

SMOCK ♦ STERLING

Strategic Management Consultants

SETTING A DISTINCTIVE STRATEGIC DIRECTION: THAT IS WHAT STRATEGY IS ALL ABOUT

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In our last monograph we addressed the topic of strategies for a slowing economy, particularly the so-called “*new economy*.” At the conclusion of that monograph we made the point that the fundamental strategic issue for every business is defining what is unique and distinctive about itself. In other words, strategy is about being different than competitors in ways that make a difference in the marketplace.

Since publishing that monograph, we have heard from a variety of clients and friends with important questions that arise when trying to define and capture real strategic differences.

- What about the things we need to do just to remain competitive in our market? If we put a priority on staying competitive, are we not just like everyone else – and yet, how can we possibly afford to ignore the basic “*table stakes*” in our industry?
- Isn’t differentiation just a marketing issue and buzzword?
- What is a genuine strategic difference and will I know one when I see it?

This monograph addresses the issues and questions around setting a distinctive strategic direction. We at Smock♦Sterling Strategic Management Consultants believe that the key to sustained strategic success is having and executing against a genuinely distinctive strategic direction.

INDUSTRY TABLE STAKES AND OPERATIONAL EXCELLENCE

Every industry has its “*table stakes*” – basic expectations or requirements that all viable competitors must deliver to the market. Performing well against those basic requirements is not really an option and as such it must be an element of your strategic plan.

- Industry after industry is replete with companies who failed precisely because they did not “*ante up*” on the basic table stakes of their industry.
 - General Motors has lost more than half its market share over the past 20 years because it has routinely failed to deliver on the basic table stakes of initial product quality. And, GM’s market share decline became particularly steep when Japanese competitors raised those table stakes significantly.
 - Over a half dozen U.S. based integrated steel manufacturers have been forced to seek Chapter 11 bankruptcy protection over the past year in large part because they cannot meet the cost requirements of a globalized (and mini-milled) steel industry.

- Countless dot.coms failed because they did not meet the most basic of all business table stakes – their business models did not (and could not for the foreseeable future) deliver any profits. Remember Drucker’s dictum, “*Profitability is the cost of staying in business over the long run.*”
- And, as the world economy becomes more transparent and competitive on a global basis, we should expect that the table stakes will continually increase across all industries.

At their core, industry table stakes generally involve excellent operational performance. Some examples help to underscore this point. **Ford’s** turnaround in the 1980’s was attributed to an organizational commitment to a simple vision – “*Quality is Job 1.*” This was more than a marketing slogan, it was an organizational commitment to meet industry table stakes relative to initial product quality. **FedEx’s** commitment to service reliability upped the ante for overnight courier services. And, **Alcoa’s** drive to large scale based cost leadership set a competitive standard for the aluminum industry that ultimately led to massive industry consolidation.

Operational excellence is absolutely essential to sustaining the success of any business. It enables a company to compete day-in and day-out. Yet, as Michael Porter has argued quite persuasively (see *Harvard Business Review*, Nov-Dec 1996), it is not enough. Strategic direction and long term strategic success requires a company to go beyond excellent operational performance to set itself apart on the basis of genuine strategic differences.

STRATEGIC DIFFERENCES – BUILT UPON CORE COMPETENCIES

Companies tend to fall into some fairly common traps when trying to define how and why they are strategically different than their competitors. Thus, it may be helpful to begin by addressing what strategic differences are not.

- First, strategic differences are not a form of differentiated marketing.
 - Please do not take this the wrong way. Effective marketing is very important and can and should be used to set your products and services apart from those of competitors vis-à-vis any or all of the classic “*four P’s*” (i.e., promotions, product/service, pricing, and placement/distribution channels).
 - However, those points of differentiation may or may not have anything to do with your core competencies.
 - Viewed another way, your product or service should be differentiated in the marketplace along a number of dimensions, but that market differentiation is often not directly related to the real strategic differences that lead to sustained competitive advantage.
- Second, strategic differences are not a list of your company’s strengths.
 - It is important to have (and understand) areas of real strength in your organization (i.e. – to have capabilities that enable your organization to deliver on operational excellence and strategic difference). If your list of strengths is not fairly long, your organization may have more fundamental problems than a lack of genuine strategic differences.
 - But, far too many organizations create a list of their strengths and consider them to be interchangeable with a list of core competencies – they most assuredly are not.
 - Frankly, most strengths are not unique to a single organization. On the contrary, many companies share the same strengths.

- Further, most strengths cannot be leveraged laterally across multiple lines of business, divisions, product groups, and geographies.
 - And, most lists of strengths, while they may reflect an honest and accurate assessment of the organization's capabilities, are far too long to enable the company to focus significant resources on them all.
- The ability to focus resources around one or a few points of strategic difference in order to truly leverage them laterally is what creates meaningful competitive advantages.

Strategic differences are perhaps best viewed through the prism of core competencies (see Hamel and Prahalad, *Harvard Business Review*, May/June 1990). Core competencies are distinctive, difficult to imitate advantages a company enjoys in the market. They are capable of being leveraged across multiple products, services, markets, and geographies. Most importantly, they are perceived as clearly adding value and/or creating an advantage.

- Often, customers recognize the value added by a company's core competency without necessarily understanding its underlying origin (i.e. – they prefer a given product or service without really knowing or even caring what the company does to create the superior value it offers).
- But, competitors almost always recognize the competitive advantage that a company has. They may even understand the origins of the advantage, but they simply cannot duplicate it.

Some examples can help to illustrate what these unique, difficult to imitate advantages look like in practice. **3M** has managed to create an enduring culture of innovation – a competence that it applies to a wide range of adhesive and coating products. **Canon** has a distinctive competence in optics that it has successfully applied to cameras and lenses, photocopiers, scanners, and other products. **Sony** managed to extend a unique competence in miniaturization to a variety of consumer electronics – creating a number of new product categories in the process (e.g., Walkman personal stereos, the recordable mini-disc, etc.).

COMBINING TABLE STAKES AND STRATEGIC DIFFERENCES

The best strategies involve a dynamic and powerful combination of emphases – some focused on performance against table stakes and others focused on creating and leveraging unique strategic differences. Perhaps the best example of this combination is what **Southwest Airlines** managed to achieve over the past twenty years.

- Southwest focused relentlessly on cost management – clear table stakes in the airline industry – which enabled it to achieve profitability on a consistent basis while all of its competitors rode the boom/bust cycles of the industry.
- Meanwhile, the company developed a unique competence in people management that no one else in the industry has come close to duplicating. Thus, despite having a highly unionized work force, Southwest has never suffered the debilitating labor relations debacles other airlines have struggle with.
- Finally, Southwest combined these dual focuses in a killer strategy that delivered low fares every day on every flight. Yet, despite the no frills, low cost approach, passengers report high levels of satisfaction – because Southwest's people deliver on time, friendly service consistently.

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For the past twelve years, Smock♦Sterling has focused on helping clients develop this type of “*one-two punch*” – combining an effective focus on table stakes and strategic differences. Our FOCUS strategic planning methodology is built around the concept of Primary Excellence Goals (PEGs). With PEGs at the center of your company’s strategic plan, you will be able to focus resources and strategies on a winning combination of table stakes and points of real strategic difference.

We can help you to sort through your strengths, analyze how they match up against the competitive landscape, and determine which are (or could be) sources of enduring competitive advantage in the market. Ultimately, we can help you move from “*knowing a strategic difference when you see it*” to knowing your own strategic differences because you have analyzed them and focused resources on them.

The next time you assemble your management team to address your company’s strategy, call us. We will welcome the opportunity to help you craft a strategic plan that addresses your industry’s table stakes and highlights your distinctive points of strategic difference.

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