

# Strategic Thinking

PACE Program for Optum Global Solutions  
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## ***The Fundamental Question in Strategy***

Why are some firms more successful than others?

### **Industrial Organization Perspective:**

Profits =  $f$  (industry structure)

Choose “good” industries, adapt your strategy to “fit”

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### **Resource-Based View:**

Profits =  $f$  (internal firm resources & capabilities)

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## The Resource Based View

- Valuable: A **valuable resource** enables a firm to improve its market position relative to competition
- Rare: **To be of value** in sustaining competitive advantage, **resources must be scarce** relative to demand.
- Isolated from Imitation or Substitution: **To remain rare** resources must be immobile and costly to imitate or substitute

(Source: Hoopes, Madsen and Walker, 2003)

### Which is more important for entry?

**Industry Structure** that has more positive forces and less negative forces?

OR

**Resources** that are more valuable, rare, inimitable and non-substitutable?

OR

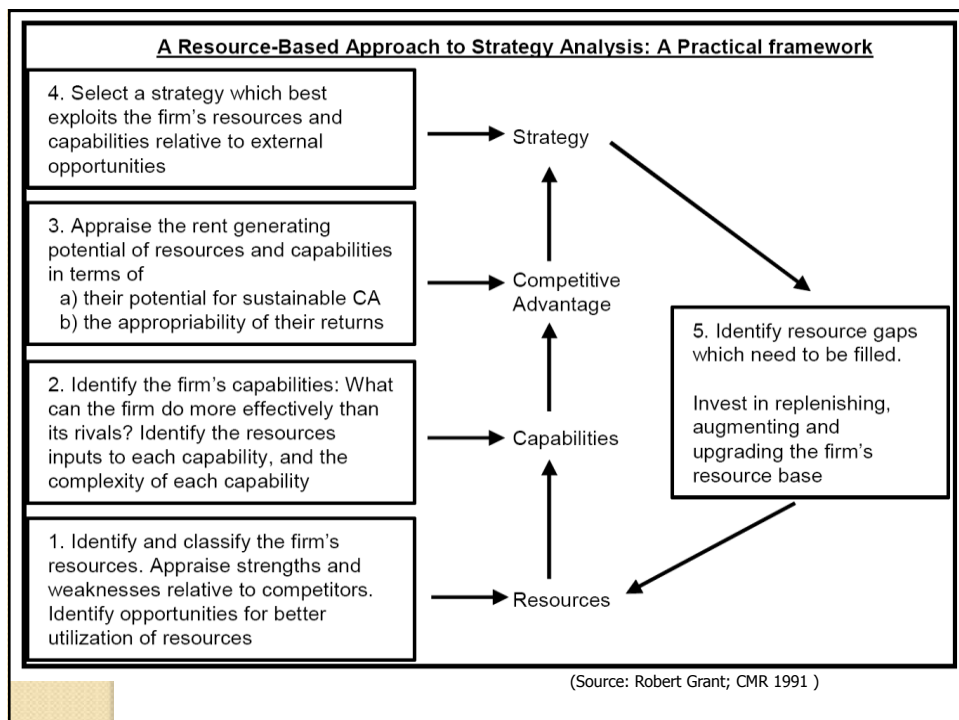
**Capabilities** that give a distinctive competitive advantage to the firm?

## CIBA Vision vs J&J

- J&J first entered the disposable contact lenses market with a weekly disposable lens and took an 80% market share.
- J&J & CIBA weekly lenses cost \$7 per week incl. cleaning.
- J&J had a cost advantage that was unbeatable by CIBA.
- But CIBA had wider product range including tinted lenses.
- Next opportunity was daily disposable lenses at \$1 per day.
- CIBA took six years to enter market with this target price.

### OPPORTUNITY MISSED?

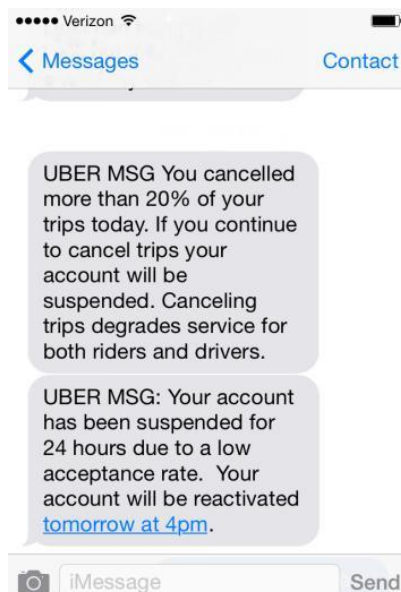
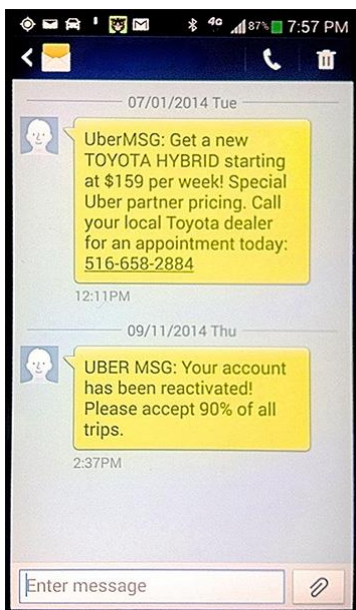
- Enter the market early with *single use tinted contacts* that are priced higher and bought by occasional users who need correction and non-users who use for cosmetic purposes.



## The Uber Taxi Service Business Model

- Uber essentially links customers with drivers nearby.
- Uber links customers to drivers faster than others.
- Uber customers have to wait the least to get a pickup.
- Uber drivers “dry” drive the least to reach customers.
- Uber’s business model increases efficiency and lowers costs for drivers – thus increasing their income while providing fast availability of cars – valuable to its users.
- Does Uber create equity among all its stakeholders?
- Uber raises prices during shortages to get more drivers.
- Uber increases car availability and builds a market while others do not get any cars at all during such a shortage!

## Forcing Uber Black cars to accept Uber X fares



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## **Uber ruins the equity balance with its stakeholders and is forced to backtrack**

<http://www.slate.com/blogs/moneybox/2014/09/12/uber>

Late on Friday morning (Sep 12, 2014), Uber abruptly backtracked. "Effective immediately, Uber BLACK and Uber SUV partners can choose when and where to receive Uber X requests," the company wrote in an email blast sent to drivers. Further down in the message, it showed an option on the Uber app that allows drivers to switch between accepting Uber X rides and limiting requests to only Black and SUV customers. When asked for comment, Uber pointed to that email.

## **When do new business models fail?**

New or proposed business models fail when they cannot pass either of these two tests:

1. The Narrative Test – the story about who are the customers, what they value and why they will buy your product makes no sense.
2. The Numbers Test – the projected profits do not add up to make money. We are unable to deliver value to customers at reasonable cost.

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## When do existing business models fail?

- Business models often make specific assumptions about customer behavior. If these assumptions become faulty then the projected returns may not materialize.
- Business models have limits within which they work.
- If the business model is robust to variations in customer behavior and limits can be stretched then the business may survive with corrective actions.
- If the business model is sensitive to variations in customer behavior or limits cannot be stretched then even corrective actions may not save the business.

## What is a Good Business Model ?

- A good business model may create **new/novel linkages** between units to create **new value**.
- A good business model may create **higher value & more effective** inter-linkages between units.
- A good business model may create higher/better **efficiencies** in the inter-linkages between units.
- A good business model may create **better equity** among all **stakeholders and interlinked units**.
- **Innovations** in business models exploit contexts to create novel linkages that are more effective, more efficient and improve stakeholder equity.

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## Business Model vs Business Strategy

**Business model** depicts how a firm or a set of interlinked firms **creates value** for customers.

**Business strategy** depicts how the firm or set of interlinked firms **captures the value** created.

Business strategy is **competition centric** – how to gain competitive advantage over rival offers.

Business model is **opportunity centric** – how to create value through exploiting the context.

Value created from innovative business models may not be captured if the business strategy fails to get the customer see reasons to **pay for value**.

## Is this the Right Business to Enter?

1. Is the business definition broad?
2. Is the business definition flexible?
3. Does business fit in with your vision?
4. Does business fit in with your mission?
5. Does business fit in with your values?
6. Can the business attract stakeholders?
7. Are clients, needs, functions lasting?
8. Is the business sustainable over time?

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## Good Strategy Process

1. Gather relevant competitor intelligence.
2. Identify trends that affect competition.
3. Examine valuable and realistic options.
4. Check that your strategy holds value for customers. Not just better than others!
5. Do experiments to reduce uncertainty.
6. Invest in flexibility to delay decisions.
7. Don't hide but communicate strategy.

## Good Strategy

1. Invest in adding valuable resources that are useful in many possible scenarios.
2. Invest in building competencies that are useful in many possible scenarios.
3. Invest in big bets only after reducing and removing all residual uncertainty.
4. Invest in options with higher positive payoffs and lower negative payoffs.



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## What is Bad Strategy?

1. Do you underestimate competition?
2. Do you hide competition in numbers?
3. Do you make just hopeful projections?
4. Do you examine too many scenarios?
5. Do you examine scenarios of no value?
6. Do you make small bets just to be safe?
7. Do you make a big bet without a basis?
8. Do you give up on a strategy too early?

## Three Player Chess!



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### Strategy in Three Player Chess!

- No strategy - no specific or detailed action plan can be decided at the start of the three player chess game.
- Game strategy gets formed and it will change as game progresses. At every move all three players strategize.
- At every move you have to think what two others will do! Two players can combine to defeat the third one.
- Chess grandmasters can think many more moves ahead.
- But even grandmasters will have trouble on this board!
- Most businesses are in similar multi-competitor arenas.
- Every business requires thinking many moves ahead but no strategy can be fully decided at the initial start stage.
- Strategy gets formed and changes as businesses progress.

### Strategy in Business is Like Three Player Chess!

- At every move decisions must anticipate all possible multi-competitor actions.
- At every stage **all** business players will need to strategize.
- Yet continual efforts to build better resources and better market positions can yield positive results over time.
- In this effort flexible and versatile resources and unique capabilities build over time are of value.

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## Effective Business Plan

- Has a clear and fact based executive summary.
- Presents and justifies the new business model.
- Shows how you will reach buyers and convert.
- Identifies those who will implement the plan.
- Covers all the risks and how they are covered.
- Shows how it fits the firm's business goals.
- Shows few and only the most critical numbers.
- Shows homework - answers obvious questions.
- Builds credibility of the product and the team.

## Usual Mistakes in Business Plans - 1

### **Customer related:**

- Lack of in-depth understanding of customers.
- Choosing convenient markets rather than best.
- Going for “me-too” rather than value creation.
- Going for larger segment when niche is better.
- Not looking at quality from customer's view.
- Not giving sufficient pricing options to buyers.
- Under-pricing rather than value based pricing.
- Not doing what really gets you your customers!

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## Usual Mistakes in Business Plans - 2

### **Cost related:**

- High, unjustified startup capital requirements.
- Buying facilities when borrow/rent is possible.
- Using more office space than strictly required.
- Using resources wastefully like larger firms do.
- Paying high salaries - not low salary + bonus.
- Paid advertisements over free press publicity.
- Fixed cost too high and variable cost too low.
- Not doing trials, cost-volume-profit analysis!

## Strategy Consultant's Role

- A strategy or management consultant is needed when:
  1. A client firm has a known problem & believes it knows.
  2. A client firm has a undiagnosed performance problem.
  3. A client firm needs to make a difficult strategic choice.
- The client firm relies on the consultant due to their:
  1. Domain expertise in the area of the identified problem.
  2. Ability to synthesize across wide information sources.
  3. Ability to create credible options to respond to problem
  4. Ability to effectively structure the strategic choices.
  5. Ability to identify and demonstrate the best option.
  6. Ability to implement the best option and show results.

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## Strategy Consultant's Work

- The strategy consultant proposal level effort is in:
  1. Identifying issues that underlie the observed problem.
  2. Helping in the diagnosis to re-define the problem.
  3. Pre-consulting work to re-define the scope of work.
- On contract signoff, the strategy consultant effort is in:
  1. Research to generate all credible choices and options.
  2. Demonstrate quantitatively their benefits and trade-offs.
  3. Perform required scenario analysis or sensitivity analysis
  4. Recommend a solution with a path for implementation.
- Some consulting firms also do and bill clients for “quick wins” that demonstrate that their choice was a good one.

## Leadership Styles and Impact

Itay Talgam Video: 21 min

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### **Itay Talgam's Metaphors for Leadership**

Observing the differing styles of a range of orchestral conductors he emphasizes on.

- (a) Leadership through collaboration
- (b) Giving team members and teams as a whole what they need (their story) whilst getting what you need from them
- (c) The art of listening and reacting in the moment

### **Itay Talgam's Metaphors for Leadership**

- How do you experience 'leadership' as 'collaboration'?
- What are your leadership 'gestures' – and what results do they produce?
- When a team is working really well (in 'harmony') and achieving great outcomes, where does the credit lie?

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### **Itay Talgam's Metaphors for Leadership**

- To what extent do you model the way with your team? (the first Carlos Kleiber clip)
- Where does the role of 'commander' (one who commands!) fit into the leadership repertoire? (Riccardo Muti clip)
- What happens when we combine a clear instruction with a clear sanction? (Riccardo Muti)
- Who are you answerable to as a leader and what are the consequences for you and others? (Riccardo Muti's answer to the question "Why do you conduct like this?")

### **Itay Talgam's Metaphors for Leadership**

- What do you think about Richard Strauss saying - "If it's hard you must be doing it wrong"?
- What subliminal messages do you give off as a leader? (Richard Strauss again)
- What do you think about the Herbert von Karajan statement "The most damage you can do to your team is to give clear instruction because that disables them from becoming interdependent"?
- How can/do you create the space for your team, and its individual members, to use initiative? (Second Carlos Kleiber clip)

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### **Itay Talgam's Metaphors for Leadership**

- Once your team has the plan (they know the score), what's the least you can do? (Kleiber)
- How are you at managing appropriately the spectrum that spans the expression of disapproval to taking decisive and coercive action? (Kleiber and the trumpet player)
- How do you enjoy – and stay present with – the great performance of an individual? (Kleiber)

### **Itay Talgam's Leadership Styles**

1. Klieber – the best conductor – he is happy!
2. Complete control – only my interpretation.
3. Control in execution – no interpretation - play only by the book
4. Opening a space for interpretation by both – rollercoaster – part of the process – authority.
5. Soloist – autonomous – appreciating and creating space & standing back – liberating.
6. Create context – all share the same meaning.
7. Doing by not doing.



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## Itay Talgam's Metaphors for Leadership

- Some statements for further reflection:
- The leader's role is firstly to create a process and secondly to create and maintain the conditions within which the process can thrive. (Leonard Bernstein clip)
- As we reach full maturity in the leadership of a team, the task becomes one of simply modeling alignment with team's vision and mission – and then giving these away ... to the team.

## Discretion Profiles (Caza 2011)

Typology of Discretion	<i>Staff discretion</i>	<i>Supervisory discretion</i>	<i>Managerial discretion</i>	<i>CEO discretion</i>
Effort discretion	High	Moderate	Moderate	Low
Goal discretion	Low	Low	Moderate	High
Technical discretion (method, material, schedule)	Low	Moderate	High	High
Staffing discretion	Low	Moderate	High	High
Support discretion (general, supervisory)	High	Moderate	High	High
Interpersonal Style discretion	High	Moderate	Low	Low
Civic virtue discretion	High	High	Moderate	Low
Buffering discretion	Low	Moderate	Moderate	High