The Strategy Pyramid

How to Create and Sustain Success

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RedefiningStrategy.com

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Strategy. Setting and managing direction.

Complex and difficult…

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Agenda

- **A thought revolution is needed**
- Customer's problem solving behavior
- Offering dynamics and evolution
- Market dynamics and evolution
- New fundamental offering categorization
- The Strategy Pyramid – revolutionary framework for success
- A new beginning

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Current circumstances have a negative impact on the discipline of Strategy

- Limited awareness of offering and marketplace evolution
- Executives' chronic obsession with the competition
- Imitation encouraged by shareholders and capital markets
- Companies' superficial customer-centricity
- Highly fragmented theoretical base

Operational excellence tends to top the CEOs' agenda, fueled by an inside-out mindset that dominates the business landscape

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On the theoretical front, even major consultancies cannot agree on strategy

McKinsey & Company's View

"Strategic outcomes cannot be predetermined, despite a company's best intentions. Strategy, instead, is effective when companies develop a portfolio of initiatives that are coherent and evolve."

Source: www.McKinsey.com, October 2004

Bain & Company's View

"Strategy is a company's game plan for winning; it maps out the moves a business must make to outwit the competition, captivate customers and increase long-term shareholder value."

Source: www.Bain.com, October 2004

A new *deeper* fundamental approach to strategy is needed

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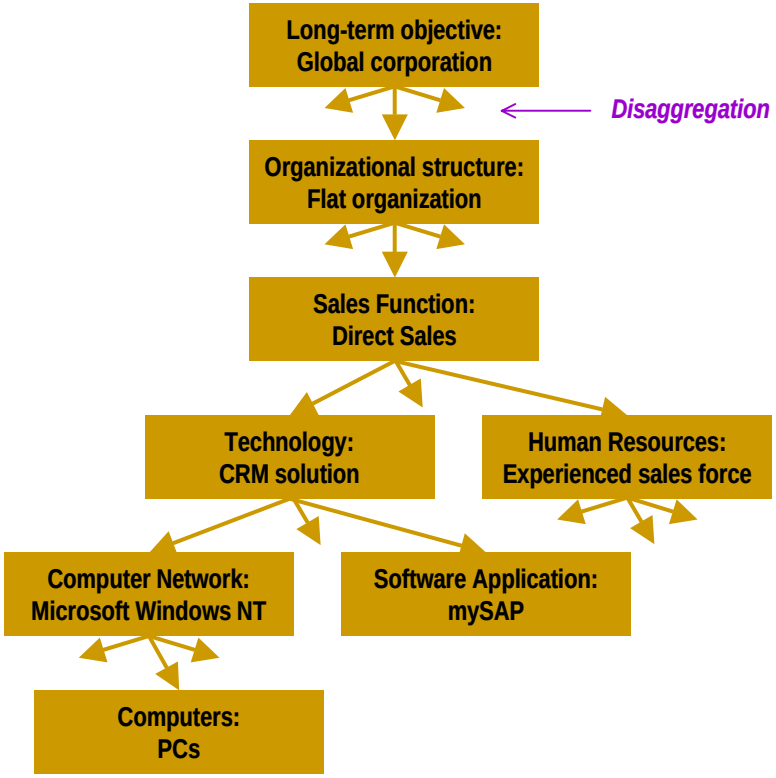
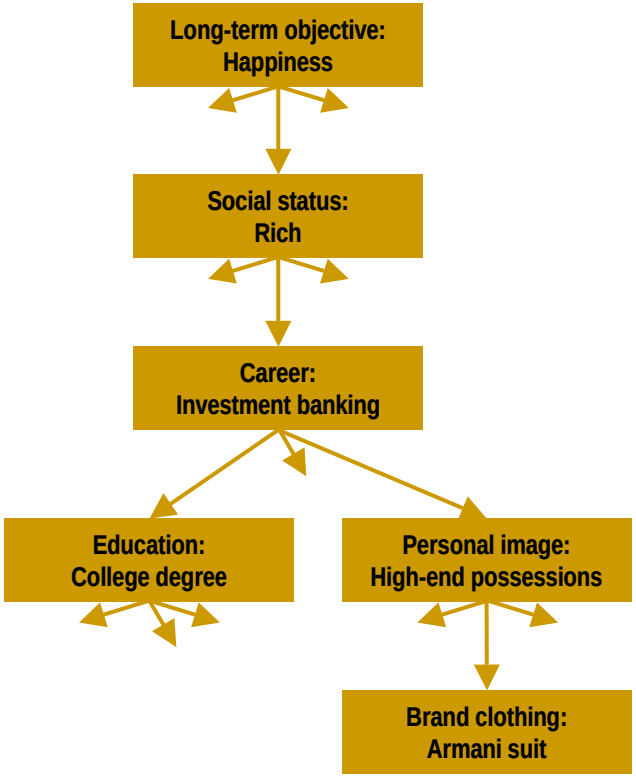
At any time, the customer possesses a unique hierarchy of issues to solve

Partial Issues Hierarchy of a BUSINESS
(Example)



Partial Issues Hierarchy of a CONSUMER
(Example)



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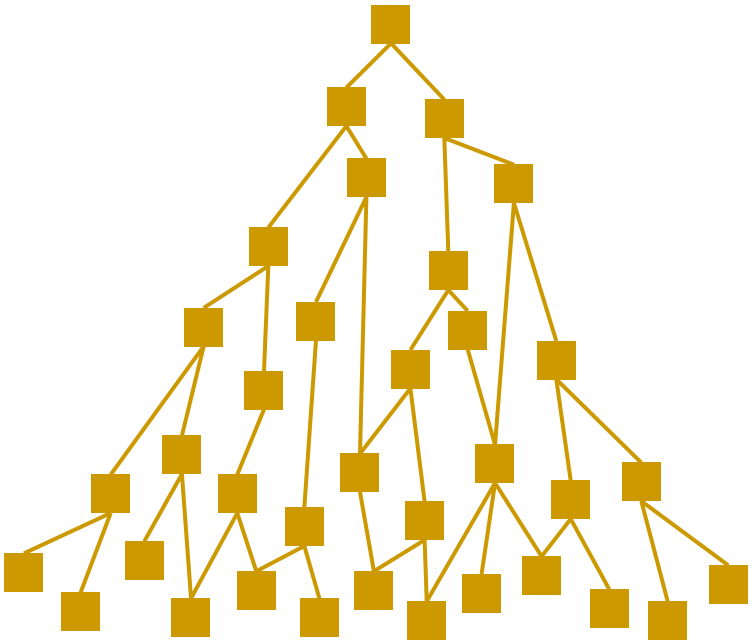
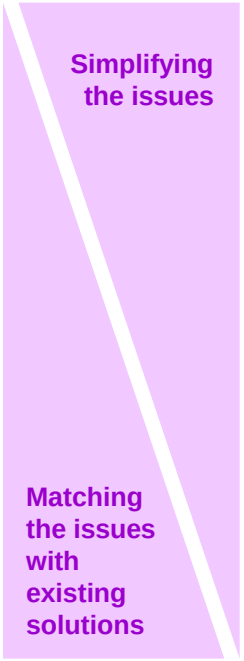
How an issue is addressed depends on its position in the issues hierarchy

The Hierarchical Issues Tree



Illustrative Structure

Disaggregation Drivers



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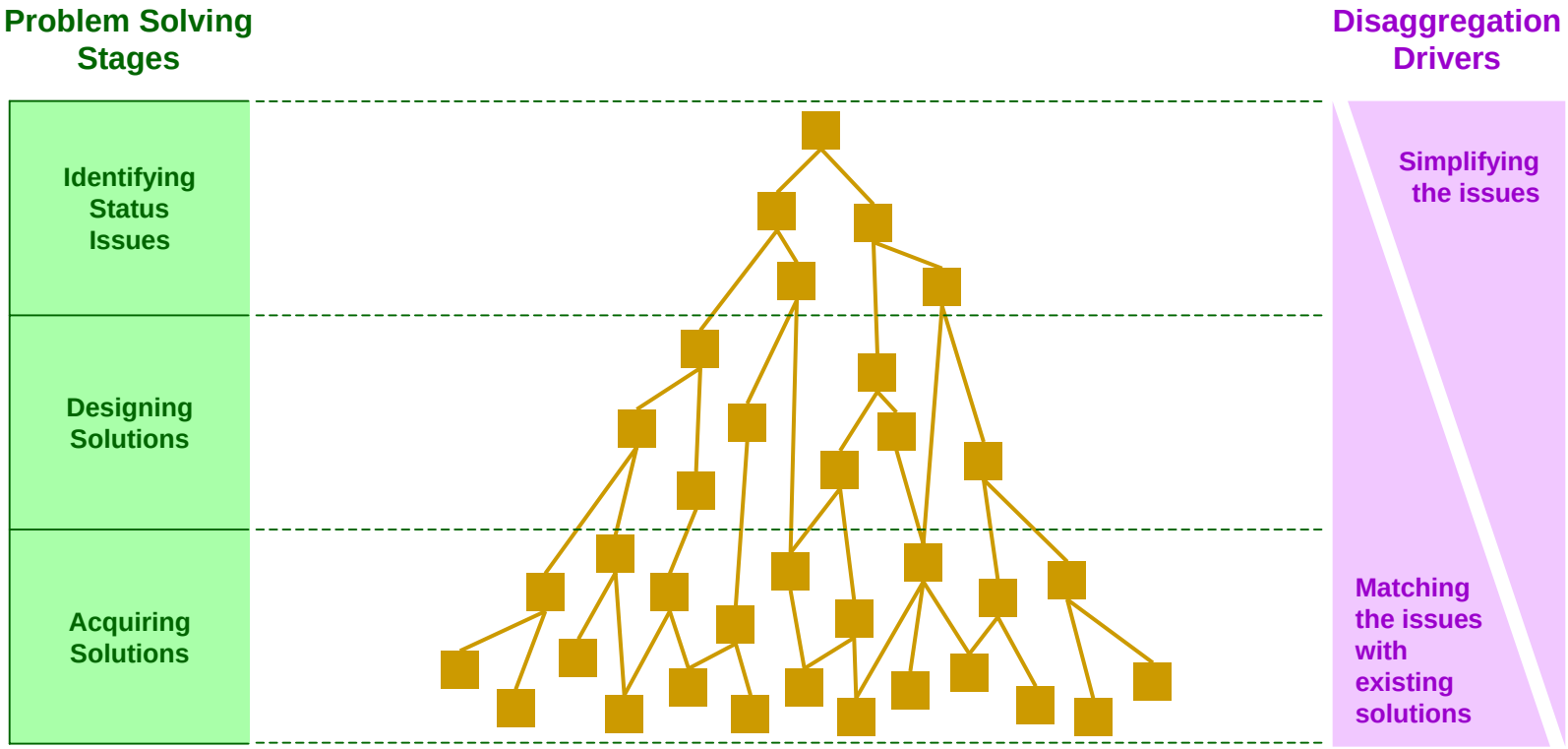
There are three general areas with distinctive approaches to an issue (1 of 2)

The Hierarchical Issues Tree



Illustrative Structure

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There are three general areas with distinctive approaches to an issue (2 of 2)

Problem Solving Stages[1]

Identify Status Issues

- Top issues pertaining to the status of the customer as an entity (e.g., in a company's case, the *mission* issue would be found here)
- The issues here are broad and complex with an idealistic character
- Disaggregation is driven by issue simplification

Designing Solutions

- Issues with a mixed idealistic-realistic character – "ideal solution" issues inspired by existing solutions (e.g., the *call center (development)* issue for a company with no previous experience falls in this category)
- Simplifying issues blends with matching existing solutions as drivers of disaggregation

Acquiring Solutions

- Issues with a realistic character, which were designed (through disaggregation) to match existing solutions in the real world (e.g., the *computer* issue for a business would be found here)
- Disaggregation is mainly driven by matching issues with existing solutions

[1] The Problem Solving Stages are not the stages of a buying process. The Acquiring Solutions stage is not the buying stage, but the stage in which the issues are disaggregated so that the resulting subordinated issues will match existent solutions that the customer is aware of at that particular time.

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Think “Every offering is a solution!”

Throughout this presentation the term *solution* refers to offerings in general. *Offering* and *solution* are interchangeable, although we prefer the latter. The term *offering* maintains an inside-out perspective from which we are trying to depart, while the term *solution* emphasizes the essence of this theory, which states that every offering is in fact a solution to a customer’s issue at a given time. Traditional definitions of solutions as bundles of products and services should be disregarded for their arbitrary character.

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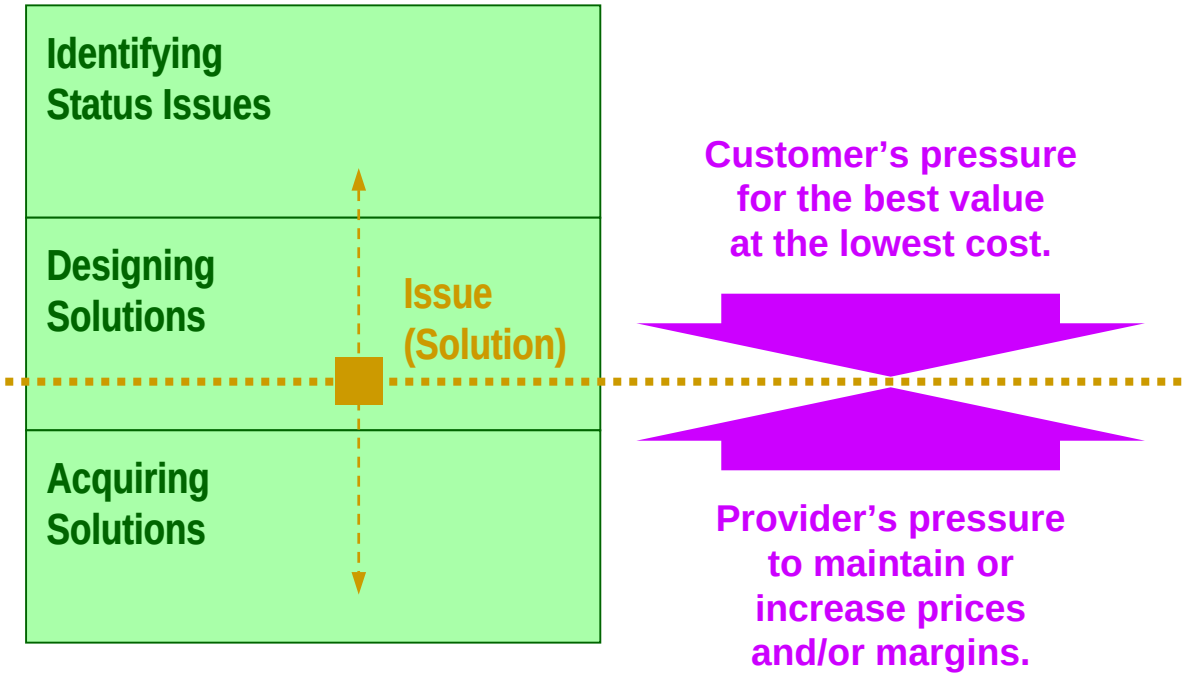
The level of knowledge about a solution determines the transaction point

Customer's Problem Solving Stages



The levels of knowledge existing at the moment of transaction will determine where the transaction will take place along the customer's problem solving stages. This point is defined as the Information-Based Temporary Equilibrium or, simply, the Transaction Level.

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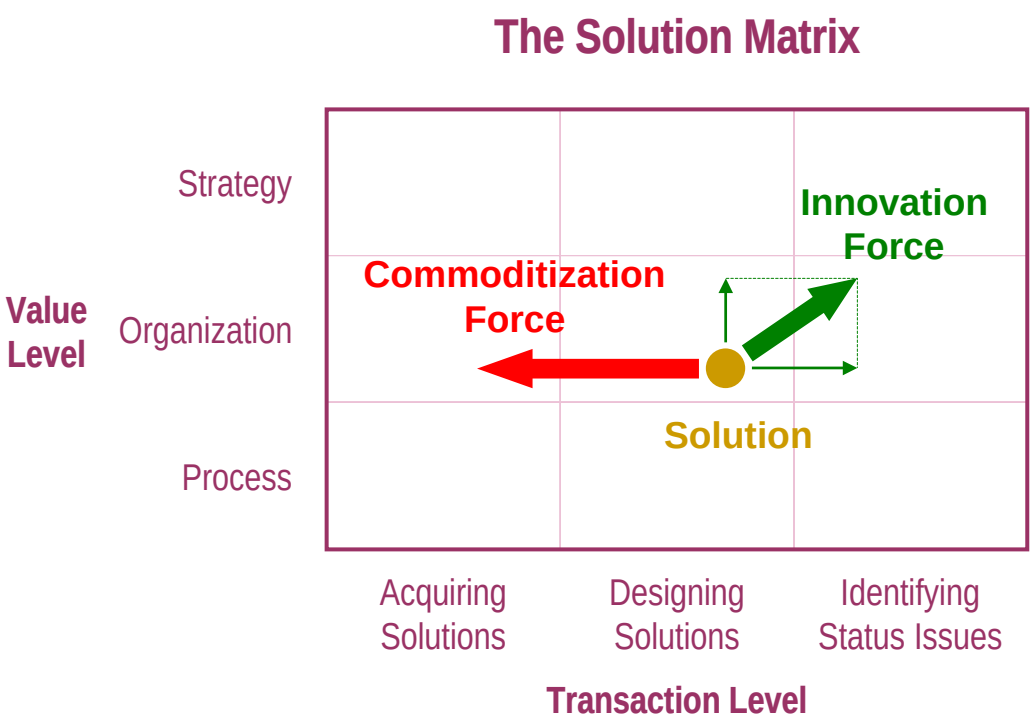
Solutions have a dynamic character, due to innovation and commoditization



Commoditization Force: The pressure sustained by the customer, due to continuous accrual of knowledge about the solution.

Innovation Force: The result of two distinct pressures generated by the solution provider: one being the provider's push to address higher level issues, and the other being the pressure to increase the solution's value for the customer. This is an incremental/sustaining innovation.

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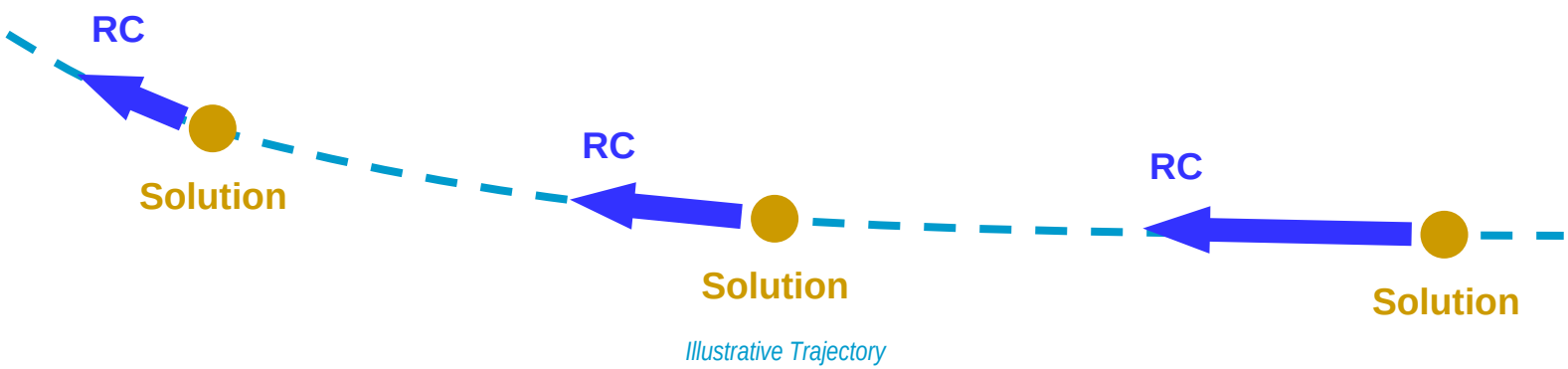
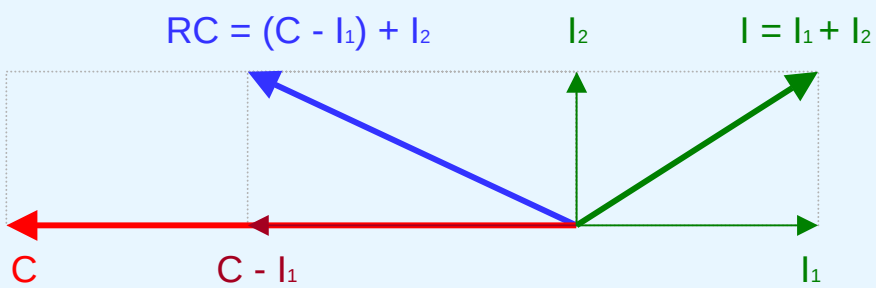
Dominant commoditization and increasing innovation guide the evolution

Solution's Commoditization Trajectory



Real Commoditization (RC)



Forces Description:
I = Innovation
I_1 = Pressure to address higher level issues
I_2 = Pressure to increase a solution's value
C = Commoditization
RC = Real Commoditization

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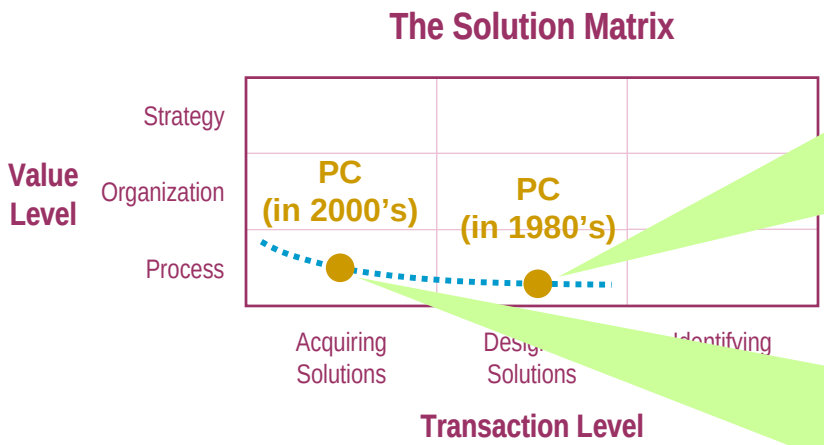
The PC solution, for example, has evolved considerably over the past two decades

PC Solution[1] Evolution



PC Solution in 1980's

- The PC was the centerpiece of a host-centric computing world.
- The value for the customer was low. The benefits were mainly limited to word processing and a few other applications.
- Transactions took place in the "Designing Solutions" stage, where the customer required a consultative approach.

PC Solution in 2000's

- The PC is a small piece of an Internet computing world.
- The value for the customer is significantly higher. Networking, productivity software, and access to the internet offer far more value to the customer.
- The transactions take place in the "Acquiring Solutions" stage, where the customer can easily articulate what he wants.

[1] This example refers to the *PC for the business user* solution.

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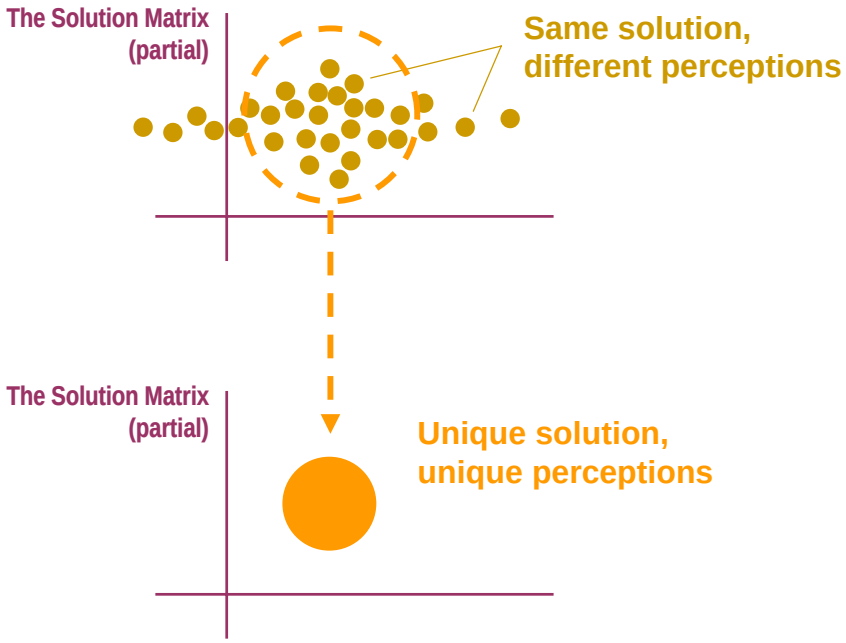
Like the solutions on which they are based, the markets evolve as well



The same solution is perceived slightly different by every customer in a marketplace, but there is always a majority group with a similar level of average knowledge about a particular solution.[1]

Because of this majority group, a solution can be viewed as being perceived identically by every customer in a marketplace, allowing the use of a unique solution representation for a marketplace.

A market has the same evolutionary path as the base solution

[1] Market framing is crucial here. Unlike the industrial organization where a market/industry is defined by a product, in this theory the market is framed around customers with similar levels of knowledge about an issue/solution. Significantly different perceptions of the same issue/solution will generate separate markets, characterized by different behaviors and approaches.

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Conventional offering definition and categorization advocates for change

Product:

1. **A bundle of attributes (features, functions, benefits, and uses) capable of exchange or use; usually a mix of tangible and intangible forms. Thus a product may be an idea, a physical entity (a good), or a service, or any combination of the three. It exists for the purpose of exchange in the satisfaction of individual and organizational objectives.**
2. **Occasional usage today implies a definition of product as that bundle of attributes for which the exchange or use primarily concerns the physical or tangible form, in contrast to a service, in which the seller, buyer, or user is primarily interested in the intangible. Though to speak of "products" and "services" is convenient, it leaves us without a term to apply to the set of the two combined. The term for tangible products is goods, and it should be used with services to make the tangible/intangible pair, as subsets of the term product.**

Source: Dictionary of Marketing Terms, www.MarketingPower.com (American Marketing Association), October 2004

Inside-out perspective + High complexity + Reduced practicality

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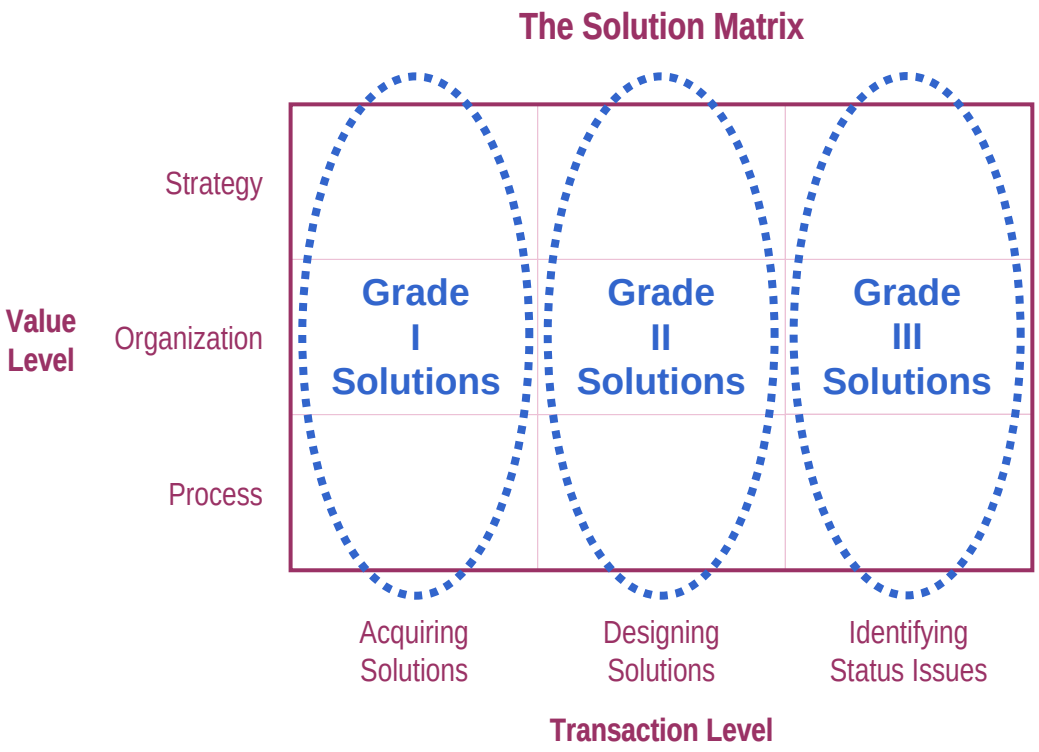
The new offering categorization is based on the customer's problem solving stages

Basic Types of Offerings



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The new offering categories are linked to behaviors and approaches…

Basic Types of Offerings

Grade I Solutions

- Address issues positioned in the "Acquiring Solutions" stage
- The customer is capable of clearly defining the solution due to widespread information availability
- Most offerings currently available on the market fall into this category: groceries, cell phones, computers, etc.

Grade II Solutions

- Address issues positioned in the "Designing Solutions" stage
- The customer has a general idea about these solutions, but require a consultative approach, information being relatively scarce
- Most outsourcing services available today (e.g., call centers, human resources) are representative here

Grade III Solutions

- Address issues positioned in the "Identifying Status Issues" stage
- Traditionally, the customer doesn't buy these solutions – the issues here are solved through disaggregation, driven by issues simplification
- These solutions are rather unique. Strategy consulting companies often generate one-time solutions here

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Four hierarchical elements reveal how to attain and sustain success in business

The Strategy Pyramid

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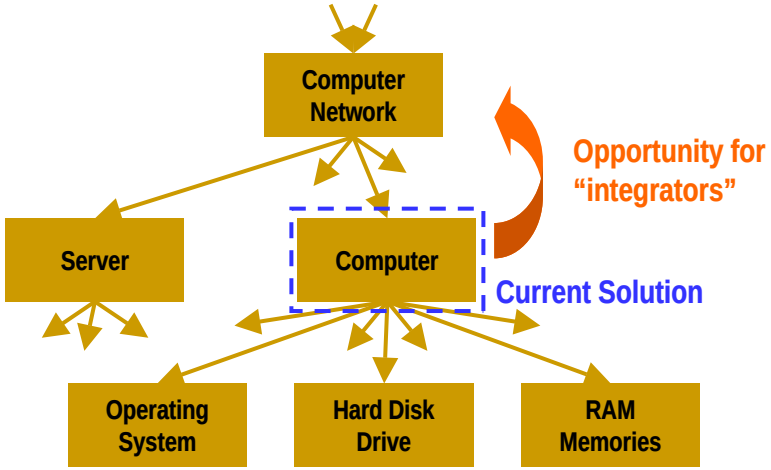
1. Customer Issues Centricity: It is more than customer-centricity

Understanding not only the issues that current offerings address, but also the surrounding Hierarchical Issues Tree's structure, is the foundation for the quest for success.

- Issues/solutions stage and evolution
- Future market shifts (opportunities and threats)

Opportunity Based on a Surrounding Issue

(Example)



Partial Issues Hierarchy

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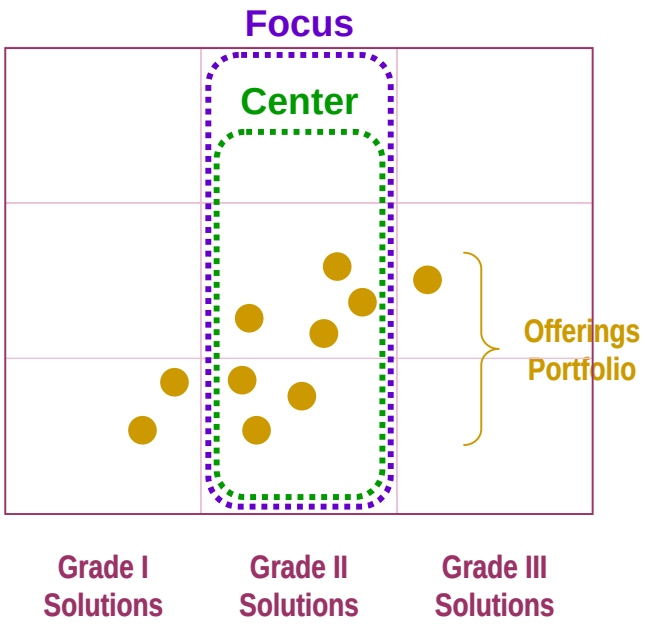
2. Alignment: Intentions, resources, and perceptions should always be aligned

The Alignment is realized when there is a match between the Solutions Portfolio Focus and the Solutions Portfolio Center.

- The Focus (*deliberate positioning*) is a limited area on the Solution Matrix with which the provider deliberately associates himself.
- The Center (*emergent positioning*) is a limited area on the Solution Matrix containing the group of solutions generating the majority of the revenue.

The Alignment has a temporary character because the Center will follow the commoditizing solutions moving out of alignment with the Focus, which tends to be static.

Alignment between Focus and Center



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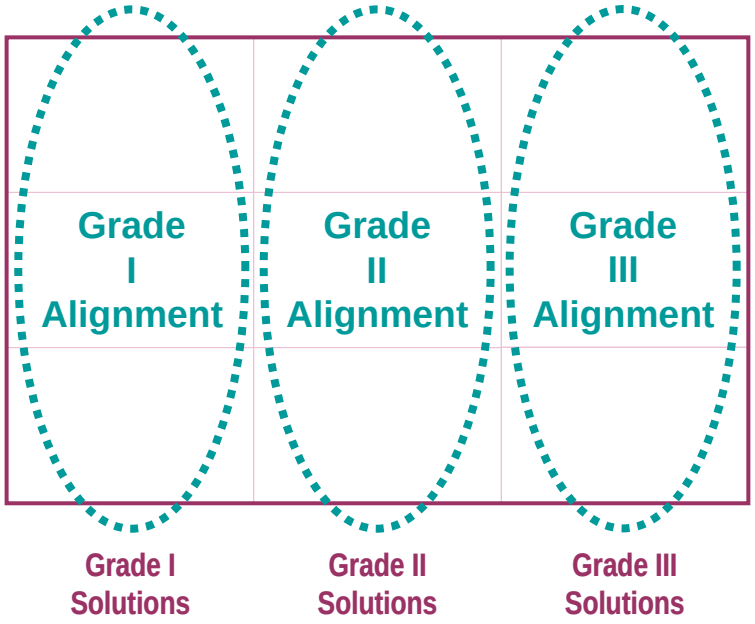
2. Alignment: There are three universal types of alignment

Universal Types of Alignment



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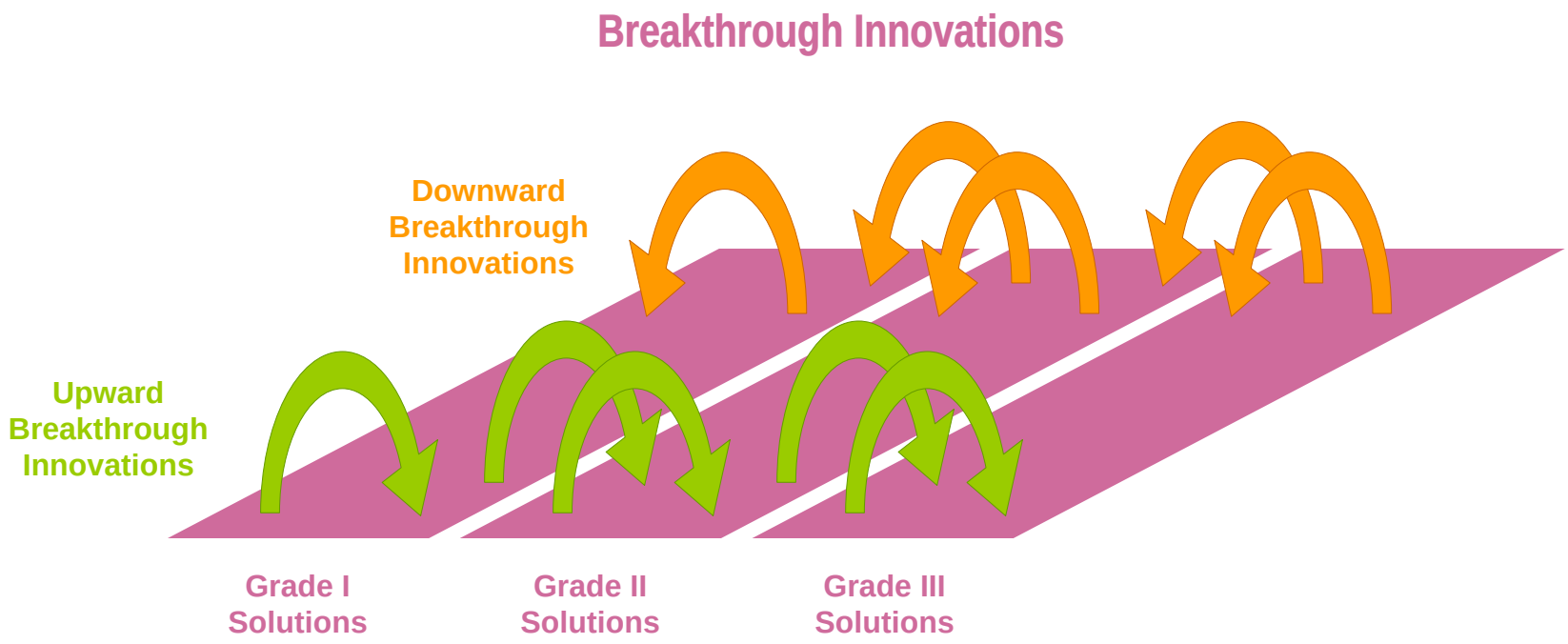
2. Alignment: Breakthrough innovation facilitates alignment sustainability

A company can sustain its alignment by adding breakthrough innovations – new offerings based on existing offerings – to its portfolio. Other possible options include the addition of brand-new solutions and the deletion of select current offerings.



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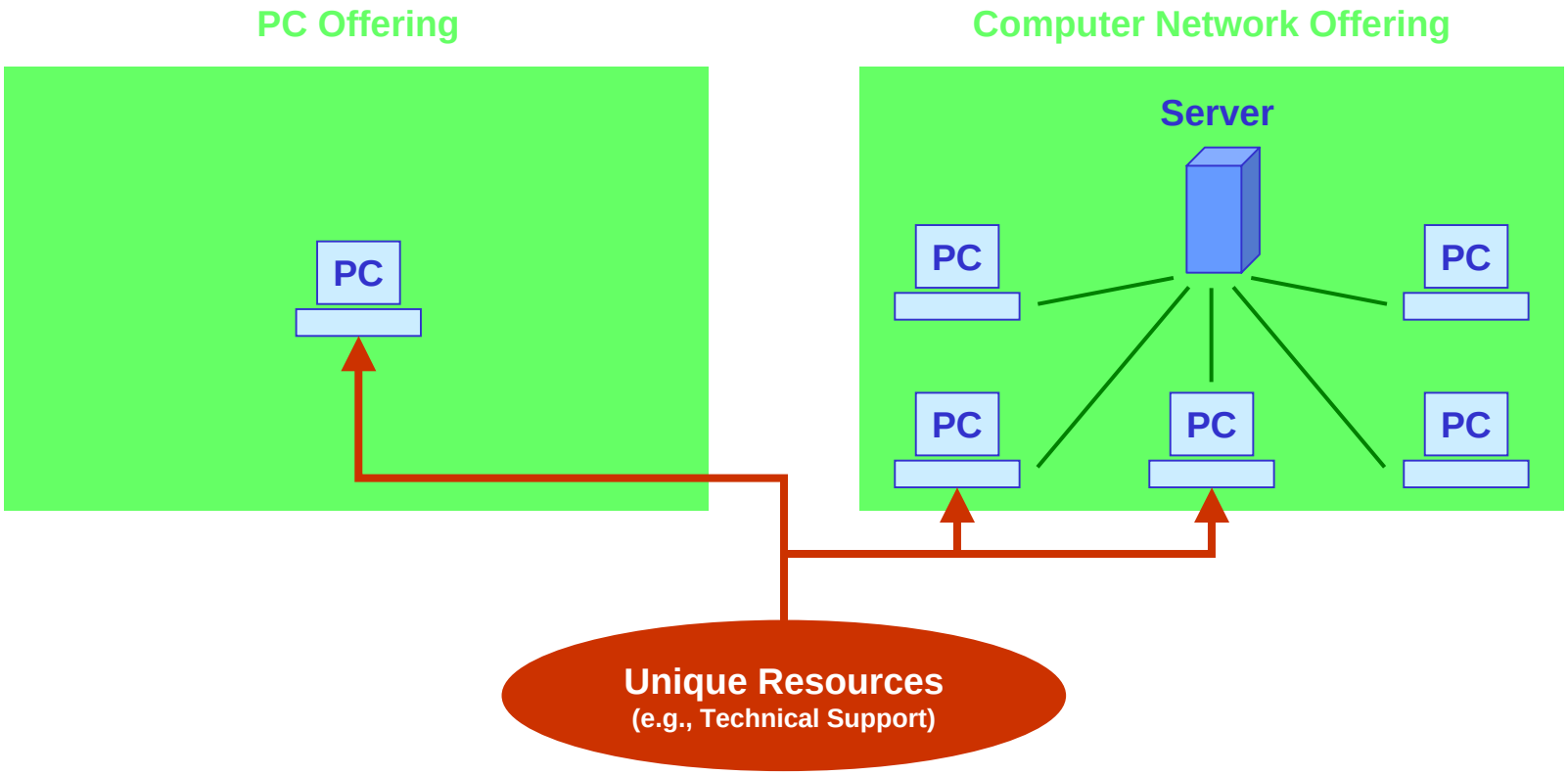
3. Offerings Interrelationships: Limited resources require usage optimization

Modularity Helps Sharing Resources (*Synergy*)

(Example)



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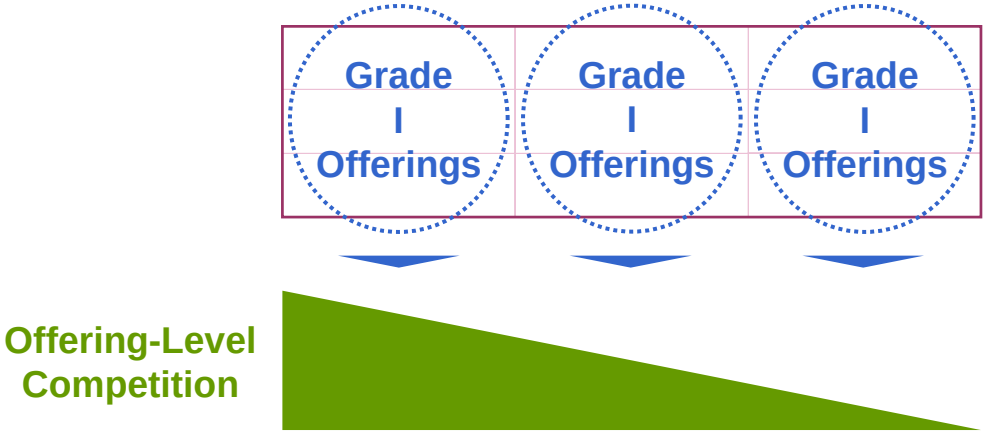
4. Offering-Level Tactics: Competitive confrontations shape the portfolio

The influence of the first three components of The Strategy Pyramid can lead to strategic moves that may not make sense in the marketplace. For example, Netscape Communicator was nearly pushed out of business when Microsoft included Internet Explorer in its Windows offering, essentially offering it for free. Netscape's strategy for its internet browser didn't matter… From the provider's corporate perspective, these strategic moves are therefore considered simply tactics.

Competition Density Variation



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The Strategy Pyramid is a new tool and a new way of thinking

McKinsey & Company:

"Instead, we define strategy as a coherent and evolving portfolio of initiatives to drive shareholder value and long-term performance. This change in thinking requires management to develop a "you are what you do" perspective as opposed to "you are what you say." In other words, companies are defined by the initiatives they prioritize and drive, not merely by mission and vision statements."

Source: www.McKinsey.com, October 2004

The Strategy Pyramid's perspective:

"you are what you say AND what you do"

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A more detailed presentation of the *Theory of Business Solutions* is introduced in the paper entitled “Strategy, Redefined.”, published online at www.RedefiningStrategy.com.

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