



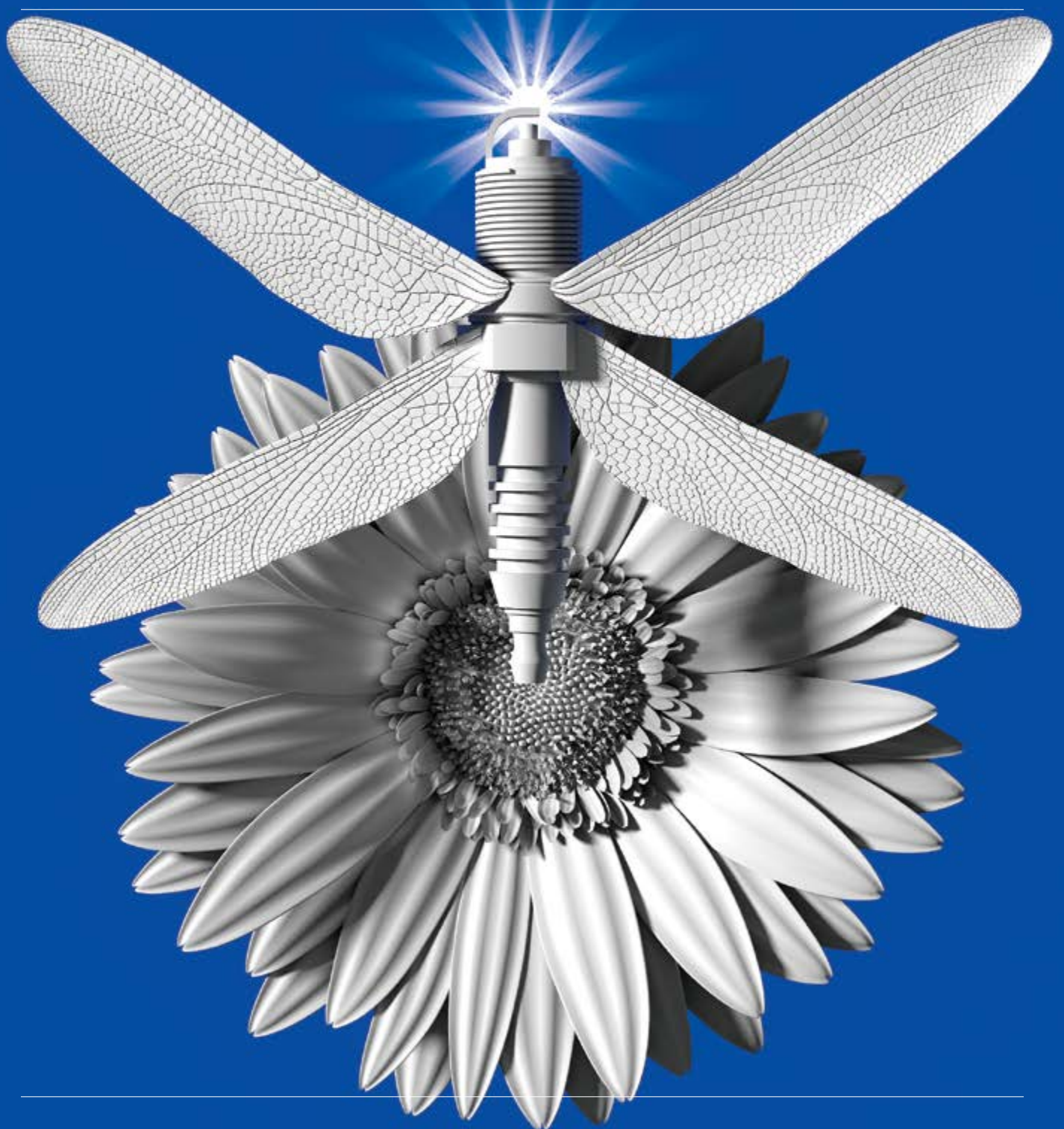
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## **ARTICLE** **STRATEGY**

# Strategy Needs Creativity

**An analytic framework alone won't reinvent your business.**  
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# Strategy Needs Creativity

*An analytic  
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Illustrations by **EDDIE GUY**

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I've noticed that business school students often feel frustrated when they're taught strategy. There's a gap between what they learn and what they'd like to learn. Strategy professors (including me) typically teach students to think about strategy problems by introducing them to rigorous analytical tools—assessing the five forces, drawing a value net, plotting

competitive positions. The students know that the tools are essential, and they dutifully learn how to use them. But they also realize that the tools are better suited to understanding an existing business context than to dreaming up ways to reshape it. Game-changing strategies, they know, are born of creative thinking: a spark of intuition, a connection between different ways of thinking, a leap into the unexpected.

They're right to feel this way—which is not to say that we should abandon the many powerful analytical tools we've developed over the years. We'll always need them to understand competitive landscapes and to assess how companies can best deploy their resources and competencies there. But we who devote our professional lives to thinking about strategy need to acknowledge that just giving people those tools will not help them break with conventional ways of thinking. If we want to teach students—and executives—how to generate groundbreaking strategies, we must give them tools explicitly designed to foster creativity.

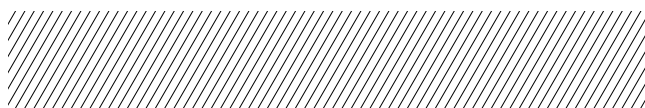
A number of such tools already exist, often in practitioner-friendly forms. In "How Strategists Really Think: Tapping the Power of Analogy" (HBR, April 2005), Giovanni Gavetti and Jan W. Rivkin write compellingly about using

analogies to come up with new business models. Charles Duhigg talks in his book *Smarter Faster Better* about introducing carefully chosen creative "disturbances" into work processes to spur new thinking. Youngme Moon, in "Break Free from the Product Life Cycle" (HBR, May 2005), suggests redefining products by boldly limiting—rather than augmenting—the features offered.

What these approaches have in common is the goal of moving strategy past the insights delivered by analytic tools (which are close at hand) and into territory that's further afield, or—to use a bit of academic jargon—*cognitively distant*. They take their inspiration more from how our thought processes work than from how industries or business models are structured. For that reason they can help strategists make the creative leap beyond what already exists to invent a genuinely new way of doing business. Simply waiting for inspiration to strike is not the answer.

In this article I explore four approaches to building a breakthrough strategy: **1/Contrast**. The strategist should identify—and challenge—the assumptions undergirding the company's or the industry's status quo. This is the most direct and often the most powerful way to reinvent a business.

**2/Combination**. Steve Jobs famously said that creativity is "just connecting things"; many smart business moves come from linking products or services that seem independent from or even in tension with one another. **3/Constraint**. A good strategist looks at an organization's limitations and considers how they might actually become strengths. **4/Context**. If you reflect on how a problem similar to yours was solved in an entirely different context, surprising insights may emerge. (I wrote about these ideas more academically in "Where Do Great Strategies Really Come From?" *Strategy Science*, December 2017.) These approaches aren't exhaustive—or even entirely distinct from one another—but I've found that they help people explore a wide range of possibilities.



## Contrast

*What pieces of conventional wisdom are ripe for contradiction?*

**TO CREATE A** strategy built on contrast, first identify the assumptions implicit in existing strategies. Elon Musk seems to have a knack for this approach. He and the other creators of PayPal took a widely held but untested assumption about

- ● **Elon Musk seems to have a knack for strategy built on contrast. With SpaceX he is attempting to overturn major assumptions about space travel: that it must occur on a fixed schedule, be paid for by the public, and use onetime rockets.**

banking—that transferring money online was feasible and safe between institutions but not between individuals—and disproved it. With SpaceX he is attempting to overturn major assumptions about space travel: that it must occur on a fixed schedule, be paid for by the public, and use onetime rockets. He may be on track toward a privately funded, on-demand business that reuses rockets.

It's best to be precise—even literal—when naming such assumptions. Consider the video rental industry in 2000. Blockbuster ruled the industry, and the assumptions beneath its model seemed self-evident: People pick up videos at a retail location close to home. Inventory must be limited because new videos are expensive. Since the demand for them is high, customers must be charged for late returns. (It was basically a public-library model.) But Netflix put those assumptions under a microscope. Why is a physical location necessary? Mailing out videos would be cheaper and more convenient. Is there a way around the high fees for new releases? If the studios were open to a revenue-sharing agreement, both parties could benefit. Those two changes allowed Netflix to carry lots more movies, offer long rental periods, do away with late fees—and remake an industry.

Most of the time, strategy from contrast may look less revolutionary than Netflix (which remade itself again by streaming videos and becoming a content creator) or SpaceX (should it succeed). Any organization can ask whether it might usefully flip the order in which it performs activities, for example. The traditional model in retail is to start with a flagship store (usually in a city center) and add satellites (in suburban locations). Now consider pop-up stores: In some cases they conform to the old model—they are like mini-satellites; but in others the pop-up comes first, and if that's successful, a larger footprint is added. The Soho area of New York City has become a testing ground for this strategy.

Another approach is to consider shaking up the value chain, which in any industry is conventionally oriented in

a particular way, with some players acting as suppliers and others as customers. Inverting the value chain may yield new business models. In the charitable sector, for example, donors have been seen as suppliers of financial resources. DonorsChoose.org is a model that treats them more like customers. The organization puts up a “storefront” of requests posted by schoolteachers around the United States who are looking for materials for their (often underresourced) classrooms. Donors can choose which requests to respond to and receive photos of the schoolwork that their money has supported. In effect, they are buying the satisfaction of seeing a particular classroom before and after.

In some industries the status quo has dictated highly bundled, expensive products or services. Unbundling them is another way to build a contrast strategy. Various segments of the market may prefer to get differing subsets of the bundle at better prices. Challengers' unbundling of the status quo has been facilitated by the internet in one industry after another: Music, TV, and education are leading examples. Incumbents have to make major internal changes to compete with unbundlers, rendering this approach especially effective.

#### HOW TO BEGIN

- 1/ Precisely identify the assumptions that underlie conventional thinking in your company or industry.
- 2/ Think about what might be gained by proving one or more of them false.
- 3/ Deliberately disturb an aspect of your normal work pattern to break up ingrained assumptions.

#### WHAT TO WATCH OUT FOR

Because the assumptions underlying your business model are embedded in all your processes—and because stable businesses need predictability—it won't be easy to change course. Organizations are very good at resisting change.

#### Idea in Brief

##### THE PROBLEM

*The field of strategy over-focuses on analytic rigor and underfocuses on creativity.*

##### WHY IT MATTERS

*Analytic tools are good at helping strategists develop business ideas that are close at hand—but less good at discovering transformative strategies.*

##### IN PRACTICE

*The wise strategist can work with four creativity-enhancing tools: contrast, combination, constraint, and context.*





## Combination

*How can you connect products or services that have traditionally been separate?*

**COMBINATION IS A** canonical creative approach in both the arts and the sciences. As Anthony Brandt and David Eagleman note in *The Runaway Species*, it was by combining two very different ideas—a ride in an elevator and a journey into space—that Albert Einstein found his way to the theory of general relativity. In business, too, creative and successful moves can result from combining things that have been separate. Often these opportunities arise with complementary products and services. Products and payment systems, for example, have traditionally been separate nodes in value chains. But the Chinese social media platform WeChat (owned by Tencent) now includes an integrated mobile payment platform called WeChat Pay that enables users to buy and sell products within their social networks. Expanding beyond the Chinese ecosystem, Tencent and Alibaba are coordinating with overseas payment firms to enable retailers in other countries to accept their mobile payment services.

Sometimes competitors can benefit from joining forces to grow the pie. (Barry Nalebuff and I explored this idea in our 1996 book *Co-opetition*.) For example, BMW and Daimler have announced plans to combine their mobility services—car sharing, ride hailing, car parking, electric vehicle charging, and tickets for public transport. Presumably, the two automakers hope that this move will be an effective counterattack against Uber and other players that are encroaching on the traditional car industry.

In other instances, companies from wholly separate industries have created new value for customers by combining offerings. Apple and Nike have done so since the 2006 introduction of the Nike+ iPod Sport Kit, which enabled Nike shoes to communicate with an iPod for tracking steps. More recently, versions of the Apple Watch have come with the Nike+ Run Club app fully integrated. Nest Labs and Amazon also complement each other: Nest's intelligent home

thermostat becomes even more valuable when it can deploy voice control via Amazon's virtual assistant, Alexa.

New technologies are a rich source of combinatorial possibilities. AI and blockchain come together naturally to protect the privacy of the large amounts of personal data needed to train algorithms in health care and other sensitive areas. Blockchain and the internet of things come together in the form of sensors and secure data in decentralized applications such as food supply chains, transportation systems, and smart homes, with automated insurance included in smart contracts.

Perhaps the biggest combination today is the one emerging between humans and machines. Some commentators see the future of that relationship as more competitive than cooperative, with humans losing out in many areas of economic life. Others predict a more positive picture, in which machines take on lower-level cognition, freeing humans to be more creative. Martin Reeves and Daichi Ueda have written about algorithms that allow companies to make frequent, calibrated adjustments to their business models, enabling humans to work on high-level objectives and think beyond the present. (See "Designing the Machines That Will Design Strategy," HBR.org, April 2016.)

Strategy from combination involves looking for connections across traditional boundaries, whether by linking a product and a service, two technologies, the upstream and the downstream, or other ingredients. Here, too, the creative strategist must challenge the status quo—this time by thinking not just outside the box but across two or more boxes.

### HOW TO BEGIN

- 1/ Form groups with diverse expertise and experience; brainstorm new combinations of products and services.
- 2/ Look for ways to coordinate with providers of complementary products (who may even be competitors).

### WHAT TO WATCH OUT FOR

Businesses often manage for and measure profits at the individual product or activity level. But combinations require system-level thinking and measurements.

## Constraint

*How can you turn limitations or liabilities into opportunities?*

**THE WORLD'S FIRST** science fiction story, *Frankenstein*, was written when its author, Mary Wollstonecraft Shelley,



was staying near Lake Geneva during an unusually cold and stormy summer and found herself trapped indoors with nothing to do but exercise her imagination. Artists know a lot about constraints—from profound ones, such as serious setbacks in their lives, to structural ones, such as writing a 14-line poem with a specified rhyming structure. In business, too, creative thinking turns limitations into opportunities.

That constraints can spark creative strategies may seem paradoxical. Lift a constraint, and any action that was previously possible is surely still possible; most likely, more is now possible. But that misses the point that one can think multiple ways in a given situation—and a constraint may prompt a whole new line of thinking. Of course, the Goldilocks principle applies: Too many constraints will choke off all possibilities, and a complete absence of constraints is a problem too.

Tesla hasn't lacked financial resources in entering the car industry, but it doesn't have a traditional dealership network

(considered a key part of automakers' business models) through which to sell. Rather than get into the business of building one, Tesla has chosen to sell cars online and to build Apple-like stores staffed with salespeople on salary. This actually positions the company well relative to competitors, whose dealers may be conflicted about promoting electric vehicles over internal-combustion ones. In addition, Tesla controls its pricing directly, whereas consumers who buy electric vehicles from traditional dealers may encounter significant variations in price.

I should note that this attitude toward constraints is very different from that suggested by the classic SWOT analysis. Strategists are supposed to identify the strengths, weaknesses, opportunities, and threats impinging on an organization and then figure out ways to exploit strengths and opportunities and mitigate weaknesses and threats.

In stark contrast, a constraint-based search would look at how those weaknesses could be turned to the company's

advantage. Constraint plus imagination may yield an opportunity.

This approach to strategy turns the SWOT tool upside down in another way as well. Just as an apparent weakness can be turned into a strength, an apparent strength can prove to be a weakness. The likelihood of this often increases over time, as the assets that originally enabled a business to succeed become liabilities when the environment changes. For example, big retailers have historically considered “success” to be moving product out the door; to that end, they needed large physical footprints with on-site inventory. Among the many changes they face today is the rise of “guideshops”—a term used by the menswear retailer Bonobos—where shoppers try on items, which they can have shipped to them or later order online. In the new environment, traditional retail footprints become more of a liability than an asset.

Another way to approach strategy from constraint is to ask whether you might benefit from self-imposed constraints. (Artists do something similar when they choose to work only within a particular medium.) The famous Copenhagen restaurant Noma adheres to the New Nordic Food manifesto (emphasizing purity, simplicity, beauty, seasonality, local tradition, and innovation). A similar strategy of working only with local suppliers has been adopted by thousands of restaurants around the world. A commitment to high environmental standards, fair labor practices, and ethical supply-chain management can be powerful for organizations looking to lead change in their industries or sectors.

Self-imposed constraints can also spur innovation. Adam Morgan and Mark Barden, in their book *A Beautiful Constraint*, describe the efforts of the Audi racing team in the early 2000s to win Le Mans under the assumption that its cars couldn’t go faster than the competition’s. Audi developed diesel-powered racers, which required fewer fuel stops than gasoline-powered cars, and won Le Mans three years in succession (2004–2006). In 2017 Audi set itself a new constraint—and a new ambition: to build winning all-electric racers for the new Formula E championship.

#### HOW TO BEGIN

- 1/ List the “incompetencies” (rather than the competencies) of your organization—and test whether they can in fact be turned into strengths.
- 2/ Consider deliberately imposing some constraints to encourage people to find new ways of thinking and acting.

#### WHAT TO WATCH OUT FOR

Successful businesses face few obvious constraints; people may feel no need to explore how new ones might create new opportunities.

## Context

*How can far-flung industries, ideas, or disciplines shed light on your most pressing problems?*

**AN ENTIRE FIELD**, biomimetics, is devoted to finding solutions in nature to problems that arise in engineering, materials science, medicine, and elsewhere. For example, the burrs from the burdock plant, which propagate by attaching to the fur of animals via tiny hooks, inspired George de Mestral in the 1940s to create a clothing fastener that does not jam (as zippers are prone to do). Thus the invention of Velcro. This is a classic problem-solving technique. Start with a problem in one context, find another context in which an analogous problem has already been solved, and import the solution.

Intel did that when it came up with its famous Intel Inside logo, in the early 1990s. The goal was to turn Intel microprocessors into a branded product to speed up consumers’ adoption of next-generation chips and, more broadly, to improve the company’s ability to drive the PC industry forward. Branded ingredients were well established in certain consumer product sectors—examples include Teflon and NutraSweet—but hadn’t been tried in the world of technology. Intel imported the approach to high tech with a novel advertising campaign, successfully branding what had previously been an invisible computer component.

Context switching can be done across industries, as in Intel’s case, or even across time. The development of the graphical user interface (GUI) for computers was in a sense the result of a step backward: The developers moved from immersion in the text-based context in which programming had grown up to thinking about the highly visual hand-eye environment in which young children operate. Similarly, some AI researchers are currently looking at how children learn in order to inform processes for machine learning.

Companies are always eager to see into the future, of course, and techniques for trying to do so are well established. That is the purpose of lead-user and extreme-user innovation strategies, which ask companies to shift their attention from





## FURTHER READING

mainstream customers to people who are designing their own versions or using products in unexpected ways in especially demanding environments. Information about where the edges of the market are today can signal where the mainstream will be tomorrow. Extreme sports, such as mountain biking, skateboarding, snowboarding, and windsurfing, are good examples. In an MIT Sloan School working paper, Sonali Shah relates that aficionados led many of the innovations in those areas, starting in the 1950s, and big manufacturers added cost efficiencies and marketing to take them mainstream.

When companies locate R&D functions far from headquarters, they're acknowledging the importance of jumping into someone else's context. This is not just a strategy for large companies that move people to Silicon Valley for tech or the Boston area for biotech. Start-ups, too, should put themselves in the best context for learning and growth. The hardware accelerator HAX, located in Shenzhen, hosts hardware start-up teams from numerous countries and enables them to tap into the high-speed ecosystem of the "hardware capital of the world," quadrupling the rate at which they cycle through iterations of their prototypes.

Strategy focused on context may involve transferring a solution from one setting to another more or less as is. It may mean uncovering entirely new thinking about problems (or opportunities) by finding pioneers who are ahead of the game. At bottom, it's about not being trapped in a single narrative.

### HOW TO BEGIN

- 1/ Explain your business to an outsider in another industry. Fresh eyes from a different context can help uncover new answers and opportunities.
- 2/ Engage with lead users, extreme users, and innovation hotspots.

### WHAT TO WATCH OUT FOR

Businesses need to focus on internal processes to deliver on their current value propositions—but the pressure to focus internally can get in the way of learning from the different contexts in which other players operate.

**IN THE WORLD** of management consulting, aspects of "strategy" and "innovation" have started to converge. IDEO, the design and innovation powerhouse, has moved into

#### STRATEGY FROM COMBINATION

##### Co-opetition (Chapter 2)

Adam M. Brandenburger and Barry J. Nalebuff  
Currency Doubleday, 1996

##### The Runaway Species: How Human Creativity Remakes the World (Chapter 5)

Anthony Brandt and David Eagleman  
Catapult, 2017

##### Deep Thinking: Where Machine Intelligence Ends and Human Creativity Begins

Garry Kasparov  
PublicAffairs, 2017

#### STRATEGY FROM CONSTRAINT

**A Beautiful Constraint: How to Transform Your Limitations into Advantages, and Why It's Everyone's Business**  
Adam Morgan and Mark Barden  
Wiley, 2015

**"Break Free from the Product Life Cycle"**  
Youngme Moon  
HBR, May 2005

**Why Not? How to Use Everyday Ingenuity to Solve Problems Big and Small (Chapter 3)**  
Barry J. Nalebuff and Ian Ayres  
Harvard Business Review Press, 2006

#### STRATEGY FROM CONTEXT

**"How Strategists Really Think: Tapping the Power of Analogy"**  
Giovanni Gavetti and Jan W. Rivkin  
HBR, April 2005

**Democratizing Innovation**  
Eric von Hippel  
The MIT Press, 2006

**"Discovery Through Doing"**  
Roger Kneebone  
Nature, 2017

strategy consulting, for example—while McKinsey has added design-thinking methods to its strategy consulting. This convergence raises an obvious question: If the distinction between strategy and innovation is less clear than it once was, do we really need to think carefully about the role of creativity in the strategy-making process?

I believe strongly that the answer is yes. At its core, strategy is still about finding ways to create and claim value through differentiation. That's a complicated, difficult job. To be sure, it requires tools that can help identify surprising, creative breaks from conventional thinking. But it also requires tools for analyzing the competitive landscape, the dynamics threatening that landscape, and a company's resources and competencies. We need to teach business school students—and executives—how to be creative and rigorous at the same time. ☺

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