



V3 PARTNERS

# ENTREPRENEURIAL TECHNIQUES

## CHAPTER 4 - STRATEGY

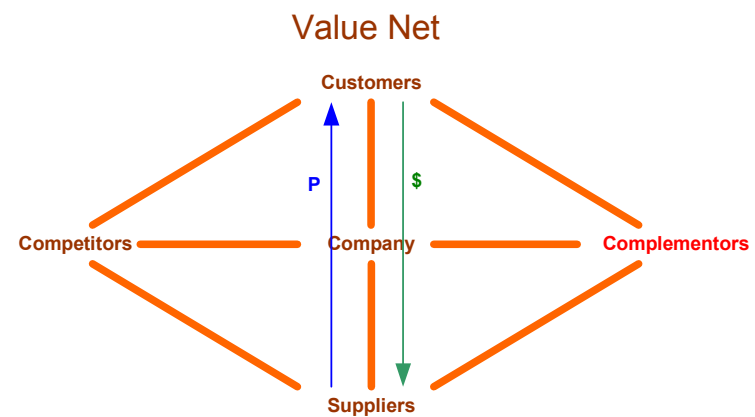
“HOWEVER BEAUTIFUL THE STRATEGY, YOU SHOULD  
OCCASIONALLY LOOK AT THE RESULTS.”

- WINSTON CHURCHILL



# CONTENT

- motivation
- strategy
- strategy case studies
- strategic thinking
- types of strategies
- building strategies
- reading list





# MOTIVATION

- if you don't know where you're going, any road will get you there

"Sony missed out on potential sales from MP3 players and other gadgets because it was overly proprietary about music and entertainment content, the head of Sony's video-game unit acknowledged Thursday,"

- megamistakes – the folly of forecasting

see below...



# MEGAMISTAKES

## THE FOLLY OF FORECASTING

- predicting is an essential part of creating a strategy
- nothing can doom a strategy more surely than erroneous forecasting
- some dangerous conventional wisdoms
  - mathematical forecasting – there is no supporting evidence that sophisticated mathematical modeling offers better forecasts than simple sensible rule of thumb modeling based on experience and common sense. The advent of spread sheet programs if anything have made this problem even more pernicious
  - diffusion of innovation – product life cycle curves (PLC), marketing pyramids are perhaps useful tools for analyzing the past but offer no help in predicting product trends. It is a fact that most new products never make it out of stage one of the PLC curve.



# MEGAMISTAKES

## THE FOLLY OF FORECASTING

- some dangerous conventional wisdoms
  - forever growing trend – just because we can draw the trend it does not make it reality. We cannot tell the future from the past. Life would be uninteresting if it were so.
  - unbounded optimism – beware of expert predictions. They are usually wrong moreover they are often worse than those of novices.
- zeitgeist – we are the prisoner of our present and things usually take their course. When they are ready they will make their presence felt. Be ready to move on opportunities and consider the advice given below



# STRATEGY

- grand plan
- operating over the value net
- objective: maximizing added value
- involving the **P A R T S**
  - players
  - added value
  - rules
  - tactics
  - scope



# COINSTAR

## CASE STUDY

|                  |                                                                                                                                                                                                                                                            |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| company:         | Coinstar                                                                                                                                                                                                                                                   |
| need (the game): | convert loose change to bills; \$7.7b estimated as loose change                                                                                                                                                                                            |
| the business:    | founded in 1991 to change the way loose change is converted to bills. manufactures, operates automatic change sorting machine replacing tedious process of sorting and “rolling” change usually done by banks. in the past banks performed this at a loss! |
| performance:     | 9300 sorting machines converted \$1.7b at 9% fee, revenue \$180m                                                                                                                                                                                           |
| opportunities:   | recharging wireless accounts, pre-paid cash cards, payroll statements                                                                                                                                                                                      |



# COINSTAR

## THE PARTS

players:

competitors: non-profit aid organizations, banks, ATM companies, suppliers: banks, manufacturers, location providers

complementors: banks, mobile operators, employers, supermarkets,...

customers: everybody

added value: about \$630m ( $\$7b \cdot 0.09$ )

rules: convert your change to bills for nine cents on a dollar - TITOLI; banks did it for free and lost money while doing it so it's worth nine cents

tactics: perception of banks: no more hassle with small change, perception of customers: no more hassle with small change all for nine cents on a dollar - win-win

scope: make change, help spend change for small purchases as recharging cards; stay around the sorter capabilities and small change - linkages between the change game, the rechargeable card game

P A R T S





# HOT TOPIC

## CASE STUDY

|                  |                                                                                                                       |
|------------------|-----------------------------------------------------------------------------------------------------------------------|
| company:         | Hot Topic                                                                                                             |
| need (the game): | retailer of apparel, accessories, and clothing for young men and women - music-licensed, music-influenced merchandize |
| the business:    | founded 1989 in california, to sell music-branded clothes to teenagers, “Everything about music”                      |
| performance:     | about 300 stores, \$450m in sales (\$1.2m/day, 1.5m/store)                                                            |
| opportunities:   | carrying over 10,000 SKUs                                                                                             |



# HOT TOPIC

## THE PARTS

players:

competitors: clothing, accessories, and apparel retailers, youth-focused retailers

complementors: manufacturers, music industry, musicians

customers: teenagers

added value: about \$500m

rules:. You wanna look like your favorite star?  
We've got the close.

tactics: music branded/licensed clothing from 300 stores nationwide, choose from 10,000 products from Madonna's navel-rings to Norah Jones leather jackets

scope: clothes+music+sponsorship+concerts+CDs+MTV  
+Rolling Stone Magazine+.....teenage warez

P A R T S



# MADDEN

## CASE STUDY

- company: Madden Communications
- need (the game): printing in-store displays for food merchandizing
- the business: founded many years ago, stuck in a small segment, broke out into Just-in-time store display printing and printed display distribution business
- performance: 1980, \$5m, 1990 \$10m, 2000 \$132m in sales (more than \$0.5m/employee)
- opportunities: partnership with customers, expand into design and distribution



# MADDEN

## THE PARTS

players:

competitors: printing companies, marketing organizations,

complementors: supermarkets, department stores,  
merchandisers, marketers

customers: consumer products manufacturers

added value: about \$150m

rules: We print, deliver, display, and manage  
merchandizing displays.

tactics: no overprinting, making sure display is  
visible, get your money's worth

scope: design, printing, logistics of store displays,  
partnering with customers

P A R T S

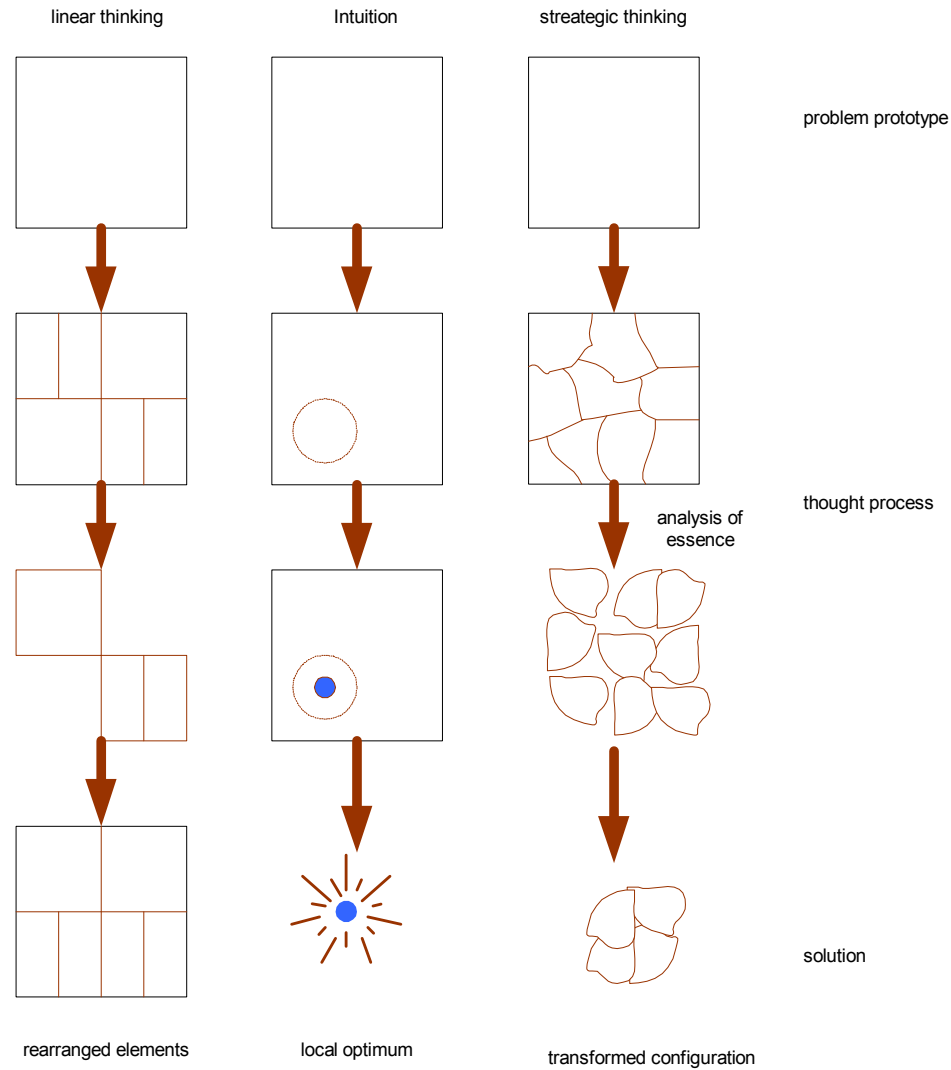


# STRATEGIC THINKING

- result of a particular state of mind
- intuitive rather than rational
- strategies as results of creative insights beyond the reach of conscious analysis
- outside-in thinking
- analysis, imaginative synthesis
- intellectual elasticity
- solution oriented questions



# STRATEGIC THINKING





# ANALYSIS

## concrete phenomenon

- slow processing
- slow disbursement
- hassled work environment
- lost paperwork
- high attrition
- errors in processing
- many rejected applications
- disputes between sales and processing
- errors in data entry



## grouping

- slow work
  - slow processing
  - slow disbursement
- error-prone operations
  - errors in processing
  - errors in data entry
  - many rejected applications
  - lost paperwork
- work environment
  - hassled work environment
  - high attrition
  - disputes between sales and processing





# ANALYSIS

## grouping

- slow work
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## abstraction

- organizational design
- under staffing
- overcomplicated processes
- insufficient training
- inaccurate requirements
- inadequate management







# ANALYSIS

## abstraction

- organizational design
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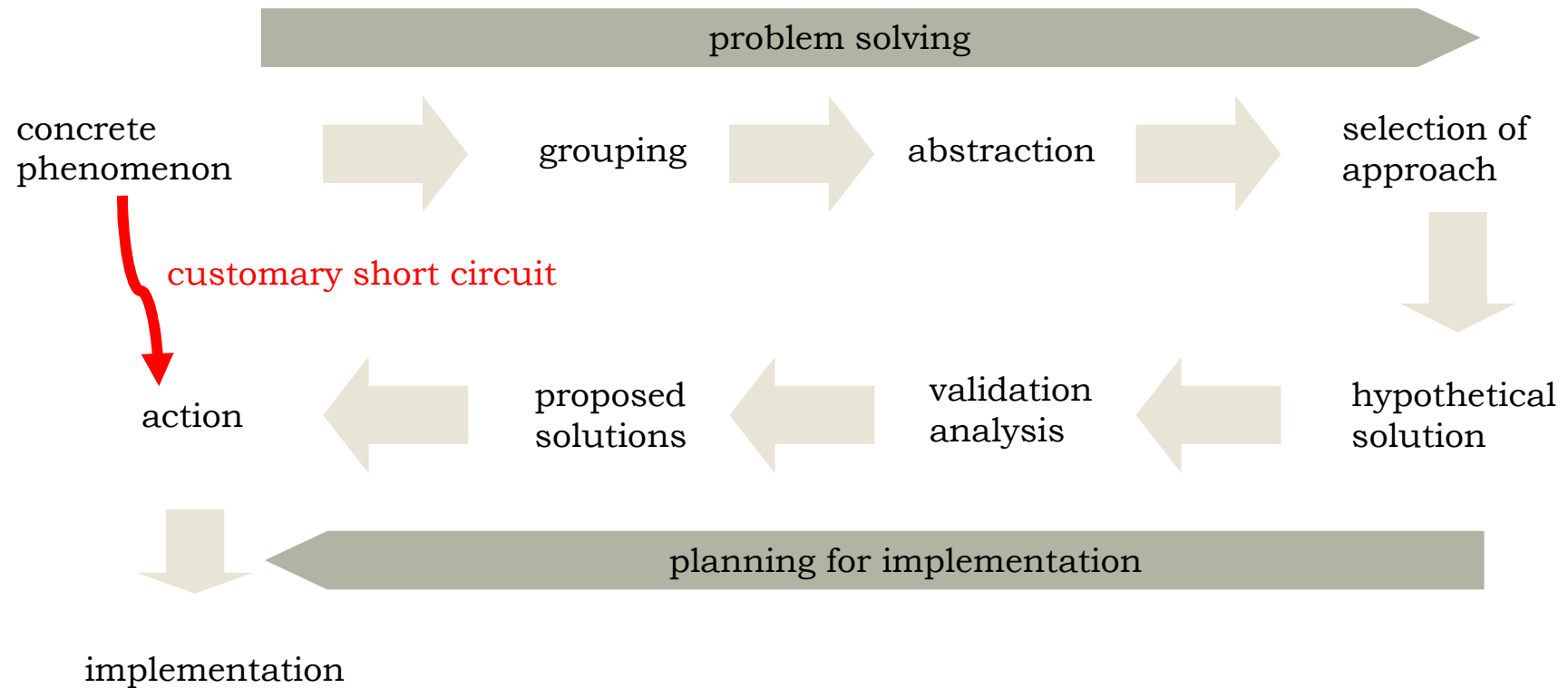
## hypothetical solutions

- reorganize
- increase staff
- redesign processes
- train associates
- improve requirements
- replace management



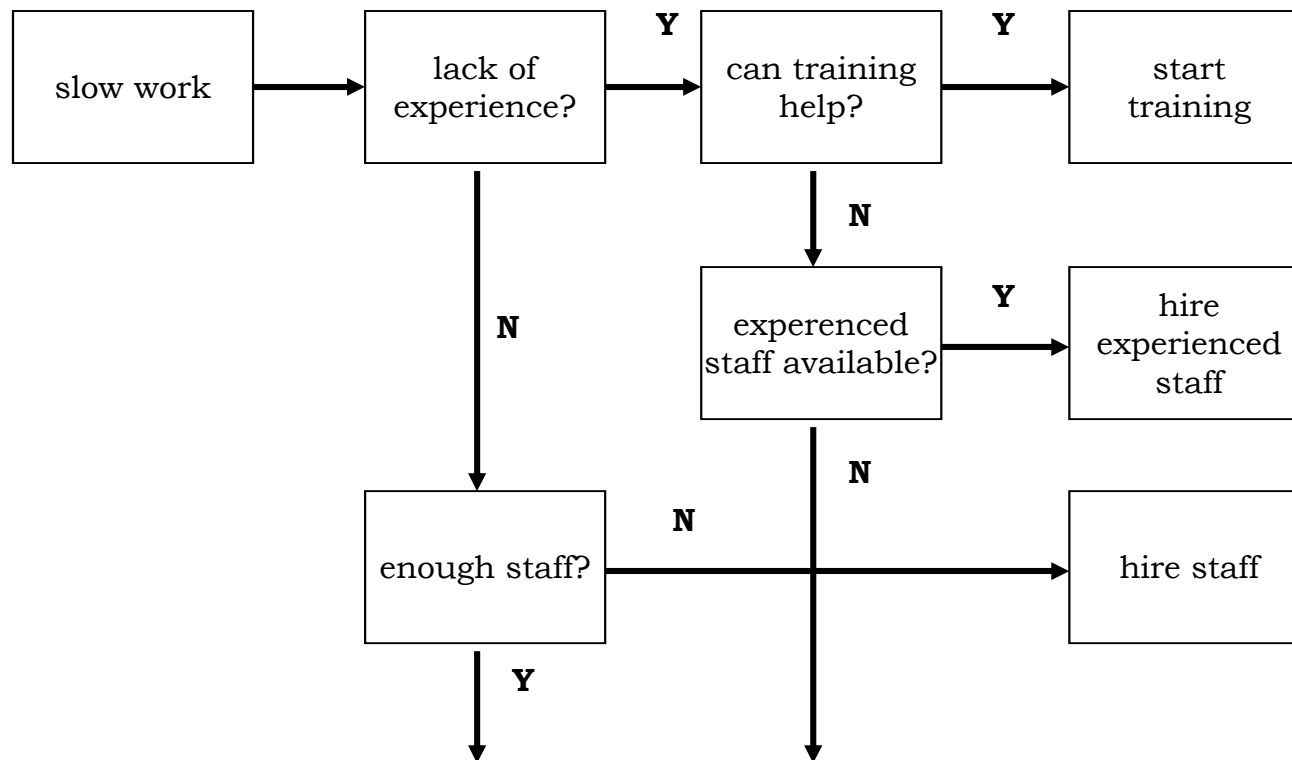


# ANALYSIS, PLANNING



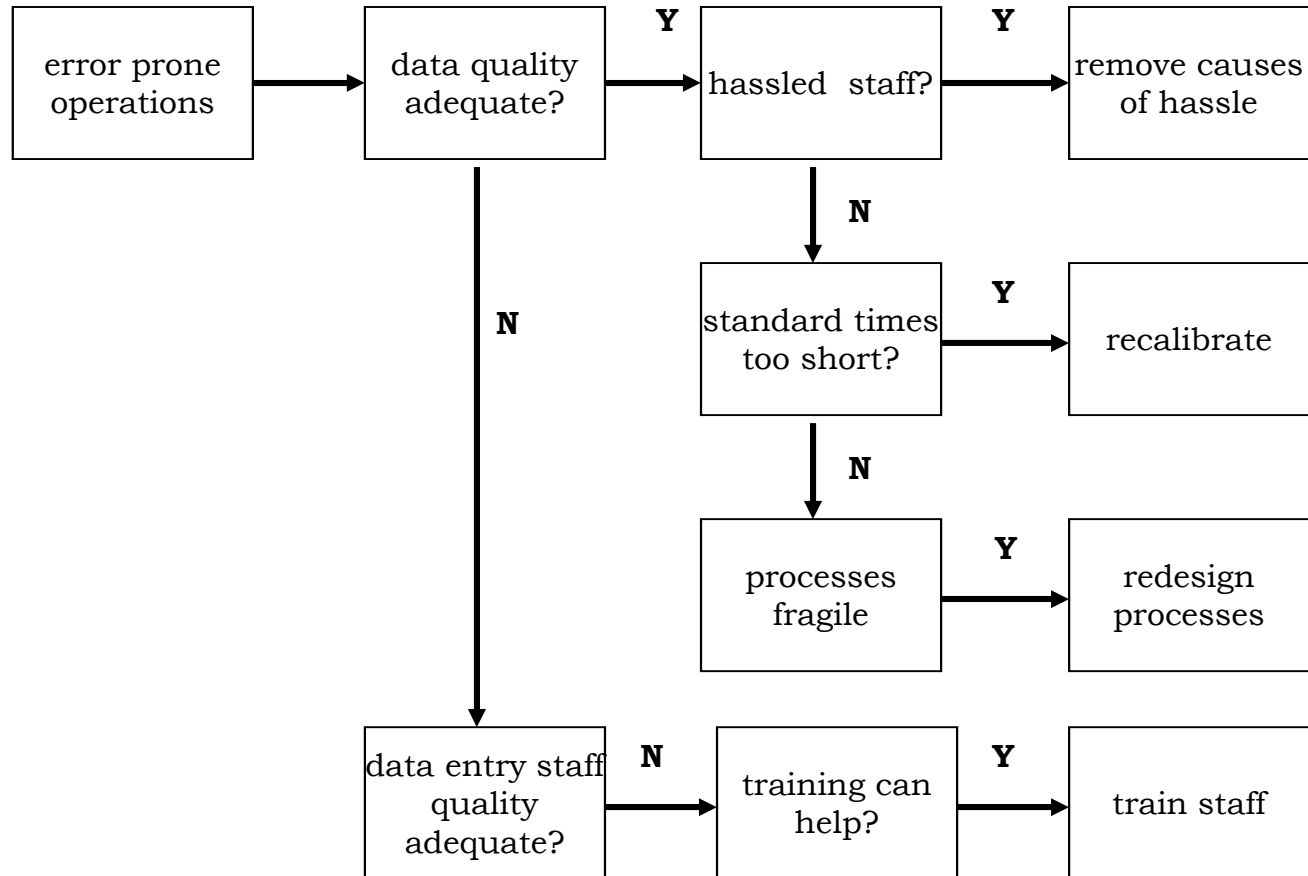


# ISSUE DIAGRAM





# ISSUE DIAGRAM





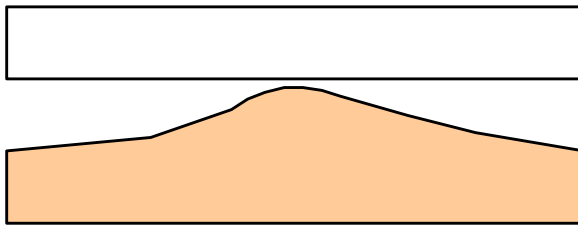
# STRATEGY - KSF CHART

|                 | TO INCREASE PROFIT<br>(COS, MFG COST, ADD<br>PROFIT) | TO GAIN SHARE<br>(SELL MORE, BECAUSE...) |
|-----------------|------------------------------------------------------|------------------------------------------|
| ↑<br>upstream   | COFFEE                                               | PETROLEUM                                |
|                 | BANKING                                              | SHIP BUILDING, STEEL<br>MAKING           |
|                 | AIRCRAFT                                             | HIFI                                     |
|                 | FERTILIZER                                           | SEMICONDUCTOR                            |
|                 | DEPARTMENT STORES                                    | COMPONENTS                               |
|                 | COMPUTER SYSTEMS                                     | INTEGRATED CIRCUITS                      |
|                 | MEDICAL EQUIPMENT                                    | AUTOMOBILES                              |
|                 | BEER                                                 | MORTGAGE BANKING                         |
| ↓<br>downstream | ELEVATORS                                            | TAXIS, COMMERCIAL<br>VEHICLES            |

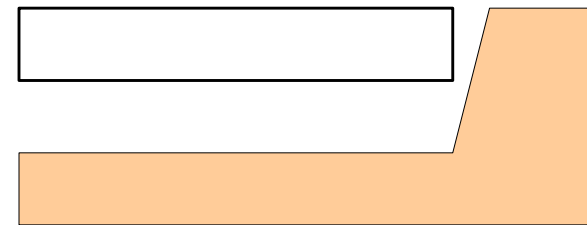


# BASIC STRATEGIES

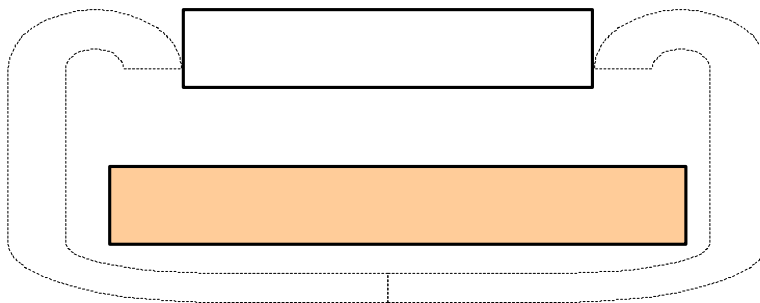
Key Success Factors



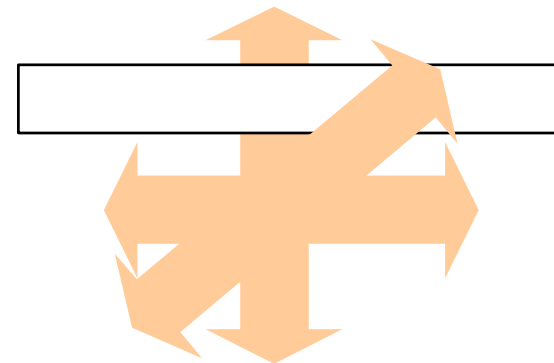
Aggressive initiatives



Relative superiority

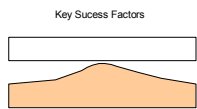


Degrees of freedom



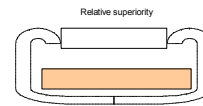


# BASIC STRATEGIES



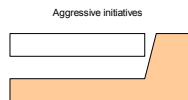
## relative superiority

- select product not in direct competition
- apply resources to those
- make use of differences
- challenge the status quo



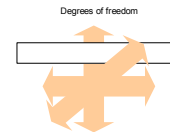
## KSF based

- identify key factors
- select one with greatest opportunity
- apply resources
- against one crucial point



## degrees of freedom

- innovate
- new markets or products
- areas untouched by competitors
- built around ksf



## aggressive initiatives

- unconventional strategy
- objective to upset advantage built on KFS
- change the rules of the game



# STRATEGY

- if anyone can do what you are doing you can't make money at it
- objectives to avoid doing the same thing in the same market
- gain relative advantage that is hard to follow
- extend this advantage
- really a plan to engage your competitors in a game of business and also a plan of under what conditions to leave the game





# STRATEGY

- almost all industry leaders got there by some form of KSF based strategy
- those left behind, may have resembled above but failed in perfecting KSF based strategy or lacked persistence
- must be able to gamble, accept risk
- bold strategic decision - the gamble - is the passage to winning in the game of competitive business



# STRATEGY

## KSF example

In mortgage banking, distribution - be where the customers are - is key to gaining market share. Branch banking is the major form of distribution. An alternative is to use intermediaries: insurance agents, real estate professionals, others to visit customers and directly sell mortgage products.

The problem is converted from managing a set of complex banking products in an expensive branch network to managing loosely organized sales networks where time is of the essence. This approach has several advantages: customer contact time can be aligned with customer availability: after work, on weekends, etc. agents can add value and earn additional income by taking care of the time consuming part of the application process: proof of income, lien registry, procuring various property and other records.

Rules, tactics!



# STRATEGY

## relative superiority example

Pump It Up, Inc. a manufacturer of pumps, is doing well selling pumps to a wide range of contractors. It has a good profit structure while ignoring servicing of the pumps. An employee of Pump It Up realizes this and starts a pump service company, Pump Fix Inc.

Pump Fix is rapidly growing by offering repair and maintenance services for all sorts of pumps until one day Pump It Up realizes that it got a competitor in Pump Fix because it started selling pumps to Pump It Up customers. In response, Pump It Up enters the servicing business - with its high fixed cost structure - and attempts to compete however unsuccessfully.

The result is a reduced size Pump It Up, with smaller market share and profits. Tactics, scope!



# STRATEGY

## aggressive initiatives example

it is about challenging the status quo, asking a lot of questions:

why

- do balls have to bounce?
- do we have to cook on fire?
- do we have to watch a monitor while working on the computer?
- do we have to sit in a class room to learn?
- do sandwiches have to be made with bread?
- do people have to go to a bank branch to do banking?
- do we have to have buttons on jackets?
- do ties have to be tied?
- do we have to have separate hot and cold water pipes in homes?
- can't we buy soup in milk cartons?
- do soaps have to come as bars?
- do telephone cords have to tangle?



# STRATEGY

## strategic degrees of freedom (SDF)

Critical element is the optimization of a objective function (user requirements, profit, cost, etc.). it is the strategic concept and the driving force.

Gulyas Inc. (GI), a Hungarian company, wants to increase the market share of its gulyas soup products by further differentiating its gulyas products from others.

What are the SDFs:

- Packaging
- Taste
- Freshness
- Appearance
- multiple taste categories - mild, medium, strong
- in-store positioning
- ingredients - organic
- origin - the real thing
- the story



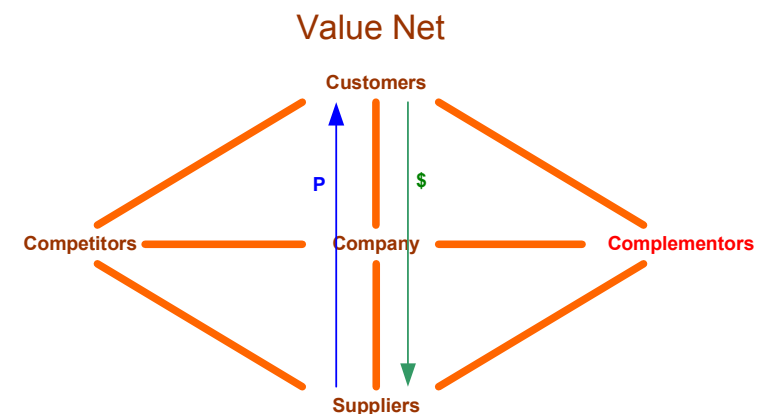
# STRATEGY

- there are no canned strategies
- great strategies are not spectacular breakthroughs, rather they are small but important differences sufficient enough to produce breakthroughs over time
- the operating principle of strategic thinking
  - flexible thinking
  - avoid perfectionism
  - keep details in perspective
  - focus on key factors
  - search for ksf
  - challenge the status quo
  - only one strategy not two or more
  - solution-oriented attitude



# STRATEGY

- customer based strategies
  - segmenting by objectives - product/service use
  - by coverage - un-serviced gaps
  - structural changes
  - changing applications
  - customer mix
  - following trends
- corporate-based strategies
- competitor-based strategies
- complementor-based strategies
- supplier-based strategies





# SELECTED READINGS

## Michael Porter classics

“Competitive Strategy,” “Competitive Advantage,” “Cases in Competitive Strategy,”  
“Competitive Advantage of Nations” - major works on business strategy, save the last one

## Kenichi Ohmae

“The Mind of the Strategist” - maybe the best practical book on business strategy

## Al. Reis, Jack Trout

“Positioning” - a marketing/strategy classic

## E. M. Earl

“The Makers of Modern Strategy” - a survey of military strategy

## B. H. Liddell Hart

“Strategy” - a classic on military strategy for the aggressive businessmen

## Barry S. Strauss, Josiah Ober

“The Anatomy of Error” - a fun book on disastrous outcomes





# THE END

## CHAPTER 4