

# Strategy – Creating Lasting Leaps in Value

By Diogo F. Caiado

4th week of September 2008

Consider you are a business manager with a great track record and you are about to set up your own company.

Consider as well that you strongly believe that:

1. you will consistently deliver the best results
2. the world is an attractive marketplace for business

This article is all about briefly dismantling these 2 premises and providing a solution: the ability to create new market space. I &ndash; Continuing Performance

One fundamental premise to achieve a breakthrough is to understand that there are no permanent excellent companies as there are no permanent excellent industries. There's no need to be a visionary to realize that organizations' stream of creativity will float over time and that your competitors will sooner or later come with groundbreaking ideas that will reshape the industry. In the aftermath a great company will be among the winners but its rank will definitely shift over time. No one outperforms the market forever. II &ndash; The Rising Competition

As the most important driver for a company's breakthrough is market space, a set of overall trends seems to cap market space and to induce increasing competition:

## III &ndash; Market Spacea) Evidences of New Market Space

History will always be the best lab for management &ndash; a tangible proof that new market space can be created.

How many of industries you see today existed 100 years ago?

What about 30 years ago?

I have also found practical evidence that new industries can be created over time when I thought about creating my own venture. In developed countries there are on average 10 times more business classifications than by the end of WWII.b) Impact of New Market Space

A research on business launches was performed in 108 companies, classifying strategic moves in:

- &bull; Existing Market Space: incremental improvements &ndash; 86%
- &bull; New Market Space: disruptive changes &ndash; 14%

The revenue impact and the profit impact were measured accordingly:

Source: Blue Ocean Strategy, W. Chan Kim and Renée Maubourgne, Harvard Business Pressc) New Market Space &ndash; The Fundamentals

The only solution to outperform competition is to stop trying to outperform competition. Therefore the basic military view of comparing business to wars can only be of use for lawyers but never for business people.

The following compares a standard business strategy with a groundbreaking strategic move:

## d) Value Innovation &ndash; The Cornerstone of New Market Space

Value Innovation happens when companies successfully make the value-cost trade-off, aligning innovation with price, utility and cost. The focus is to pursue differentiation and low cost simultaneously thus creating a leap in value for both buyers and the company, thereby building new and uncontested market space:

Note: market pioneering or IT innovation don't necessarily mean value innovation, when the value proposal far exceeds what consumers are prepared to accept or pay for. e) Strategies for New Market Space Creation I find 3 paramount strategies to create new market space: 1. Create a New Industry • The Cirque du Soleil case study: Is it Circus or is it Theatre? 2. Reconstruct the Industry • Casella Wines case study: How an Australian wine with a kangaroo logo comes first in US market? 3. Ride the Momentum • iTunes case study: iTunes fosters iPod sales and then iPod fosters Peugeot sales for youngsters. So youngsters foster iTunes? NEXT TIME:

These 3 case studies will be thoroughly examined.