firm is able to deliver such products and services with a relative cost that is in line with the industry average.