

2 From Customer Understanding to Strategy Innovation: Practical Tools to Establish Competitive Positioning

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Introduction

This chapter is concerned with strategy development at the business unit level. It sets out to provide practical techniques that executives can use to understand their current competitive positioning and the strategy options that may be available to them. This includes both incremental developments of existing competitive strategies and the opportunities for more radical strategy innovations. Our emphasis is on explaining available strategy development techniques and how they might be used in practice, rather than on making further theoretical contributions to the topic.

The critical strategic question at the business level is how the firm can gain and sustain competitive advantage. The chapter begins by emphasizing the importance of understanding the target customer and what their needs are. This approach allows competitive positioning to be seen in terms of two fundamental business-winning criteria—how customers perceive the products/services they are being offered and the prices they are being charged. The resulting positioning map, or customer matrix, then serves as a powerful tool to identify the future

strategic moves that are open to the business, again in terms of the fundamental business-winning criteria of perceived use value and price. We outline some of the common options available for improving competitive position and discuss the conditions under which each is likely to be successful. The approach is an extension of traditional 'positioning' views of strategy development, but importantly takes a demand-side rather than supply-side perspective.

Recently there has been much discussion of strategy innovation, the creation of new business models that challenge the existing industry logic and aim to change 'the rules of the game.' Many of the developments in strategy innovation have also emphasized the importance of taking a customer-centered approach. In the second part of the chapter we outline some of the techniques available to assist with strategy innovation and show how they can be used to complement the positioning approach to formulate innovative competitive strategies. In particular we focus on how executives might identify opportunities to radically reconfigure the use value offered to customers and/or the price at which their products can be sold. Some have argued that the recent weight attached to strategy innovation represents a revolution in strategic thinking. The treatment we present reflects our view that strategy innovation is most usefully seen as an evolution of conventional approaches to strategy formulation.

Understanding Customer Value: PUV Charts

Ultimately competitive strategy is about winning business. To win a customer's business the firm must offer a package perceived to be superior to alternative offerings, to offer more 'value for money.' Value for money is a subjective judgement the customer makes when they assess the use values on offer in the products or services, and the prices charged, which they then compare with alternative providers. The 'value for money' judgement they make is the difference between what they would be prepared to pay for the product, less the price charged. This is what an economist calls consumer surplus; so another way of describing 'value for money' is consumer surplus. We make a sale when we offer

more consumer surplus than a competitor. Superior consumer surplus can come about in two ways:

- The use values or utility of our product are superior to competitors;
- The use values we offer are equivalent to competing offers but the price we charge is lower.

We explain later how these two dimensions can be used to explore competitive positioning and the implications of pursuing alternative competitive strategies. However, first it is necessary to understand the dimensions of use value that customers seek from our product or service-what is 'valuable' in the eyes of the customer? This question can only be answered by trying to understand how customers make purchase decisions. The process of constructing a Perceived Use Value chart can help to develop such insight. An example PUV chart is shown in Figure 2.1. It refers to a 40-year-old male seeking a new executive saloon car. The horizontal axis shows the dimensions of use value that are perceived as important by the focal customer. In this case our customer is seeking styling (he wants to look the part), performance, brand strength, engineering strength (he needs reliability), and build quality (he plans to keep the car for some time). The figures in brackets are the relative importance, or weighting, that the customer attaches to each dimension. The vertical axis shows the customer's perception as to how well each competitor's product delivers against the desired dimensions of use value. Figure 2.1 is drawn such that the three competitor products, R, S, and T, have been ranked by the customer relative to our firm's product (car Q), which appears as the baseline. Experience has shown that benchmarking in this way against the firm's own product aids the process of rating competing products along each dimension. Alternatively, the vertical axis can be an absolute percentage rating scale (as used in some of our later examples).

A PUV chart is constructed from the perspective of an individual customer. For example, we would all have slightly different perceptions of the same collection of saloon cars portrayed in Figure 2.1. What we would be looking for in terms of perceived use value, or utility, from the

purchase of a car would be different from one customer to the next. How we individually assess alternative products will also vary. This means that in trying to understand customer behaviour we must be prepared to recognize that there may be important but subtle differences between potential customers. In practice, of course, it is unlikely to be feasible to develop a separate chart for every individual customer. However it may be possible to focus on groups of

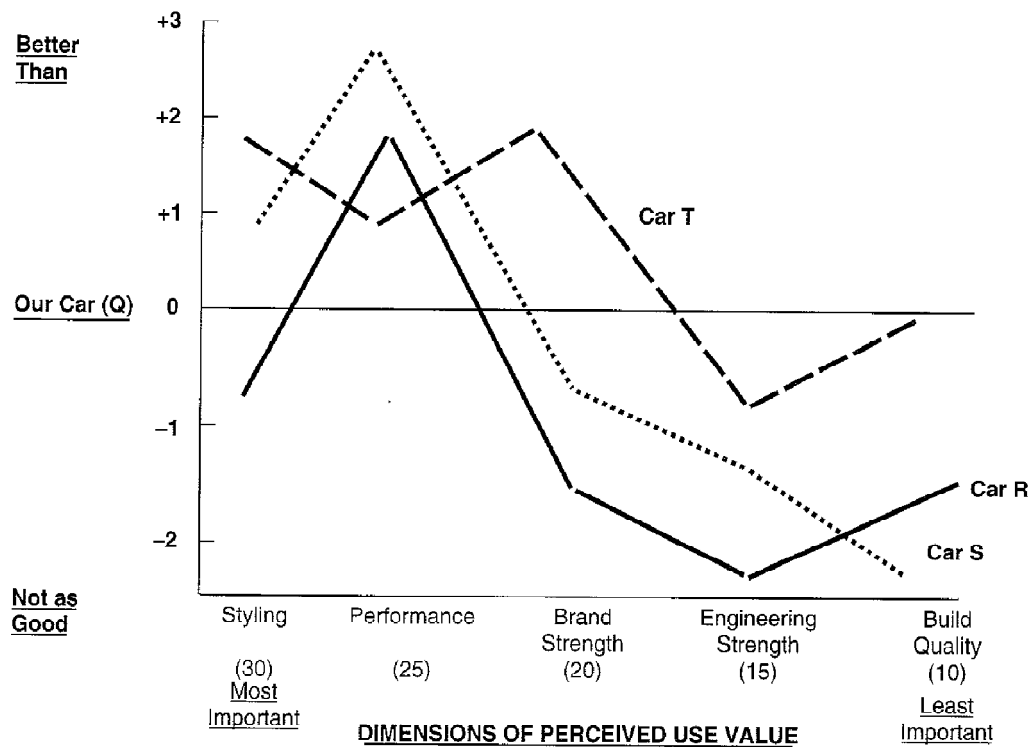


Fig. 2.1 Dimensions of PUV chart

Note: (30) weighting of PV dimensions.

customers who share similar perceptions of use value-i.e. alternative segments of demand. A series of charts constructed for different segments can highlight the relative attributes of the firm's own product and how these are valued by different types of customer. The result can serve as an accessible graphical decision aid as to which customer group to target and which dimensions of PUV to emphasize in any marketing campaign.

The critical feature of a PUV chart is the list of dimensions of use value perceived as important by the focal customer; the horizontal axis in

Figure 2.1. The process of constructing the chart serves as a catalyst for a debate about what it is that the customer really values. In many cases the management team may undertake the exercise themselves as an initial step, relying on their perceptions of customers and their needs. However, it can be dangerous to rely on internal company perceptions because these are often shaped by the firm's own corporate culture and the dominant industry logic. The management team may, as a group, share a set of assumptions about customers and their needs which may not actually reflect the customers' true perceptions. This can be a particular problem in industries where executives have a strong 'technical' background. They are excited and impressed by the technical features of their products, and they assume that the customer values these features in the same way. Furthermore, customers may make purchase decisions on criteria that may not appear to be 'objective' or 'rational.' Indeed, in some cases customers may not be willing, or readily able, to explain their decisions. For example, in addition to the 'rational' dimensions of use value shown in Figure 2.1, further in-depth customer interviews revealed a set of 'emotional' car-buying criteria, with high weights attached to factors such as the ability to impress friends and colleagues and the reinforcement of executive status.

The only way to get fully reliable information on customers' perceptions is to engage in a dialogue with them. This can be done through focus groups, professionally conducted, that move beneath the obvious and tap into the underlying perceptions and motivations of customers. Alternatively, it is possible to glean valuable information through routine interactions. Where the organization has regular contacts with customers, these can be used unobtrusively to build up a picture of their perceptions of your performance and their views of competitors. This is especially appropriate in business-to-business selling. Note that the contact points for this intelligence may be at quite 'low' levels of the organization. This suggests some implications for how the process of formulating a competitive strategy should be managed. For example, the process may well need to include staff involved in operations, sales, and service activities, because the required information may be at these levels, not with the senior executives.

The Customer Matrix and Competitive Positioning

We began this chapter by arguing that competitive strategy is about winning business, which, in turn, requires a firm to either offer higher use value to customers than competitors, or offer the same use value but at a lower price. The 'customer matrix' uses the dimensions of perceived use value and perceived price to analyze competitive positioning and explore potential competitive moves. It provides a highly practical analysis because it frames the discussion of competitive strategy in terms of the two dimensions which define how business is won in the customers' eyes—perceived use value and price. The deliberate separation of these two components of 'value for money' assists us in analyzing competitive strategy.

The customer matrix is derived from the perceptions that customers have of the products/ services being offered to them and the prices that they are being charged. The vertical axis is 'Perceived Use Value' (or PUV) and refers to the value perceived by the buyer in purchasing and using the product or the service. The position of competing products on this axis is derived from the construction of a PUV chart. This requires some simple arithmetic. For each product, its rating on each dimension of PUV is multiplied by the weighting for that dimension. These are then summed to produce an overall PUV score for each competing product. The horizontal axis is Perceived Price. Perceived price refers to the elements of price that the customer is concerned with. For example, in purchasing a heating system for a house the customer may be not only concerned with the initial cost of the installation, e.g. the price of the

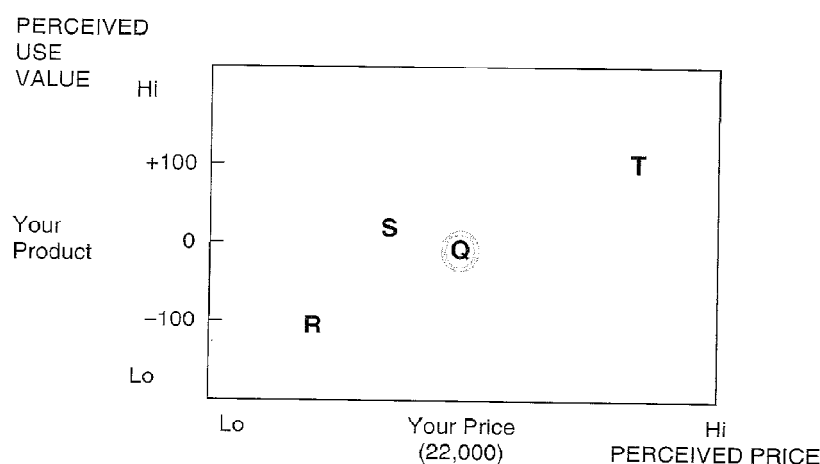


Fig. 2.2 Customer matrix

boiler, radiators, and installation, but she may also be interested in the running costs of the system over the years, like fuel costs, maintenance, etc.

Figure 2.2 shows the customer matrix generated for our 40-year-old male saloon car buyer. The position of the four competing products on the vertical axis is derived from the Figure 2.1 PUV chart. Our customer's perception of the price of each car is shown on the horizontal axis. This takes into account our customer's perception of the relative insurance and running costs as well as the initial purchase price. The resulting customer matrix provides a graphical representation of the competitive positions of our firm's product, car Q, as well as those of its three competitors, cars R, S, and T. The matrix offers insight into the firm's current competitive position. It can serve to open debate into issues such as: Who is our closest competitor? Why are we winning or losing business relative to them? Are new entrants a possibility? If so where might they try to position themselves? In this instance our main competitor is likely to be car S, which is offering higher levels of PUV for the target customer but at a lower price. Thus we would expect to lose market share relative to car S. Note also that products R, Q, and T are lying on a 'value for money' curve; that is, each offers the consumer equal value for money, as the PUV obtained rises in a curve-linear relationship to the perceived price. A value for money curve can be identified in many markets and where all the products lie on the curve the competitive situation can be relatively stable. Here car S is positioned north of the value for money curve and offers the customer superior PUV for the price.

The customer matrix also serves to highlight the strategy options available to a firm. To illustrate this let us turn to the more generic example shown in Figure 2.3,

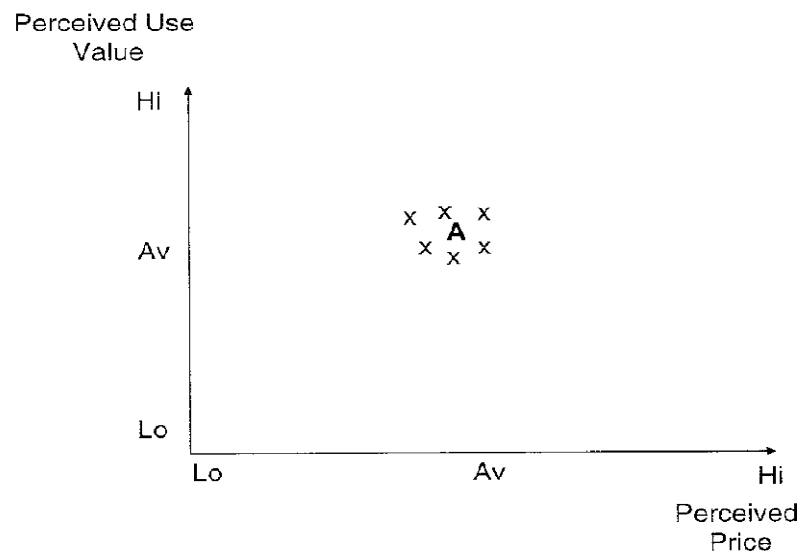


Fig. 2.3 Customer matrix for commodity-type market

where the 'Xs' represent the positions of products in the matrix. As far as the customer here is concerned all the firms are offering more or less equivalent products, and are charging very similar prices. This situation can be found in an increasing number of industries, not just those that are supplying obvious 'commodity' products like gasoline or car insurance. If firm A is facing the situation depicted in Figure 2.3 what are the options available for improving its competitive position? The firm could cut price by moving westward in the matrix, or it could raise the perceived use value of the products or services it offers (moving northwards), or indeed do both at the same time, a move north-west. These basic competitive strategies will now be explored.

Cutting Price

Here the firm moves west in the customer matrix, offering the same perceived use value as the competition, but at a lower price (see Figure 2.4). Such a move should lead to firm A gaining share. This move may not only increase sales for firm A; it may expand the market as a whole, if new consumers are attracted by the lower prices. However, other firms are likely to respond to the move by cutting prices to match firm A to preserve their share of the market, or they may even undercut firm A. Other things being equal, the net result of the competitors moving west with firm A is to reduce average price and profitability in the industry.

Competitors can imitate firm A's price-cutting strategy very rapidly, overnight if necessary. How then can firm A hope to gain an enduring advantage from competing on price? In order to achieve a sustainable advantage, firm A must be able to continually drive down prices and be able to sustain lower

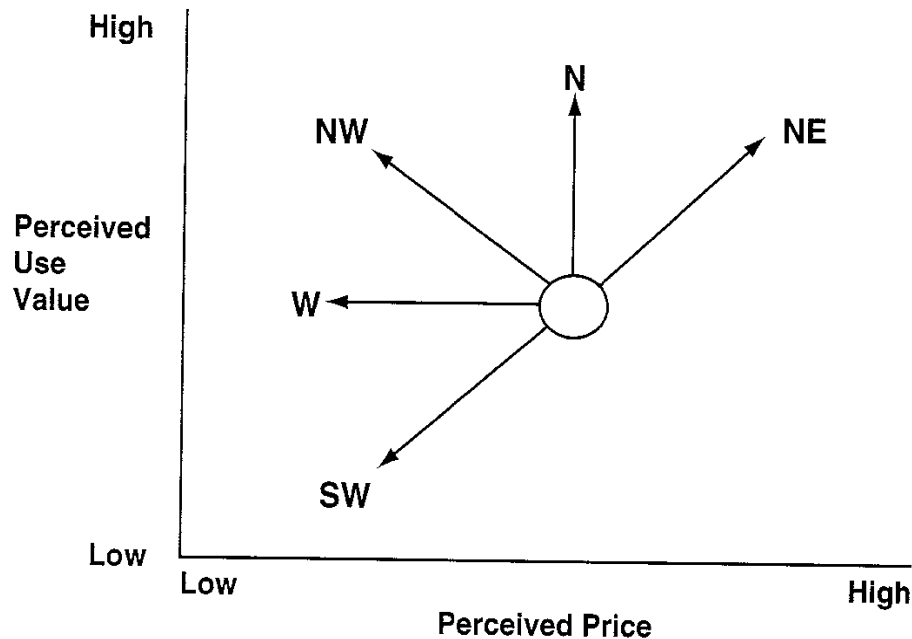


Fig. 2.4 Competitive strategy options

prices for a longer period than its competitors. This can only be achieved if firm A has either the lowest costs in the industry, or if the firm is able to sustain losses for extended periods, through subsidies from another part of the corporation, or from a government. If a firm is not the lowest-cost producer then the competitor that is lowest cost can always cut prices further, or sustain low prices for longer than firm A. So, if a firm chooses to compete on price it needs to have lower costs than its competitors. This involves exploiting all sources of cost reduction that do not affect perceived use value, e.g. economies of scale, learning from experience, 'right first time' quality, just-in-time manufacturing.

Adding Perceived Use Value

The second basic strategy indicated in the customer matrix is the move north: gaining advantage through adding more perceived use value for

the same price as the competitors' offerings. The starting point for this strategy must be the target customer, and the target customer's perceptions of value. In order to effect this move north, rather than it resulting from luck, or trial and error, we must be clear who our target customers are. We must then have a thorough understanding of the target customer's needs, and how that customer evaluates different product offerings.

The customer uses various criteria to evaluate the extent to which a particular product can deliver a particular dimension of PUV. For example, how is 'performance' in a car evaluated? For some customers acceleration is critical, which may be assessed by inspecting the 0-60 mph statistics; for others it is top speed that counts. More interestingly, how is 'build quality' assessed? The customer may make inferences about build quality by interpreting the sound the car door makes when it is closed. Build quality might also be assessed by inspecting the alignment of body panels, or the paint finish. These may actually be very poor indicators, or poor proxy measures of build quality. However, as customer perceptions are paramount, it is essential that the firm understand what criteria the customer does use in making these evaluations, even if the customer is 'wrong.'

By systematically exploring customer needs and perceptions through market research and by continually listening to customers, firms can discover what is valued in their products and services and what could be added to them to improve perceived use value.

Let us return to Figure 2.1, where our firm's product is compared against the three closest rival cars. It appears that our firm's car (product Q) is seen to be inferior to the competition on the really important dimensions, but it performs well on the less valued dimensions. If our firm is to move north in the customer matrix then we either have to significantly shift the consumers' perceptions of our car's performance and styling, through changing the product, or maybe through changing perceptions through better advertising. A more ambitious strategy might be to try to shift consumers' perceptions of the dimensions of use value. For example, it may be possible to persuade the target customer that

engineering strength is more important than styling. Either way, unless our firm improves its position relative to the competition on these dimensions of perceived use value it will lag behind its competitors such as car S. If we remain in a weaker PUV position we may find ourselves forced to cut price to try to preserve sales.

As with the price-cutting strategy, the key issue facing a firm pursuing a strategy of adding perceived use value is the ease with which competitors can match its move north. As a firm moves north by increasing perceived use value ahead of its competitors, it should be rewarded with an increased share of the market. Over time, it is likely that competitors will be able to imitate the move north by either acquiring or developing the required assets, and, as they follow the innovator northwards, the average level of perceived use value in the market is ratcheted upwards.

Thus in most industries the minimum acceptable standards of PUV are being continuously shifted upwards as competitive moves become imitated: 'order-winning' features become 'order-qualifying' features. For instance, anti-lock brakes and air bags are features of cars that were once order winning, which are now required just to be a player. Thus, the issue of sustainability of competitive advantage needs to be considered against this backdrop of continual northward shifts in the competitive arena. What can the innovator do once the competition has caught up? There are two basic options: keep moving north by staying one jump ahead of the competition through innovation, or move west through a cut in price.

But we argued earlier that, in order to compete on price, the firm needs to be the lowest-cost producer in the market. So, can you move north by adding perceived use value, and simultaneously achieve the lowest-cost position? If the move north increases market share, and if these share increases are translated into lower unit costs, through developing scale and pursuing experience-based savings, then there is no reason why the move north could not result in a low relative cost position.

Furthermore, if you really understand what it is that customers

perceive as value in your products or services, you can confidently strip out everything that does not feed through to perceived use value. There is no point in offering a range of costly options, if this is not really what customers want. Of course, if you are not confident about what customers' needs are and how they evaluate alternative products then, to play safe, the tendency is to leave everything in the product, because you are not sure which parts of the total package are the valued features. Value innovation analysis, discussed later, can offer important insights here.

Other Competitive Moves

If the firm offers higher perceived use value, but demands a price premium for this added value, then this moves the firm's product position to the north-east in the matrix (Figure 2.4). The success of this strategy depends upon the existence of a group of buyers who are prepared to pay higher prices for the added perceived value. It also depends upon the ease with which the added perceived use value can be imitated. If it can readily be imitated by competitors then the price premium may be rapidly competed away. One other point to note with this move to the north-east is that it may well be shifting the firm's product into a new segment, where customers have different dimensions of use value, and where they may perceive the firm to be competing with different competitors. Moving into this unfamiliar ground can prove to be risky.

Moving south-west by cutting price and perceived use value is a diagonal move, which may well shift the firm into a new market segment. For example, if a car manufacturer located in the middle ground of the car industry (e.g. Ford) took this route it would be moving to a downmarket position. Whereas Ford's competitors might have been Toyota, Nissan, General Motors, and Daimler Chrysler, they would now find themselves being compared by potential customers with less prestigious, low-price, manufacturers. This may be a viable shift as long as the relative cost position of Ford enabled them to operate profitably against these low-price competitors.

The only direction that is guaranteed to deliver an increased share is a move north-west, adding value and cutting price. The firm must be the lowest-cost producer, and it must be able to move faster than the competitors to sustain its relative position. Typically, however, a competitive firm will move north initially by adding value, then when competitors imitate the added value the firm shifts west by cutting price. The share advantage gained through moving north may well enable the firm to become the low-cost producer through the achievement of scale and experience economies, making the price-cutting strategy feasible. So the north-west position is reached by moving north, then west.

Movements in the customer matrix are determined by changes in customer perceptions of price and perceived use value. Shifts of particular products in the matrix can occur even when the producing firm does nothing. If a competitor is able to move its product north by adding PUV then this has the effect of pushing other competitors' products south in the eyes of the customer. Products can be repositioned through changes in customer tastes and preferences, which can alter the dimensions of PUV seen to be important by the customer. This may result in products well endowed with the preferred dimensions of PUV moving further north.

Strategy Innovation

There has been much interest in recent years in strategy innovation, the creation of new business models that challenge the existing industry logic and aim to change 'the rules of the game.' Well-known examples of strategy innovation include Ryanair, the low-cost airline, which successfully challenged the high-service-high-cost formula of the European airline industry to become one of the fastest-growing carriers. Similarly, Direct Line Insurance transformed the UK insurance industry by offering direct underwriting via a telephone call, thereby cutting out the traditional insurance broker and reducing the established cost structure of the industry by 25-40 per cent. In the world of fashion retailing the Spanish firm Zara challenged more mature rivals by applying

just-in-time techniques to enable it to bring catwalk fashions to its stores within fifteen days of their design. Over the past decade it has grown turnover tenfold yet maintains one of the highest profit margins in the industry.

Each of these companies has successfully created a new business model which has 'changed the rules of the game' within their industry. As Gary Hamel puts it, 'Strategy innovation is the capacity to re-conceive the existing industry model in ways that create new value for customers, wrong-foot competitors, and produce new wealth for all stakeholders.'¹

Looked at in another way, each of the above examples of strategy innovation can be seen as a path-finding move on the customer matrix. Each redefined the accepted norms of PUV and/or price and forced competitors to re-evaluate their previous strategies. Ryanair and other low-cost airlines pioneered direct booking over the internet with 24/7 availability. This has added an important new dimension of PUV to customers, which traditional competitors have had to recognize. Zara's ability to bring constantly changing fashions into their stores has led to customers attaching more weight to this dimension of PUV; with a new awareness that they do not need to be limited to spring and autumn collection changes. More generally, moving north based on an understanding of current customer perceptions of use value is unlikely to be successful if a strategic innovator emerges that changes consumers' desires and expectations of the product's utility. Strategy innovations may also introduce radically different cost structures and, in turn, customer expectations of price. Again, Ryanair provides a leading example. Their low-cost business model allowed pan-European flights to be offered for tens rather than hundreds of pounds. Traditional airlines who had previously been attempting a move west on the customer matrix would have found their strategy comprehensively outpaced.

The Importance of Considering Strategy Innovation

The possibility of strategy innovation occurring in your own product market clearly warrants consideration when formulating competitive strategy. First, it may highlight an opportunity for strategy innovation

that your business can exploit. Second, it provokes awareness of how others may attempt to change the rules of the game within your industry. It is notable that all three of the above examples occurred in industries that would have been described as mature (airlines, insurance, and fashion retailing). Yet in each case these mature industries have been transformed in potentially unforeseen ways by firms that were relatively new entrants into the industry.

Recent research into strategy innovation has provided a number of techniques to aid the identification of innovative strategies. Many of these developments have also emphasized the importance of taking a customer-centered approach and therefore provide a useful complement to the analyses discussed earlier in this chapter. In the sections that follow we outline two techniques that can offer insights into how we might identify opportunities to radically reconfigure the use value offered to customers and/ or the price at which our products can be sold.

The techniques are particularly applicable to product markets characterized by widespread competitive imitation and a consequent lack of product differentiation. These 'near commodity' type markets are typified by the form of PUV chart shown in Figure 2.5, where customers perceive very little difference between individual

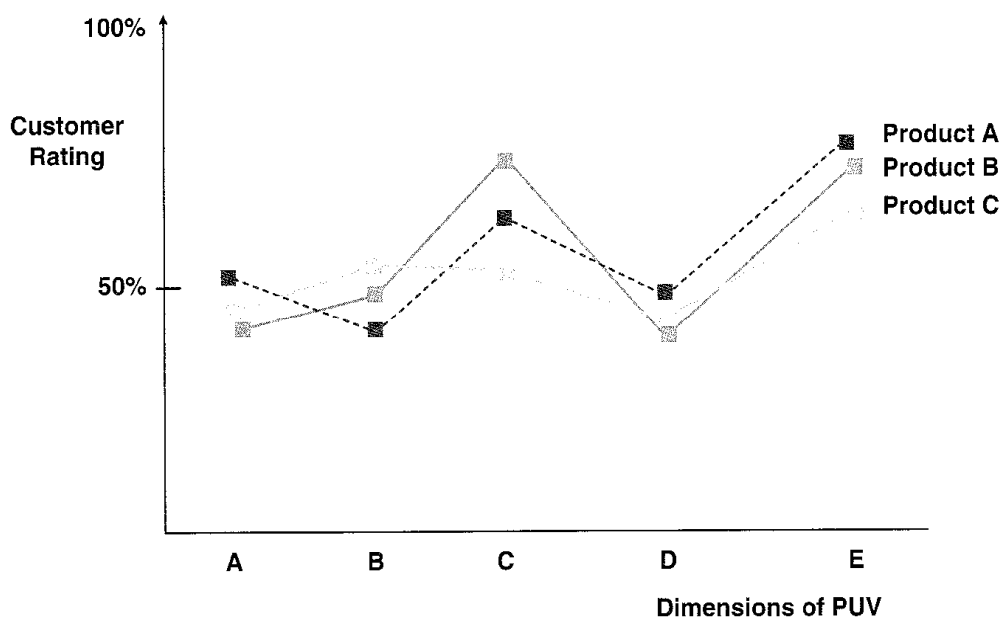


Fig. 2.5 PUV chart for market suffering strategic convergence

product offerings and purchase decisions become based solely on price. It is a paradox of today's business environment that while some companies are pursuing innovative strategies that redefine their industries, the majority of companies are pursuing strategies that are becoming ever closer to those of their competitors. The danger with such strategic convergence is that it is invariably accompanied by declining profit margins over time as pricing pressures take their toll. Attempts to compensate through cost-based advantages are frequently also subject to rapid imitation, possibly fueled by consultants selling the same best-practice 'solutions' across an industry. Strategy innovation potentially offers a way to escape from the head-to-head competition that strategic convergence inevitably leads to.

The Identification of Innovative Competitive Strategies

Value Innovation Analysis

The first technique builds on the PUV charts introduced earlier. A PUV chart shows the dimensions of use value that customers currently seek and how well the present product offerings match up to these. A 'value innovation' analysis, as proposed by Chan Kim and Renee Mauborgne,² considers whether there are opportunities to reconfigure the overall value proposition offered to customers, for example by exploiting key trade-offs which may exist between dimensions of use value.

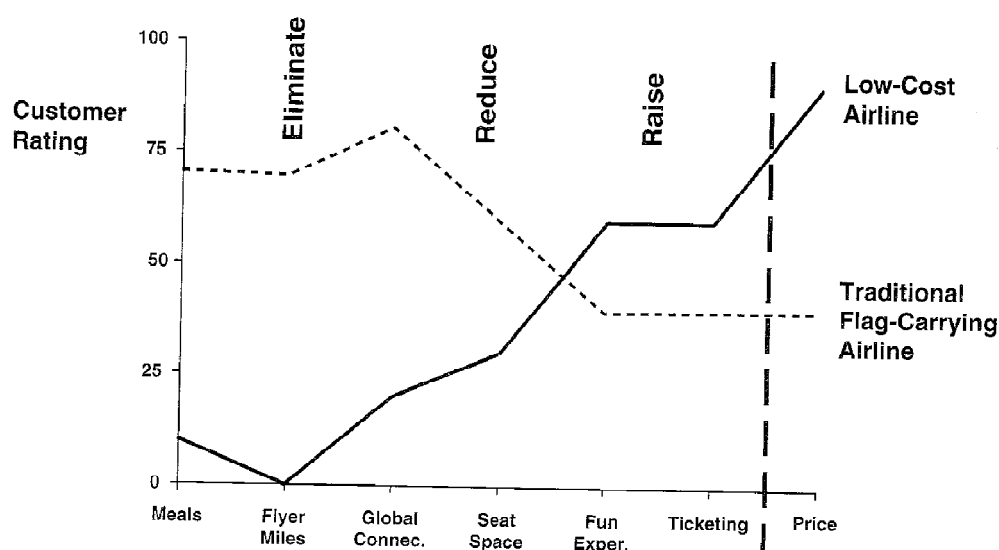


Fig. 2.6 Value innovation analysis for the European airline industry

Note: The product features and ratings are illustrative only.

Figure 2.6 shows an example of this type of analysis applied to the European air travel industry, illustrating how the low-cost airlines such as Ryanair and easyJet reconfigured the established industry value proposition of high service to one that emphasized convenience and low price.³ In comparison to a typical flag-carrying airline operating on the same route, meal service and frequent flyer programs have been eliminated. Seat space and opportunities for connecting flights have been reduced. These eliminations and reductions contribute to a cost structure that allows prices to be reduced substantially against the industry norm (in Figure 2.6 giving a higher customer rating of price). Further, the creation of ticketless travel and 24/7 booking availability has met latent customer needs in terms of reservation convenience. The power of this alternative value curve and its associated business model has been evidenced by the rapid development of the low-cost airlines.

In general, the first step in any value innovation analysis is to construct a PUV chart of the product market as it currently stands. For this particular analysis it is useful to include price as a separate dimension, to give a complete pictorial representation of the value proposition as perceived by the customer.⁴ Further, in near commodity markets where each competitor shares an almost identical PUV profile, it can be useful also to simplify the chart by representing the existing product offerings by a single 'industry-norm' profile.

Once the existing PUV plot is complete the technique involves posing four questions:⁵

- What dimensions of PUV might be eliminated that the industry has taken for granted?
- What dimensions of PUV might be reduced well below the industry standard?
- What dimensions of PUV might be raised well beyond the industry standard?
- What dimensions of PUV should be created that the industry has

never offered?

These four simple questions can be a potent source of ideas for strategy innovation. The elimination and reduction of over-specified product features can drive cost reductions, promoting a move west on the customer matrix. Likewise the raising and creation of desired product features equates to a move north on the customer matrix and the prospect of stronger consumer demand. In combination the process may point the way to new business models which allow a strong move north-west on the matrix (Figure 2.7). In practice, however, we frequently see strategic innovators choosing to adopt either a predominantly westerly positioning or a predominantly northerly one. Where the new positioning is based on low price, as in the low-cost airline example, any PUV enhancement can be used to boost sales volumes. Similarly, where the innovator moves north through the offer of significantly higher PUY, any cost reductions can be taken as increased profit margins. In many cases the move west or north is sufficiently marked that it also takes the innovator into a new customer segment, creating demand from a new group of customers for whom the reconfigured PUV has particular appeal.

An example of how PUV can be reconfigured to provide enhanced use value to a new customer segment is provided by Harley-Davidson motorcycles.⁶ Figure 2.8 shows what a value innovation analysis conducted back in the

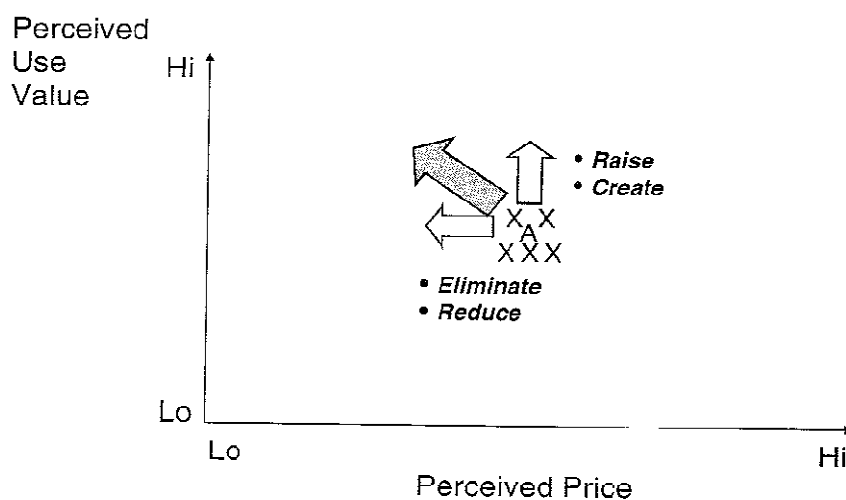


Fig. 2.7 Value innovation and moves on the customer matrix

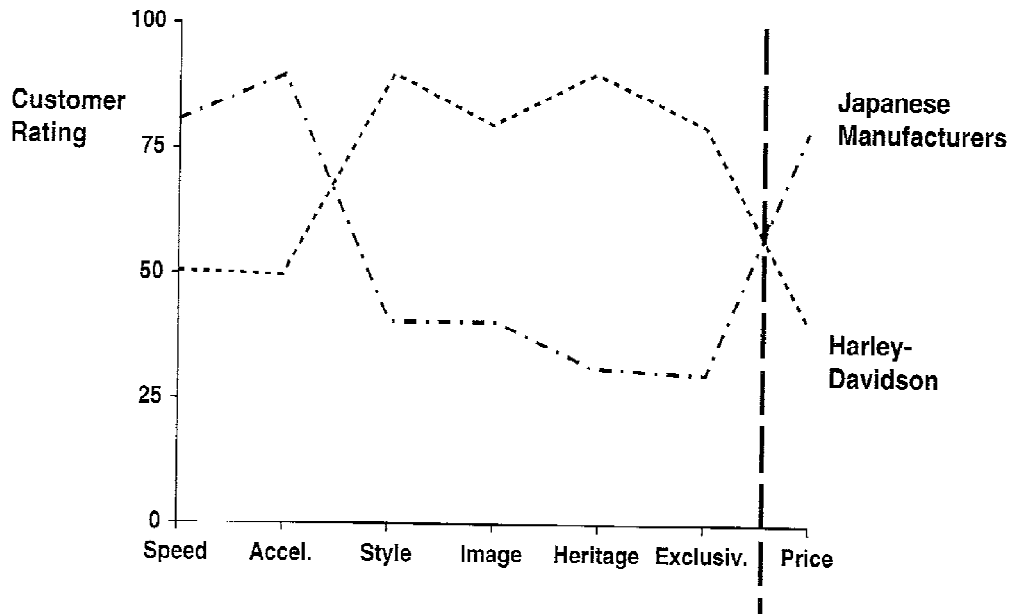


Fig. 2.8 Value innovation analysis for motorcycles (early 1980s)

Note: The product features and ratings illustrative only.

early 1980s might have looked like. At the time Harley-Davidson was close to bankruptcy, producing motorcycles that were based on designs originally dating from the 1950s and 1960s. The industry was dominated by Japanese manufacturers who offered affordable machines with high performance in terms of top speed and acceleration. The typical purchasers were young males seeking low-cost but high-performance transport.

However, Harley-Davidson's management recognized that their products offered more than pure function. Harley-Davidson motorcycles scored highly on more emotional attributes such as heritage, style, and exclusivity. The company correctly identified that these dimensions of use value potentially had stronger appeal to maturing young professionals, who sought a 'hobby experience,' rather than the industry's traditional customers. The company began a marketing and product development strategy which emphasized these dimensions to this new type of motorcycle rider. Product development sought to enhance the perceptions of style, heritage, and exclusivity through the maintenance of classic styling, the selective reintroduction of nostalgic features, in some cases down to white wall tyres and vintage paint

schemes, and careful packaging of modern technological improvements. Further, Harley-Davidson created new complementary use values through the formation of the Harley Owners Group, which promoted the hobby aspect with factory-sponsored events and social activities. The average age and income of their customers has risen steadily reflecting the new target market and the success of the reconfigured value proposition is witnessed by profit margins that are amongst the highest in the automotive industry. Harley-Davidson's share price has grown at an annual compound rate of over 30 per cent during the twenty-year period since 1986.

Thinking beyond Traditional Industry Boundaries

A second, and related, technique to consider opportunities for strategy innovation involves actively challenging the accepted industry logic.⁷ Most industries have a standard definition of what their product is, which tends to be held in common by all the players. The motorcycle industry manufactures motorcycles, the airline industry provides travel on an airplane, soap manufacturers produce soap. Thinking beyond the traditional industry boundaries, often deeply embedded as the assumed limits to the firm's activities, may expose opportunities for strategy innovation.

An inspection of substitute and complementary industries can provide insights into how the PUV of an existing product or service may be reconfigured. Consider domestic airlines, which have substitutes in the form of rail or coach travel. Airlines have the advantages of speed and perhaps exclusivity, but at a high price. Rail and coach are slow, but enjoy easy ticketing with no need for prior booking and are less expensive. Companies such as easyJet and Ryanair have innovated by combining the key benefits of these two substitute industries—they aim to offer inexpensive airline travel as easy to use as the coach. To catalyze such thinking it is often illuminating to construct a PUV chart showing your own product/ service alongside the profiles of its substitutes. What attributes do consumers value in the alternative products? Can these be combined in a new offering?

Similarly, consideration of the products and services which complement your own offering can highlight opportunities. For example, the purchase of an automobile is complemented by insurance, ongoing maintenance, and frequently a finance package. Originally supplied by separate providers, motor manufacturers have recognized that they can provide additional value for their customers by packaging all of these complementary activities into a single offering. The key question to ask is: are there complementary services that can be rolled in to give their customer a more total solution? The concept of the Customer Activity Cycle, developed by Sandra Vanderrnerwe,⁸ is a powerful aid to develop an appreciation of the customer's complete experience. What is the pre-purchase, purchase, and post-purchase sequence of activity? How can value be provided to the customer over the total activity cycle? Can more complete solutions be developed over and above the current industry product?

Finally, it can be enlightening to look critically at who the industry has conventionally seen as its customer. The insurance industry traditionally saw brokers as their immediate customers. Direct Line was able to change the established rules of the game by selling directly to the final consumer, eliminating the intermediary. Not only did this substantially reduce costs, it also facilitated higher levels of service and gained ownership of the customer relationship. In other instances the customer that pays for the product may not be the customer who actually uses it (e.g. business services in many large organizations are frequently paid for centrally but used locally). Each customer group may have different criteria in making their product choice—they may value different dimensions of PUV—which may present opportunities for targeting customers who lie outside the conventional industry definition.

Summary and Conclusion

This chapter has outlined some practical techniques that executives can use to understand their current competitive positioning and the strategy options that may be available to their businesses. We began by arguing that competitive strategy is about winning further business. This, in turn,

requires an understanding of value from the customer's perspective. We introduced the perceived use value chart as a tool that helps develop insights into customer-defined value and how customers perceive the products competing for their cash. The customer matrix builds on these insights and serves as a powerful graphic representation of competitive positioning, defined in terms of the two primary business-winning criteria—perceived price and perceived use value. Once constructed, we illustrated how the customer matrix allows the management team to explore the implications of pursuing alternative competitive strategies.

The recent literature on strategy innovation has offered a rich discussion of novel and innovative competitive strategies. We examined two techniques derived from this literature that can aid the identification of innovative competitive strategies, which can be particularly relevant in markets that are suffering from commoditization and strategic convergence. Both value innovation analysis and an active challenging of existing industry boundaries can direct attention at how the overall value proposition offered to customers might be reconfigured. The techniques can point to novel competitive strategies which offer enhanced use value and/ or lower price, frequently to a new customer segment.

The real power in all of the tools outlined lies in their focus on the customer. In our experience their application forces a management team to engage in a debate as to what the customer really values in their product or service and how these perceptions might vary across different customer groups. This demand-side perspective offers an extremely valuable contribution to strategic thinking, in that it helps the top team to develop a shared understanding of how further business might be won, and invariably raises important questions about the firm's products and markets. Very often it also demonstrates forcibly to the management team that they lack reliable and comprehensive information about their target customers and their competitors. This typically stimulates a quest for better market research, which, if undertaken sensitively, can itself serve as a positive process aspect, visibly reinforcing the message to customers that the business is concerned with meeting their needs.

Finally, we believe these techniques are powerful not only because of the analytical insight they provide, but also because their application helps executives develop a belief in the competitive strategy of their business. This is important since having a clear belief in the direction of the business makes the executives' life easier as it builds confidence in decision making. Armed with a clear and widely shared view of the desired competitive positioning of the business, day-to-day decisions can be made with more confidence at all levels of the organization.

Notes

1. G. Hamel (1998) 'Strategy Innovation and the Quest for Value,' Sloan Management Review, 39 (4): 8.
2. C. Kim and R. Mauborgne (2005) Blue Ocean Strategy. Cambridge, Mass.: Harvard Business School Press; C. Kim and R. Mauborgne (1997) 'Value Innovation: The Strategic Logic of High Growth,' Harvard Business Review, Jan.-Feb.: 102-12.
3. See N. Kumar and B. Rogers (2000) 'easyJet: The Web's Favorite Airline,' European Case Clearing House.
4. Recall that in our earlier discussion, and in the customer matrix, price is separated out as an independent dimension. This is to recognize its importance in determining overall value for money in the customer's eyes, which makes it one of the fundamental variables available to win further business.
5. Adapted from Kim and Mauborgne, 'Value Innovation: The Strategic Logic of High Growth,' 107.
6. See R. Schoenberg (2003) 'Harley-Davidson Motorcycles,' European Case Clearing House.
7. See C. Kim and R. Mauborgne (1999) 'Creating New Market Space,' Harvard Business Review, Jan.-Feb.: 83-93; S. Vandermerwe (1996) 'New Competitive Spaces: Jointly Investing in New Customer Logic,' Columbia Journal of World Business, Winter: 81-101; G. Hamel and C. K. Prahalad (1994) 'Competing for the Future,' Harvard Business Review, July-Aug.: 122-8.

8. S. Vandermerwe (1993) 'Jumping into the Customer's Activity Cycle,' *Columbia Journal of World Business*, Summer: 47-65.

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