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The eight principles of strategic authenticity

B. Joseph Pine II and James H. Gilmore

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There's been a change in the answer to the question, ''What do consumers really want?'' Yes, consumers want low costs and high quality – value for their dollar – but they also want to enjoy the experience of their purchase, and they won't if it's tainted by fakery, phoniness, and manipulation. In a world where businesses offer more and more deliberately and sensationally stage experiences, consumers increasingly choose to buy or not buy based on how genuine they perceive an offering to be. Authenticity is becoming a critical consumer sensibility. Executives must therefore learn to understand, manage, and excel at delivering authenticity. To be blunt, businesses must get real.

The foundation of meeting this challenge is crafting an appropriate strategy. The problem is that executives often lay out strategies that prove not just difficult but, given the company's heritage and current circumstances, impossible to achieve. They point their people to goals they cannot possibly attain, and adopt strategic positions that their customers cannot hope to appreciate or even comprehend.

Gunning for a strategic position that is not achievable, pushing your people to do the impossible, and forcing your customers to view a completely ''new you'' means that you, as a company, are aiming outside of the realms of possibility for what you are today. It does not meet the key standard of authenticity: it is not true to self. Moreover, it means forgoing those possibilities that are both profitable and that customers perceive to be authentic. It inexorably leads to disaffected employees, stockholders decrying misdirected strategies and customers wondering what happened to the company they thought they knew.

So how can leaders tell the difference between bogus and authentic opportunities without having to suffer through a customer rebellion, a storm of bad press, and stockholder disaffection?

Understanding strategic limits

To begin examining this distinction, consider the innovation history The Walt Disney Company, a global experience powerhouse formed in the imaginative mind and skillful hands of its founder, Walt Disney. The company started as the maker of iconic, entertaining cartoons, shifted into family films and TV shows, and later created theme parks dedicated to bringing families together with shared experiences. After the death of its founder, however, the company lay rudderless for over a decade.

When Michael Eisner took over in 1984, he realized that the Disney-created characters formed the core of the company's identity, and set out to better leverage Mickey Mouse and his companions while creating wholly new characters – such as, Ariel, the Little Mermaid, and Simba, the Lion King. The company made strategic acquisitions and strategic alliances that fit solidly in what we call its ''execution zone,'' the set of decisions and actions that a company can make and still be perceived as true to self.

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However, in the 1990s the company lost its way as the thirst for still further growth caused it to move far outside its tradition of family-oriented, character-driven experiences. In particular, rather than producing and distributing Disney fare for whatever TV channels could best present it to kids and their adoring parents, in 1995 it acquired its own distribution arm, Capital Cities/ABC. This was the network that, from *Charlie's Angels* to *Desperate Housewives*, had become known for celebrating the exceptional female body, tightly clad. In an acquisition even further afield, two years earlier The Walt Disney Company bought the Miramax movie studio, a very edgy producer known for making films rated R and even NC-17. In other words, in searching for growth, Disney effectively excluded the very young audiences at the heart of its heritage.

Various groups, some questioning its family values, called for boycotts of Disney. And financial performance suffered, as the strategy simply didn't work. Had management understood that such strategic moves would place the company outside of its execution zone – beyond where it could operate and still be perceived as authentic – it could have made different decisions that would have enabled it to grow while preserving its traditions. With a proper recognition of the important of authenticity to its strategy, for example, Disney could have:

- Purchased Nickelodeon, the highest-rated daytime channel in the United States, rather than Miramax. The company waited until 1983, four years after Nickelodeon premiered, to launch The Disney Channel and has yet to catch up.
- Created the world's first theme store for kids, with experiences worthy of admission fees, rather than wait for the American Girl company to do it.
- Sold off ABC to focus on the true jewel in the Cap Cities crown, sports-suffused and family-friendly ESPN.

For companies that try to operate outside their execution zone there is little likelihood that the resultant offerings will be perceived as authentic. Such is the case with The Walt Disney Company today. Because of the decisions it has made in the past couple of decades, the Disney brand has risked its solid position in the hearts and minds of America's families.

Today, CEO Robert Iger ought to take restoring authenticity as his foremost goal as he remakes the company. The *Financial Times* credits Iger with rediscovering ''a fondness for the sort of innovation so beloved by its founder'' and refocusing movies away from Miramax and its other adult studios and on to the Disney brand.[1] According to other observers he has ''re-imagined Disney.com'';[2] rethought Disney's worldwide portfolio;[3] and restored the Mickey Mouse Club, while graciously giving credit to Michael Eisner on the one hand and his management team on the other.[4] His boldest move: buying strategic partner Pixar in early 2006 and thereby re-establishing Disney animation back within the heritage of Walt Disney the founder.

With this Disney lesson in mind, use the following eight principles to guide you in delineating your own execution zone. Doing so will help you stake out viable, powerful, and compelling competitive positions – strategies that are both achievable and authentic.

1. Study your heritage

A company's present and future strategic positions build on its past. To remain true to yourself, you must study your heritage and thereby define your innovation and marketing possibilities in the light of your unique origin and subsequent history. You cannot take actions antithetical to your past and think people will view you as authentic, for the easiest way to be perceived as phony is to repudiate your heritage.

> **"To discover your firm's authentic strategic opportunities, use these eight principles to peer into your future."**

Seek to understand your corporate past as well as the effects of its heritage on the realities of your present competitive positioning. What strategic decisions from the past reverberate now and into the future? How might your heritage point to what you could do, or should not do, in the future? What limitations do your origin and history place on what you might say? Which roads less traveled would help your company endure as its own unique self? Which paths not taken should be forever forsaken? Answering such questions helps gain a solid grasp of your past, and provides the means to demarcate your present.

2. Ascertain market and industry positioning

More than your past influences the nature of your present position. Surveying your immediate environment provides an important context for devising a compelling, achievable, strategic direction for your enterprise.

Remarkably, too many managers fail to comprehend what kind of innovation is happening – right here, right now – in their industry and to their business. You need look back no further than the dot-com crash for evidence that managers misjudged their growth position; thousands of companies did not recognize how they, along with other Internet startup ''businesses,'' had no real sources and few prospects of revenue. Undoubtedly, the Internet represented a novel platform for innovative business model. But from the outset, the most successful companies found ways to explicitly charge for output, thus initiating an authentic, value-based relationship with customers. How did so many miss this? They simply mistook their strategic position by misconstruing the immediate environment.

3. Gauge your trajectory

Once you fully understand your history and current position, you should determine the direction and speed at which you are moving. This lets you avoid both meandering around aimlessly and foolishly trying to go places your company has no possibility of reaching.

As an example, consider the situation of mass producers of processed food that now wish to take advantage of the trend toward wellness. Some, however, are incapable of credibly appealing to consumers seeking natural foods because for decades they have been making and selling foods that were anything but. For them, the proper trajectory forward might involve appealing to the desire for healthy living via some other route, perhaps with no-carb lines, genetically engineered nutriceuticals, or leveraging some other non-natural R&D expertise. Strategic positions such as these could be achievable, something that a me-too ''natural'' position never would.

A trajectory assessment can help you determine if your innovation is on the right path, or if it needs a course correction. What strategic opportunities open up before you? What if you took a different tack and rethought where you are headed based on a better understanding of your heritage and current positioning?

4. Know your limits

Being true to what you are as a company also requires determining the limits of your execution zone. This lets you winnow down your future possibilities to those that are definable, achievable, and valuable.

Start by eliminating the phony positions that lie outside of your execution zone. These are the strategic options that must be ruled out because of past decisions. Because innovation attempts in these areas will be perceived as inauthentic, they cannot be successfully implemented by your organization nor comprehended by your customers. Think of the resources squandered on such inauthentic brand extensions as Cheetos lip balm, Salvador Dalí deodorant stick, Chicken Soup for the Soul pet food, and Diesel Jeans wine – products that branding firm TippingSprung identified as among those that ''seemed least to fit with the brand's core values.''[5]

You can best set the limits of your execution zone by defining the set of actions you will not do. These may be behaviors you will not display, offerings you will not undertake, markets you will not pursue, channels you will not employ, businesses you will not establish, and competitive arenas you will not enter. A company should keep in mind its body of values in

“You cannot take actions antithetical to your past and think people will view you as authentic, for the easiest way to be perceived as phony is to repudiate your heritage.”

determining the proper limits. Howard Schultz of Starbucks, for example, relates that while he ‘‘started out with a long list of . . . things Starbucks would ‘never’ do, I gradually learned the need for compromise. What I don’t do, though, is compromise our core values.’’[6]

For Schultz, that came down to four things the company would never do: franchise, put chemicals on its coffee beans, sell beans in plastic bins in supermarkets, and ‘‘never, never stop pursuing the perfect cup of coffee by buying the best beans and roasting them to perfection.’’[7] CEO Jim Donald calls these taboos ‘‘invisible guardrails.’’[8] Marketing SVP Anne Saunders further notes, ‘‘If you know where your brand lines really are, you can push them.’’[9] And if you don’t know where your limits are, they will push back right at you whenever you try to go beyond them.

Discern the widest possible execution zone within which you may strive and outside of which you refuse to stray. Only by knowing your limitations can you maximize your realistic options.

5. Stretch your execution capabilities

Different companies move at different speeds. If you have been lumbering along, performing adequately perhaps, but doing nothing special, then don’t expect to suddenly achieve a strategic position very far from where you are today. Instead you should seek to accomplish a series of doable goals that successively stretch your capabilities, increase your speed and flexibility, and make reaching strategic positions at the far edges of your execution zone increasingly likely over time.

Montblanc provides one such example. It turned a hundred years old in 2006. For eighty-five of those years it remained in the ‘‘writing instrument’’ industry. Jan-Patrick Schmitz, president of Montblanc North America, pointed out, ‘‘We are a brand which has very serious roots and a very valued history.’’[10] It therefore needed to move slowly as it shifted away from a brand based solely on writing instruments to more of a luxury and lifestyle brand.

Its first move was into the related desk accessories category in the early 1990s; a few years later it ventured into cuff links, key rings, and money clips – essentially items people carry in their pockets, just like pens. Only after gaining acceptance with these offerings, and a reputation for a certain design aesthetic that made each of its products recognizably part of a single identity, did it move farther toward the edge of its execution zone in 2005 by adding lines of jewelry.[11] The lesson: Whatever best defines you, follow it into new possibilities for creating value.

6. Scan the periphery

Businesses within a single industry routinely anticipate new competitive battles. More difficult is seeing future competitors that are difficult to detect until it may be too late.

Watch for new competitors who are innovating along three dimensions of competitive reality – offerings, capabilities, and customers.[12] Some potential rivals may enhance their offerings by going where their R&D and incremental improvement activities take them. Other rivals continually refine their capabilities, and others focus on serving a particular set of individual customers so thoroughly that they effectively lock them in.

San Antonio-based United Services Automobile Association (USAA) provides a model for moving willfully across the competitive space of other businesses to offer whatever its individual customers need, and therefore also furnishes a warning to companies that do not scan their own periphery for such customer-focused competitors. While USAA started out in the automobile insurance business, it now competes with all manner of insurance companies, but also with Wells Fargo in banking, Merrill Lynch in brokerage services, Fannie Mae in mortgages, American Express in both credit cards and travel services, and even with Wal-Mart in consumer goods – not to mention a host of other jewelry, furniture, and clothing retailers. These companies invariably view their competitive spaces based on their traditional industries, while USAA bases its competitive space on the needs of its armed forces members.

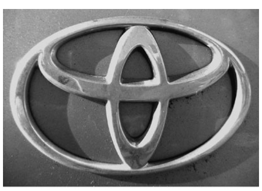
7. Formulate your strategic intention

Whether or not your competition comes from the periphery or your traditional industry, you won't surpass your competitors just by seeing what they do and trying to do it bigger, better, or faster. In today's environment, having greater availability, lower costs, or higher quality rarely provides the winning strategy. You do it by staking out that one future position among all possibilities that both meets those past imperatives and induces your customers to perceive your offerings and your company as more authentic than competitors.

Very few companies are perfectly positioned for future growth via incremental innovation. Even a company that is in exactly the right spot will not likely be comfortable there as old competition improves, new competition appears from the periphery, and customer demands change over time. Positions that provide the greatest competitive advantage often lie away from the center of your execution zone.

8. Execute well

If you apply the previous seven principles proficiently, then ''all'' you have left to do is execute well, year after year. Consider Toyota, a company that arguably executes better than any other in the entire world, and has for close to four decades. It made a commitment then to a future that lay far beyond its line of horizon: to become the world's highest-quality car manufacturer.



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Few today can remember when Toyota cars were laughed at in the United States; its first foray into the market, the Toyopet, proved a complete dud in the late 1950s. By applying the lean production tenets of the Toyota Production System, however, Toyota kept improving quality year after year after year, finally gaining a toehold in the US market in the mid-1960s with the Corona and Corolla.

As quality improved, so did the value proposition of Toyota cars. As a result, it surpassed Volkswagen as the top import in 1975. Under pressure from Detroit, by 1984 the American government forced the Japanese to agree to voluntary import quotas. Toyota responded by building its first full-production US plant in Georgetown, Kentucky, with the explicit focus of becoming less Japanese and more American.[13] Moreover, according to a *New York Times Magazine* profile, ''Its marketing strategists have been trying to establish an aura of American authenticity since the early 1970s.''[14] The company succeeded in being accepted as authentic by the environmental crowd with its Prius, by young, hip adults with its the Scion line and now it's aiming the Tundra at ''true truckers'' desiring ''truck-driving authenticity.''[15]

In the first quarter of 2007 this Japanese company surpassed Ford Motor Company for second position in the US and General Motors as the number-one vehicle manufacturer in the world.[16] This directly flowed from its ''overarching principle'' to ''enrich society through the building of cars and trucks'' and its core value of continuous process improvement.[17] The phrase ''the relentless pursuit of perfection'' applies to more than just its Lexus luxury

“Watch for new competitors who are innovating along three dimensions of competitive reality – offerings, capabilities, and customers.”

unit. The entire company seeks to execute flawlessly – and immediately correct the process whenever a failure does occur. That is the Toyota Way and has been for decades.

So to discover your firm's authentic strategic opportunities, use these eight principles to peer into your future until you determine where you should go. And then treat that future not as a destination but as a guide to the path before you. Such a process provides the best means of ensuring you not only have a future but that it will be an authentic, vigorous, and prosperous one.

Notes

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3. See Eric Pfanner, ''Disney's World Seeks Ubiquity,'' *International Herald Tribune*, June 13, 2005, and Merissa Marr, ''The Magic Kingdom Looks to Hit the Road,'' *Wall Street Journal*, February 8, 2007.
4. ''It was because of Michael that I was able to hit the ground running,'' and ''The story shouldn't be about me. It's about the team.'' Ronald Grover, ''How Bob Iger Unchained Disney,'' *BusinessWeek*, February 2, 2007, p. 74.
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10. Julie Bosman, ''Venerable Maker of Pens Turns to Young Designers,'' *New York Times*, August 7, 2006.
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