

A Fundamental Theory of Business

10-Step Introduction

Cristian Mitreanu

August 19, 2006

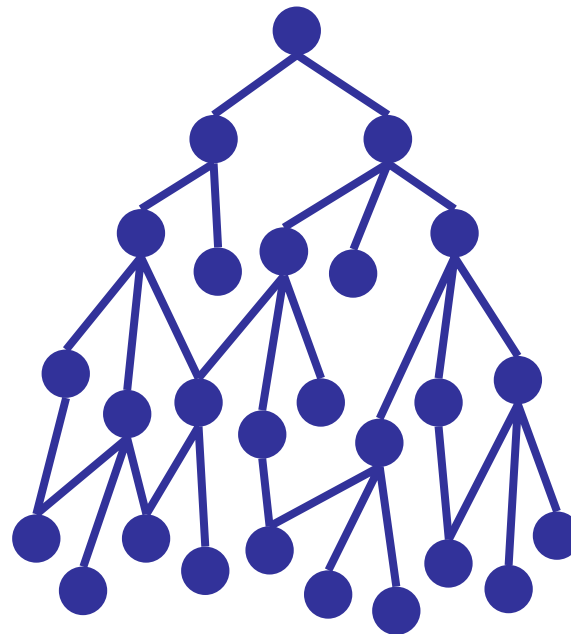
1. At any given time, every customer, individual or organization, possesses a unique hierarchy of issues, resulting from its quest for a successful existence.

Customer's Hierarchical Issues Tree

Issue Simplification Through Disaggregation

- Major issues (topped by the issue "successful existence")
- Difficult to define
- Unique for each customer
- Unknown, (most likely) nonexistent solutions

- Minor issues
- Easy to define
- Common among customers
- Well-known, existent solutions



Defining Fundamental Issues

Shaping fundamental issues to be disaggregated, as there are no known solutions

Designing Issue-Solutions

Generating issues that are a blend of an ideal issue and an issue that can be addressed by a known solution

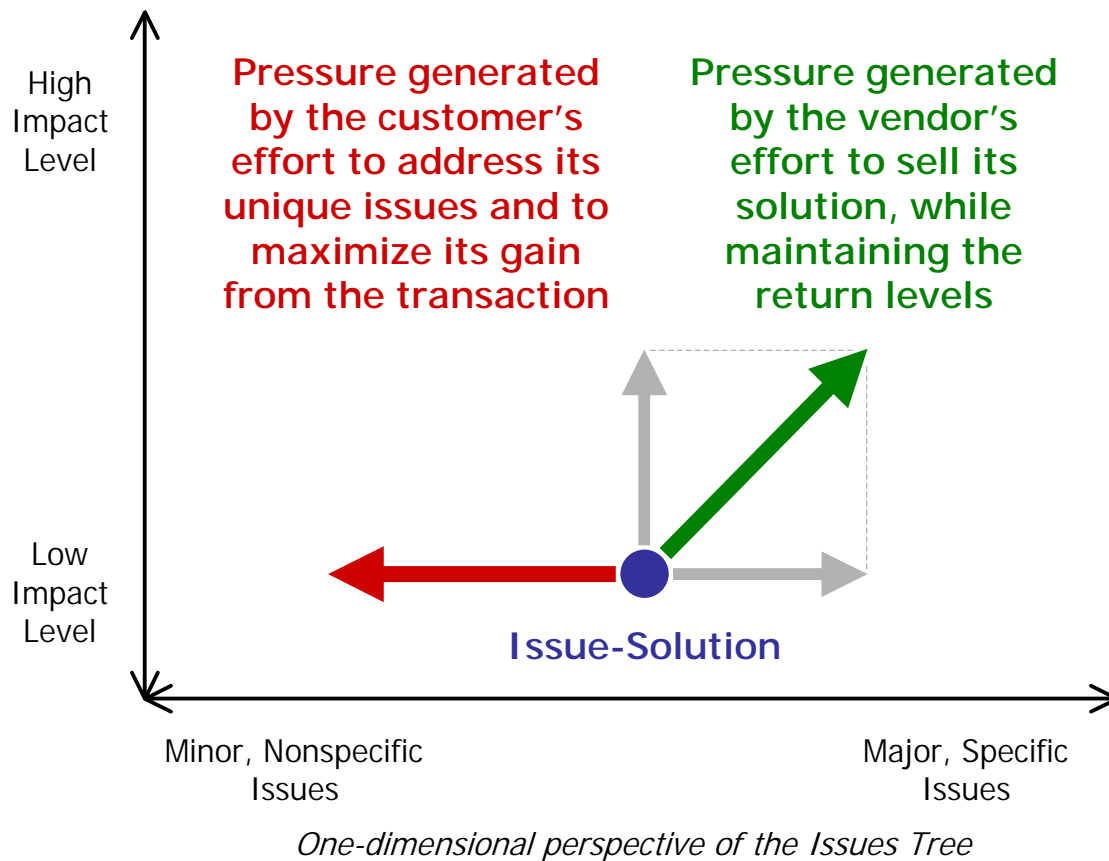
Matching Existent Solutions

Generating issues so they will match known solutions available in the market

Customer's Problem Solving Behavior

- Every issue includes all of its subordinated issues
- Multiple issues can share the same subordinated issues

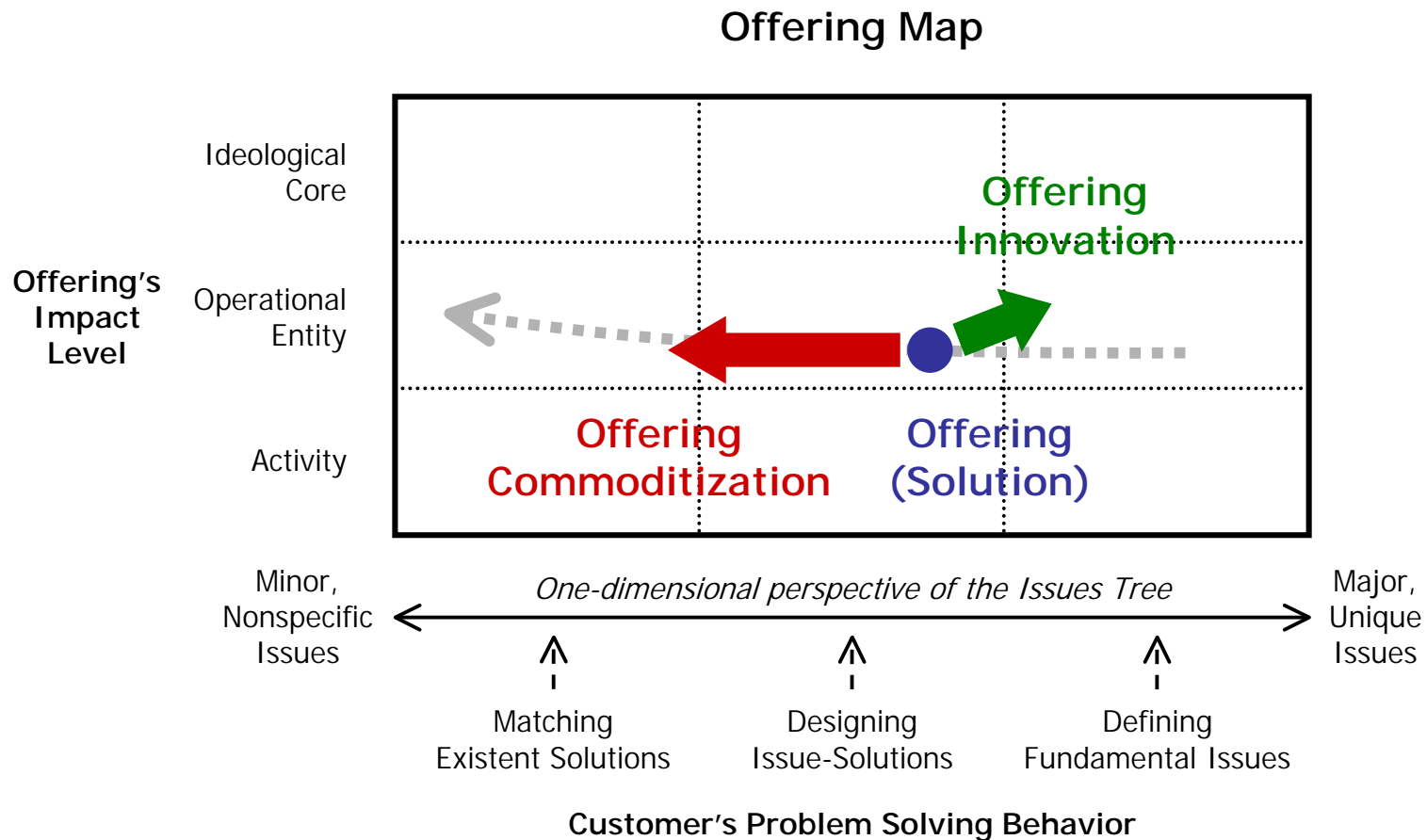
2. Each issue-solution pair is under constant pressure from the customer and the vendor, who are both striving to make the most of a potential transaction.



As more knowledge about a solution becomes available, the customer tends to demote the corresponding issue in its issues hierarchy, inserting above a new issue based on the old one, but one which is more specific to the customer. It is the customer's constant effort to address the top issue "successful existence," which is continuously redefined by its unique experiences, and to maximize its gain from a potential transaction.

On the other hand, the vendor inherently aims to sell its solution (usually to more than one customer), increasing or maintaining the associated return levels. To do so, the vendor will refine the solution, attempting to make the corresponding issue more specific to the customer. This refinement will also elevate the solution's level of impact on the customer.

3. Each offering to a customer can be mapped at any time as the intersection of its transaction position relative to the Issues Tree (x), and its level of impact (y).



4. Nearly every transaction is part of a unique system of transactions in which all customers have the same problem solving behavior relative to the transacted offering.

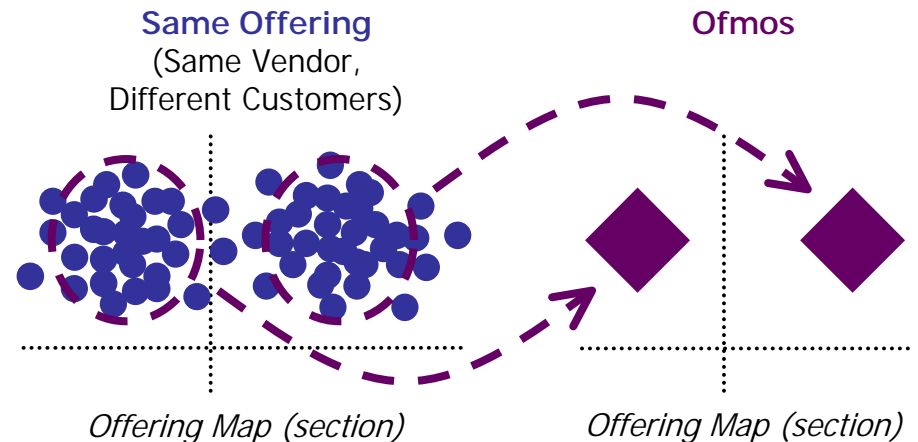
The social character of the business environment, combined with the vendors' inherent necessity to communicate with rather broad audiences, creates groups of customers with similar levels of knowledge about particular offerings. These physical or virtual groups of customers tend to coincide with groups already established through a geopolitical, social, trade, professional, hobby, or other type of bond. Therefore, considering that similar levels of knowledge mean similar problem solving behaviors, a group of customers with similar behaviors relative to an offering and the vendors that target them with that particular offering can be seen as a persistent system, termed "tofmos." (The common behavior is a consequence of the fact that the customers have a similar level of "how to employ" knowledge associated with the offering, resultant of a similar level of "how to produce" knowledge distributed among either customers and vendors, or solely vendors.) As a result, at any given time, the graphic representation of the defining offering transacted by customers inside a tofmos will appear clustered. Consequently, the transactions associated with a single vendor, which generates its own subsystem of transactions termed "ofmos," will also be grouped together. Like the defining offering, every tofmos and the included ofmos will commoditize over time.

tofmos

noun : a persistent system of transactions (customers, vendors, and their transactions as a whole) defined by an offering and a homogenous set of customers that have the same problem solving behavior relative to the offering

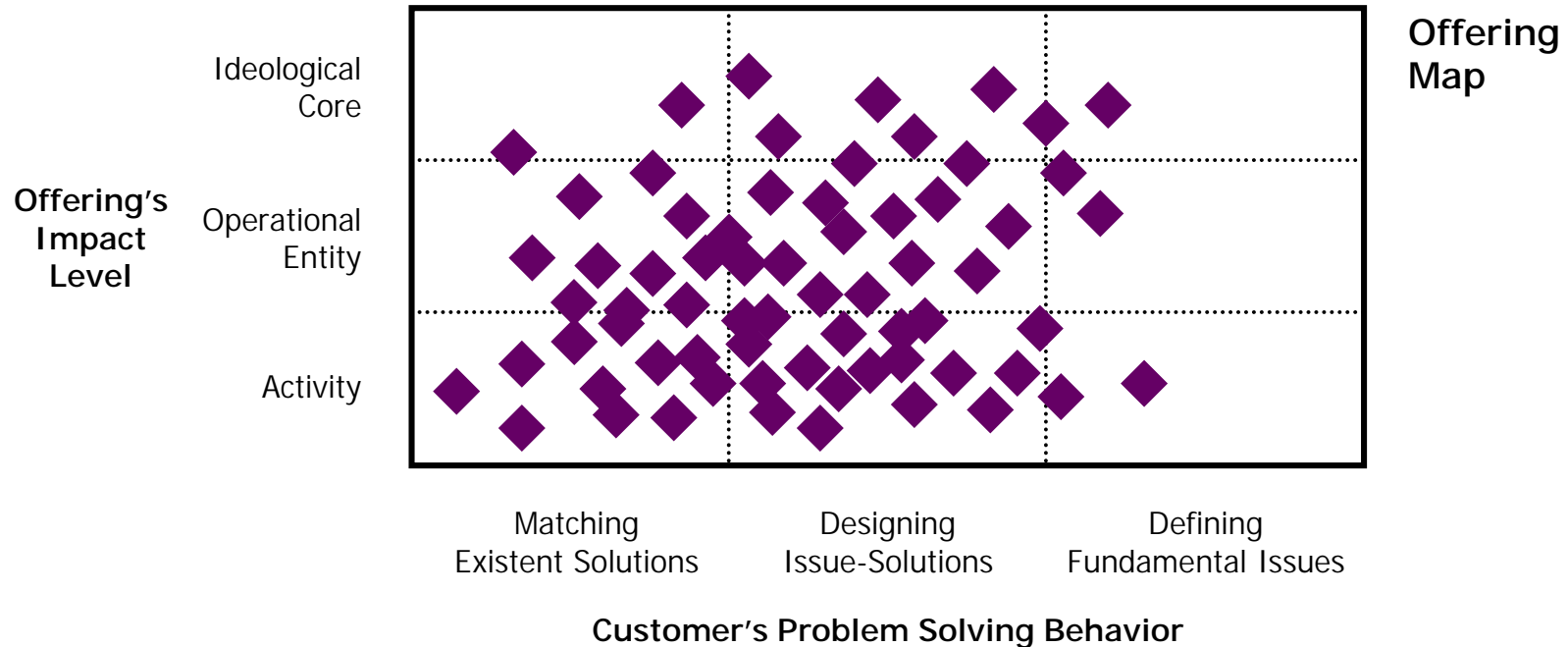
ofmos

noun : a system of transactions generated by a single vendor inside a tofmos



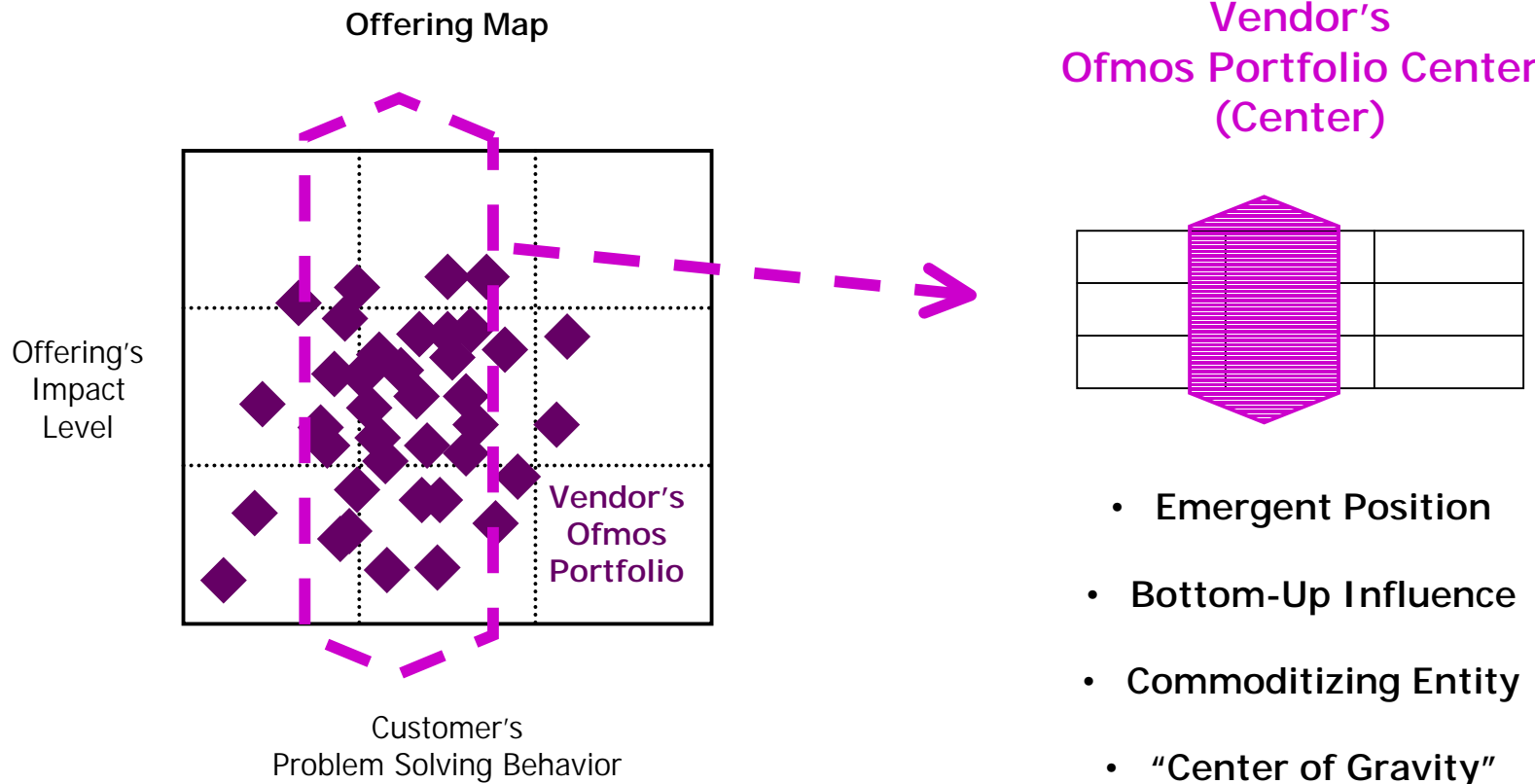
5. Every vendor, individual or organization, can be seen as a dynamic portfolio of commoditizing unique ofmos, each having an associated stream of revenue and profit.

Vendor's Ofmos Portfolio

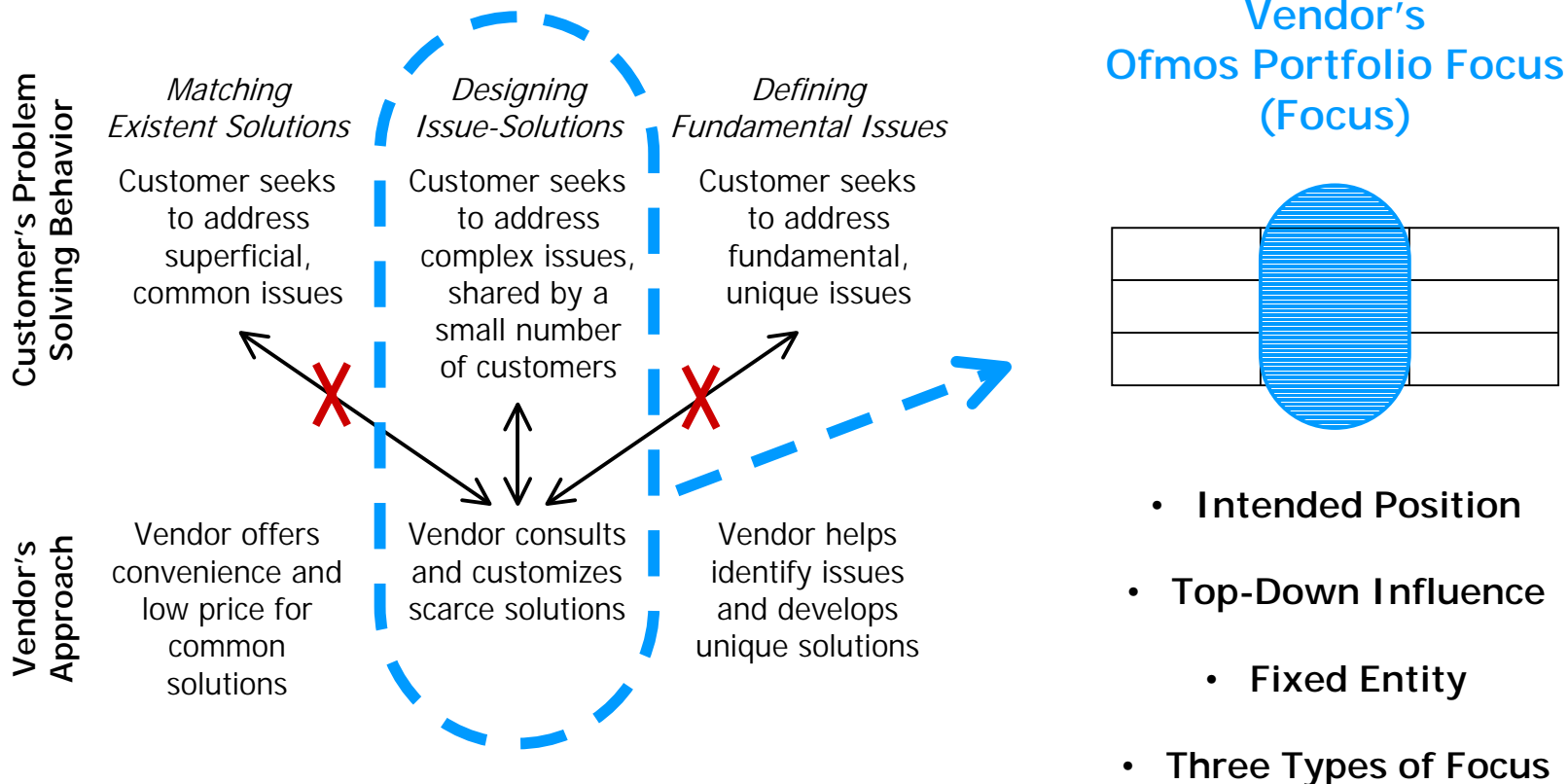


Note: Cases in which an ofmos will break up into smaller ofmos are rare, usually occurring as a result of a major disruption in the way the defining set of customers are interconnected. The effect of such an occurrence on the vendor's ofmos portfolio is proportional with the overall relevance of the revenue generated by the ofmos in discussion.

6. A vendor's limitation of resources leads to the formation of a group of ofmos that feature like business approaches and collectively generate most of the revenue.

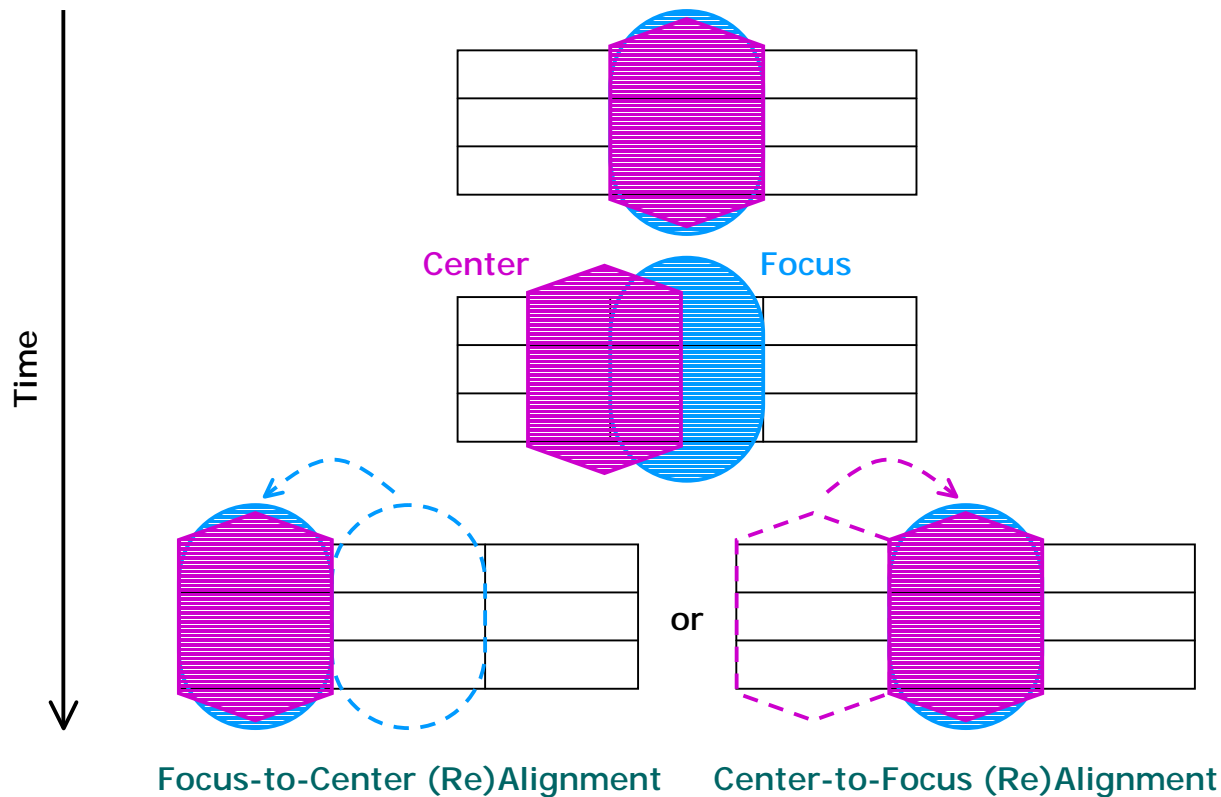


7. To optimize the use of its limited resources, each vendor designs its business to best respond to one of the basic customer problem solving behaviors.



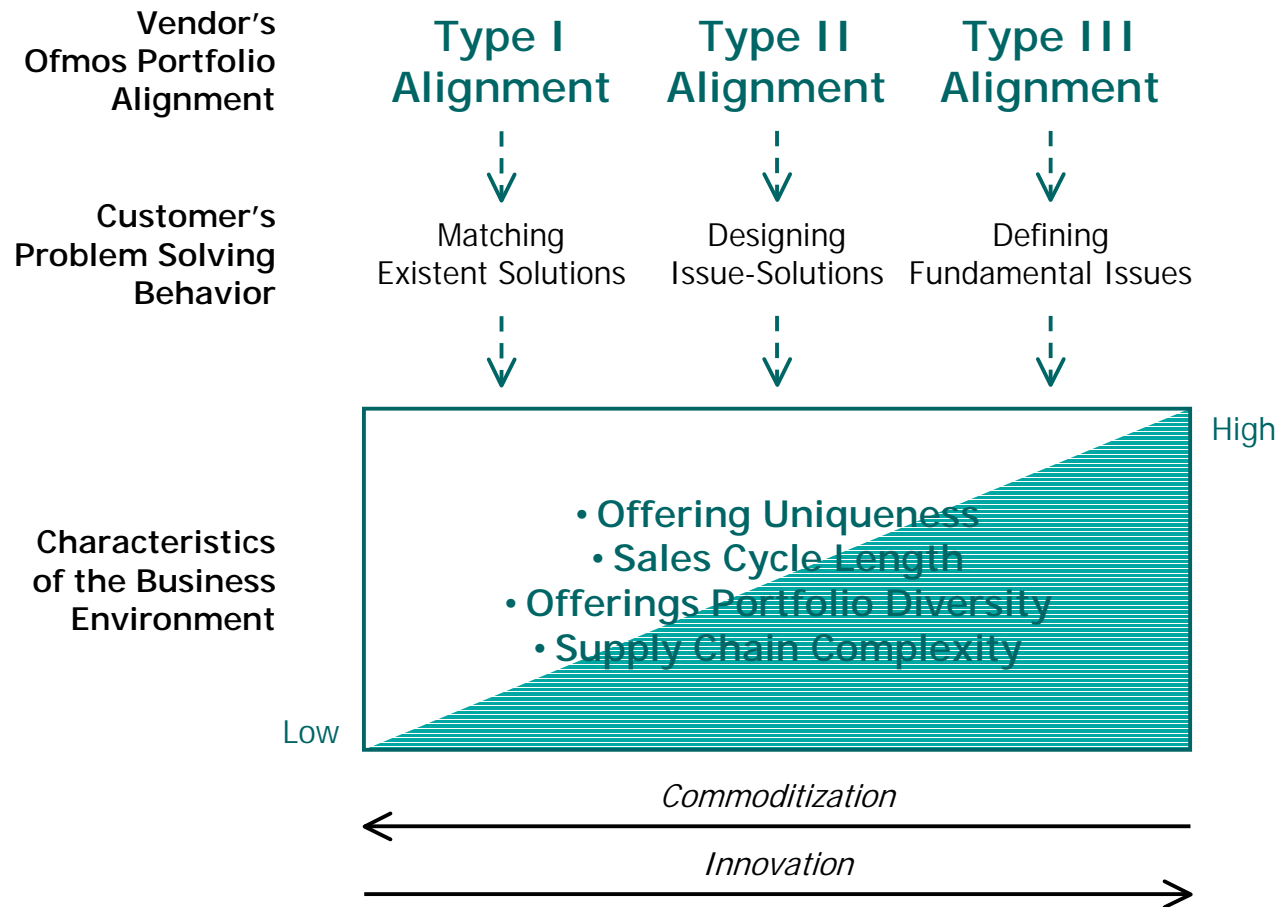
8. A vendor reaches its highest performance when the intended fundamental business approach (Focus) matches the approach resulting from the daily operations (Center).

Vendor's Ofmos Portfolio Alignment



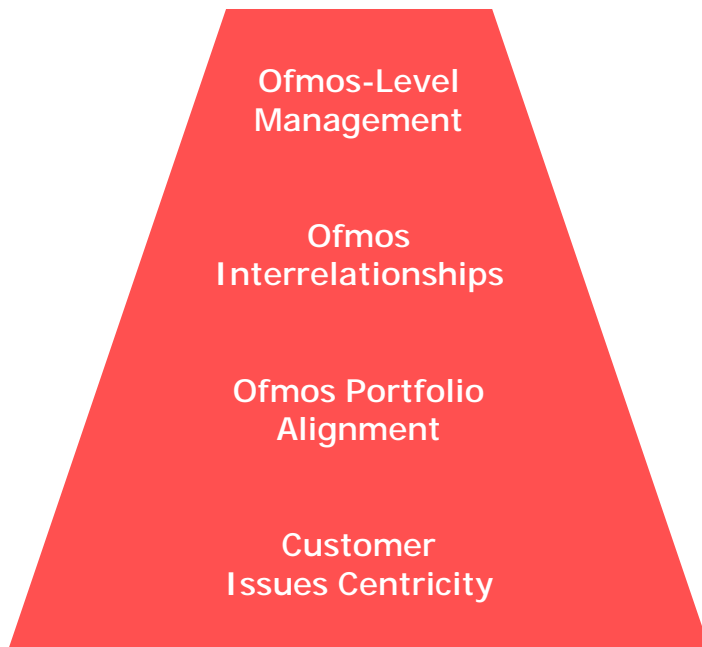
The Ofmos Portfolio Alignment has an unstable character. Over time, the Center will commoditize (following the ofmos that defines it) and move out of alignment with the Focus. In order to recapture the Alignment, the vendor can either reposition the Focus to match the commoditizing Center, or modify the Center (by adding and deleting ofmos) to match the fixed Focus.

9. Relativity to the customer's problem solving behavior empowers any vendor with a comprehensive and dynamic big picture of the business environment.



10. Every vendor can achieve and sustain success in business by managing its ofmos portfolio and the component ofmos in relation to the customer's problem solving behavior.

Pyramid of Enduring Success in Business



1. Customer Issues Centricity

Achieve customer issue centricity. Although it is impossible to identify customers' entire issues hierarchies, understanding and monitoring particular neighborhoods of issues can help vendors identify new opportunities, as well as potential threats. This will also help vendors define their ofmos.

2. Ofmos Portfolio Alignment

Achieve and sustain ofmos portfolio alignment. By adding and deleting ofmos, and by influencing the rate of commoditization of individual ofmos, vendors can achieve and sustain the alignment between the center and the focus of their ofmos portfolio, increasing the performance of their operations.

3. Ofmos Interrelationships

Optimize the interrelationships among ofmos. Sharing offerings, customers, and resources among ofmos can give vendors an edge over their direct competition.

4. Ofmos-Level Management

Increase revenue and profit for each individual ofmos (unless it was established otherwise in the previous steps). To grow an individual ofmos faster than the ofmos that includes it, a vendor must compete directly (primarily through operational excellence) with the vendors owning the other ofmos in the system.