The Financial Times Guide to Strategy: How to Create and Deliver a Winning Strategy, Third Edition > Strategic concepts, tools and techniques : Safari Books Online

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Part 4: Strategic concepts, tools and techniques

Adhocracy

Invented by Warren Bennis in 1968 and popularised by Alvin Toffler. Crudely the opposite of bureaucracy, an adhocracy is an organisation that disregards the classical principles of management where everyone has a defined and permanent role. Adhocracies are usually fun to work in, chaotic, task and project team based, disrespectful of authority if not accompanied by expertise, and fast changing. Adhocracy suits cultures and individuals used to thinking for themselves and willing to tolerate ambiguity. Adhocracy is most suited to workforces that are highly educated and motivated and where the work requires creativity and responsiveness to unpredictable and volatile customer needs. Most car plants are not adhocracies, most advertising agencies are.

MINTZBERG supplies a more formal definition: 'Highly organic structure, with little formalisation of behaviour, high horizontal job specialisation, based on formal training; a tendency to group the specialists in functional units for housekeeping purposes, but to deploy them in small market-based teams to do their work' (*Structure in Fives: Designing effective organizations* (1983)).

Adjacent Segment

A product or product-customer combination that is 'close' or similar to another one and that could be served by a company with relatively little extra effort. Marketing executives often list their adjacent segments as a prelude to deciding which new customers to target or new business areas to enter. For example, a local newspaper serving one area may decide to enter another area (the adjacent segment) either by extending the coverage of its existing paper or by bringing out an additional edition. Entering an adjacent segment is normally a more sensible step than going after a more distant segment (in this case, a distant newspaper area).

The skill in describing and evaluating adjacent segments lies in thinking about dimensions of the adjacency that may not be obvious. It is easy to think of a geographically adjacent market, but the newspaper may also be adjacent to other segments if it can use its skills, cost base or market franchise to enter that market. In this case, local radio, local magazines, or even the promotion of concerts may be adjacent segments for the newspaper.

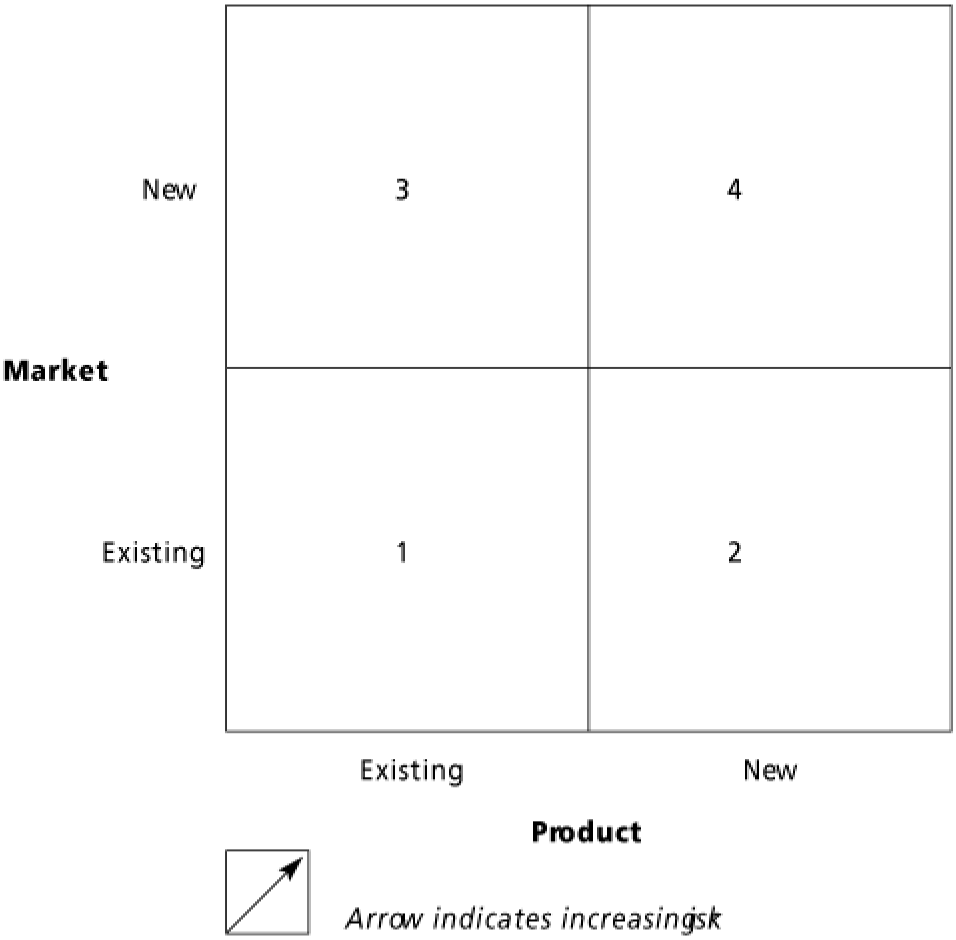
Alien Territory

In the Ashridge Strategic Management Centre's theory of PARENTING ADVANTAGE, this is business where the centre of the company has nothing to contribute and nobody in the company has the necessary management skills. For American Airlines (or any other airline), the manufacture of ice cream would be alien territory. It is also likely that for British Airways the budget airline business was alien territory, explaining why they sold the GO airline and should probably never have owned it.

Ansoff Matrix

As shown in Illustration 4.1, this gives four options for increasing sales.

Illustration 4.1. The Ansoff Matr



ix for business development

Apollo

One of Charles HANDY's four GODS OF MANAGEMENT. In 1978 Handy made a breakthrough in thinking about organisational styles by gracing four typical ways of running companies with the names of Greek gods. Apollo represents 'role culture', being the god of order and rules. This CULTURE assumes that reason should prevail and that tasks can be parcelled out logically. An organisation chart that has a series of boxes describing jobs and that is a classic pyramid represents 'Apollonian' thinking. Everyone knows their role and works on their delegated activities according to their job description.

Apollo represents bureaucracy in the pure sense invented by Max Weber rather than the modern pejorative sense. The Apollo style can be the most efficient way of running firms operating in a stable and predictable environment. Everyone can be given their individual accountabilities and a system such as management by objectives can ensure that individuals are treated fairly according to their performance rather than the personal opinion or liking of their bosses. Because responsibilities are clear and fixed, many people find the Apollo style easy to deal with, secure and stress-free.

Athena

One of Charles HANDY's four GODS OF MANAGEMENT, representing a task-oriented way of running companies. Athena was a young warrior goddess, the patron saint of craftsmen and explorers. Athena firms have a problem-solving CULTURE, are not hierarchical, respect professional expertise and encourage teamwork, creativity and energy. They tend to work in project teams which may be dismantled once a problem is solved and be re-assembled, perhaps with different members, to attack a new challenge. The teams are like guerilla commando units rather than massed armies.

Athena firms are most appropriate to 'knowledge industries' and professional firms, to times of expansion, and to people who think for themselves and can tolerate ambiguity and rapid change. The Athena culture may fit badly and be vulnerable if a firm hits a crisis or stops growing, or if the work becomes more routine.

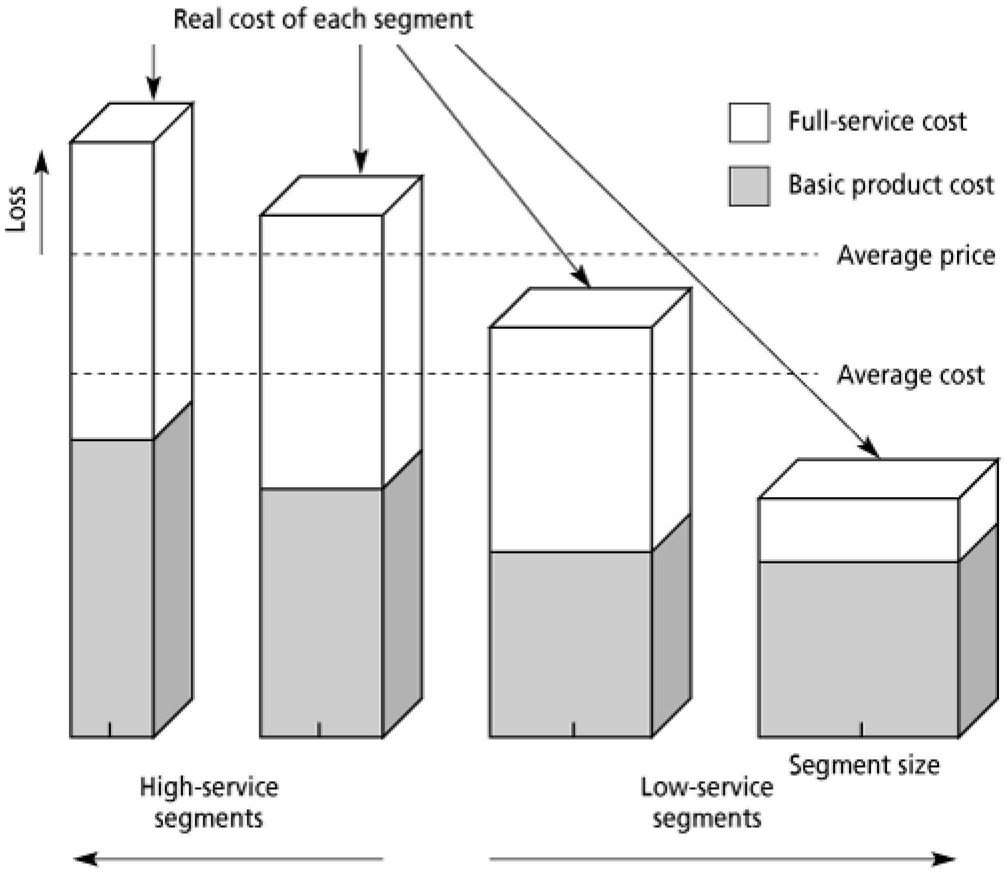
Average Costing

A term coined by the Boston Consulting Group to indicate inadequately accurate costing systems that average costs across products or services which really cause quite different amounts of cost, especially indirect and overhead costs. For example, a special or one-off product for a particular

customer may cause unusual levels of cost in terms of specification, selling, quality control and so forth, yet when the costing is done be charged no more for these elements of cost than for standard products. It is almost always true that traditional cost-centre based methods of costing understate the cost of top-of-the-line and special products and services and overstate the cost of high volume standard products. This can be very damaging if (as usual) it leads to AVERAGE PRICING. The way in which average costing and pricing works is demonstrated in Illustration 4.2.

Illustration 4.2. Average costing and pricing

Average Pricing



Traditional costing systems understate the cost of producing special or one-off products. This AVERAGE COSTING leads to average pricing, which as the name suggests means failing to charge enough of a premium for top-of-the-line or special products, and conversely charging too much for standard products (because the prices of the two types of product are averaged rather than sharply differentiated).

Average pricing is still rife, to a much greater extent than most managers realise. They may charge more for higher specification products, but rarely enough to reflect the real (but hidden) extra cost. For example, a firm making coin mechanisms for vending machines made a special one for the London Tube (metro/subway) system. In tendering for the business the firm put in what it considered to be a very high price, so that the managers believed the work would be highly profitable. After the contract had been completed, a consulting study using ABC analysis (activity-based costing) showed that it had in fact been very unprofitable because of the extra time required for engineers and the additional service people needed. ‘If we had understood then about average costing and average pricing,’ the managers concluded, ‘we would have charged 30 per cent more for the work.’

Ballast

In Ashridge’s theory of PARENTING ADVANTAGE, ballast businesses are those that parent managers know well, but are able to add little to, since they are already well run (by managers at the subsidiary). For example, the oil exploration business at Exxon or the detergent business at Procter & Gamble.

Barriers to Entry

Obstacles making it difficult or impossible for competitors to enter a particular business segment. Barriers sometimes exist naturally but astute managers will try to raise these barriers and introduce new ones in order to restrict competition among their customers. It is worth reflecting from time to time on what can be done to raise barriers by examining a checklist of potential barriers (Illustration

4.3).

Barrier to entry		Comment
1	Investment scale	Building a bigger or better plant, service network or retail outlet can discourage competitors from trying to compete with you, especially if your installed customer base means it would take longer for them to get the scale of business to cover the cost of the initial investment, or if your investment gives you a lower cost base than existing competitors
2	Branding	Making your product or service synonymous with superior and consistent quality, whether or not a ‘brand’ in the conventional sense is used
3	Service	Providing such a high level of service that customers will be naturally loyal and not want to switch to competitors
4	Building in ‘cost to switch’	Locking customers in, for example by promotional schemes such as ‘Air Miles’ where customers are saving up for incentives and will not want to switch to another supplier, or by giving over-riding discounts once a level of sales has been triggered, or even by supplying equipment (such as freezer cabinets for newsagents selling ice cream) which can be withdrawn if a competitor’s product is bought, or in professional services by knowing so much about a client’s business that it would take another supplier too long to ‘come up to speed’
5	Locking up distribution channels	Buying or having a special relationship with distributors that makes it difficult or impossible for a new supplier to get his product to the ultimate consumer: a policy followed for many years with great success, for example, in petrol retailing, where the superior siting of major oil companies’ service stations helped them sell their oil
6	Locking up sources of raw material supply	Obtaining the best (or all) the product from its source either by owning the raw material (as with many large dairy companies) or by having a special relationship with suppliers, or by paying them more
7	Property/location	Obtaining the best sites can be crucial in businesses as diverse as oil production and retailing. It is worth asking from time to time whether the desired location might change in the future and then moving to lock up suitable new sites, as for example in edge of town/out of town superstores
8	Expertise/ hiring the best people	Knowing how best to do something that is important to customers is an under-rated barrier. The key thing is to locate the functional expertise that is most important and then make sure that your firm is better than any other at this. For example, in mass market retailing the buying and merchandising function is crucial. Wal-Mart, the leading US retailer, has a huge advantage because it has the best buyers and best relationships with suppliers. Hiring in the best people available to an industry can be a winning tactic, although only if the people can fit into the culture or the culture can be adapted to make best use of the newcomers
9	Proprietary expertise/ patents	The logical extension to 8 above in many businesses is a patent and in some businesses such as pharmaceuticals patents are hugely important in leading to much higher margins than would otherwise apply. Intellectual property can apply to a surprising range of businesses and it is worth checking whether anything your firm

		possesses can be patented
10	Lowest cost producer	One of the very best barriers is to be able to produce a product or service for a particular market at a lower cost than competitors, usually by having larger scale in that SEGMENT than competitors and defending that relative advantage ferociously. To be most effective the cost advantage should be passed through in the form of lower prices, although spending more than competitors can match in terms of advertising, sales force or research can also be an effective way of using a cost (and margin) advantage to build barriers
11	Competitiv e response	Making it clear to competitors that you will defend 'your patch', if necessary by 'crazy' actions, is a very effective barrier to entry. If a competitor ignores the warnings and enters, the response must be immediate and crushing, for example by dropping prices to its potential customers
12	Secrecy	Sometimes a profitable market is relatively small and its existence or profitability may not be known by competitors. Keeping these segments well hidden from competitors can be very important, if necessary by obscuring or playing down their importance to your firm. Conversely, someone seeking to enter a new market should invest properly in information about all potential customers.

Illustration 4.3. Barriers to entry

Barriers to Exit

Exit barriers are undesirable forces that keep too many competitors in a market, and lead to over-capacity and low profitability, because firms believe it is too expensive to leave the business. Barriers to exit may be real or imagined, economic or illusory, as Illustration 4.4 shows.

Barrier to exit		Comment
1	Redunda ncy costs	The cost of paying off employees may be very heavy and much larger than the annual loss in a business. If a company is strapped for cash, it may find it easier to carry on in the short term and hope that others in the business will remove capacity first, thus postponing and perhaps removing the need to spend cash laying off the workforce. More of a problem in the US than most developing countries, more in the UK than the US, and more in most Continental countries than the UK, because of higher statutory pay-off provisions
2	Investme nt write-offs	Exiting from a business may cause a write-off of expensive plant and machinery that can only be used in that business. This leads to a feeling that the investment is being wasted and to a large one-time loss going through the profit and loss statement and a reduction of net assets in the balance sheet. This reason is, however, usually a very bad one for not exiting from a loss-making business, since it refers to paper entries and not to industrial reality. A business which ought to have a write-off but does not is no more valuable, and probably less valuable, than a business that bites the bullet. The stock market understands this, and often large losses and write-offs from exiting a business lead to an increase in share price, as investors are relieved by management's realism and look forward to the elimination of losses in the business
3	Real disengag ement	Leaving a business may sometimes lead to real, one-off costs other than labour ones. For example, a quarry may have to pay to restore the countryside to its previous glory, or a shop may have to carry out

	costs	improvements before leaving. One of the most serious disengagement costs has been long leases on property which cannot be re-let at rates as high as the business is paying, and which would still need to be paid once the business has closed
4	Shared costs	Often leaving one loss-making business is difficult because it would leave another profit-making business with higher costs, where these are shared between the two. For example, a factory may make two products and have shared overhead (and sometimes labour) costs, or a sales force may sell two products to the same customers. Very often, however, shared costs are an excuse for inaction. The proper answer, wherever possible (and however painful), is to slim down the overheads for the profitable business to what is necessary for that business after exiting the unprofitable one
5	Customers require a 'package'	Customers sometimes value the provision of multiple products by the same supplier and would be reluctant or unwilling to buy from one that merely supplied the profitable products. For instance, a supermarket that refused to sell loss leaders such as baked beans or milk might find itself short of customers. Very often, however, this claim is a spurious excuse, and customers would continue to buy a narrower product range provided this had a real advantage to them
6	Non-economic reasons	Barriers to exit are very often openly non-economic, as when a government or trade union requires the business to be kept open and has the power to enforce this. More covert non-economic reasons include management ego or emotional attachment to a business, fear (normally unfounded or exaggerated) that it will affect a business's image and relationships in the trade, or simply opting for the line of least resistance. Non-economic reasons are increasingly becoming discredited, although they can work to your advantage when you are less sentimental than your competitors or when they face less economically numerate governments.

Illustration 4.4. Barriers to exit

Bcg Matrix

The popular name for the GROWTH/SHARE MATRIX, an abused but powerful tool encapsulating the most important insights into business of the past 50 years. See GROWTH/SHARE MATRIX.

Blue Ocean Strategy

The more recent term used to describe VALUE INNOVATION – that is, how to create uncontested market space and make competition irrelevant. See VALUE INNOVATION.

BPR (Business Process Re-engineering)

A theory devised in the early 1990s for rethinking what a company does and redesigning its processes from first principles in order to produce dramatic improvements in cost, quality, speed and service. Some view BPR as just a 1990s management fad, but it deserves to be taken seriously. Many leading US companies (such as Eastman Kodak, Ford and Texas Instruments) have used BPR to change their way of doing business, leading to cost reductions in excess of 25 per cent, and in some specific areas of up to 90 per cent.

BPR reinvents the way that companies do business, from first principles, by throwing out the view that firms should be organised into functions and departments to perform tasks, and paying attention instead to processes. A process here is a set of activities that in total produce a result of value to a customer, for example, developing a new product. Who is in charge of this? In the non BPR-ed company the answer is 'no-one', despite the involvement of a large number of traditional functions such as R&D and marketing.

Brand

A visual design and/or name that is given to a product or service by an organisation in order to differentiate it from competing products and which assures consumers that the product will be of high and consistent quality. Examples include manufacturers' brands such as Coca-Cola and Ford, retailers' brands such as Gap Kids or Sainsbury's, and even a brand which is synonymous with a whole company such as British Airways or Air Canada. Firms often create 'sub-brands' or new brands within a particular category, such as Diet Coke or Club Europe.

Branding goes back to the time when medieval guilds required tradesmen to put trademarks on their products to protect themselves and buyers against inferior imitations. Nowadays virtually everything has been branded. Consumers prefer brands because they dislike uncertainty and need quick reference points. A brand is particularly powerful if it can gain a slot in the brain and be identified either with whole product categories ('hoovers' for vacuum cleaners or 'filofax' for personal organiser) or with particular attributes (a Rolls-Royce will always be high quality, a Mars bar will supply energy, Avis will always try harder). Many brands have helped companies remain market leaders in particular products throughout the past 60 years, including Bird's in custard, Heinz in soup and tomato ketchup, Kellogg's in cornflakes, McVitie's in digestive biscuits, Schweppes in mixers, Colgate in toothpaste, Kodak in film, Gillette in razors, and Johnson's in floor polish.

Brand Stretching

The popular process whereby an existing well-known brand name is used on new products that compete in a different market from the brand's existing core product(s). Some examples from the UK are given in Illustration 4.5.

Breakup

When a firm splits itself into two or more new corporations in order to remove VALUE DESTRUCTION and allow each new business to focus on what it does best. Breakup is the generic word popularised in the 1996 book *Breakup!* by David Sadtler, Andrew CAMPBELL and Richard Koch; the Americans use the term SPINOFF, the British use DEMERGER, and South Africans talk of UNBUNDLING.

By the late 1990s, breakups had become more important in value terms in the US than Leveraged Buy Outs at the peak of their popularity in the late 1980s; one third of all disposals, measured by value, now take the form of breakups. This is a hugely important phenomenon that is changing the face of capitalism. According to a study by J.P. Morgan, when spinoffs of small and highly focused new corporations take place, their value increases by an average of 45 per cent within 18 months of the spinoff.

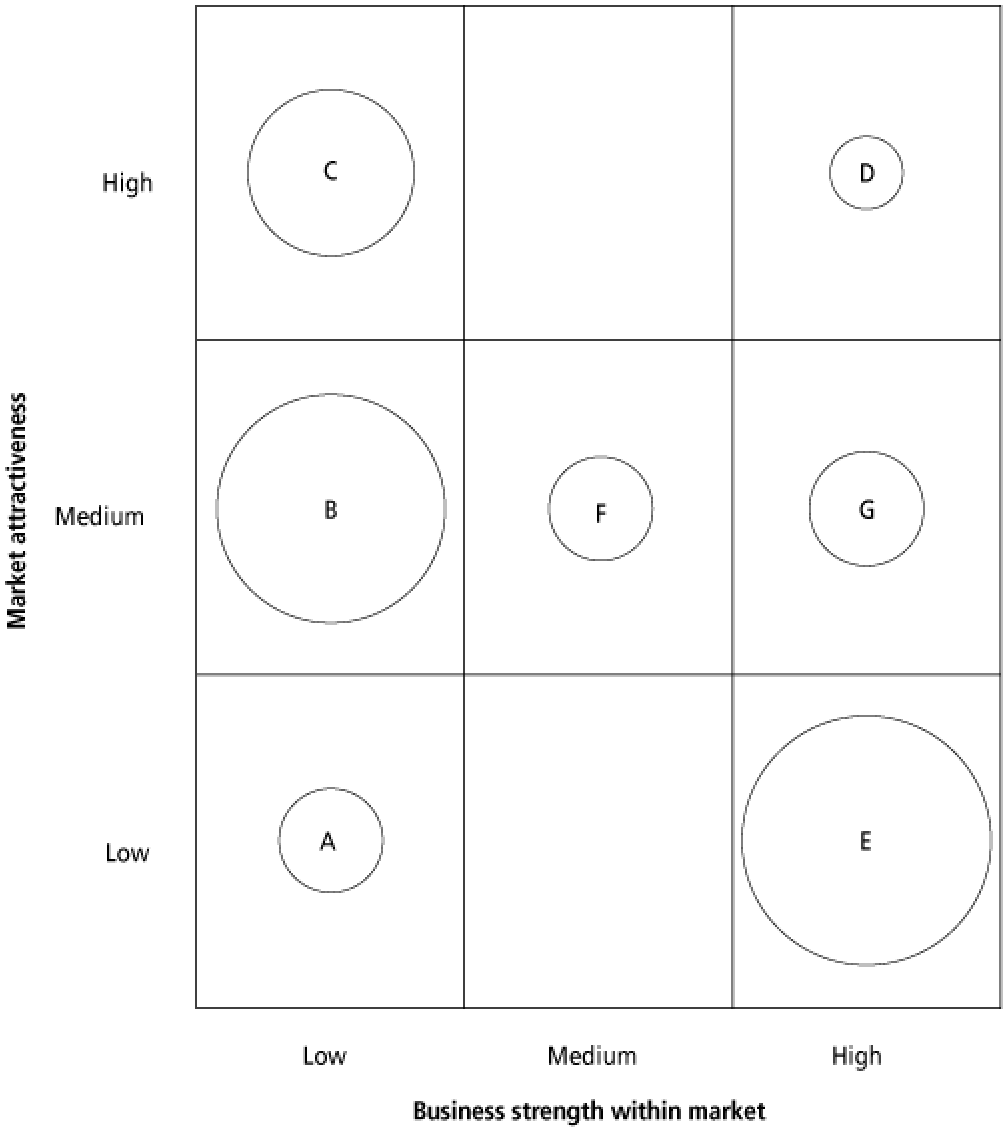
Build

One of the Ashridge Strategic Management Centre's five generic ways in which the Centre of multibusiness corporations can add value. 'Building' implies that the Centre enlarges the businesses and improves their positioning; lying behind the 'build' strategy there should be a value creation insight, such as the consolidation of a fragmented industry or the opportunity to go global.

Business Attractiveness

An assessment of how attractive a business or market is, based on a number of criteria. Often a distinction is made between the attractiveness of the market, on the one hand, based on desiderata such as market growth, average industry profitability, BARRIERS TO ENTRY (which should be high), BARRIERS TO EXIT (preferably low), the bargaining power of customers and suppliers (ideally low), the predictability of technological change, the protection against substitutes, and on the other hand, the strength of the individual company's business within the market, based on relative market share, brand strength, cost position, technological expertise and other such assessments. One can then produce a matrix such as that shown in Illustration 4.6 and plot all a firm's businesses on the matrix to see where scarce corporate resources such as cash and good management should be allocated.

Illustration 4.6. Business attractiveness matrix



Business Model

The unique formula used by each firm to conduct its business and seek COMPETITIVE ADVANTAGE. The business model is strong and will lead to returns above the required rate of return on capital only if it is in some way innovative, different from the model used by any competitor, and delivers attractive products or services to customers at high margins to the firm. See also Peter JOHNSON and Part Two.

Business Segment

A defensible competitive arena within which market leadership is valuable. Contrast market segment, which is usually defined by market researchers' pre-ordained categorisations of the population into social class or psychologically defined groups, and much less useful. A business segment is an area within which a firm can specialise and gain COMPETITIVE ADVANTAGE. An example of a business segment would be high performance sports cars, which is a defensible market against mass market cars (at least for the time being). Thus Ferrari does not have to worry about its share of the overall car market if it can be the leader in its own segment. On the other hand, companies cannot define the market in a way that gives them market leadership and *ipso facto* call that a business segment. For example, red cars are not a separate segment from black cars, because specialising in red cars would not result in either extra consumer appeal or lower cost for producing red cars, and would therefore not be a defensible segmentation. See also SEGMENTATION for a much fuller discussion.

Cannibalisation

When a new product or service is introduced in the knowledge that it will eat into the market for an existing product or service already being provided by the supplier. Diet Coke, for example, cannibalised the existing market for Coke, or turkey flavoured Whiskas cannibalised the demand for existing Whiskas variants. Suppliers know that these goods will to some extent reduce existing product demand, but expect this to be more than compensated for by the extra demand created by the product introduction (and in some cases higher prices too, as when Whiskas was originally introduced and cannibalised Kit-e-Kat). Moreover, if one supplier does not introduce a product to cater for a potential product category, the competitor might, thus causing loss of market share, which is always a greater evil than cannibalisation.

Cash Cow

A business that is highly cash positive as a result of being a market leader in a low growth market. Such a business typically requires only moderate investment in physical assets or working capital, so that high profits result in high cash flow.

Cash cows are one of the four positions on the BCG MATRIX. In the BCG theory, cash from cash cows can be used to support other businesses that are leaders or potential leaders in high growth markets and that need cash to improve or maintain their market share positions.

Cash Trap

Useful jargon invented by the Boston Consulting Group to describe businesses that absorb cash but will never repay it fully, if at all. BCG even went so far as to say in 1972 that 'the majority of the products in most companies are cash traps. They will absorb more money for ever than they will generate. This is true even though they may show a profit in the books'. Typically, QUESTION MARK businesses (poor market share positions in high growth businesses) are the worst cash traps, although some dogs may also be. BCG crusaded against cash traps, urging managers to cut their losses in these businesses and focus cash on businesses that were or could become market leaders. The crusade has had real impact in the past two decades or so, partly through the action of managers but even more through hostile acquisitions that have led to unbundling, which is often little more than the sale or closure of cash traps. Are you sure you know what your cash traps are?

Category Killer

Retailer that specialises in a particular type of product, such as toys, baby products or furniture, and offers both the widest range and the greatest value, usually by means of very large and 'fun' out-of-town stores. See DESTINATION RETAILING.

Cause

Pioneering work on change management has stressed the need for all companies to have an overall medium term objective that can unite everyone's efforts and focus on what the company as a whole is trying to achieve. Causes should be snappy phrases that encapsulate the company's forward momentum and help to guide individual behaviour. Examples of good Causes include 'Putting People First' (British Airways), 'Encircle Caterpillar' (Komatsu), 'Number One and Pulling Ahead' (Coca-Cola Schweppes Beverages) and 'Become larger than BCG' (Bain & Company).

Chaos Theory

Important inter-disciplinary science elaborated between about 1965 and 1990 which has considerable relevance to business. The concept of chaos is that most phenomena in the world do not have a linear relationship between cause and effect; relationships are non-linear. 'Chaos' is a bad name because there is an underlying coherence behind non-linear relationships. There *are* persistent and often remarkably similar non-linear patterns that can be identified and modelled mathematically.

One of the most important ideas of chaos is *sensitive dependence on initial conditions*. Sometimes known as the *butterfly effect* – the idea that the flapping of a butterfly's wings in Brazil may lead to a hurricane in Miami – sensitive dependence on initial conditions says that very small and often undetectable influences can have very large effects. Weather is probably the best example, which is why attempts to forecast it over periods of more than a few days are doomed to disappointment.

Cherry-Picking

Specialising in parts of a product range that are most profitable and/or easiest to access rather than providing a full line of product. Large, full-line suppliers are often vulnerable to smaller cherry-pickers, especially if the larger player has made the mistake of AVERAGE COSTING and AVERAGE PRICING.

Comb Analysis

A very useful and simple technique for comparing customers' purchase criteria with their rating of suppliers. Let us assume that you are a textile manufacturer producing women's clothes and selling them to retailers who are fashion specialists. You want to find out what the most important reasons are for them to choose one manufacturer rather than another. You also want to find out what the retailers think about you and your competitors on each of these purchase criteria.

You should engage independent researchers to interview the retailers and ask them two questions. First, on a 1–5 scale, the importance of various purchase criteria. Let us assume that the average results are as shown in Illustration 4.7.

Commodity

Undifferentiated product, where suppliers are doomed to compete on price, branding has no value, and the low-cost competitor will be able to earn higher returns and/or gain market share at the expense of his weaker (higher cost) brethren. Actually, commodity markets are often the result of a lack of imagination and marketing flair on the part of the participants. Almost anything can be successfully branded, and a price premium extracted. Take baked beans as an example: easy to produce and, you might think, a classic commodity market. Yet brilliant advertising based on brand identity – 'Beanz Meanz Heinz' – enabled Heinz to become market leader and extract a high price premium at the same time. Or take a more recent example where a commodity market has been transformed into a branded market: flour. This is a large market where the competing products are almost indistinguishable in functional performance. So competition used to be based on fierce price discounting. Until, that is, RHM turned the market upside down with its branded marketing campaign for Homepride based on the bowler-hatted flour-grader and the slogan: 'Graded Grains make Finer Flour.' RHM gained both market share and a price premium.

Many industrial companies have discovered also that markets previously thought to be 'commodity' bear gardens can be turned into higher margin ones where one competitor gains an advantage based on service, technical excellence, industrial branding, or some other attribute of value to buyers.

Competences, Competencies

Skills that an organisation has, what it is good at. Much recent thinking has stressed that an organisation's operating skills relative to competition are at least as important to its success as its strategy is. To be successful an organisation must be at least as good as its competition in certain core competencies. For example, in retailing, one of the most important skills is Buying and Merchandising, that is, procuring goods that consumers will want to buy and displaying them attractively. This very obvious statement explains in large part why some retailers, such as The Gap or Wal-Mart, are consistently more successful than their market rivals. Assessing and improving competencies (relative to competition) has rightly become the top priority for many managements.

Competitive Advantage

One of the most enduring and valuable catchwords of strategy. Competitive advantage obtains when one player has identified a market or market niche where it is possible to have a price advantage, or a cost advantage, or both, over competitors.

Price advantage means that the product or service is thought sufficiently superior by its buyers to make a price premium (for equivalent quality and cost to produce) possible. Brand leaders usually command a price premium over secondary brands or own label products, sometimes as much as 20–40 per cent, which far exceeds the additional cost of advertising and superior product formulation.

Complexity Theory

An important outgrowth from chaos theory that added three new themes:

1. *Complexity focuses on complicated feedback systems*, showing that they often have surprising results

2. *Complexity is about 'emergence'*: how the whole of each system behaves differently from the aggregation of its parts. Individual customers emerge as a market, water molecules into steam, body cells into a butterfly wing, business units into a corporation, birds into a flock

3. *Complexity is above all interested in SELF-ORGANISING SYSTEMS* which start in a random or unordered state and somehow organise themselves spontaneously into a large-scale and recognisable pattern. Examples include cities, markets, a brain, a stock market crash, a hurricane, an earthquake, a meteorite, a human embryo – or a corporation!

Concentration

The extent to which a few suppliers cover the market. The UK grocery retailing market is highly concentrated, with 75 per cent of it being dominated by five supermarket chains; the American grocery retailing market is much less concentrated. Concentration is often measured by the market share controlled by the largest four or five suppliers, known respectively as the C4 ratio and the C5 ratio. Another measure is the Herfindahl Index.

Most markets have the potential to be concentrated and a fragmented market should be a challenge for suppliers to undertake the process of concentration. In the absence of misguided anti-trust constraints, it is economically logical to have up to 80 per cent of a market controlled by three competitors, with perhaps 40 per cent, 25 per cent and 15 per cent of the market for the number

one, two and three respectively.

Continuous Improvement

A Japanese concept holding that a company's COMPETITIVE ADVANTAGE accrues from the persistent search for improvement and a series of tiny steps made continuously, rather than from great leaps forward. The latter are more consistent with Anglo-Saxon cultures, which helps to explain the popularity of BPR (BUSINESS PROCESS RE-ENGINEERING). The evidence is that the Japanese approach works very effectively for Asian cultures, while more revolutionary techniques are both more necessary and more acceptable for Anglo-Saxons.

Contracting-Out aka Outsourcing

Process of using outside suppliers of services to a corporation or public authority rather than using an internal department. There is a strong and increasing trend towards contracting-out in both business and government, largely to cut costs, but also motivated partly by the belief that organisations should concentrate on their core competencies and leave other specialists to fulfil other roles. Some astute observers, such as Charles HANDY, believe that contracting-out will eventually transform our economic landscape, leading most organisations to employ far fewer people, the CORE WORKERS, while using armies of contractors from several smaller, specialist firms. One result will be that many people will leave larger organisations halfway through their working lives to found or join contracting organisations. See also SHAMROCK ORGANISATION.

Core Competency, Core Competencies

Similar to the idea of a corporation's 'distinctive competence' (the phrase coined by Philip Selznick in 1955) or 'distinctive capabilities', the idea of core competencies was put forward by C.K. PRAHALAD and Gary HAMEL in a renowned 1990 *Harvard Business Review* article. Prahalad and Hamel defined core competencies as:

> **'the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technology ... unlike physical assets, competencies do not deteriorate as they are applied and shared. They grow.'**

Core Workers

Those people who are central to an organisation's success and who need to be nurtured and rewarded accordingly. This professional core, increasingly made up of qualified professionals, technicians and managers, comprises the knowledge and skills that explain an organisation's success (or lack thereof). Core workers are precious, hard to replace, expensive and increasingly footloose. Because they are expensive, organisations are tending to be more discriminating in defining what functions and which people should be regarded as core workers, resulting both in downsizing, and also in contracting-out functions that used to be performed by core workers. Core workers are coming to be a privileged but hard-working élite, who in return for high pay, rewarding work and a CAUSE they can believe in, are willing to dedicate themselves to the success of their firms. See SHAMROCK ORGANISATION.

Costs of Complexity

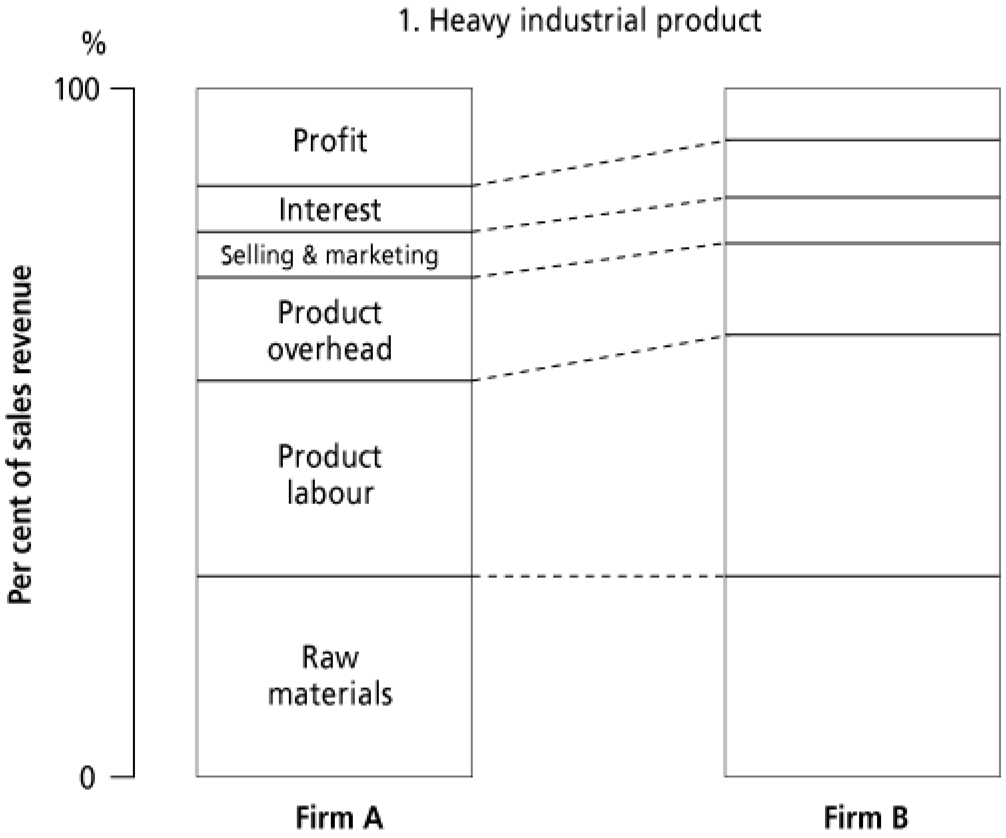
Very important idea that the more complex a business, the higher the costs, for any given level of scale. Complexity can mitigate the advantages of additional scale or even overturn them altogether. Complexity arises when a firm extends its product line, customers, areas of expertise and/or use of different technologies in order to expand. The wise firm seeks extra scale without extra complexity, or reduces complexity without sacrificing scale.

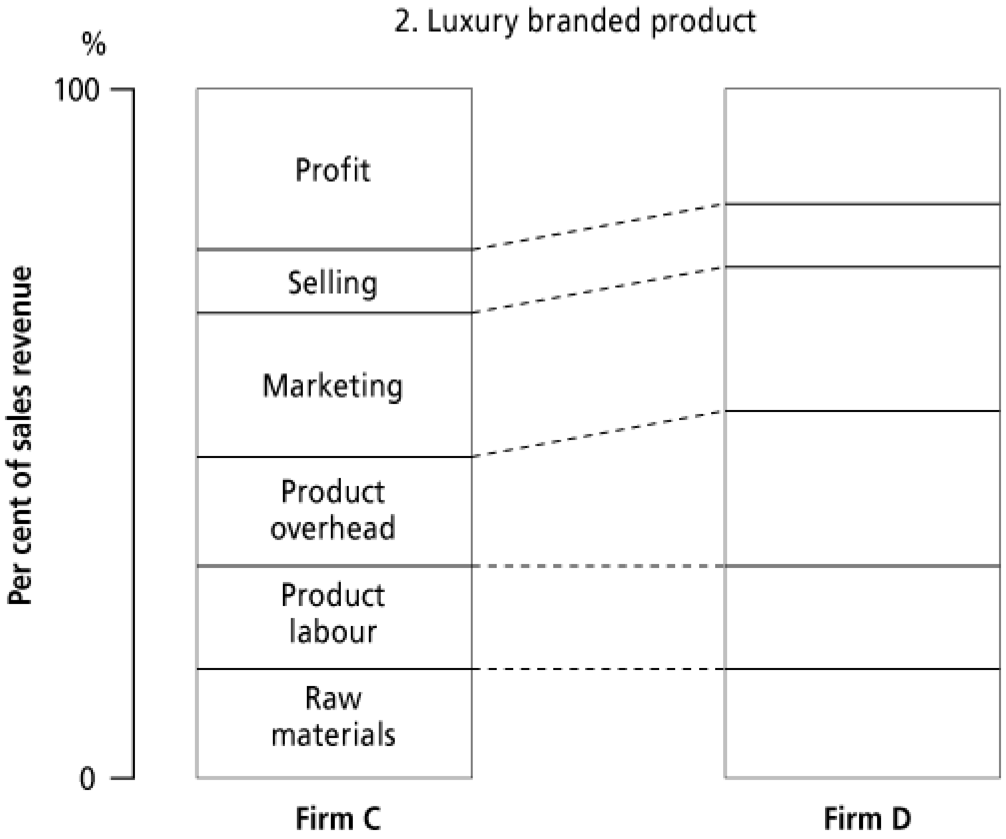
Complexity cannot be totally avoided, and is often market-driven. What separates the operationally skilful firm from others is very often its ability to manage customer-demanded complexity simply: providing CUSTOMISED or preferably CUSTOMERISED products with little added internal complexity.

Cost Structure

The total cost elements of a company broken down into key elements and often shown in the form of a bar, which can then be compared to the cost structure of a competitor making the same product, or to the cost structure of other products in the same firm, as in Illustration 4.11.

Illustration 4.11. Competitive cost structures





Cost to Switch, Costs to Switch

The psychological and/or financial cost to move from one supplier to another. Classical micro-economic theory held that buyers would switch from one supplier to another if there was even a very slight difference in price, provided product quality was equivalent. In practice, there are very often high costs to switch suppliers, even if they are of equal quality. A supplier may know a customer's business well and educating a new supplier may take time and effort. This is an often hidden

BARRIER TO ENTRY that can make market shares 'sticky' and make it difficult to gain share. Consultants who know a company well can often rely on the cost to switch to keep out competitors.

Culture

The personality and character of a company, derived from generations of people and experience and leading people inside a firm to behave in certain characteristic ways without thinking about it. Firms in the same country and industry may have radically different cultures, and the difference may be far more important in determining relative success than any other factor, including variations in strategy, which may themselves be explained partly by the culture. Increasing but still insufficient attention is being paid to creating and sustaining winning cultures within firms. It is impossible to succeed in a corporate TRANSFORMATION without such radical culture change, though this takes many years and single-minded determination by a firm's leader. See also Charles HANDY's useful description of four GODS OF MANAGEMENT — APOLLO, ATHENA, DIONYSUS and ZEUS, which describe four broad cultural groups. Other useful dimensions of culture are:

- by class/background of senior staff
- open and collaborative versus 'dinosaur' and backbiting culture
- traditional/clubby versus professional
- forgiving/low standards versus relentless/high standards
- marketing and customer-led versus production/internal orientation
- personal versus bureaucratic
- intellectual versus street-smart
- 'learning' versus know-it-all
- 'believed in' by staff versus 'not believed in'.

Customer Retention

The extent to which customers repeat-purchase. Customers defect at average rates of 10—30 per cent, and far more in some businesses such as car dealing. Losing customers is expensive because the marketing costs to win them over in the first place are so high. Differential customer retention can often explain a significant part of profit differences between firms. More and more attention is being given to monitoring and increasing customer retention, since it has been discovered that a 5 per cent shift in customer retention can result in 25—100 per cent profit swings. Customer retention arises from customer loyalty, which arises when superior value has been delivered. Loyalty in turn leads to higher market share of the chosen customer base, which is often the most value-conscious and least price-conscious part of the market, and therefore the most desirable. High share of value-conscious customers leads to lower costs, both directly through added volume, and indirectly through referrals and word-of-mouth appreciation, which lowers marketing and selling costs. The effect can carry through to employees, who are proud to be offering such good value to customers, and who in turn reinforce the value proposition by particularly good service. With turnover going up and costs going down, profits increase, which allows further investment in product quality and service and in hiring and retaining the best employees. These effects further reinforce the competitive advantage of customer value and loyalty. This VIRTUOUS CIRCLE can carry on *ad infinitum*, until competitors with inferior value and loyalty go out of business, or are contained to unprofitable commodity segments.

The most besotted adherents of customer retention claim that relative customer retention (RCR) explains differential competitor profitability much better than RELATIVE MARKET SHARE (RMS), RELATIVE COST POSITION (RCP) or any other variable. Whether this is true or not, providing customers with the best product and service is clearly one of the best ways to engender loyalty, customer retention and high relative market share, and it therefore makes sense to monitor both absolute and relative customer retention. It is clearly also true that the way to deliver SHAREHOLDER VALUE in the long term is to provide the best value to customers in the short, medium and long term, so that the debate about whether to put customers or shareholders 'first' is largely sterile. A good starting point for creating trust between the firm and its customers, employees and shareholders alike is to provide the best possible customer value and obtain the highest relative retention rates.

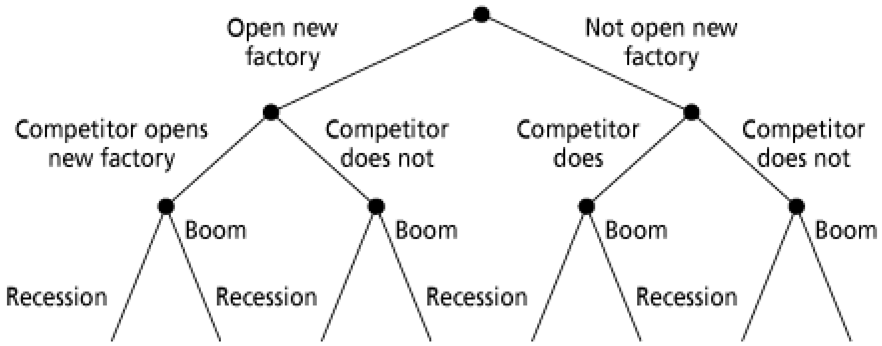
Customerized, Customerizing

Allowing customers to adapt products themselves. In Tom PETERS' words: 'Produced by, directed by and starring our customers.' The customer, not the firm, is the initiator. Why does Peters have a penchant for coining useful but ugly words?

Decision Tree

A flow chart that sets out possible future events and highlights the effects of decisions or chance occurrences in a sequential order. Can be very useful in estimating the probability that any event may happen, or simply in pinpointing the critical decisions that have to be made. For some peculiar reason decision trees are nearly always drawn from left to right, although I much prefer to draw them from top to bottom. Two examples are given in [Illustrations 4.13](#) and [4.14](#). In [Illustration 4.13](#), a manufacturer is trying to decide whether to open a new factory, in the face of uncertainty about whether his main rival will decide to do the same thing and whether the economy will move into recession or boom. The decision tree helps him to lay out the possibilities and calculate the returns under all eight possible outcomes.

Illustration 4.13. Decision tree for Superior Sprogetts Limited



Sales	100	150	120	300	60	100	100	125
Return on sales	5	10	5	20	0	3	5	6
Operating profit	5	15	6	40	0	3	5	7.5
Capital employed	90	90	90	90	50	50	50	50
ROCE (%)	6	17	7	44	0	6	10	15

Declining Industry

One where demand is falling and expected to continue to do so. Two comments can be made about declining industries. One is that there is no inevitability about secular decline in many cases. An industry may continue declining solely because of lack of investment and imagination. Railroads in the US are an example, where poor service, lack of investment and industry fatalism wrecked the industry before more recent initiatives reversed the decline. Similarly, newspapers suffered in most countries as TV gained ground, but the growth of segmented titles and freesheets has turned markets upwards once again. Cider in the UK is another instance, as is 'real ale', while an example from Japan is the way that Yamaha has revived the piano industry by creating a PC-based retrofit and a new digital electronic piano, turning a market declining at 10 per cent annually into an explosive growth market.

The second comment is that even if a market continues to decline, the last one or two players can end up with a very profitable, extremely cash positive business. Often there is a greater payoff to gaining market share in declining than in growing markets, particularly if a position of dominance can be attained. Decline can be a mirage or an opportunity.

Delayering

Removing whole layers of management, resulting in a more FLAT ORGANISATION, lower costs, less bureaucracy and greater accountability of executives. Very often, a high proportion (often in the range of 30—50 per cent, sometimes even as high as 90 per cent) of overhead and head office staff can be removed by delayering. A typical example is removing two whole tiers of management from a firm that starts with five. This is not just cost reduction in response to crisis or recession, but a secular trend.

Delivery System

The activities a firm performs in delivering a product and/or service to the customer. The concept of the delivery system far transcends physical distribution and can be used to think about new ways of delivering value to the customer, as for example, with the Internet. IKEA, the Swedish furniture and home furnishing company, has grabbed global leadership in an industry previously characterised by local suppliers. IKEA achieved this by rethinking the structure, processes and skills across the entire supply chain, from timber to customer, to develop a totally new delivery system. The company offers customers a new division of labour: in return for high design and low prices the customer takes on key tasks previously performed by manufacturers or retailers, such as assembly of products and delivery to the home. Every aspect of the IKEA business system facilitates customers taking on this new role, from the time that customers at the front door are given catalogues, tape measures, pens and paper, to the time that they leave with a loaned roof rack.

Delphi Technique

Forecasting technique using a number of experts (or managers) who each make estimates in round one, then receive everyone else's estimates and re-estimate in round two, and so on until consensus is reached.

Demerger

Split of one company into two (or very rarely, more than two) new companies. Most common where a company already has two divisions engaged in different businesses. It is a word used in the UK that is equivalent to the US words 'SPINOFF' or 'spinout' (see BREAKUP). Generally involves shareholders in the original company being given shares in both the new companies, with the new shares being quoted separately. An alternative is where a company demerges one division by selling it and pays out a one-time dividend to shareholders.

Demergers are increasingly common but not common enough. Where two businesses have different CULTURES and little SYNERGY they should be separated, both to allow management in each business to focus and have full control, and to enable investors to have a 'purer play'.

Destination, Destination Retailing

The practice of running large, out-of-town or edge-of-town superstores that are themselves a 'destination' rather than just part of the high street or a shopping mall. The retailer therefore needs to offer a sense of excitement, fun and facilities for the whole family in order to attract people. IKEA, the Swedish furniture retailer, is a classic example (see DELIVERY SYSTEM); so too is Toys 'Я' Us. Increasingly, retailing is polarising between the high street, which is still economic for frequent and generally low ticket items, and destination retailers out of town, for infrequent and high ticket items. Destination retailing is increasing its share of total retailing in the UK and many other countries, particularly when associated with CATEGORY KILLERS, that is, specialists in a particular product range such as toys, baby products, CDs or furniture.

Develop

The second of the methods for the Centre to add value in multibusiness corporations, according to the Ashridge Strategic Management Centre. 'Develop' means that the Centre injects expertise into the developing business. Technology-based expansion falls naturally into the 'develop' category: a new project is supported by resources from the Centre and the other businesses, and, if successful, eventually becomes a new business unit. Most core competency-based corporate strategies are 'develop' propositions.

Dionysus

In Charles HANDY's GODS OF MANAGEMENT, Dionysus is the god of existential culture, and Dionysians are the most individualistic and anarchic of those found in organisations. The Dionysian culture is found in universities, research institutions, some professions, and some 'way out' professional service firms, especially small ones, as well as in many self-employed businesses, the arts, and crafts. Dionysians often comprise outposts within large firms, notably in R&D or any other rarefied, highly qualified technical post. Dionysians are difficult to manage and often impossible to motivate: they are self-motivated, inwardly directed, self-contained, and concerned about the quality of their work, not what anyone else thinks about it or them. It is difficult to make Dionysians behave as team players, unless they have strong personal bonds with the rest of the team. They are most effective in very small firms or as one-person units.

Divergence

Al RIES says that Divergence is 'the least understood, most powerful force in the universe'. New species arise by divergence from existing species. In business, new products and new ECOSYSTEMS arise when a competitor creates a product or service that splits an existing category into two, creating a new arena appealing to a subset of existing customers. Competitors who create such ecosystems can create a lasting and very profitable niche for themselves provided they create a distinctive brand in the ecosystem and continue to innovate so that their product and way of delivering it is always better adapted to customers than product from any competitor. See also VALUE INNOVATION.

Diversification (1)

Being in or moving towards being a group of companies engaged in several different products and markets. Diversification is usually driven by the wish (or financial ability) to expand beyond the apparent limits of existing markets, and/or by the wish to reduce business risk by developing new 'legs'.

Many forests have been destroyed by writers praising and damning diversification. The balance of recent opinion has been against diversification (as in 'stick to the knitting'), although this has not stopped conglomerates (diversified companies) gaining a larger and larger share of corporate activity throughout the world, and especially in Britain.

Diversification (2)

Investment diversification is the process of spreading risk by buying a number of different assets. Analysis of share diversification suggests that this sort of risk reduction can be achieved by buying as few as 15 shares (provided they have a reasonably low beta coefficient).

Divisionalisation

Divisionalisation is dividing up a firm into several somewhat autonomous subfirms or 'divisions'. Divisionalisation was invented in the 1920s by Alfred P. SLOAN as a way of structuring General Motors. In part it was a defensive measure, since too many decisions were rising to the top and paralysing the corporation's ability to act decisively. By constituting GM into five separate divisions, each with its own CEO and management team, it was possible to avoid excessive centralisation and allow more executives the freedom to act creatively. It was Sloan's genius to combine this partial decentralisation with an entirely new marketing focus on five new market segments, inventing 'a car for every purpose and purse', that was synonymous with the new divisions — Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac. Du Pont, also influenced by Sloan, and other large corporations soon followed suit by creating their own separate divisions.

Divisionalisation enjoyed great vogue from the 1920s through to the 1980s, but in retrospect it was a revolution stopped halfway. It would have been better to bite the bullet and divide up General Motors not into five divisions but into *five entirely separate and autonomous companies*, with initially common owners. Instead of divisionalisation, there could have been the true 'division' or BREAKUP of over-centralised corporations. This would have enabled each new company to develop fully its own GENETIC CODE or way of working, unconstrained by corporate shibboleths and the needs of 'sister' divisions. See also Part Two, pages 106, 126—9, and SLOAN, BREAKUP and GENETIC CODE.

Dog

1. Bad business, candidate for disposal.

2. Term invented by BCG to describe a company's low relative market share businesses (i.e. those that are not market leaders) in low-growth markets (those growing at less than 10 per cent per annum). BCG originally said that dogs (which it called 'pets' in the early days) were unlikely to be very cash positive or to be capable of being driven to market leadership; dogs should therefore be sold or closed. Since a majority of nearly all firms' businesses are dogs, this advice is draconian indeed, and was later soft-pedalled by BCG. Dogs are in fact often quite cash positive, especially if they are STRONG FOLLOWERS (i.e. not very much smaller than the market leader). It is also untrue that dogs cannot be driven to market leadership (i.e. become CASH COWS), though this is less usual than for followers in high growth markets (QUESTION MARKS). See GROWTH/SHARE MATRIX and MARKET CHALLENGER.

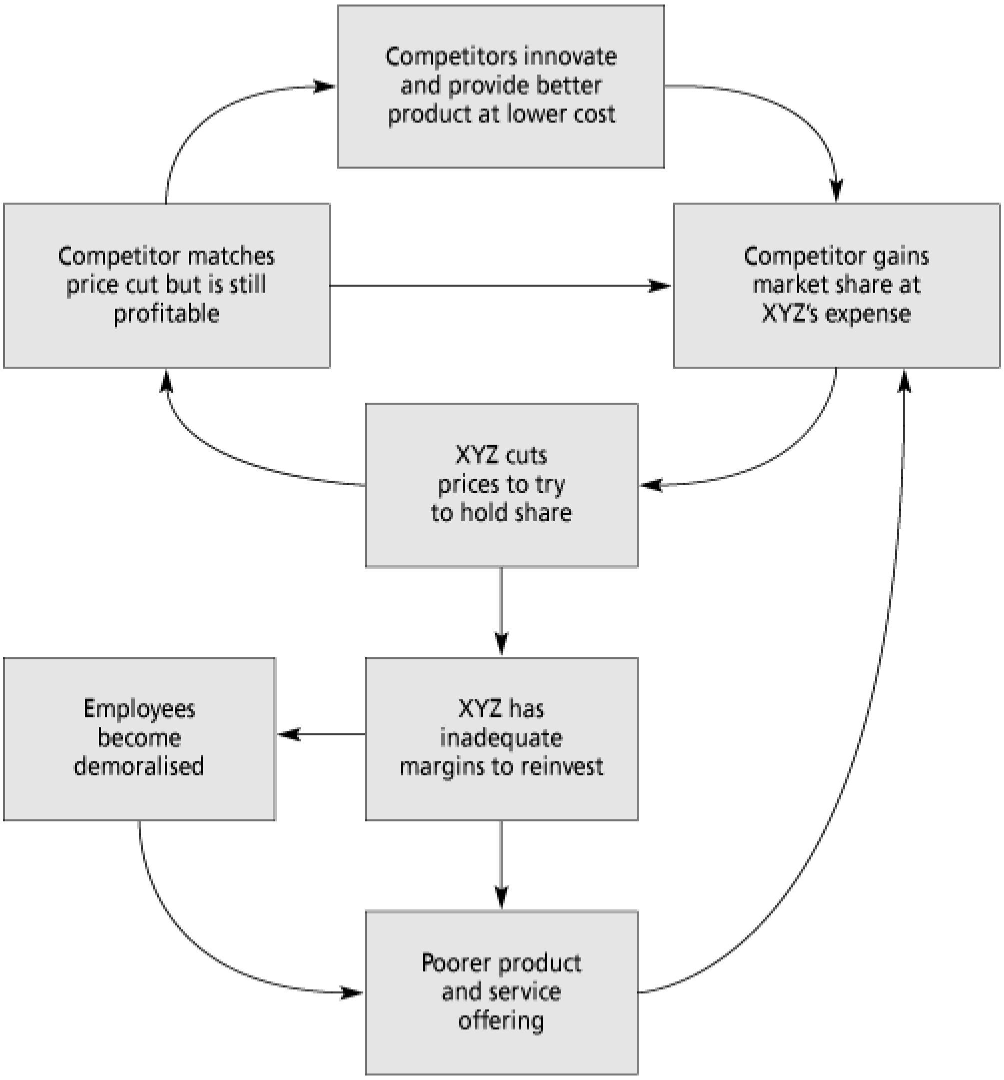
Dominant Firm

One that has a RELATIVE MARKET SHARE well above that of competitors in a particular market. There is no accepted definition of how much larger a firm should be to be considered dominant, but it should be at least double the size of the next largest competitor (i.e. have a relative market share of at least two), and probably be at least four times as large. A dominant firm should be highly profitable.

Doom Loop

Consultantese for vicious circle. A doom loop is a self-reinforcing downward spiral that follows from inadequate response to competitor initiatives. Illustration 4.16 shows a typical doom loop. Doom loops are easier to describe than to correct, so the first priority must be to avoid getting into one in the first place, which requires continual effort to upgrade the customer product proposition and service and to improve the efficiency of the DELIVERY SYSTEM. Once in a doom loop, the only way out is to do something quite radical, usually involving a major re-focus of the firm on a smaller number of businesses and a fundamental change in the firm's CULTURE and way of conducting itself. Existing top management can almost never escape from a doom loop if it affects the firm's most important business.

Illustration 4.16. Example of doom loop for firm XYZ



Ecological Theory

The view developed by Bruce HENDERSON, Peter JOHNSON and myself that businesses are living entities that devise unique ways to create and serve particular ECOSYSTEMS — market niches or groups of customers with needs and characteristics different from other markets and customers. Every successful firm has a unique GENETIC CODE — a way of acting and organising itself, based on the knowledge, skills, attitudes and actions of people, both employees and outside collaborators — which enables the firm to serve its most profitable and important ecosystems better than any other firm. See Part Two, pages 103—110. See also ECOSYSTEM and GENETIC CODE.

Economic Rents

This is quite an exciting concept, both ancient and modern, which explains how companies can earn returns above the normal cost of capital. The idea originally came from the brilliant early nineteenth-century economist, David Ricardo. He explained how a particularly desirable property — for example, a corner site in the centre of a town — could provide exceptional returns. Originally, before the town was built, the land would be worth no more than any other site of similar size. Once the town becomes a major metropolis, the site becomes extremely valuable and the lucky owner enjoys 'rent', an abnormally high return.

In business, this type of 'rent' goes to companies who have some unique asset that enables them to earn exceptional profits. For example, the Coca-Cola drink enjoys a price premium relative to other fizzy drinks simply because of the brand. The brand is therefore exceptionally valuable — in fact it is the world's most valuable, said by brand experts to be worth $70 billion. This is nearly three times all the physical assets of the Coca-Cola company, and yet the brand costs very little to develop. The extra profit or value is pure 'rent'.

Economies of Scale

Reduction in unit costs through having greater scale. One of the main reasons why the high market share competitor has lower costs than the smaller player. Economies of scale can cease to operate (or more precisely, are thought incorrectly to exist) when additional revenue is not exactly of the same type, that is, requires additional cost. See COSTS OF COMPLEXITY.

Economies of Scope

Economies that come from having a broad product line that can utilise the same skills or cost infrastructure. Relies upon cost sharing between two different lines of business. Even if such sharing is not perfect, i.e. only part of the costs can be shared, the importance of economies of scope may outweigh economies of scale. For example, one supplier of product A may have 100 units and an average cost of $10, and a smaller supplier of product A may have only 50 units and an average cost of $12. This means that the larger supplier has economies of scale, the smaller supplier suffers diseconomies of scale. But assume that the smaller supplier enters two other markets, producing 100 units of product B and 100 units of product C. Assume also that products B and C each manage to share half of their costs with product A. The smaller supplier of product A now has economies of scope, and his unit costs for producing A will effectively be based on 150 units equivalent of A (the 50 actual units of A, and half of the 200 units of B and C, giving a total scale for cost sharing purposes equivalent to 150 units of A). The economies of scope mean that the smaller player in the A market can have lower costs even in that market — in the example above, the economies of scope may reduce the unit cost from $12 to $9.

Economies of scope exist only if there is genuine cost sharing and if there are no additional, hidden costs (such as additional supervision or overheads) required by having a broader product line. See COSTS OF COMPLEXITY.

Ecosystem, Strategic Ecosystem

The place where competition occurs, where there are different customer needs and different competitor positions. 'Ecosystem' is therefore the same as 'segment' or 'business segment' as defined in Part One. 'Ecosystem' is the preferred term in Part Two, however, to emphasise that each ecosystem is a unique, living and changing entity defined by the interactions of customers and firms selling to them, and influenced also by technology, suppliers to the firms, other intermediaries active in the ecosystem, and by events in adjacent ecosystems. Each ecosystem is a niche where a competitor can make its living and, if it is better adapted to the needs of the ecosystem than any other competitor, can make returns above the cost of capital. The ecosystem is characterised above all by the interactions and idiosyncrasies of the *people* active in it. The ecological theory of strategy is presented in Part Two. See also BUSINESS SEGMENT, Peter JOHNSON, and the whole of Part Two.

Eighty/Twenty Rule, 80/20 Rule, 80/20 Principle

The Pareto rule, that 80 per cent of sales or profits or any other variable may come from 20 per cent of the products. Can clearly be looked at empirically in any case, and usually one of the most valuable simple steps to understanding any business. Invented by Vilfredo Pareto, the nineteenth-century economist. Looked at in retrospect, many of the major insights of business in the last half century are derived from the Pareto principle, including BCG's focus on those few high relative market share businesses that generate most of the cash for a company, the insight that COSTS OF COMPLEXITY derive from too extensive a product range, and that therefore maximum use should be made of outsourcing, as well as the movement to rationalise stock-holding, restrict the numbers of SKUs (Stock Holding Units), and conduct ABC analysis of true profitability. The 80/20 rule applies to individuals as well: 80 per cent of the value you provide in your job may come from 20 per cent of your time, so if you delegated the activities that take the remaining 80 per cent of your time to a lower cost or less experienced person (or stopped doing them altogether), you could multiply your impact up to five times. For both firms and individuals, some of the low-value 80 per cent may actually have negative value. Perhaps firms should legislate that all of their people spend at least 15 minutes a week contemplating the 80/20 rule. Or alternatively, that they should all buy my bestseller *The 80/20 Principle* (1997)!

Expected Value

The weighted average expectation as to what an investment will be worth or what any other outcome (revenues, profits, etc.) will be. Usually calculated by constructing various scenarios and weighting them according to probability. For example, if I think there is a 10 per cent chance of selling an asset (usually at a specified future date) for £3m, a 50 per cent chance of selling it for £4m, and a 40 per cent chance of selling it for £5m, its expected value is £4.3m (0.1 × £3m + 0.5 3 £4m + 0.4 × £5m). The expected value is not necessarily or even normally the most probable outcome (£4m in this case) but is the weighted average expectation. Expected value is sometimes guestimated without resorting to a formal calculation.

Experience Curve

Along with the BCG MATRIX, the greatest discovery of Bruce HENDERSON, although it started life in 1926 as the 'learning curve'. Briefly it states that when the accumulated production of any good or service doubles, unit costs in real terms (i.e. adjusted for inflation) have the potential to fall by 20—30 per cent. Accumulated production is not a concept much used, nor is it usually very easy to calculate: it is the total number of units of a product that have ever been made by a firm, or the total number of units of a product ever made by all participants in the market. It is not related to time,

because accumulated production can double within one year for a new or very fast growth product, or take centuries for a very old or slow growth one.

BCG found and documented many exciting instances in the late 1960s and 1970s where accumulated production had increased rapidly and deflated (inflation adjusted) costs had fallen to 70—80 per cent of their previous level each time this happened. One of the most important examples is the decline in the cost of integrated circuits (ICs), which explains why the cost of calculators was able to plummet so dramatically. A typical example of a cost experience curve is shown in Illustration 4.17.

Fashionize

To pursue a 'fashionizing' strategy, launching many new products and getting them to market quickly, segmenting the customer base repeatedly, and moulding the organisation so that it can respond quickly to customers, by DELAYERING, using taskforces, partnering with outside firms, and pushing down decision-making to small, entrepreneurial units positioned as close to the customer as possible.

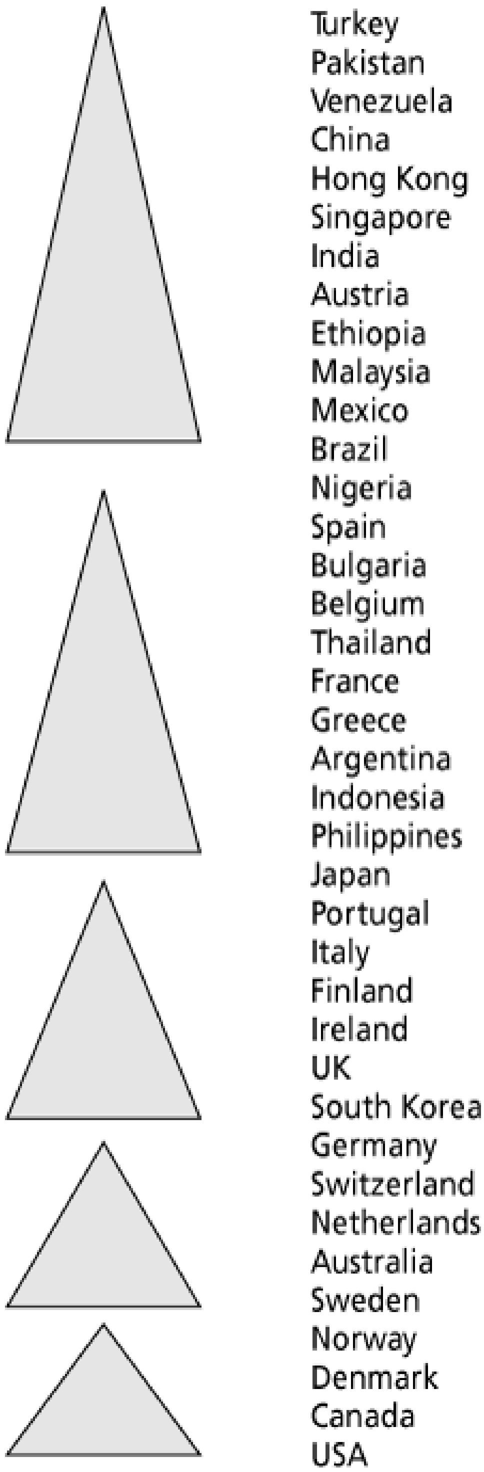
First Mover Advantage

The (usually correct) idea that the first into a market, the innovator, has an opportunity to stay ahead of competition, provided that the first mover builds in as much customer value as possible, lowers costs aggressively, and pursues a low-price policy rather than maximising short term profits. See PRICE UMBRELLA for an explanation of how the opposite often happens.

Flat Organisation

One with relatively few levels, such as the Roman Catholic Church (which has only five). Work by HAMPDEN-TURNER and TROMPENAARS has shown that managers from different countries describe their organisations with varying degrees of flatness, as shown in Illustration 4.19.

Illustration 4.19. Company triangles



Focus

One of the fundamental principles of strategy, preached with passion by Bruce HENDERSON since 1964, no less relevant today, and only a little less neglected. Smaller firms in particular must focus on a small number of BUSINESS SEGMENTS where they can be the largest. Even most large companies could raise their profits and market value by a tighter focus on the things they do best and most profitably. A good example of focus and tenacity is provided by Sharp, which stuck to exploiting liquid crystal technology in electronic calculators and concentrated all its efforts on making them as slim as possible. In 1975 there were 45 competitors; today, Sharp is one of two dominant producers, largely as a result of superior focus. See RIES (Part Three).

Genetic Code

The characteristics of a firm that make it unique. Every firm has a unique structure and ways of behaving, based on its employees, its suppliers and other outside collaborators, its products and technology, and its relationship and reputation with its customers. The character of each firm and the way it goes about its work will be peculiarly suited to particular ECOSYSTEMS — market niches and groups of customers — and the firm will usually make 100 per cent or even more of its profits from a

few such ecosystems. The firm's genetic code can be changed gradually over time or suddenly as a result of crisis and wrenching change. It generally makes better sense to find or create ecosystems ideally suited to the firm's genetic code than to try to change the latter dramatically. See Part Two, pages 104—119. See also ECOLOGICAL THEORY and ECOSYSTEM.

Globalisation

1. The process whereby global tastes and product offerings converge and are increasingly satisfied by global products rather than local ones.

2. Also used to indicate something much more significant and far reaching. Few real global products exist, but globalisation is a reality for most of the world's largest companies, in the sense that they think and operate with a global perspective on customers, technology, costs, sourcing, strategic alliances and competitors. The market for these firms' products is wherever there are affluent consumers or significant industrial customers; the firms must appeal to their customers wherever they are, regardless of borders, the firm's nationality (an increasingly tenuous concept) or where its factories are.
   Globalisation is driven by hard economics: to compete effectively firms have to incur high fixed costs (for R&D, development of technology, sales and distribution networks, brand building and so on), forcing executives to spread these costs over higher volumes, which means trying to gain market share in all important world economies. New technologies also get dispersed globally very quickly, so that innovators must exploit their property on a global scale, if necessary by means of strategic alliances, or see it adopted and adapted by competitors.
   Global competition has accelerated sharply. Between 1987 and 1992, US direct investment outside the US rose 35 per cent to $776 billion, while the value of foreign direct investment into the US more than doubled, to $692 billion.
   These trends do not require product universalism: product localisation is necessary for global success in most businesses. Some observers, such as Kenichi Ohmae, believe that the economic thrust of globalisation is irresistible and will cast aside conventional views of national politics, macro-economics, trade and citizenship. See also GLOBAL LOCALISATION, GLOCALISATION, MULTILOCALS, OHMAE and ILE.

3. Ability to carry out financial transactions on an international basis (in London, New York, Tokyo, etc.) around the clock.

Global Localisation

Sony catch-phrase where a global product is adapted to local tastes by low cost customisation. Has the advantages of low cost but somewhat differentiated product. May also involve use or creation of a local distribution network peculiar to one country or region. For example, Coca-Cola's success in Japan was due both to setting up its own route sales forces and to the rapid introduction of many products sold only in Japan. For most markets, the quest for the holy grail of a global product will fail; global localisation is a much surer route to success.

Glocalisation of Organisations

Contraction of 'global localisation' and a very useful word, describing an escalating process. Glocalisation aims at making the organisation everywhere responsive to customers, who may themselves be global, and insists that the organisation be structured in the way that makes it as easy as possible for the global customer to deal with. An important by-product of this approach is elimination of operational duplication and often dramatic reductions in management numbers and cost.

The opportunity for standardisation worldwide in large organisations is enormous. Standardisation alone usually reduces overheads by 20 per cent by eliminating administrative confusion on an international scale. Chief executives need to insist on the standardisation of organisations and roles worldwide in order to remove the heavy, hidden costs of complexity and confusion. European companies find this both harder to achieve and more rewarding when accomplished than US or Japanese companies, because the European firms are more likely to exhibit corporate federalism and feudalism and therefore huge local autonomy and diversity.

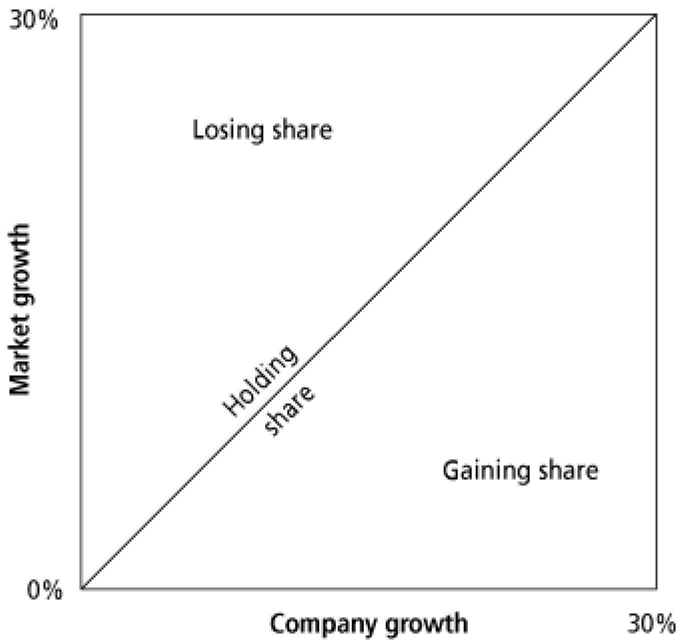
Gods of Management

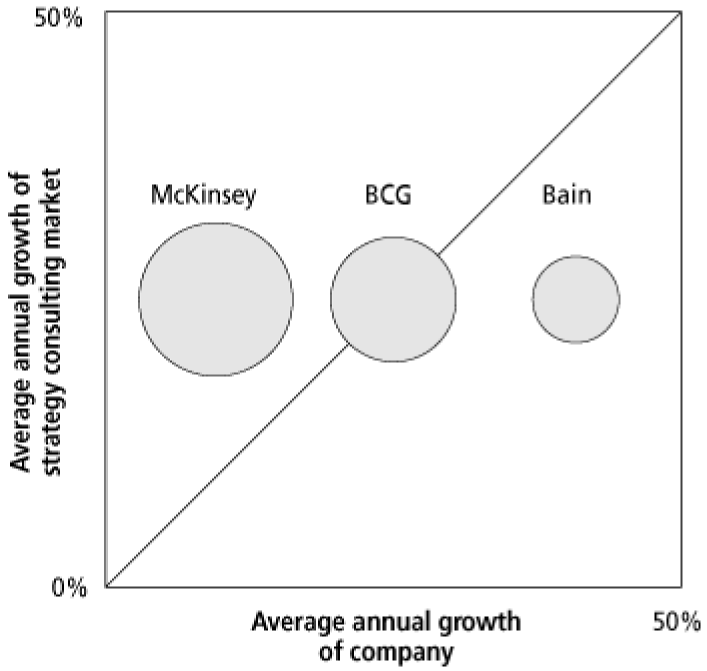
Four cultural types defined by Charles HANDY in the book of the same name. Strikingly original formulation of truths immediately recognisable by those who have worked in organisations. For a description of each god, see APOLLO (role culture), ATHENA (task culture), DIONYSUS (professional culture) and ZEUS (patron culture).

Growth/Growth Matrix

Useful two-by-two chart (invented by BCG) which compares the growth of a firm's business in one product or BUSINESS SEGMENT to the growth of the market as a whole, thus enabling one to see whether market share was being won or lost and by whom (Illustration 4.20).

Illustration 4.20. Examples of Growth/growth matrix with competitors arrayed

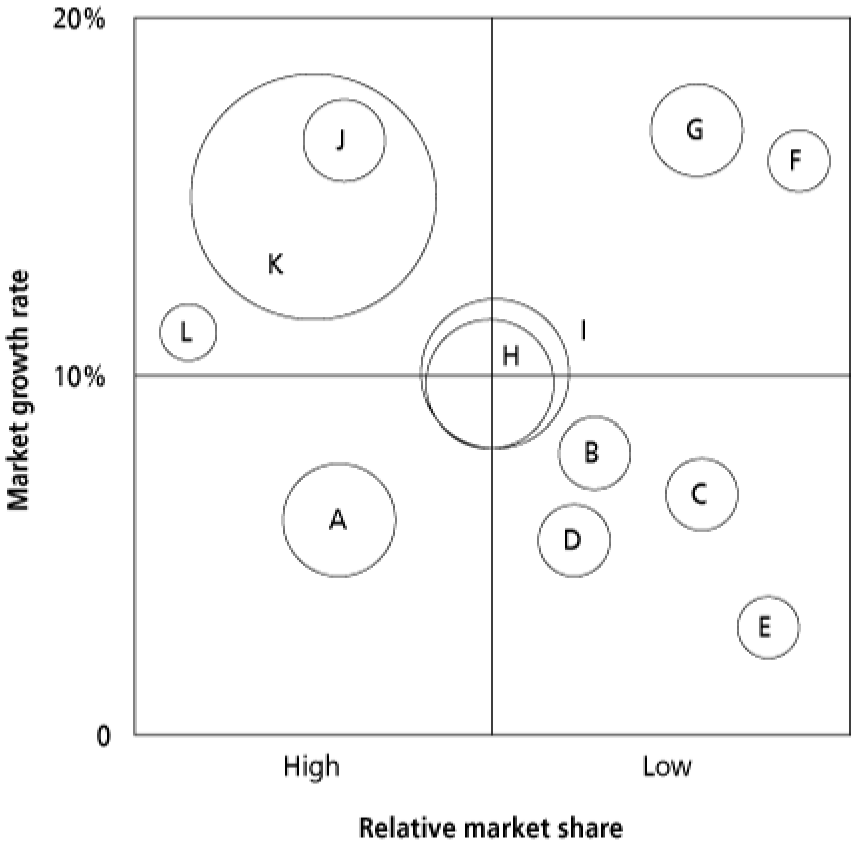




Growth/Share Matrix

The Boston Consulting Group has invented several matrices, having consultants trained to think in terms of two-by-two displays, but this is the most famous and useful one (it is also sometimes called the BCG MATRIX). Invented in the late 1960s and still of great importance today, it measures market growth and relative market share for all the business a particular firm has. An example is shown in Illustration 4.21.

Illustration 4.21. Engulf & Devour Plc, Growth/share matrix



Harvesting

Deliberate or unintentional running down of a business and its market share position in order to extract short term profit: 'selling' market share. Harvesting can result from a number of policies: holding or raising prices higher than competitors, not reinvesting in marketing and selling effort or in new equipment, or by stopping advertising. Such steps could result in a short term increase in profits but the competitive position of the business will be weakened and with loss of market share it — will end up as a smaller business which may not even be viable in the medium term. Harvesting may happen without management being aware of it — reinvestment does not occur because it 'cannot be afforded', and market share is gradually lost — or if they do realise, without them connecting it to the failure to invest as much as competitors.

Harvesting as a deliberate strategy is not much practised, and for good reason: you cannot tell how fast market share will be lost, and the business can disappear into an irreversible DOOM LOOP much faster than expected. Harvesting can be a very rewarding tactic, however, if it is intended to sell a business within a year or so. The final year's profits can be significantly boosted, and the buyer may apply a normal PE Ratio to buy the business without realising that it is losing market share and that the profits are not sustainable.

Heartland Businesses

Businesses within a multibusiness corporation where the Centre can add a great deal of value. Heartland businesses have opportunities to improve that the Centre knows how to address, and they have critical success factors that the Centre fully appreciates.

ILE (Inter-Linked Economy)

Kenichi OHMAE's phrase for the 'borderless' economy comprising the US, Europe and Japan (the triad), and increasingly taking in aggressive, outward-looking economies such as Korea, Taiwan, Hong Kong and Singapore. The economy embraces much more than trade, being a complex network of corporate inter-dependencies led by the world's largest companies (which used to be called multinationals but are now more accurately described as multilocals). The ILE comprises one billion people, mainly affluent consumers, and most of the world's wealth is created and consumed in the ILE. See OHMAE, GLOBALISATION and GLOBAL LOCALISATION.

Insiderisation

1. Kenichi OHMAE's term for the process of replicating or recreating a home-country business system in a new national market, adapting the system to the new market's unique

characteristics. The classic example is Coca-Cola's innovation in Japan when confronted with the multilayered distribution system for soft drinks. Coke organised local bottlers to create a national network of Coke vans distributing bottles and collecting empties, driven by a new Coke national sales force. The company thus became a fully paid-up 'insider', and was able to use its distribution network to sell a variety of soft drinks as well as Coke. Insiderisation means taking the trouble to understand and develop a local market rather than imposing a model based on 'home' market characteristics; it is an important method of GLOBAL LOCALISATION.

2. The process of making outsiders to an organisation in some sense insiders, by sharing information with them and encouraging them to identify with the firm.

Just-In-Time (JIT)

Valuable system developed first in Japan for production management aimed at minimising stock by having materials and work-in-progress delivered to the right place at the right time. As well as lowering costs, JIT can have other major benefits: the systematic identification of operational problems and their resolution by technology-based tools; higher levels of customer service and speeding up the time to market; higher quality standards by being RIGHT FIRST TIME; and higher standards of COMPETENCE in the production function generally. To be most effective, JIT should be introduced as part of TQM (Total Quality Management), and it should be recognised at the outset that JIT is not just a technique but a way of changing behaviour. A full JIT programme such as that introduced by Toyota or Matsushita may take years to complete. But companies without JIT which compete against those with JIT will have a major handicap.

Properly conceived, JIT should be seen as a synchronising way of life: jobs must be completed quickly, but even more important is that they be completed just in time to fit in with the next step in the dance. This is a radically different concept from traditional assembly line thinking, which is sequential rather than synchronising. Charles HAMPDEN-TURNER and FonsTROMPENAARS point out that culturally, the US, UK, Sweden and Holland are disposed towards trying to speed things up sequentially, whereas Japan, Germany and France are more geared towards synchronisation. This means that when installing JIT and other synchronising techniques in 'Anglo-Saxon' and similar countries, it should be realised that JIT can go against the cultural grain, so people need to be retrained to think and act in a synchronised way.

Keiretsu

Literally, a 'headless combine', and one of the most important secret weapons of Japanese industry. An economic grouping of many firms organised around trading companies and/or banks. These groups originated from the Zaibatsu, the large and in many cases centuries-old groups of industrial and financial holding companies. Keiretsu are their descendants, and involve intricate cross-holdings of shares, where a bank will hold shares in all commercial companies, and the latter will own shares in each other. Examples include Dai Ichi Kangyo, Fuyo, Mitsui, Mitsubishi, Sanwa and the Sumitomo group.

Keiretsu are organised on the basis of common loyalty, reciprocity and complementarity. They collaborate to help members maximise their market shares, particularly in the case of 'front line' companies competing on a global scale. They help procure cheap raw materials, share technology, raise and enforce quality standards, share market intelligence, and provide mutual financial support. They can pool resources to help the front line company win — Chrysler competes not with Mazda, but with the combined might of the Sumitomo group, which is willing to forego short term profit for market share gain. Technology sharing is perhaps the most important single benefit.

Key Factors for Success (KFS)

The reasons why some firms are more successful than others in particular products or industries. Should be based on an in-depth understanding of why consumers buy the products concerned, as a spur to resegmentation and/or innovation. See SEGMENTATION.

Knowledge Management Structure (KMS)

Concept put forward by Tom PETERS as a development of the LEARNING ORGANISATION. The 'new' firm must destroy bureaucracy but needs to nurture knowledge and skill, building expertise in ways that enhance the power of market-scale units, and that encourage those units to contribute knowledge for the benefit of the firm as a whole. This is a matter of shared values, feeling part of a family, and big travel budgets! McKinsey and Goldman Sachs are examples of firms operating KMSs, but the concept is applicable to all corporations, not just professional service firms.

Leading Indicator

Early signal that something is about to happen. Noah's dove was a leading indicator that the flood was over. Market share gains can be a leading indicator of higher profits, even if these are currently depressed by the investments to gain market share.

Leakages

Customers or customer segments that leak away from particular suppliers because the right product or service is not being provided; loss of revenue as a result. Very often a firm tries to find new customers without applying the same energy to the even more important task of retaining existing customers. See CUSTOMER RETENTION.

Lean Enterprise

Catch-phrase describing re-engineered companies that have five attributes:

1. They embrace a cluster of cross-functional processes.
2. They include close relationships with suppliers, distributors and customers to enhance value continually — the 'extended enterprise'.
3. They have a core of defined expertise.
4. Functional areas such as design, engineering, marketing, procurement, personnel and accounting should still exist, but be schools of learning and skill-bases that different teams in the firm can draw on.
5. Careers should alternate between membership of multi-functional teams and time spent building up skill within particular functions or departments. Honda has used this alternating approach successfully both in Japan and the US.

Learning Organisation

Term originated by Chris Argyris to highlight the importance of collective learning within the corporation: it learns as an entity, a whole, over and above the individual learning of executives. As Arie De Geus says: 'Institutional learning is the process whereby management teams change their shared mental models of their company, their markets, and their competitors.' See also KNOWLEDGE MANAGEMENT STRUCTURE in this section, and the entries on ARGYRIS, DE GEUS, QUINN and SENGE in Part Three.

Leverage

Means many things, including financial gearing, and the way in which influence is effectively exerted to produce a pronounced result. The sense in which it is most interesting to us, however, is as the third of the Ashridge Strategic Management Centre's five generic strategies for the Centre to add value. In this sense it means leveraging corporate assets or skills — such as brands, licences, patents, know-how, or relationships with collaborators or regulators — across a number of businesses. Virgin's use of its brand is a good example.

Link

The fourth of the five strategies for the Centre to add value in the Ashridge model. 'Link' implies the effective use of cross-business synergies, where the Centre acts as a catalyst. For link propositions to be real rather than well-intentioned but value-subtracting mirages, there must be a good reason why the operating businesses are blocked from realising the synergies on their own. Examples of 'link' propositions include Unilever's sharing of consumer marketing expertise; banking and insurance where channels of distribution and access to customers is key; and industries where buying power is critical.

Logical Incrementalism

The process by which the leaders of a corporation evolve strategy in a loose way, allowing internal decisions and external events to flow together, so that the corporation learns and political support is built inside the company for the emergent strategy. See QUINN in Part Three.

Loyalty

The term used by Fred REICHHELD to describe how to create competitive advantage and lasting value for a company through increasing the loyalty of customers and employees. 'Loyalty' means keeping existing valuable customers and employees for a very long time. Key customers and employees cost a lot to recruit and 'train' and so their defection is very costly, forcing the firm to constantly churn its pool of people. Successful firms such as Toyota, John Deere, MBNA, State Farm insurance, the Leo Burnett advertising agency, and the Pick 'n Pay supermarket chain in South Africa use the principles of loyalty to increase customer and employee retention and hence attain above-average profits. See REICHHELD and CUSTOMER RETENTION.

Make or Buy Decision

1. The decision on whether to make components or any other part of the product or service in-house, or whether to use outside suppliers (the latter being called outsourcing). 'Make or buy' has long been a topic of debate, but it is becoming increasingly important. It can now determine relative profitability in an industry, as in computers.

2. Igor ANSOFF used 'make or buy' to mean organic expansion versus expansion by acquisition.

Charles Coates, an expert on manufacturing strategy, believes that a key condition of competitive advantage is that firms focus only on those activities that are critical to their proposition and where they have distinctive COMPETENCIES, and outsource all other components and activities. In practice this means a great deal more outsourcing than most firms currently use. The reason outsourcing is so valuable is that the COSTS OF COMPLEXITYare crippling for a firm engaged in many activities. In some cases this complexity is not avoidable, but in most it is — via outsourcing.

Managerialism, The Management Theory of the Firm, The Managerial Heresy

Very important view that given absentee landlords in the form of institutional investors, power in corporations falls to the senior managers, who may advance their own interests rather than those of the owners.

Evidence that the managerial theory has a strong element of truth can be seen in any or all of the following: valuing turnover growth even without profit growth; reluctance to sell non-core companies or demerge, leaving a smaller company; reluctance to outsource to the proper extent; a preference for acquisition rather than disposal, or than being acquired; large perquisites for executives, so that you would need a massive income to have an equivalent lifestyle outside the firm and paying tax; executive jets, chartered planes, or, if times are hard and you have to slum it by flying on a commercial airline, first class travel, which almost nobody could afford if required to pay for oneself; retreats in expensive hotels; hospitality trips (at which the British excel) to Ascot, Wimbledon, Henley, Cheltenham, Glyndebourne, Covent Garden, and all the other delights of the season; paying top executives a very high multiple of average employee or lowest employee pay; increasing top executive pay above the rate of inflation, or when profits fall; granting oneself large share options, which give a free ride when the stock market goes up, regardless of the performance of the company itself; and generally ensuring that one has a pleasant lifestyle and interesting work, regardless of what the corporate priorities are. None of these activities advances the interest of shareholders, or of the firm as a whole. Who says that the managerial heresy is dead?

Market Challenger

STRONG FOLLOWER in market share terms: companies that are not far behind the market leader in a particular product or service. The term is not wholly satisfactory because it implies that the second or third player is gaining relative market share on the leader and challenging him. The term strong follower does not carry this implication, and is reserved for a RELATIVE MARKET SHARE of at least 0.73, that is, at least 70 per cent the size of the leader. Neither term is widely used, hence the neglect of DOGS that may have potential.

Marketising

The process of turning cost centres into profit centres, making them respond to an internal or external market.

Maverick

An unconventional competitor, often a newcomer to the market, who does not respect the rules of the game, but writes his own rules. Excellent examples are Apple (revolutionising the computer business by developing very powerful PCs) and IKEA (the Swedish furniture retailer that made this a business susceptible to international scale and a new division of labour between customer and supplier: see DELIVERY SYSTEM for more on IKEA). It is very difficult for established competitors to cope with mavericks: all the familiar levers for dealing with competitors do no good. When considering market entry, a good question would be: is there scope for being a maverick here? If not, enter another market, unless there is very high sharing of cost or know-how in the new market.

M-Form Organisation

Originally used by Oliver Williamson in Markets and Hierarchies (1975) to mean a multidivisional enterprise. More recently a book by Bill Ouchi called The M-form Society described Japanese corporations as forming multidivisional companies around a common central core of technology. M-form companies include Fujitsu, Honda, Hitachi, Matsushita, Mitsubishi, Nippon Electric, Toshiba, Sharp and Sony. For example, Matsushita has a common technological 'learning core' that feeds into six different divisions (consumer electronics, home appliances, lighting equipment, system/media products, business machines and electronic components).

There are examples of M-forms in the West, including IBM, ICI, Apple, DEC and Philips, but in general there is a greater proportion of technology located in the divisions than in the Japanese M-form, and technological know-how tends to ooze around the divisions rather less luxuriantly. The West also has far more pure conglomerates, where there is common ownership but few or no operating links between the divisions or companies. The M-form is clearly superior at utilising technology.

Mission

What a company is for; why it exists; its role in the world. This is an enormously important issue. A large number of US and UK companies have formal mission statements, but a big distinction must be made between such documents and the company having a real mission, or 'sense of mission'. Most companies that have mission statements do not have a sense of mission: the document is propaganda, or at best, well intended 'motherhood', but not what most people in the organisation believe. Yet some firms such as Marks & Spencer that clearly have a sense of mission do not have mission statements.

A sense of mission is essential if employees are to believe in their company. They have to think that the company is there to achieve something.

Mop Up Strategy

Consolidating an industry by gaining market share at the expense of smaller competitors and/or buying them up, usually in a so-called declining industry. Almost always a good strategy.

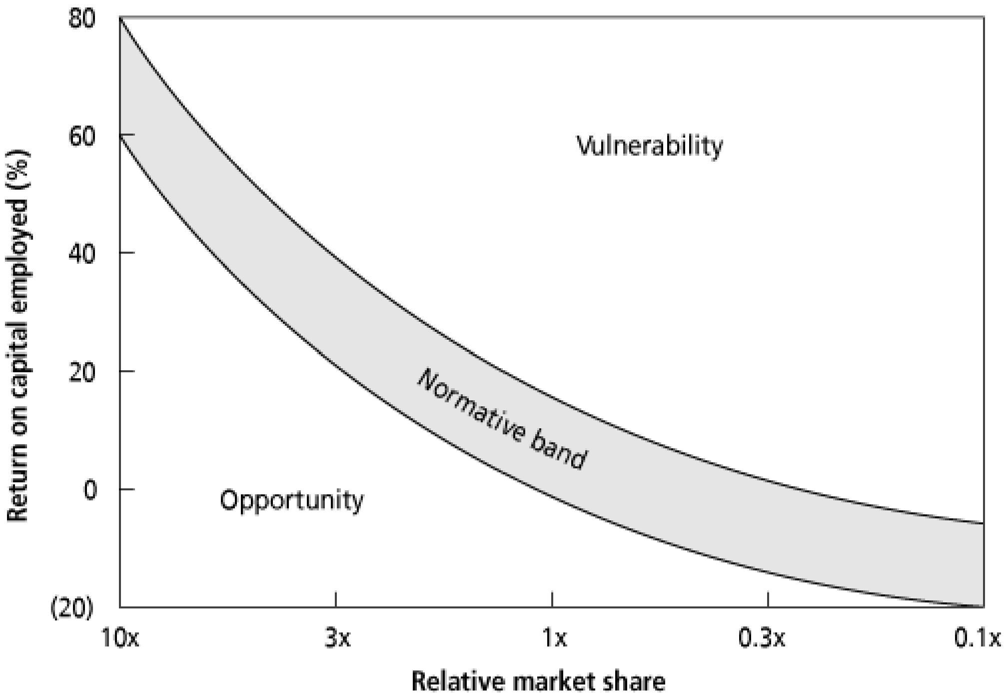
Navigator, Navigation

A recent idea from the Boston Consulting Group. The navigator is the company in a value chain that controls navigation, which itself is defined as 'the activities shaping how customers search, compare, and decide what to buy'. The navigator positions itself as the 'customer's friend', bringing her more information, wide choice, and the ability to tailor products and services to her particular wants.

Although the word is new, navigators have been around for more than a century. Department stores were once the new navigators of their era; mail order companies had their time too; more recently, 'category killers' with edge-of-town specialist mega-retail outlets, such as Toys 'Я' Us, have been navigators. Increasingly, however, the new frontier of navigation is the Internet. See towards the end of Part Five.

Opportunity/Vulnerability Matrix

An interesting outgrowth from the BCG MATRIX, although not developed until the late 1970s/early 1980s (mainly by Bain & Company) and refined later that decade by The LEK Partnership, another strategy boutique. BCG had posited that high relative market share businesses (leaders) should be extremely profitable, and the logic of the experience curve certainly suggested that the higher the market share, the higher the profitability (unless the firm was not using its potential advantages or pricing to penetrate the market still further). It followed that it should be possible to construct a 'normative curve' to describe the profitability of the average BUSINESS SEGMENT in a particular industry, or, with a wider band, all industries, according to a normal expectation given the segment's relative market share. This normative band is shown on the matrix in Illustration 4.29.



Parenting Advantage

The useful concept invented by the Ashridge Strategic Management Centre which is to Corporate Strategy what 'competitive advantage' is to Business Unit Strategy. Parenting advantage exists when the parent or Centre is the best possible owner of a business, because it adds more value to the business than any other potential parent. Unless there is parenting advantage for any business under the parent's control, the business should be divested.

PIMS (Profit Impact of Market Strategy)

A co-operative database originating from research by GE in the US that collects data from member firms about market share, profitability and a variety of other variables (such as R&D spend) that might be expected to influence profits. The data are confidential but aggregate results are fed back to members so that they can see how to raise profits. Some of the research has been published and has demonstrated beyond reasonable doubt that high market share correlates with high profits, though there are significant industry variations. Two problems with the approach are that it accepts the firm's own segment definitions, which may not correctly describe business segmentation or be sufficiently disaggregated; and it pays insufficient attention to relative market share. See RMS and OPPORTUNITY/VULNERABILITY MATRIX.

Porter'S Five Competitive Forces

Michael Porter was an innovator in structural analysis of markets, which previously, even with BCG, tended to focus largely on direct competition in the industry, without looking systematically at the context in other stages of the industry VALUE CHAIN. Porter's five forces to analyse are:

1. **Threat from potential new entrants.**
2. **Threat from substitutes using different technology.**
3. **Bargaining power of customers.**
4. **Bargaining power of suppliers.**
5. **Competition among existing suppliers.**

Positioning

Finding a marketing position for a product or a company that differentiates it from competitors and occupies a 'slot in the brain'. This may be entirely emotional and subjective rather than defined by product or verifiable criteria. For example, British Airways was repositioned as 'the world's favourite airline' to let travellers know that the cabin crew no longer bit their heads off or ignored them. An interesting positioning technique for a new entrant or a follower is to draw a veiled contrast with the market leader, as in Avis's successful slogan 'We're Number Two. We Try Harder', or 'Carlsberg, probably the best lager in the world', as opposed to the biggest or the strongest. Positioning is partly a matter of understanding the most appropriate battleground for a product, but it is also a highly

creative process of identifying vacant ground and finding an emotionally warm pitch. Positioning is far more art than science.

Price Umbrella

Colourful term meaning a high general price level in an industry or product, held over all competitors to stop the rain of competition spoiling anyone's day. Although it leads to short term profits, it is usually a mistake for the market leader to hold out a price umbrella, as it prevents more marginal competitors exiting the business and makes it possible for them to build up experience and lower their costs, thus becoming more viable. See OPPORTUNITY/VULNERABILITY MATRIX.

Pricing Strategy

1. Setting prices in order to gain a long term competitive advantage, rather than to maximise short term profits. There are three main rules: (1) in introducing a product, price at or below cost in order to gain volume, cut costs, and deter competitors; (2) in fighting competition, especially when the market is still growing, consider sudden, startlingly short price cuts, so that the price is immediately perceived as low by the consumer, and as too low to be matched by competitors; and (3) ensure that the true costs of all products are known, including all overhead costs, and that the more complex, special products are not under-priced and the standard, high-volume products under-priced. See EXPERIENCE CURVE, AVERAGE COSTING, AVERAGE PRICING and BCG MATRIX.

2. More broadly, the major decisions made on pricing.

Product Line Profitability

Much neglected, highly useful analysis of how much money a firm makes (fully costed) on each of its products or services. Usually throws up results that surprise managers, often showing that a majority of products lose money on a fully costed basis, and 100 per cent or more than 100 per cent of the profits are made by a small proportion of exceptional money spinners. No-one has yet standardised a universally applicable way of conducting this analysis. Traditional accounting systems make it very difficult, and accurate product line profitability is usually supplied by outside consultants.

Question Mark

A firm's position in a business segment where the market is growing fast (expected future volume growth of 10 per cent or more per annum) but the firm is a follower, that is, has a RELATIVE MARKET SHARE of less than 1.0×. One of the four positions on the BCG MATRIX. Unlike two of the others, very well named: there is a real question about such businesses that must be faced up to. Should the corporation invest a lot of cash and management talent to try to drive that business to a leading position, hence becoming a STAR (high market growth, high relative market share) and eventually a much bigger and highly positive CASH COW? Or should the business be sold for a high price earnings ratio, because people pay highly for 'growth' businesses without usually thinking too hard about the relative market share position? There is another option, which is usually taken, and usually wrong: putting *some* cash into the business but not enough to drive it to a leading position. The BCG theory and observation both lead to the conclusion that this will tend to give a poor return on the cash invested: the business will eventually become a DOG, and though it may throw off rather more cash in this state than the original BCG theory, it is unlikely to show a very good return (IRR) on the cash invested.

So is it to be investment to drive to leadership, or a quick and lucrative sale? It depends, of course, on the sums of cash involved, but particularly on whether you think leadership is attainable at acceptable cost. And then it depends on the reaction of the current leader, who has the STAR position: he ought to defend it to the death, but may not. Getting into this kind of battle is unpredictable and like playing poker: once started, you have to keep upping the ante to persuade your opponent that you will win in the end; and if you are to cut your losses at any stage, you had better do it early. What is the size of your pot of cash compared to his? The strength of your hand versus his is also very important. Do you have the knack of satisfying customers better, or higher quality, or better people or better technology, or just greater will power and commitment, or preferably all of the above?

Rare Games

Rarely, a market or ECOSYSTEM can be so attractive, for a time, that even mediocre competitors make high returns – and maybe all competitors do so. Andrew CAMPBELL and Robert Park call these 'rare games'. They happen when a new market opens up and supply can't keep up with demand. Sometimes rare games occur because competitors – either traditional or new – price so high that new entrants can come in and reap good returns. In the eyeglass market at the time of writing, for example, traditional opticians (optometrists) price very high, both to make high profits and to cover the cost of eye-testing. Direct suppliers of glasses, using the phone and Internet, can price much lower (when no eye test is necessary), offer customers great apparent value, and yet make very high profits because they can source the products at very low cost. There are low barriers to entry in this market, and yet currently all direct competitors are growing fast and very profitable.

The normal rules of strategy are suspended for rare games – anyone can enter such an easy environment without special skills or assets and make good money. But only for a time. Within a few years, only competitors with some advantage will still be very profitable. The best sources of competitive advantage in rare games are early entry, creating a new brand that becomes synonymous with the new ecosystem, and becoming the largest, so that there are economies of scale in marketing.

RCP (Relative Cost Position)

The cost position of a firm in a product relative to that of a competitor. For example, if it costs Heinz 20¢ to manufacture a can of beans, and it costs Crosse & Blackwell 22¢ for the same can, Heinz has an RCP advantage of about 10 per cent, or an RCP of 91 (C&B = 100). Classical economics assumes that firms in an industry will come to have the same cost position, but in the real world this is almost never true. RCP can be quite difficult to establish (usually requiring the use of specialist consultants) but it is often not what managers imagined, and the differences between competitors usually emerge as much greater than previously thought. It is necessary to look at RCP at each stage of the VALUE CHAIN: for example, X may have a 30 per cent cost advantage in production but have an inefficient salesforce, and be at a 10 per cent cost disadvantage in selling. Relative cost advantage is often, but by no means always, related to scale or experience advantages (expressed in Relative Market Share).

RCP analysis is not invalidated by differences in quality, or the fact that one supplier may have a better brand. The cost position can be looked at with the price realisation of each supplier indexed at 100, so that if Heinz receives 24¢ for its can of beans and C&B only 20¢, Heinz's total and sub-divided costs can be looked at relative to the 24¢, and C&B's relative to the 20¢ that it receives. On this basis, Heinz would have a total cost of 83 (10/12) and C&B a total cost of 110 (11/10): Heinz would be making a profit margin of 17 per cent but C&B would be losing 10 per cent. The real cost difference between the two firms (adjusted for price realisation) would be 27 per cent (110 minus 83). Heinz might be spending more on marketing, to help capture the extra price realisation, but the analysis would show this as well.

RCR (Relative Customer Retention)

How well a firm retains its customers relative to its competitors. A key influence on relative profitability. See CUSTOMER RETENTION.

Recompete

To change the basis of competition in an industry, to change the rules of the game, to find a new and more effective way of competing, to invent a different way of doing business that gives a new competitor a place in the sun and superior profitability.

One early example of recompeting was Georg Siemens's invention in 1870 of the first universal bank (Deutsche Bank) with a mission to unite and industrialise Germany. In the same decade, Mitsubishi was established as the first important Japanese multinational, on the principle we now know as the M-FORM ORGANISATION. Another early example was Henry Ford's invention, at the start of the twentieth century, of the mass-produced automobile.

Right First Time

The idea that goods should not need to be inspected for quality because the objective should be to build quality in and ensure that all product is of high quality the first (and only) time round.

RMS (Relative Market Share)

The share of a firm in a BUSINESS SEGMENT divided by the share of the firm's largest competitor. Much more important than market share as an absolute number. For example, if Sony's nearest competitor in making Walkman-type products is one tenth the size, Sony will have an RMS of 10 times (written as 10×, or 10.0×, or sometimes simply 10). The competitor, on the other hand, will have an RMS that is the reciprocal of this: it will have an RMS of 0.1×. One more example will suffice: if Coca-Cola in one national market has a market share of 60 per cent, and Pepsi-Cola 30 per cent, then Coke has an RMS of 2×, and Pepsi 0.5×.

Relative market share should correlate with profitability. If it does not, one (or more) of five things is happening. Either:

RPP (Relative Price Position)

A complement to RCP (Relative Cost Position). RPP looks at the price realisation for two or more competitors in the same product or service. If two identical packets of chips are sold in the same outlet, one under the KP brand and one under a retailer's private label, and the former is 40¢ and the latter 36¢, the KP RPP is 40/36 = 111 and the RPP of the retailer's brand is 36/40 = 90. RPP shows how far there is a brand, quality or distribution advantage. See also RCP.

Saplings

Term invented by Andrew CAMPBELL and Robert Park to describe businesses within a company that are neglected but have strong management and could be a jumping-off point for growth. Saplings are operating units in a firm that already exist and are often unloved or ignored. Their attraction for canny strategists is that the firm does not need to learn anything more about saplings and they have very able managers, who may have insight into how to grow the activity profitably.

Campbell and Park quote the example of Hewlett-Packard's largely accidental and unplanned move into computers. In the 1960s HP started making processors for its instruments business to avoid dependence on third-party suppliers. In the 1970s the unit began to sell computers for technical applications. For many years the unit's excellent management team lobbied to enter the market for commercial applications, and in 1980 they were grudgingly allowed to do so. Today HP is one of the world's biggest computer makers.

SBU (Strategic Business Unit)

A profit centre within a firm that is organised as an autonomous unit and that corresponds roughly to one particular market. SBUs originated in the 1970s and have proved popular since then. The story of how they came about is interesting. SBUs began in 1970 when Fred Borch, head of the American GE, decided to decentralise, abolish or curtail staff functions, and reorganise on the basis of stand-alone SBUs. GE set up the following criteria required for a group to be a pukka SBU:

- An SBU must have an external, rather than an internal, market: must have a set of external customers.
- It should have a clear set of external competitors it is trying to beat.
- It should have control over its own destiny – decide what products to offer, how to obtain supplies, and whether or not to use shared corporate resources such as R&D.
- It must be a profit centre, with performance measured by its profits.

S-Curve

The growth pattern resembling an S: slow to pick up, followed by a period of maximum growth, then a point of inflection leading to gradually slower growth. Study of the 1665 Plague in England led to the conclusion that the spread of disease followed a mathematically predictable path, and the same methodology has been used with some success to predict the rate at which a new product will penetrate into any given population, given the early experience. If, for example, you knew that the penetration of dishwashers into Korea was 1 per cent in the first year, 2 per cent in the second year and 4.5 per cent in the third year, you could calculate a prediction for future years.

The formula to be used to calculate each year's observation is f/1 – f, where:

Segmentation

Most usefully, the process of analysing customers, costs and competitors in order to decide where and how to wage the competitive battle; or a description of the competitive map according to the contours of the business segments. Sadly, segmentation is often used to describe a more limited (and often misleading) exercise in dividing up customer groups. See BUSINESS SEGMENT. Proper segmentation takes place only at the level of identifying the business segments: this is at the root of any firm's business strategy. Segmentation in this most useful sense is what is discussed below.

It is crucial for any firm to know which segments it is operating in, to know its relative market share in those segments, and to focus on those segments where it has or can build a leadership position. A segment is a competitive system, or arena, where it is possible to build barriers against other firms, by having lower costs or customer-satisfying differentiation (which will be expressed in higher prices, and/or in higher customer volume which itself will lead to lower costs). A segment can be a particular product, or a particular customer group being sold a standard product, or a particular customer group being sold a special product or provided with a special service, or a particular distribution channel or region, or any combination of the above. What matters is that the following conditions for a genuine segment are *all* satisfied:

Segment Retreat

Policy of retiring from a particular market segment, conceding it to competitors, and focusing on other segments. Tends to be a continuous, sad process. One classic example is the UK motorcycle industry in the early 1970s which, faced with the onslaught of Japanese competition, retreated first of all from the small bikes segment, then the mid-bikes segment, so that it was left at the 'high end' of large and super-bikes. The problem was that the Japanese advanced just as the British retreated, and, given the high shared component cost between the segments, Japanese dominance in the lower end product eventually fed dominance in all segments. If pursuing a strategy of segment retreat, it is essential to build solid barriers against the advance, or the retreat will turn into a rout.

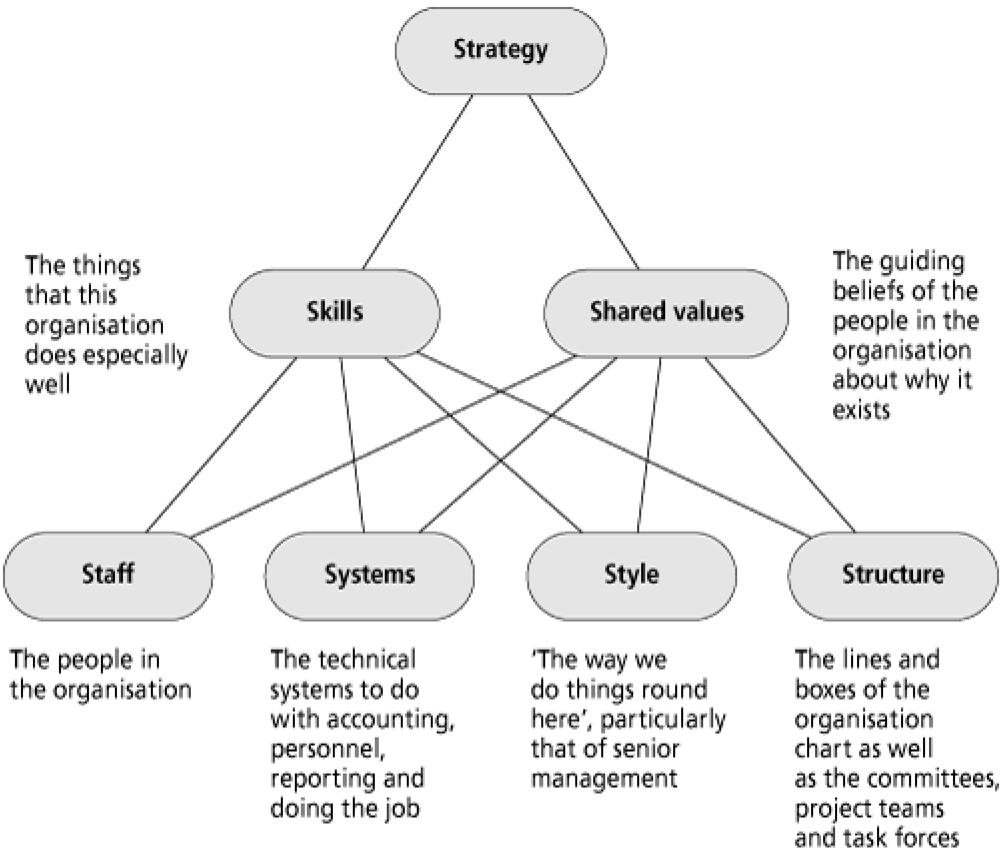
Self-Organising Systems

A system common in nature and society where the whole is different from the parts and organises itself spontaneously into the whole. Examples are diseases, cities, embryos, brains, storms and corporations. See COMPLEXITY THEORY.

Seven Ss, 7S Framework

A framework for thinking about a firm's personality; a diagnostic tool for describing any company, developed by Peters and Waterman and their colleagues in McKinsey around 1980. Seven elements of an organisation, all beginning with S – strategy, structure, systems, style, skills, staff and shared values – can be used as a checklist. Do the Ss fit well together, or are they inconsistent or unclear? When the Ss fit well together and reinforce each other, the organisation is likely to be moving forward purposefully; where the Ss are in conflict, it is likely to lack unity and momentum. The Seven Ss are shown in Illustration 4.33.

Illustration 4.33. The Seven Ss



Shamrock, Shamrock Organisation

A form of organisation described by Charles HANDY using the Irish national emblem, a three-leaved clover. According to Handy, today's organisation is increasingly like a shamrock, made up of three distinct but interlocking parts. The first leaf represents the CORE WORKERS or professional core, the people who hold the knowledge of the organisation and are essential to its success. The core must be looked after and treated as partners, but this is expensive, so the answer is to have a much more selective and smaller core, and rely increasingly for less essential input on the other two 'leaves' of the shamrock. The second leaf is the contractual fringe: specialists outside the organisation who are experts in a particular part of the work and have a close relationship with the firm, but who are not on its payroll. All work which need not be performed in-house should therefore be contracted out to lower cost specialists. The third leaf of the shamrock is the flexible labour force, part-time and temporary workers who come and go as required, and are an increasing proportion of the total. Many of this third group will not want full-time employment, and will be young, female or 'retired'. The organisation may invest in some elements of the flexible labour force, for example by giving training and some privileges, but this third tranche of labour will never have the commitment or ambition of the core.

Handy believes that the shamrock organisation has increased, is increasing, and ought to be further increased, with a realisation that each part of the shamrock needs to be treated differently. Eventually the dominance of the shamrock organisation could change accepted patterns of behaviour, abolishing traditional views about work and career, leading many more people to take a portfolio of different sorts of work, significantly reducing the incidence of wasteful commuting, and making only a minority of people – the highly motivated professional core – really committed to their companies. This last group, however, must truly believe in what the organisation does and be zealots for it.

Shareholder Value, Shareholder Wealth

Phrase often used to mean what is in shareholders' interests, as in 'create shareholder value'. Often means 'get the share price as high as sustainably possible', and includes a sense of medium and long term value creation rather than short term share price maximisation (or manipulation). Generally not a neutral term: the users tend to imply that the main or exclusive responsibility of top management is to maximise shareholder value rather than worry about the interests of other stakeholders (e.g. customers or employees). Most US firms and many UK ones claim that shareholder value is their main objective; few mean it.

Spinoff

When a multibusiness corporation splits itself up into two or more new businesses. Spinoff is both the process and the name for a new business spun off from the original one. See BREAKUP and UNBUNDLING OF CONGLOMERATES.

Star

The most exciting of the four positions on the BCG MATRIX. A star is a business which is the market leader (has the highest relative market share) in a high growth business (generally over ten per cent per annum anticipated volume growth rate in the next three to five years). The star business is immensely valuable if it keeps its leadership position because the market growth will make it much bigger and because it should be very profitable, having higher prices or lower costs than lower market share competitors. The star business may not yet be very cash positive, in fact the usual expectation is that it will be broadly cash neutral, since although it earns a lot of profits it will require reinvestment in new facilities and working capital to continue to grow. But when the market growth slows, if the leadership position has been successfully defended, the business will become a large CASH COW and provide a high proportion of cash for the whole business portfolio.

It is said that there are three policy rules for looking after stars: 'invest, invest and invest.' Almost no investment is too great; whatever the financial projections say, any investment is likely to show an excellent return. The worst possible thing to happen to stars is that they lose their leadership position to someone else's QUESTION MARK (which then becomes the new star, relegating the erstwhile star to the position of a question mark and eventually, as growth slows, a DOG). If leadership is lost, the cash previously invested in building up the (former) star may never be recovered, and for all the glamour the business would have proved a cash trap. Hence the necessity to invest to hold the star's leadership position, and if possible further extend it, so that competitors can never catch up. This may require very rapid growth, perhaps up to 40–50 per cent per annum, which requires skilful management and possibly large amounts of cash.

Strategic Alliance

A mutual commitment by two or more independent companies to co-operate for specific commercial objectives, usually because the cost of development is too high for a single company, and/or because the companies have complementary technologies or competencies. A strategic alliance is different from a joint venture in that no legal entity is set up, and the scope of co-operation can be both broader and deeper, despite (or perhaps because of) the absence of tight contractual definitions of the partners' obligations. Strategic alliances can take place between competitors in the same business, as with that of Grundig and Philips to join their video and cordless phone businesses, or between Honda and Rover (but see below); between particular suppliers and their customers (Marks & Spencer has informal strategic alliances with many of its textile and food suppliers, which date from long before strategic alliances were fashionable, and supplier/customer links are hugely important in Japan: see KEIRETSU); or between different firms that are not competitors but can each use a particular technology in their respective markets, as in the case of the alliance between France Telecom and Deutsche Telecom.

Strategic alliances are already important and will become one of the major global competitive weapons in the twenty-first century, and could conceivably lead to a new form of corporate organisation. But strategic alliances require a long term orientation and appropriate behaviour, the developing and cementing of trust, and above all the will from the top and middle of the partners to make them work. An example of where a strategic alliance fell down was between Honda and Rover, where the alliance had been working extremely well and to enormous benefit for both parties. Then, in early 1994, British Aerospace, the owner of Rover, decided that it wanted to sell its majority stake in Rover (Honda held 20 per cent). Honda was not prepared to buy the whole of Rover, so British Aerospace sold its stake to give control to BMW. Honda executives were furious and could not believe that their trust would be violated in this way; the top brass at British Aerospace were surprised at the reaction, and believed that they had served their shareholders well. Two mutually uncomprehending cultures collided.

Strategic Degrees of Freedom (SDF)

The dimensions along which a strategy can be radically reworked. Kenichi Ohmae insists that the dimensions of product improvement, for example, should not be viewed too narrowly or imitatively. If General Electric has brought out a coffee percolator that makes coffee in ten minutes, its competitors should not aim to bring out one that takes seven minutes. People drink coffee for the taste, but the taste depends most of all on water quality. The strategic degree of freedom here is finding ways to improve the taste via the water quality: and this leads straight to the conclusion that the percolator had to have a de-chlorinating function. See also OHMAE and SEGMENTATION.

Strategic Intent

The overall medium to long term strategic objective of a company. Like a CAUSE, often expressed in a snappy form, such as Henry Ford's aim in 1909 to 'democratise the automobile', Coke's objective of having its drink 'within arm's length of every consumer in the world', or Honda's desire to 'smash Yamaha'; but strategic intent usually has a timeframe of at least ten years, whereas a cause should be attainable within two to four years.

Stretch

The fifth of the Ashridge options for the Centre to add value in multibusiness corporations. Here the Centre knows, for example, that a particular type of business can make a return on sales of 10–20 per cent and may spot a company of this type making only 5 per cent. The Centre may therefore acquire the under performing business and then organise the process by which the returns are increased. ABB and Emerson are often quoted as good examples of the Stretch proposition.

The Ashridge school stresses that the Centre should try only one (or at the most two) of its five generic strategies – to try to do a bit of each is a recipe for failure. The Stretch proposition is my favourite – because I have often seen it in action and because it is verifiable: the influence of the Centre is put to the test, and if found wanting, the Corporate Strategy or structure can be changed.

Stretch and Leverage

Phrase used by Gary HAMEL. In his terms, it is what 'rule-breakers' – revolutionary new contenders in an industry – have to do. STRETCH is defined as 'misfit between resources and aspirations'. But STRETCH GOALS are not enough; they must be allied to skill in leveraging limited resources, by focus and by doing things differently. See HAMEL in Part Three.

Stretch Goals

Goals that are extremely demanding. Can be a useful supplement to normal budgeting and planning procedures. Can also be dangerous if they lead companies to increase expenses in order to reach unattainable goals. Use sparingly, unless you can use 'for free'.

Strong Follower

Business that is between 70 per cent and 99 per cent the size of the segment leader. See MARKET CHALLENGER.

Sustainable Growth Rate (SGR)

Concept invented by BCG in the early 1970s to measure and demonstrate the effects of leverage and the proportion of earnings retained on the rate at which a company could grow. The point was that a firm could be constrained from growing (in the absence of new equity) if it had too little debt or retained too low a proportion of its earnings (that is, if dividends were too high a proportion of earnings). Since BCG believed (correctly) that the successful firm should aim to grow market share in its major markets, it tended to use the SGR to urge firms to become high debt, low dividend corporations, channelling as much money as possible back into investment. For the algebraicly inclined, the SGR formula is:

$$SGR = D/E\,(R - i)p + Rp$$

where:

D/E = Debt/Equity

R = return on assets, after tax

i = interest rate, after tax

p = percentage of earnings retained.

Swot Model

The classic Harvard Business School strategy model of a corporation's Strengths, Weaknesses, Opportunities and Threats. See Kenneth ANDREWS in Part Three.

Synergy

2 + 2 = 5 (or more) rather than 4, or 3 (negative synergy). Usually used in the context of an acquisition: if there is no synergy expected, it is difficult to justify paying a premium for an acquisition; and even if it is a merger with no premium, why bother unless there is some synergy? There is often a great deal of cynicism about the reality of claimed synergies, and the word is certainly overused, but it is a key concept.

There are really two different types of synergy: (1) structural synergy, where the synergy derives from combining resources to lower costs or raise revenues; and (2) management synergy, where the improvement is due to better management, without structural change. Some people use synergy only in the structural sense. Examples are when two sales forces can be combined, saving costs; or when one company's products can be sold through the other's distribution network, both raising revenues and lowering the unit cost of sales. Structural synergy is clearly greatest where two firms are engaged in the same or adjacent products and markets, but where they have different in-going configurations. It is not unusual to see cost reductions in the order of 15–25 per cent or revenue gains of 20–30 per cent as a result of acquisitions pregnant with such structural synergy.

Time-Based Competition

Concept invented by BCG which holds that the time it takes a firm to get a product from conception to the customer, or to complete its tasks and provide goods or services to market, can be the key to COMPETITIVE ADVANTAGE. Time is a crucial factor in the internal and external chain of customers and suppliers. At each internal or external customer/supplier interface there is not just a risk but a near-certainty that time will be wasted. And time really is money, as well as being service. The total time taken through the chain – throughput time – not only determines the firm's costs but is a litmus test of the firm's responsiveness to customers. Concentration of time to market therefore kills two birds with one concept: service and cost. If quality is free, reducing the time to market has negative costs as well as customer benefits. Notwithstanding its importance, time-based competition is basically a package of earlier discoveries, and it in turn has been repackaged as just a part of BPR (BUSINESS PROCESS RE-ENGINEERING).

It has been long realised that most of the time taken to make a product or provide a service is generally not 'productive' time but the gaps between different stages of the process. An example is given in the entry on BPR of IBM Credit, which at one time took seven days to process a credit application for a would-be computer buyer, yet the actual work involved took only 90 minutes. By cutting out the gaps and giving responsibility to one person, costs can be cut, customer satisfaction and retention increased, and profits dramatically increased. Another example, this time quoted in the 'bible' of time-based competition (*Competing Against Time: How time-based competition is reshaping global markets*, by George Stalk, Jr. and Thomas M. Hout), is the 'H-Y War' in the early 1980s between Honda and Yamaha. This revolved around the speed with which new motorcycles could be produced. Honda won the war by producing first 60 new motorcycle models in a year, and then another 113 new models in 18 months, speed that Yamaha could not match.

Time Elasticity of Profitability

BCG's term for the relationship between a supplier's profit and the speed with which the product is supplied (the elapsed time between the customer's decision to buy and his receipt of the product or service). Short elapsed time equals high profit; long elapsed time equals low profit. This is because the customer will pay top whack if he can obtain the product at once, but if he has to wait he will shop around and may lower the price he will pay. Customers made to wait may also cancel their orders.

The firm's value-delivery system therefore needs to be changed to speed up time to market. Any extra costs will be more than compensated for by higher prices and greater market share.

Traffic Lights

Andrew Campbell and Robert Park have devised a very useful tool called Traffic Lights to go alongside five insights they have developed about whether firms should try to expand into new areas.

Campbell and Park use their five insights (A to E) to derive four tests (Value Advantage; the Profit Pool; Leadership and Sponsorship; and Impact on Existing Core Business) for any proposed new business. Each test results in a red (negative), yellow (neutral), or green (go) signal. One green signal, as long as there are no red ones, can be enough to approve the idea. Any red signal should stop it. Here's a very brief summary of the Traffic Lights.

Transformation

Changing an organisation's culture and behaviour, so that it ascends to a new level of financial and market performance. Not surprisingly, transformation is difficult: 75 per cent of attempts fail. There do seem, however, to be six conditions which are always present in successful transformations:

1. **They are driven by demanding and inspiring leaders, and one person embodies the transformation ethic.**
2. **The top team (those who really run the company) are emotionally united – they are on the same side and want to help each other personally, as well as the firm.**
3. **There is a slogan used as a rallying cry – either a medium term cause or a longer term statement of STRATEGIC INTENT.**
4. **Baronies are absent or destroyed.**
5. **The change process focuses on real business issues, changing attitudes on the back of commercial success. There are simple performance measures so that everyone knows what is expected.**
6. **The firm has or builds at least one world class COMPETENCY: a skill where it is as good as or better than any competitor.**

Type 1, Type One Executive

A very useful typology of people into three types (1, 2 and 3), invented by Harold LEAVITT. Type ones are *Visionaries*: bold, charismatic, original, often eccentric, brilliant and uncompromising, the type of person who offers a clean break with the past and a new heaven and earth. Historical examples include Jesus Christ, Churchill, Garibaldi, Ghandi, Gladstone, Hitler, John F. Kennedy, the Ayatollah Khomeini, Martin Luther King and Margaret Thatcher. Type ones have insights and inspire followers, they follow their instincts, led by heart more than head, and they can see the destination so clearly that they are often impractical about the obstacles *en route*. They can be extremely impractical and bad at getting things done.

Understanding whether you (or close colleagues) are type 1, 2 or 3 can be of practical value, for two reasons. First, you should aim to move your job in the direction where the skills of your particular type can be deployed most fully and effectively. Second, you should aim to team up with and rely on close colleagues who exemplify the two types different from your own in order to provide a balanced ticket and the skills you lack. See also TYPE 2 and TYPE 3.

Type 2, Type Two Executive

See TYPE 1. Type 2 executives are *Analysts*. They deal with numbers and facts, not opinions; they are rationalists, calculators and controllers. They deal in black and white, not grey: there is always a right answer. The analyst par excellence uses numbers and accounting to control a vast empire – to run a financial control company. Examples include Clement Attlee and Sir Owen Green, Robert Macnamara, [Lord] Arnold Weinstock, Harold Geneen and from further back in history, Pitt the Younger and Sir Robert Peel. Type 2 are great systematisers and control system users. See also TYPE 3.

Type 3, Type Three Executive

See TYPE 1 and TYPE 2. Type 3 are *Doers*, successful men (and women) of action, implementers, fixers, pragmatists. Generally unencumbered by either vision or analysis, the type 3 leader revels in arm-twisting, lining people up to do his will, leading troops into battle, and all the hurly-burly of business. Historical type threes include Noah, Attila the Hun, Alexander the Great, Julius Caesar, Louis XIV, Napoleon, Bismarck, Lloyd George, Lenin, Stalin, Eisenhower, James Callaghan and Lyndon Johnson. Type 3 need a programme or vision from a type 1 and the calculation of a type 2 as supplements to increase their own effectiveness.

Unbundling

1. **When a firm (especially after a takeover) decides to sell off non-core businesses and focus on just one or two core businesses. Sometimes less politely called asset stripping.**
2. **Process of segmentation whereby customers are offered the chance to buy individual parts or**

modules of a product, rather than having to buy everything together. For example, investors used to buy a bundled service from stockbrokers, comprising advice and execution; now, execution-only services exist for those who do not need advice. Every supplier should ask whether there is an opportunity or threat from unbundling. See BUSINESS SEGMENT.

Unbundling of Conglomerates

Expression used mainly in South Africa to mean the same as the American term SPINOFF and the British term DEMERGER. In South Africa, it is generally associated with conglomerates 'unbundling' particular businesses, whereas elsewhere BREAKUP (the generic term) is often associated with non-conglomerate splitting, as for example when Marriott split itself into a hotel operating company and a hotel property-owning company.

Universal Product

One that is sold in the same form throughout the world, like the original ModelT Ford, or Coca-Cola, the Mars bar or the Big Mac, or indeed, the Apple Mac computer. In many ways this is the American dream: a standard product, made up of defined and highly controlled parts (thus the servant of analysis), high quality and low cost, capable of being rolled out around the world for ever. The two keys are the widest possible product appeal, based on the insight that people around the world may be different, but consumers are the same; and standardised manufacture, so that the product can be produced cheaply and to the same standards anywhere around the world. In a way the whole concept of business strategy à la BCG or PORTER is a vision of a Universal Product, batting against the cultural peculiarities of different nations. Note that the idea of a Universal Product could never have originated in France or Germany, and these countries have a poor record in producing Universal Products.

Value Chain

A firm's co-ordinated set of activities to satisfy customer needs, starting with relationships with suppliers and procurement, going through production, selling and marketing, and delivery to the customer. Each stage of the value chain is linked with the next stage, and looks forward to the customer's needs, and backwards from the customer too. Each link in the value chain must seek COMPETITIVE ADVANTAGE: it must either be lower cost than the corresponding link in competing firms, or add more value by superior quality or differentiated features. The basic idea behind the value chain has been around ever since the concept of value added and COST STRUCTURES, but was first made explicit by Michael PORTER in 1980. See also COMPETITIVE ADVANTAGE and PORTER.

Value Destruction

When the Centre of a multibusiness corporation destroys value, often in opaque or invisible ways, in the businesses it owns. It is easy to measure the value that a Centre adds to its operating businesses, but more difficult to detect or admit the value destruction. Probably, most multibusiness corporations destroy more value than they add. They should therefore break themselves up. See BREAKUP.

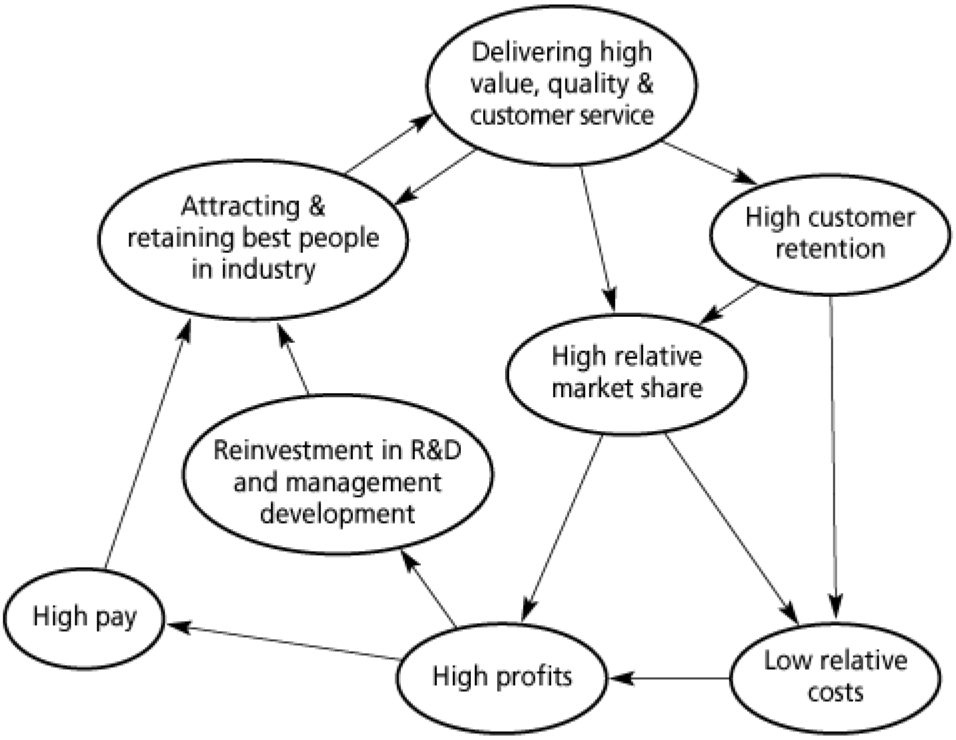
Value Innovation

The term invented by W. Chan Kim and Renée Mauborgne of INSEAD business school to describe the creation of a new ECOSYSTEM by splitting an existing business category into two, focusing on the needs of a subset of customers. Value Innovation, which is also called BLUE OCEAN STRATEGY, is perhaps the most important component of Corporate Strategy and is described in detail in section 5 of Part Two.

Virtuous Circle

The opposite of a DOOM LOOP: when a firm is able to continuously reinforce a strong position. Illustration 4.34 shows how a virtuous circle can operate.

Illustration 4.34. Illustration of a Virtuous Circle



Vision

An inspiring view of what a company could become, a dream about its future shape and success, a picture of a potential future for a firm, a glimpse into its Promised Land. A vision is the long term aspiration of a leader for his or her firm, that can be described to colleagues and that will urge them on through the desert.

The word vision is often used as a synonym for mission, particularly in non-English speaking countries, where 'mission' is difficult to translate. But the two concepts are different. Mission is why a firm exists, its role in life. Vision is a view of what the firm could become, imagining a desired future.

Vulnerability

The extent to which a firm faces threats; the degree to which sales and profits may come under attack. Vulnerability is not the opposite of profitability; rather, it is its soft underbelly. Many very profitable firms are highly vulnerable.

Vulnerability exists when any of the following conditions apply:

Zeus

One of Charles HANDY's four GODS OF MANAGEMENT. A Zeus culture is a club based around one leader, so that the organisation can best be depicted not as a normal hierarchy (as on a pyramid-like organisation chart) but as a series of lines running into the centre, where the leader (Zeus) sits; or as a web radiating out from this centre. The concentric lines closest to the centre represent the greatest power (apart from Zeus himself); power and influence are measured by the amount of time that Zeus spends with each executive and the regard in which Zeus holds him or her.

The culture is the norm in young, entrepreneurial firms, and also in investment banks, boutiques of all sorts, small and medium-sized brokers, small professional service firms, in politics, sport and the performing arts.

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