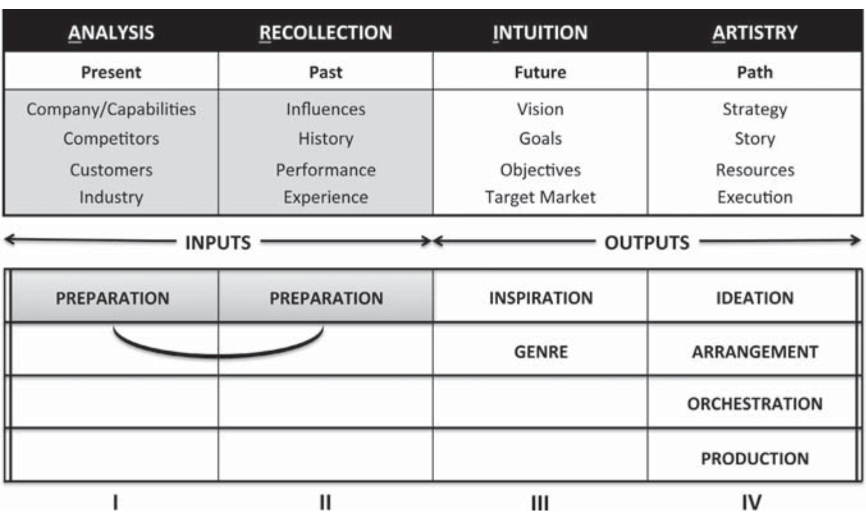
CHAPTER 2

PREPARATION



What You Will Do

- Prepare your strategic baseline analysis

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In preparing myself to write a new song, I am both consciously and subconsciously drawing from more than 35 years of musical training, influences, history, performance, and experiences, all of which are somehow expected to culminate in some new and original expression of my art. And the way this generally happens is by overlaying all of these past experiences onto whatever present-day situation is driving me to write that song. This combination of past and present dimensions results in a future path, which ultimately becomes my new song.

In business, the collection of information may or may not be a bit more formal, but the general idea is exactly the same. Something in the present is driving you to want to determine a future path. To determine that path, you analyze your current situation, recall what has happened in the past, and use all of that information to help determine your future. That's about as basic as it gets, but it also happens to be the very foundation of strategic theory. I call this exploration of present and past dimensions the *preparation stage*.

Since the purpose of this book is not to try to reinvent strategic theory but to show you how to put that theory to better use, I will attempt, in this chapter at least, not to stray too far from the same basic elements that have been taught for literally thousands of years. Yet as many times as this topic has been explored, tweaked, and reimagined, I am amazed at how often I go into classrooms full of business professionals from different companies in different countries with a multitude of different backgrounds and university pedigrees, and I still see light bulbs illuminate over people's heads when I break strategic theory down into its most basic parts. It is here, then, that we will begin our journey.

The term *strategy* is roughly derived from the Greek word *stratēgia*, which itself is derived from the word *stratēgos*, which is a combination of *stratos*, meaning "multitude, army, expedition," and *agos*, meaning "leader." More succinctly, the word *strategy* was used to represent the "art of a general."[1] This is an interesting choice of words to be sure. So now we have to examine exactly what kind of art a general would want to create.

Today military generals surely have to perform any number of administrative tasks, in addition to what they would have also needed to do hundreds of years ago, which primarily was to lead their troops into battle. So we get a visual of a highly decorated commander, with

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the daunting, but I imagine rather necessary, task of leading an army into a pending conflict of some sort. Sometimes the general would be advancing his troops. Other times, he would stand his ground and wait for another army to descend upon his own. The choices that any given general might make in any given situation would be based on the knowledge that he possessed, while the "art," I suppose, would be in how effective and creative those choices were.

The general is in charge, and everyone is looking to that person to choose what moves to make. So what kinds of things might a general need to consider before making such critical decisions? From a practical standpoint, the general's knowledge can be separated into five main categories:

1. Motivation
2. Enemy
3. Capabilities
4. Environment
5. Plan

Out of interest for the origin of the word *strategy*, I will explore each one of these areas using this analogy of a general leading his respective army into war. Granted, I am not an expert in military strategy, nor am I a particular fan of two or more groups of people trying to kill one another. But it is a necessary subject to explore, if only to fully understand why the concept of strategy is so often applied to business and also why it is not always the easiest connection to make.

MOTIVATION

Before we ever get into vision statements, goals, or objectives, there has to be a driving force that motivates us to want to take action. Many people believe that strategy begins with a vision. While this is an important part of a strategy, your vision is usually derived from a base motivation or an overarching reason for wanting to make something happen in the first place. This base motivation is where your strategy ultimately begins. It is your backstory, in a way, and it must be identified before your vision can be developed.

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Sometimes these elements are confused. For example, if you are going into battle, clearly your vision will be to win the war. But after you get over that knee-jerk statement, you'll probably find that there is something else, something deeper, that is actually causing the war to happen in the first place. Perhaps you want to acquire land. Or maybe you are trying to defend the land you already have. You might want to weaken your enemies so they can't attack you in the future. Or you might want to spread your beliefs or your particular point of view. You might just want to get from one point on the map to another. Or you might even be fighting over a relationship of some kind. The point is, many different motivating factors could exist. The key is to understand the true motivation behind your strategy before you go about the business of putting one together.

Relating this to a business scenario, starting with a vision like "we want to be the number-one provider of widgets" is strikingly familiar to saying, "we want to win the war." Growing and winning are valid aspirations, but there is usually some underlying reason why those things are actually important. For example, a professional American football team more than likely has a goal to win all of their games, so they will very likely put a strategy in place to do that every week. But the *reason* they want to win every week is so that they can win enough games to vie for a playoff spot at the end of the season. And the *reason* for that is so that they can play in the championship game. And the *reason* they want to win the championship game is so that they can have bragging rights and more endorsements and better television contracts and better merchandise sales and ultimately more money. So there are many more underlying motivations behind the goal of winning.

So why is all of this important? Many a business war has been fought in which the troops understand only the vision but not the real motivation that drives that vision. And many of those wars have been lost. A truly great leader will tell his or her troops not only *what* they are fighting for but also *why* they are fighting. Sharing, or at least translating, this crucial component of your thought process will be one of the keys to your strategic success.

In the next chapter, I will talk about finding your inspiration, which will be at least partially derived from your motivation. So at this point it will be important to know what your true motivation is.

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ENEMY

What else might a general need to know before leading his or her troops into battle? Understanding a thing or two about the enemy might be a good place to start. Whatever is motivating your strategy, one thing is for certain: your enemy is standing in your way. So before you decide how to deal with this obstacle, you probably want to take a little time to understand what it's all about.

So what kinds of things might you need to know about your enemy? It's easy to rattle off the usual list of suspects: strengths, weaknesses, capabilities, and so on. But before we get there let's just think in terms of our own personal survival because, as with most things, our natural instincts usually serve as our best guide. To help illustrate this point, I'd like to share a personal story that I believe sums up this sentiment quite nicely.

When I was about 14 years old—right around the time when boys are just beginning to flex their muscles and mark their newfound territories—I remember the tougher kids starting to emerge out of the group of people whom I used to call my friends. And there was one young man in particular who seemed to be just a little bit tougher than the rest. To protect the innocent, let's just call him Joe. One day, I went into my social studies class and sat down at the same desk that I had always sat in, which was also the same desk that was shared by an unknown number of other students who occupied this same classroom during other classes throughout the day. As I began to take out my single piece of lined paper and jot down the assignment for the afternoon, I noticed that my pencil wasn't gliding quite as smoothly across the page as it had in the past. Looking underneath, as the curious among us are inclined to do from time to time, I found that the culprit was a freshly carved, rather unflattering phrase about good ol' Joe. I chuckled to myself, moved the paper, and went on about my day.

The next day, thinking nothing more about that silly little carving, just as I was heading to my last class of the day, one of my friends hurriedly approached me with a demeanor that was one part panic and three parts "I'm sure glad I'm not you!" Before I could even say hello, he was blurting out the words, "Did you hear that Joe is looking for you?" *This can't be good*, I thought in a flash. But before I could

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respond, my friend blurted out the sentence that no 14-year-old passive-aggressive young teenager wants to hear: “He said he wants to call you out!”

At least in my neighborhood, people didn’t just fight one another; they fought each other in a public arena. “Calling someone out” was the modern-day equivalent of challenging someone to a duel. In our case, the chosen battlefield was the other side of a hill just across from our middle school. This put the whole spectacle just out of view of the faculty parking lot, but still close enough to the school so as to draw a full-capacity crowd of student spectators. The only thing worse than being called out was being told to meet someone “over the hill.” Once that location was named, there was no turning back. Thankfully, things hadn’t progressed to this point just yet, but all signs were pointing in that direction. And, as you can imagine, the person doing the calling usually had a far better chance of winning than the person being called!

Trying to ignore the fact that my so-called friend seemed a little too happy about all of this, and that I was, quite frankly, scared out of my wits, I asked for an explanation. As you may have guessed, I had been accused of publicly dishonoring Joe’s good name by way of a certain desk carving. And Joe apparently was none too happy about it.

Like most young boys growing up in the suburbs, I went through my phase of thinking that I was tougher than I actually was. Unfortunately for me, that phase had come and gone about a year prior to this little situation. Joe, on the other hand, didn’t appear to be growing out of his phase. In fact, he was growing quite nicely right into it! All things considered, things weren’t trending in my favor. He was bigger and stronger, had more to prove and less to lose, and appeared to be highly motivated to damage me in some way. My motivation, on the other hand, was just to stay alive. All of this analysis happened in about 10 seconds, after which time I had devised the first part of my strategy: get the heck out of Dodge! Thank goodness it was a Friday, so I had all weekend to devise the next part of my plan.

Joe was stronger than I was. He was a better fighter. He was less afraid. I, on the other hand, was probably a better talker. Maybe I could use that to my advantage. There was also the little reality that I didn’t actually carve anything into anyone’s desk in the first place.

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So I stood wrongly accused. That had to account for something, didn't it? There was also the fact that Joe and I used to be friends at one time—or at least friendly acquaintances. If I combined all of that together, maybe, if given the chance, I could talk my way out of this whole thing. I was pretty sure that that would be my strategy, but my analysis didn't end there.

Next I started playing out different scenarios in my head. What if we did get into a fight? What specifically would he do? I knew he wasn't a killer—or at least I didn't think he was. He had no history of ever wielding any weapons of any sort. So I was pretty certain that, although technically possible, he probably wasn't going to do any real harm to me.

Then I began to think about what might be motivating him. Why did he want to fight me in the first place? Obviously he had something to prove. He wanted to make everyone very well aware of the fact that he was the boss and that nobody should ever use the boss's name in vain. So if there was another way of him achieving that same end result without resorting to violence, knowing what I knew about him, did I think he might take that other option? Yes I did. All of this had to be contemplated.

What if we fought and he lost? Even though I was afraid of Joe, I wasn't exactly the smallest kid in the class. And the last time Joe and I interacted, I was in fact, going through that tough phase that I mentioned. Maybe he didn't know that I had grown out of it. So if his motivation was to show the school who was boss, would he really be willing to risk fighting me and losing? It was an interesting thought.

The point I'm trying to make is that sizing up your enemy is not just about looking at what's happening on the surface; it's also about knowing their strengths and weaknesses, knowing how they have used those advantages and disadvantages in the past, and then thinking about how all of that will translate into what they might do in the future.

In business we sometimes try to isolate these factors. For example, if I worked for a soft-drink company, I would probably look at Coca-Cola as a competitor. So I might be inclined to learn as much as possible as I could about Coca-Cola and start listing all of that company's strengths, weaknesses, market share numbers, product portfolios, financials, geographies, and so on. Then I might do the

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same thing for PepsiCo, and Dr Pepper Snapple Group, and any other number of similar companies. Then I would probably put all that vast amount of data into a strategic presentation and feel as if I had completed my competitive analysis. I've seen it happen too many times: large amounts of competitive data presented in a static way without any critical analysis of how all that data will react and interact under given situations.

The root cause of this problem is that we may have moved too far away from our basic instincts. If you were confronted with a fight, what would you need to look for in your enemy? Yes, strengths; yes, weaknesses. But, perhaps more important, you must anticipate what that person will do with those strengths and weaknesses under any number of different circumstances, which you may very well help to create. That's how you need to look at your enemy, and that's why I want you to think about what you would do if you were facing "Joe" rather than simply running through a list of what you need to know about your competitors. You'll have the opportunity to run through your list, but not before examining your gut instincts first.

There's one more thing you ought to consider about your enemy. It's fairly straightforward to know whom you're fighting today, but it's not so easy to know whom you may be fighting tomorrow. Stated more simply, you need to think about the enemy who may be waiting in the wings to attack you or your market but whom you aren't confronting currently. I doubt many computer services or telecommunications companies were viewing an online bookseller as much of a competitor at the beginning of our current century. Looking back, maybe they should have seen it coming. Amazon .com had the infrastructure, the customer base, and, perhaps most important, the desire. All it needed to do was put all of those things together, and suddenly an enviable online cloud storage business was born. The point is, it's not always easy to see a sneak attack, but you'll have a much better chance of doing so if you have a few spotters constantly posted in the turrets or, in business terms, if you always have at least one eye looking outside your own company at all times.

Now you know who your enemies are, who they aren't, and who they might just be. In case you hadn't guessed it, your enemies in business will translate into your competitors, which is how I will refer to them from this point forward.

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CAPABILITIES

The phrase "know thyself" goes back to the time of the Ancient Greeks[2] and has been used as a directive for self-awareness ever since. My personal take on this saying is that most people do know themselves fairly well. The harder part may actually be admitting it.

When you are standing close to the edge of that battlefield and getting ready to lead your troops into battle (whether metaphorically or not), you absolutely must take a realistic and candid view of your own strengths and weaknesses so that you can overlay them against all of your other analyzed variables and formulate a plan of action. The biggest challenge in this situation will be allowing yourself to truly see what you are good at and what you are not, despite any of the beliefs that you may have (or want to have) about yourself.

Coming back to my story with Joe, I knew that I was weaker than him, and I knew that I would more than likely lose that fight. I also knew that I was smart enough to talk my way out of things if I only had the chance to face him for a few minutes alone. And although I had no problem admitting those things to myself, what would happen if the rest of the world knew them as well? Then what? It's not like I walked around school telling everyone how weak and afraid I was. At age 14 that wasn't exactly the image I was trying to portray. Sure, I knew myself, but nobody else knew who I really was. So one of my biggest challenges was that this little inner conflict might just be revealed to the world.

Companies are no different. In an attempt to continuously sell themselves to their investors, executive team members are always trying to make their companies look more attractive; it's one of their main jobs. This isn't a bad thing, because nobody wants to invest in, or work for, an organization that is always pointing out its own faults. That said, when it comes to developing strategy, you have to learn to break through that very thick, seemingly impenetrable facade and truly know thyself. Again, you probably already do. The challenge will be to admit it.

I am reminded of the story told many times before: about the 1980 U.S. Olympic hockey team led by coach Herb Brooks. Facing teams that were stronger, more experienced, and better positioned to win, Brooks was able to take a true inventory of his own team's weaknesses and devise a strategy that would ultimately allow them to

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win the gold medal. He bonded the team around a common enemy—himself—while, at the same time, helping them build the stamina and strength they would need if they were to have even the slightest chance of winning on the global stage.[3] I'm sure it wasn't easy for Brooks or his team to admit that they weren't as strong or as capable out of the gate as their country expected them to be. However, by admitting just that and by painting a truly accurate picture of who they were and what they could and could not do, they were able to build on their strengths, overcome their weaknesses, and go on to both surprise and amaze the entire world by winning against the favored Soviet Union team and going on to ultimately earn the gold medal.

When I work with companies on their strategies, I spend some time up front getting everyone to talk about the company that they really work for. One of those catchy little phrases that I've heard many times but can't seem to attribute to anyone in particular is "breathing your own exhaust." Roughly speaking, it means that you are so busy inhaling whatever comes out of your own mouth, that you forget to breathe in some fresh, untainted air every once in a while. Unfortunately, it happens to companies all the time.

If you work for a company that is constantly telling the world how much people love its products, then, as an employee, you'll be likely to believe it too. Taking that statement at face value, you may put it in your "strength" column. You know you should validate whether or not customers really feel that way about your products, but admitting that fact would require that you take extra time (that you probably don't have) to actually do that validation—not to mention having to tell an executive that the slightly exaggerated claim that he or she has been spewing to investors and employees for the last however many years is downright wrong. I can't possibly see what could go wrong with that plan! It's probably easier to go on living with the illusion that customers really do love your products and building your strategy on the hope that there may be some ray of truth to even some part of that statement.

Those who work in the real world know that this happens every single minute of every day. We may know ourselves; we just don't always want to admit it.

What, then, can we do about it?

When preparing for your strategic analysis, you absolutely have to allow yourself to take an honest look at your company and admit

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your own strengths and weaknesses. Sometimes, the best way to do that is to obtain some level of outside validation, usually from customers.

I once worked with an organization that sold long legacy, high-quality industrial products. This company had a flagship product that it had both invented and successfully brought into the marketplace over 50 years ago, and although the product had since been copied many times over, this brand still held a very respectable share of the market. The president of the company had grown up within the company and started his career selling this particular product—with much success. This was both a blessing and a curse: a blessing because the president knew the product and the marketplace so well, and a curse because the president knew the product and the marketplace so well. In fact, his version of the marketplace was now approximately 20 years old and, because of that, what he believed customers liked about this product nobody really cared about anymore. When I was brought in to help with this strategy, it was, by and large, because the product manager was literally petrified to go in and tell the president the truth, and he felt that a little outside support might be required.

What I suggested was hardly earth shattering. It was simply to contract an unbiased third-party company to talk with the company's customers and put it all in a report. With that important piece of evidence in hand, the president was forced to admit to some of the product's shortcomings and open his eyes to the new reality that existed in the marketplace. The one thing I have yet to see any company leader turn his or her head away from is true customer validation.

Another way to validate your own capabilities is to see how those capabilities have translated into performance results over time. There are two main performance-related dimensions that you will likely be tracking. The first is how your key metrics (sometimes called *key performance indicators*, or *KPIs*) have been tracking your results against overall expectations. These may include the following:

- Revenues
- Profitability
- Costs
- Prices

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- Market share data
- Market growth data
- Customer satisfaction metrics

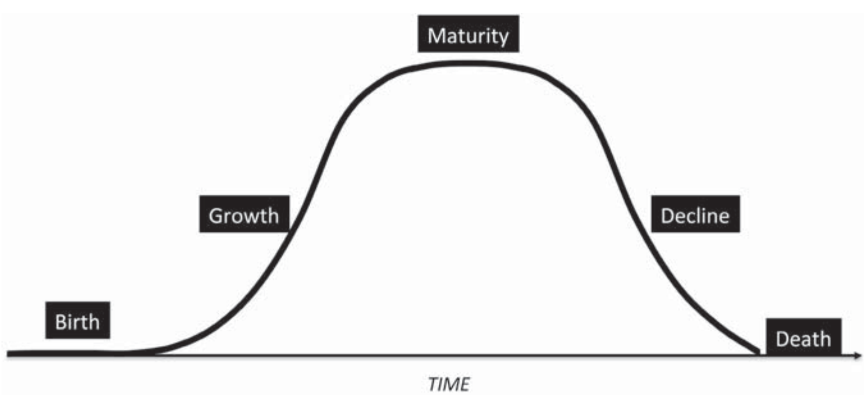
Preferably, this information will be presented in the form of a simple chart that culminates in the current performance of the business.

The second performance dimension that you should focus on is where your product or company is in its life cycle. Every product or company will follow a life-cycle curve—that is, it will be born, it will grow, it will mature, it will decline, and it will die. In general, that curve looks like the one shown in Figure 2.1.

For products, we generally replace the words *birth* and *death* with softer terms like *introduction* and *exit*, but the meanings are the same. The reason I prefer to use more realistic terminology is because, as harsh as it may sound, it is called a *life* cycle for a reason; not only does every product go through this curve, pretty much everything on earth goes through this curve—including us! When we talk about a product being introduced, it feels as though it was already existing and just waiting for us to announce its presence. But that's not really how it happens. Products are instead born out of a laborious process of observation, insight gathering, strategizing, ideation, development, and launch. Their introduction to the world is the culmination of a very long gestation period. Saying that products are *born* seems, in my mind, to capture that process much more adequately.

FIGURE 2.1

The Product Life-Cycle Curve



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Similarly, when we say that we exit products, it implies a choice that is completely within our control. Although this is certainly the preferred route, it does not always reflect the reality that many companies face. If products aren't consciously exited after they have lived out their useful lives, they will inevitably die on their own—without a plan, without a replacement, and without a proper send-off. The truth is, products die, sometimes slowly and painfully if we do not take care of them, and sometimes in a much more dignified fashion if we can properly plan for their demise. I know that may sound morbid, but we have to state things as they truly are, lest we fool ourselves into believing that the process is somehow different than it really is.

You might have noticed that the *Y* axis on the life-cycle curve in Figure 2.1 has no definition. Oftentimes, you will see this axis labeled as "Sales Volume" or another pinpointed measurement. Unfortunately, real-life experience will poke holes in just about any variable that you want to put on this axis. For example, I can have a 50-year-old product that has had increasing sales volume every year due to continued market growth. But if my relative market share has remained constant over the past 40 years, I would be hard pressed to define that product as still being in its growth stage.

The problem comes when you try to view the life-cycle curve as a technical graph rather than a visual representation of a product's life. Like any form of life, everything ages differently. I can't really say that a 70-year-old person is in the decline phase of his or her life if the dimension I'm measuring is knowledge. If, on the other hand, I am measuring body function, then I could probably say that this person is indeed in decline. The measurement is relative to whatever function is important to you, whether that is sales or share—or anything else for that matter. And for most businesses (and most of life as we know it) it is some combination of all of these things, not necessarily measured, but felt. So the curve becomes a visual representation of what typically happens between the life and death of a product. Knowing where you are between these two points at any given time will allow you to develop strategies that take advantage of this position and help bring you smoothly to the next.

So know thyself—or, more accurately, allow yourself to admit what you already know about thyself. And then validate that with the people who know you best. Then you will be ready to use that information to develop your strategy.

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This idea of knowing your own capabilities will translate, in business, into understanding your company's strengths, weaknesses, abilities, desires, performance, and culture. I will collectively refer to this, through the rest of our analysis as "company/capabilities."

ENVIRONMENT

The last of the inputs that a general needs to know about is the environment that he will be working within. So if you were a general, you might think about things like the terrain, the weather, or the critters and creatures that you may encounter as you carry out your plan. And like all of your other elements, you can't think of this one element separately from the others. It's not enough to know if you have poisonous snakes to contend with. What you really need to know is how well your troops are prepared to deal with those snakes and, just as important, how well your enemy is prepared to deal with them. Many a battle has been won or lost based on which team is most familiar with or equipped to deal with the battlefield elements.

Sometimes, your environment includes the tools and resources you have at your disposal as well. Again using a traditional battle as an example, most people will think about weapons as being a part of either side's strengths or weaknesses. But what about other resources such as food, water, and shelter? An army's ability to find and harness those things, particularly in a long, drawn-out battle, could certainly mean the difference between life and death.

In 1795 the French military offered a reward to anyone who could find a way to keep food from spoiling. We take it for granted today, but in those times, armies on lengthy campaigns simply couldn't sustain themselves because there didn't yet exist a way to preserve large quantities of food for long periods of time. If an army could solve this problem, it could gain a significant advantage over its enemies. Some years later, the problem was solved by brewer and confectioner Nicolas Appert, who discovered that food cooked inside sealed glass jars remained free of spoilage until the seals were broken.[4] This became the basis for modern-day canning and is a perfect example of how a strategy can be devised around an observed environmental factor.

In business, our environment is actually split into two main areas. The first is the environment in which similar competitors

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gather. We will refer to this as our "industry." The second is the environment in which similar customers gather. We will refer to this as our "market."

Analyzing either environment will involve understanding the factors that will have the greatest impact on each. For your *industry* environment, this will include any **P**olitical, **E**conomic, **S**ocial, or **T**echnological factors that will influence the arena in which you will compete. This is often referred to as a *PEST analysis*, which, by most accounts, seems to have been derived from a suggestion made by Harvard Business School professor Francis Aguilar in his 1967 book, *Scanning the Business Environment*. In this book, Aguilar makes reference to understanding the "social, political, scientific, and economic" environments within which a given industry operates.[5] The PEST analysis covers these same four basic categories, which allow companies to effectively evaluate the outside influences that may be affecting their respective industries at any given time (past, present, or future). Some examples of typical PEST influences that might affect an industry are shown in Table 2.1.

Other factors have been added to the PEST analysis over time, including regulatory, legal, environmental, demographic, and even the ambiguous category of "other." Generally, though, most of these factors can be considered in one of the original four PEST categories just to keep things simple.

Analyzing your *market* environment will involve understanding the needs and behaviors of the customers that gather there. Because of this, the term *market* has come to be defined as "a group of similar customers," which is generally the convention that I will follow throughout the rest of this book.

In a sense, the market is equivalent, in military terms, to the land you are trying to acquire or the territory you are trying to protect. If you have any hope of obtaining or holding on to that territory,

TABLE 2.1

PEST Analysis

Political	Economic	Social	Technological
Government	Economic Growth	Cultural Trends	Consumer Technology
Policies	Interest Rates	Preferences	Business Technology
Laws	Exchange Rates	Population	Research Trends
Regulations	Unemployment	Health Factors	Information Systems

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you need to know where it is, what its value is, and, if any part of that territory happens to involve living breathing entities, how they think, feel, and act. It may be uncomfortable to think that you might be fighting for the right to have access to a person or group of people, but in business that's exactly what we're talking about.

When analyzing customers, you need to understand two main things:

1. What motivates customers to buy something?
2. How will customers behave under certain conditions?

To better understand these things, we need only look at ourselves because, as it turns out, we are all customers of someone. So let's think about what drives us to take up that coveted title.

It all starts with a need or a desire. Yes, needs and desires are different, and, yes, they are also the same. Needs are easy: I have a problem and I *need* something or someone to help me solve it. Desires are a bit more optional: I have a problem and I *want* something or someone to help me. On the surface, this appears to be a subtle, yet significant, difference. But if we go one level deeper, we may see it another way.

The difference between a need and a want is purely subjective. One might conclude that a need is something that you absolutely cannot live without. But who really decides what that is? Let's say I have a leaky gas pipe in my home. You might conclude that I, as the resident of that home, *need* to have that gas pipe fixed. But in reality that need only arises from the fact that I *want* to live there or, more correctly, that I want to live there without dying. So a need implies that there are no other alternatives when in reality this situation almost never exists.

In my view, then, every need is a desire. That just helps to remind me of the fact that customers almost always have options. Rather than try to clearly define the difference between needs and desires, it is probably more appropriate to consider needs on a hierarchical basis, with some needs being more critical to our basic survival than others. Thankfully, this has already been very conveniently laid out for us by A. H. Maslow in his groundbreaking article "A Theory of Human Motivation," published in 1943 in *Psychological Review*.

Commonly referred to as *Maslow's hierarchy of needs*, this framework conveniently organizes human needs into five hierarchical

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groups, beginning with the things we need for our core survival, and ranging to the things we need to realize our greatest potential as human beings. In the terminology I introduced previously, this might be interpreted as basic human *needs* on the bottom (or foundation) of the hierarchy and aspirational human *desires* at the top of the hierarchy.

The needs that Maslow outlined, starting with the core needs and working our way up the hierarchical pyramid, are (in summary):

- **Physiology.** The need to survive as human beings
- **Safety.** The need to remain intact and able-bodied
- **Love.** The need to belong and feel attention from others
- **Esteem.** The need to feel valued and recognized by others
- **Self-actualization.** The need to realize our ultimate potential as human beings[6]

Using this hierarchy, you can begin to identify, characterize, and categorize customer motivations and include them in your customer and market analysis. Of course, just knowing what motivates customers isn't enough. You also have to *do* something with this information. To drive toward that, you'll need to focus on the second aspect of customer analysis, which is to understand how customers are likely to behave under certain circumstances. This will allow you to prioritize customer needs and ultimately key in on the ones that matter the most in any given situation.

The best way to understand your customers is simply to observe them in action. But as obvious as this may sound, it is unfortunately not practiced as frequently as you might think. During every product management and strategy workshop that I facilitate, I poll the audience to inquire what percentage of time each person spends analyzing and understanding customer needs. Incredibly, through this informal sampling of what now numbers thousands of participants, the average percentage of time spent *truly* understanding customer needs is less than 10 percent. When polled further and asked why they spend so little time in this area, the answer inevitably comes down to two main factors: (1) they don't have time, and (2) they don't know how.

My solution to this is to make the process as simple as possible. Like everything else, if you overthink this task, it will become too

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overwhelming to tackle. So I propose that you distill it down to three simple steps:

Step 1: Review direct customer feedback. Every business receives customer feedback of one type or another. Whether this is in the form of unsolicited customer complaints, social media interaction, formal survey responses, or even transactional anecdotes, direct feedback provides important touchpoints that must be considered when understanding market needs, trends, and behaviors. It is important to note, however, that customers will rarely volunteer feedback unless they are incredibly oversatisfied or incredibly frustrated; even so, they will only volunteer whatever information is most immediately on their minds. Therefore, this is not the only type of market analysis that you should rely upon.

Step 2: Observe your customers in action. Now that you have an idea of what's on your customers' minds, you have to take some time to observe them in their natural habitats. Depending on your industry, there is any number of different ways to do this. I come mostly from a heavy industrial business-to-business background. In that world, I would spend a lot of time in the field, watching customers handle and install the products that I managed. Consumer-based companies, on the other hand, will often hire firms to either watch customers within their natural environments or to observe customer reactions and interactions within controlled focus groups. Whatever your method of actual observation, this is a critical step since it will help you to fill in any gaps that may exist in the information you gathered during step 1.

Step 3: Talk to your customers. The final step is to validate what you've observed with targeted, solicited customer feedback. To do this, you need to talk to your customers and find out what they're thinking, what they're feeling, and how they view your company and your products. You can use the information gathered in steps 1 and 2 as a guideline to have these conversations, and you can use the conversations to help validate the information that you gathered. When speaking with customers, you must be clear in your objectives. If your intention is simply to meet with customers, that meeting may well turn into a sales call (which may not be a bad thing, but will not satisfy the true purpose of your visit). Prepare yourself with specific questions that you want to ask or

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specific points that you want to validate, and make your customers aware that their voices will be represented in your future strategy. In return, you will receive valuable information about not only what your customers are feeling but also what they're seeing with regard to market, industry, and even your own company's trends.

To summarize, your business environment will include two main elements:

- Industry environment
- Market environment

From this point forward, I will refer to these two areas separately as "Industry" and "Customers."

I've spent a lot of time here, and for good reason, because the environment in business strategy includes something that even the best military generals rarely had to contend with: customers. If you get that wrong, it will be just as catastrophic as not knowing your battlefield. In business, customers are a big part of the arena in which you play, and the companies that know them best will have a clear advantage over their competitors. I've spent a lot of time on this input because you need to as well. Your strategy will be all the better for it.

PLAN

The last piece of our military analogy is the plan. The plan, quite simply, is what you intend to do with all of this baseline information in order to satisfy your motivation. Essentially, the plan is your strategy, which, of course, we will be covering throughout the remainder of this book. That said, I do want to plant one fundamental idea with respect to how you might use all of this newly analyzed data to develop your plan, and it is an idea that is very often overlooked or, at the very least, not consistently practiced.

In a military sense, it may seem obvious that generals need to understand their motivation, their enemy, their capabilities, and their environment in order to develop a strategy. But it's not enough to just know all that information. You also have to use that information to *anticipate* what all of those elements are likely to do in the future. It is in this anticipation that strategies are developed. And it is in these strategies that battles are won or lost.

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In case you're wondering whatever happened between Joe and me, here's the plan I came up with:

Since I was on the defensive, I thought it would be best to wait for him to make the first move. I figured that if I confronted him, even with the hope of talking my way out of a fight, I was likely to swat the hornet's nest and force him into action. So my short-term plan was to lay low. In the meantime, I would start a rumor that I was *also* trying to find the person who carved that saying into my desk. This would position me as a partner with Joe and also as a guy who wasn't afraid to start a little bit of trouble myself. So I put myself on the offensive, but with some unknown person. Of course, there was a risk to this as well, because I really didn't know who carved that saying into the desk, and that person could well have been even tougher than Joe. But at that point I would have Joe on my side, so it was a chance I was willing to take.

Following this plan, I laid low, planted my rumor, and, sooner than anticipated, Joe sought me out as a partner rather than an enemy. It worked. I was off the hook. We never did find out who carved that unflattering phrase about Joe and, to be honest, despite self-perpetuated rumors to the contrary, I really didn't care. The important thing is that I lived to tell this little tale, and I had taken my first unknown step into the world of strategic planning.

BASELINE ANALYSIS

Now that you have all of your information, you'll want to capture it in a convenient format so that it can be easily referenced throughout the rest of your strategic process. We're going to call this our *baseline analysis*.

The purpose of a baseline analysis is to give a quick and accurate snapshot of where you are today. This will include all of the same elements that I've been talking about for our military analogy using slightly modified business terminology as follows:

- Motivation
- Company/Capabilities
- Competitors
- Customers
- Industry

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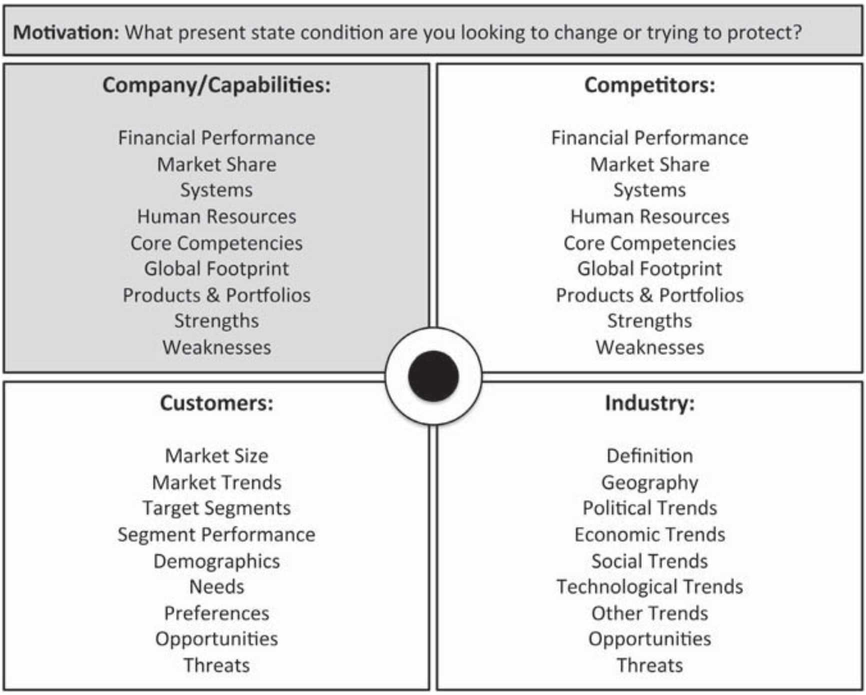
FIGURE 2.2

Baseline Analysis



There is nearly an infinite amount of detailed information that can be analyzed in any one of these categories. However, to get you started, and so as not to challenge the law of diminishing returns, I have listed some of the most important baseline data in Figure 2.2.

To complete the analysis, you should gather as much information as possible, as long as that information is relevant to your strategic motivation. It is not necessary to try to squeeze all of this data into a slide with four quadrants as shown in Figure 2.2. Instead, this baseline analysis template is designed to be more of a tool, or a checklist, for gathering information in support of your plan.

It may also be helpful, as you begin to process this information, to think of these baseline categories in terms of internal and external dimensions. Doing so will help you compare and contrast what's happening outside your company to what's happening inside your company, thereby giving you a more balanced view of your entire current-state situation. The motivation and company/capabilities

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dimensions will therefore become your internal baseline analysis, whereas the other three dimensions will form your external baseline analysis, which is why they are highlighted differently in the baseline analysis template.

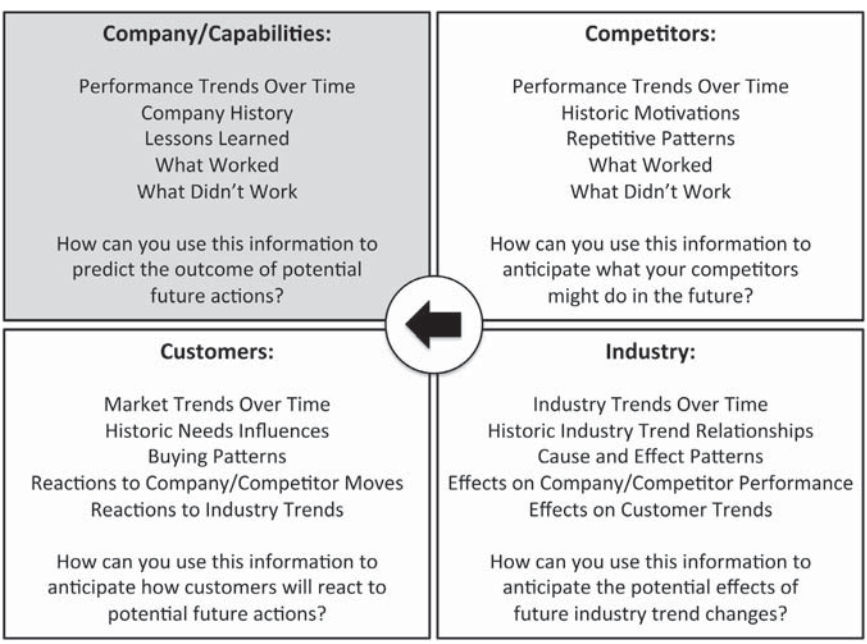
REFLECTING ON THE PAST

As you proceed through your baseline analysis exercise, it will be important not only to understand where you are today but also to reflect on how you may have gotten there. This will give you critical clues as to what may happen in the future if similar patterns repeat themselves. To enable this line of thinking, I encourage you to perform a second (perhaps less formal) baseline analysis that will inspire you to ask key questions about the future based on what patterns you may have been able to observe in the past. This backward-looking baseline analysis is shown in Figure 2.3.

When reflecting on the past trends of these baseline elements, it is important not only that you note what happened previously but

FIGURE 2.3

Backward-Looking Baseline Analysis



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also that you process this information in such a way that will allow you later to develop strategies that take these patterns into consideration. In this way, you will be building the same cause-and-effect database that I referred to in the chess analogy in Chapter 1.

DRAWING UPON YOUR INFLUENCES

Just as a songwriter has years of training and influences that she can draw upon when she sits down to write a new song, so do you, as a business strategist, have a plethora of resources that you can draw upon to help you develop your strategic masterpiece. There are many excellent books that have been written about strategic theory, some of which are listed in the Resources section at the back of this book. Whether based upon what successful companies have already accomplished or the personal observations of great strategic minds, these resources, along with your own experiences, will collectively make up the unique and personal repertoire of influences from which you will draw both inspiration and knowledge to devise your strategies.

Although it would be impossible to introduce you to all of these theories within the context of this book, there are several influences that I would like to share that you may find useful as you proceed through the process of composing your own strategy.

The first of these theories comes to us from Dr. Michael E. Porter, one of the preeminent strategic thinkers of our time. It would be difficult to write a book on strategy without making a reference, either directly or indirectly, to at least one of Porter's many prominent works on the subject of business strategy. In his hallmark book *Competitive Strategy*, first published in 1980, Porter outlines three generic strategies that companies can use to help categorize and guide their business strategies. These three strategies are devised around two dimensions: (1) how narrow or wide your strategic target is, and (2) what type of advantage your company or product brings to the marketplace. The outputs from this model enable companies to categorize their strategies into three overarching "buckets" as follows:

- **Cost Leadership.** Maintaining a cost advantage on an industrywide basis
- **Differentiation.** Maintaining a differentiated product or business advantage on an industrywide basis

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- **Focus.** Focusing on the specific needs of a narrow target market, whether those needs are satisfied through cost or differentiation[7]

The idea behind this model is that a company must choose to focus primarily on *one* of these approaches: cost leadership, differentiation, or the needs of a particular market. Companies that try to master two or more of these areas may be strategically ineffective.

Another widely used strategic model is H. Igor Ansoff's product-market growth matrix. Ansoff's matrix was presented in an article that he wrote for the *Harvard Business Review* in 1957 entitled "Strategies for Diversification," and that was later expanded upon in his book *Corporate Strategy* in 1965. This matrix essentially gives companies four ways to categorize their growth strategies based upon the relative newness of the products they intend to produce and the relative newness of markets they wish to serve. This results in four product-market growth strategies as follows:

- **Market Penetration.** Growing with existing products within existing markets
- **Market Development.** Growing with existing products in new markets
- **Product Development.** Growing with new products within existing markets
- **Diversification.** Growing with new products in new markets[8]

These strategies all generally relate to how a business wants to grow, and so this model tends to be a bit more internally focused than some of the others. Still it is an excellent way to categorize how a company will approach the marketplace and which resources they might need to invest in to do so.

Another perhaps less commonly known model was given to us by strategy consultant Kenichi Ohmae. In his book *The Mind of the Strategist*, published in 1982, Ohmae gives us his "four routes to strategic advantage," which, like Ansoff's model, utilizes the relative newness of a product or business as one of its inputs. On the other side of his 2 × 2 matrix is a choice of whether to face competition wisely or to avoid it altogether. Intersecting these inputs provides

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guidance on how a company might approach the marketplace in one of the following ways:

- **Facing competition with existing products** by focusing on the key factors that drive success in the industry
- **Facing competition with new products** by redefining the products, processes, or services that are currently being supplied
- **Avoiding competition with existing products** by utilizing internal strengths in ways that competitors cannot match
- **Avoiding competition with new products** by defining new and previously unexplored ways to maximize user benefit[9]

On the surface, Ohmae's model looks similar to Ansoff's, although the focus on the newness of the market has been updated with a focus on the competition that will (or will not) be faced in those markets. In this way, Ohmae's approach tends to be more directly focused on competitors than any of the previous models that we have discussed.

Another approach to at least part of Ohmae's framework can be found in the book *Blue Ocean Strategy*, by W. Chan Kim and Renée Mauborgne. Published in 2005, this model expands upon the concept of avoiding competition by asking strategists to define new "Blue Ocean" market spaces—as opposed to the "Red Oceans," where competitors typically fight their "bloody" battles on similar terms. Using this clever analogy, the Blue Ocean model encourages companies to occupy these previously uncharted market spaces in order to gain a competitive advantage that nobody has thought of before.[10]

Of course, there are many more models to choose from, depending on which aspects you wish to consider when developing your strategies. Personally, I tend not to use any of these models directly; instead, I use them to help spark my thought process around three strategic perspectives that I discuss in Chapter 5:

- The Customer Perspective
- The Company Perspective
- The Competitor Perspective

I tend to use Porter's model to help me see through the customers' eyes, Ansoff's model to help me see through the company's

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eyes, and Ohmae's model to help me see through competitors' eyes. I will talk about exactly how to do this later in the process when we begin to develop our actual strategies.

For now, these models, and any other strategic theories, influences, and experiences that you may wish to utilize, should serve as a foundation for the critical piece of your preparation step that is focused on the past.

At this point in the process, you have explored your present and past elements using your Analysis and Recollection proficiencies. Now you have all the inputs you need to begin thinking about the future and to determine the ultimate path you will take to get there. Armed with a fully prepared baseline analysis and a strong foundation of knowledge, it is now time to tap into your Intuition and begin thinking about where all of this might be headed.

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Finding Your Creativity

It may seem as though the preparation stage is all work and no play, but, in fact, this couldn't be further from the truth! Here are some tips to help you find your inner creativity during this step:

- A large part of the preparation stage will involve your Analysis proficiency. Try to remember our discussion in Part 1 regarding "space-clearing" and using only the data that will be absolutely necessary for your plan. Sorting through your baseline information with this higher-level view will not only save valuable time, but will also help you develop a more visionary and strategic focus.
- Think back to what you learned about Recollection in Part 1. Try to view all of your foundational learning as an opportunity to gain new insights, experiences, and influences rather than attempting to memorize concepts simply for the purpose of regurgitating them later.
- Take every opportunity to connect your baseline information with something you are passionate about. Whether it is your product, your market, or simply your competitive drive to win—your passion will help shape your strategy in exciting and interesting new ways.
- Always remember to keep the bigger picture in mind. As you sort through data and details, remember that all of these individual "notes" will eventually come together to form a symphony of sorts. As you read through the rest of this book, you will learn how all of these pieces fit together, and then you will be better equipped to put your baseline information into its proper context with respect to the overall plan you are trying to create.

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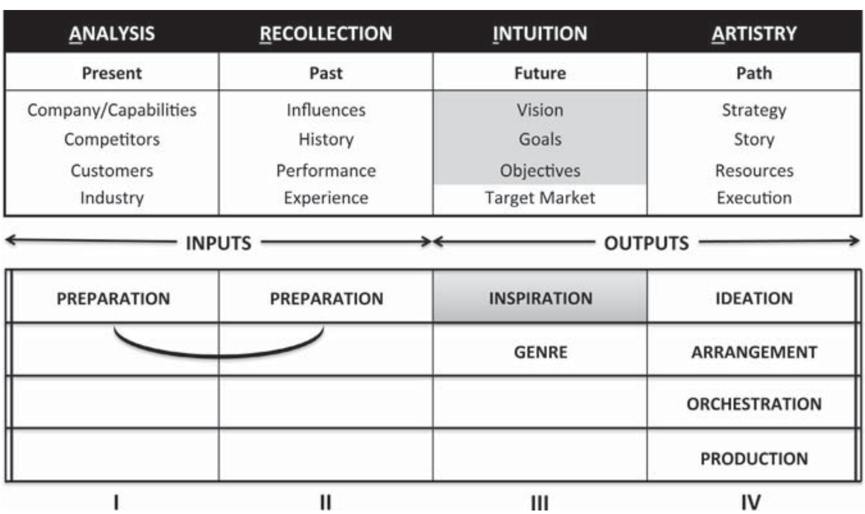
CHAPTER 3

INSPIRATION



What You Will Do

- Establish your vision
- Establish your goals
- Establish your strategic objectives

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Some of the best songs haven't actually been written; they've been inspired. I say this because when songwriters are asked the question about where their songs come from, one of the more typical responses is, "I really don't know." When probed more deeply, they may be more likely to tell you about *why* the song was written rather than *how* the song was written. In short, they are talking about what inspired them.

When people are inspired, it usually means that an external force has pulled on their emotions and caused them to see or feel something that they may not have been seeing or feeling previously. In this way, inspiration is often driven by the same unseen force that drives our intuition. In fact, the very origin of the word *inspiration* comes from the same root as the word *spirit*, implying some divine or unexplained intervention.[1]

Often, inspiration leaves a person feeling compelled to take some action in response to this newly discovered feeling. We usually think of inspiration as being a good thing, but it's not always that way. It simply represents some new insight that causes us to feel something and want to do something about it. Tying back to our discussion on Artistry, an inspiration usually taps into a passion that you already had but that just needed to be brought to the surface. What we do in response to this inspiration can be seen through our expression. So in many ways you can think of inspiration as being the spark between passion and expression, which will ultimately allow a person to create art.

When I teach people about business or strategy or product management, I am not telling them exactly what to do. What I am doing is providing them with new insights and new ways of thinking about things that, I hope, will inspire them to take action and improve their work practices in some way. Very few people will ever take everything that I say and implement it exactly. If they did, the world, I fear, would never progress. Instead, most students take what they learn (assuming it has been taught in an effective way), they interpret it, they modify it to suit their needs, and then they apply it in a way that is uniquely their own. In short, my words help spark emotions that compel people to take action.

When we speak about inspiration in music, the meaning is clear: somebody felt something and they wrote a song about it. And the mood and tone of that song usually reflects the way the composer

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felt at the time he or she was inspired to write it. Easy. But how do we translate that to the world of business? What can be so compelling as to inspire us to create a business strategy?

You may be inclined to say that the inspiration for your business strategy will come from a basic need. If your business is in decline, you need to turn it around. If your business is stagnant, you need to kick it in the pants. If your business is growing, you need to keep it on the right path so that you can continue to invest in it. These are some common origins of many business strategies. But these are hardly inspirational ideas.

The reason is that most of these needs are truly one-dimensional, meaning they are all internally focused. In the previous chapter, I referred to this as *motivation*, which itself is a far different driver than *inspiration* and therefore could yield very different results.

I believe that we are motivated by internal drivers and inspired by external drivers. You may be motivated to be a better person, but you will be inspired to change the world. This is a subtle but, in my mind, important difference because many strategies are in fact motivated rather than inspired, meaning that they are focused mostly on what the result will be for the company rather than what the result will be for the customer. That's not to say that one is better than the other, but it *is* to say that both will yield very different results.

I usually get called into large, established, healthy companies to help them develop their product strategies. Many times those strategies are motivated, quite rightly, by those companies wanting to ensure sustainable and continuous growth. The problem is, those same companies often say that they want to be more innovative or develop products that will change the world, not because they really want to change the world, but because they want to grow. That's not inspiration. That's motivation. And the result, almost inevitably, is that those companies don't change the world because in reality they don't really want to. Why? Because the world in its current state is pretty darned comfortable for those companies. So their motivation to grow and remain stable may actually outweigh their inspiration to do something to improve the lives of their customers, particularly if that improvement carries any significant amount of risk with it.

Smaller start-up companies, on the other hand, tend to be more focused, or inspired, by external needs, perhaps because their own internal motivations haven't yet been fully developed. That's not to

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say that these companies don't have any selfish motivations, but they are usually better positioned to be driven by somebody's passion to make a difference in the world, with the internal reward serving as a result rather than as a primary driver.

Strategies of nonprofit organizations may have similar characteristics. The purpose of these organizations is usually to provide a charitable service. They exist because an external need has inspired them to, and their strategic drivers usually reflect that inspiration. Again, that's not to say that there isn't a self-serving motivation that may exist as well. Having sat on the board of directors for several nonprofit companies, I can tell you that there is certainly a motivation to keep the organization solvent and to keep its employees employed. But the core reason for the organization to exist is so that it can continue to satisfy the external need that it has been chartered to address. So the inspiration outweighs the motivation, and the strategic result follows in kind.

My feeling is this: you can only change the world if you are willing to change your own world with it. In other words, if a company is truly inspired to help its customers, it will do whatever it takes to do that, confident in the fact that it will eventually be rewarded for it. On the other hand, if a company is only motivated to make more money and is not willing to take any internal risk to satisfy an external need, then the world is unlikely to be changed as a result. Again, both are valid approaches. You just need to know which one you are pursuing and develop a strategy that is aligned with your true intention.

Here's where I'll draw the comparison to songwriting to help further illustrate this point. Some songs are written solely to make money. Songs built on this foundation alone, however, may not resonate with their audiences, and therefore they are less likely to be hits. The only proof I have of this is the many less than stellar follow-up albums that I have in my collection that were recorded solely because the first album was a hit and the record company wanted to make more money. I can also think of quite a few "Part 2" movies that were produced solely on the coattails of their much more successful, much more inspired original installments. We see it in books, we see it in product design, and we even see it in our own careers. Inspiration drives success. And when that inspiration turns into us just going through the motions, that success begins to fade away. I know this is hardly researched proof, but remember, we're using our intuition now, so just observing the world around us is perfectly fair game.

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None of this discussion suggests that you will need to choose between motivation and inspiration. In reality, a successful strategy will have a healthy dose of both. I also don't want to imply that basing your strategy solely on an internal motivation will yield a poor result. Part 2 movies continue to be produced, so they must be making money, even if all of them are not totally inspired!

Instead, what I am suggesting is that you should understand the balance between motivation and inspiration and, perhaps more important, that you should understand the consequences of developing a strategy that is weighted toward one or the other. In my experience, inspired strategies tend to have greater risk, but they also tend to lead to greater reward.

Whichever way you decide to balance your strategy, you should have the tools at your disposal to find and identify both your motivations and your inspirations and then to turn those, in whatever ratios, into a vision that will help guide your strategy. You'll do so by processing the information in your baseline analysis through one of the most commonly applied tools in the strategic repertoire: the *SWOT analysis*.

SWOT ANALYSIS

While the SWOT analysis is indeed a common tool in the arsenal of most strategic planners, I feel that there are some shortcomings in the way it is typically applied. Oftentimes, a SWOT analysis is performed by a group of businesspeople huddled around a whiteboard, calling off bullet points to place in each of four quadrants, labeled as follows:

Strengths
Weaknesses
Opportunities
Threats

At the conclusion of the exercise, this so-called analysis is put into a presentation, thereby allowing the planners to check off another box on the obligatory strategic to-do list. Meanwhile the real purpose of the tool—which is to help define strategic initiatives—is all too often lost.

The origins of the SWOT analysis are not completely known, but most sources seem to credit a consultant named Albert Humphrey

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who worked at the Stanford Research Institute in the 1960s and 1970s. His work there led to something called a *SOFT analysis* (which stood for Satisfactory, Opportunity, Fault, Threat), and this, either directly or indirectly, seems to have led to the development of the SWOT analysis that we all know today.[2] Whatever the roots, it is clear that just about every strategic consultant and business leader has at one time or another embraced this tool or some derivative thereof.

The way that a SWOT analysis is *supposed* to work begins with that same group of people huddled around a whiteboard. A matrix is drawn like the one shown in Figure 3.1.

The strengths and weaknesses are normally identified as internal or controllable factors, whereas the opportunities and threats are identified as external, or noncontrollable, factors. The idea is that your attack strategies generally will be derived from your strengths and opportunities, whereas your defense strategies generally will be derived from your weaknesses and threats. So if there is something you want that you don't currently have, you can capitalize on your strengths and develop attack strategies to go out and seize those opportunities. On the other hand, if you currently have something you don't want to lose, you will need to address your vulnerabilities and develop defense strategies to address any threats that may exist.

FIGURE 3.1

SWOT Analysis

Strengths (S)	Weaknesses (W)
Opportunities (O)	Threats (T)

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Although all of this makes sense on paper, there are a few deficiencies in the actual practice that I've observed more times than I care to count.

The first problem is that the SWOT analysis typically looks at only one dimension of time: the current state. Of course, anyone can also perform a SWOT analysis that looks in the past or in the future. But without specific direction the SWOT analysis is at risk of being inconsistently applied with respect to which point in time is actually being analyzed. Interestingly, the SOFT analysis, from which the SWOT analysis seems to have been derived, takes a slightly different approach. This analysis has a time-based element to it, with good and bad *present* factors being listed, respectively, as Satisfactory and Faults, and good and bad *future* factors being listed as Opportunities and Threats.[3] As a strategic planning tool, this just makes more intuitive sense to me.

The second problem I see is that the internal part of the SWOT analysis (strengths and weaknesses) is only valid if you know what you're comparing yourself to. So let's say that I'm a manufacturer of laptop computers. If I'm comparing my product to a desktop computer, *portability* will most likely end up in the Strengths quadrant. On the other hand, if I'm comparing myself to a manufacturer of tablets, *portability* will most certainly be listed in the Weaknesses quadrant. In this way, strengths and weaknesses must be measured relative to some baseline; otherwise these terms are at risk of becoming meaningless.

The third problem that I often witness is that, although the exercise is supposed to lead to the development of strategies, I find that this is not always the result. Instead, as mentioned, the SWOT analysis often leads to a collection of static bullet points that serve to bring information to the surface that might not otherwise have been readily observed. The listing of this information alone does not fulfill the true goal of the SWOT analysis, which is to develop strategies that actually deal with all of these conditions. This may be due to a methodology that encourages list making over critical thinking, which, of course, is in direct conflict with the intended purpose of the exercise.

In fairness, there has been an attempt to rectify this last issue with the introduction of what is known as a *TOWS matrix*, a term coined by its creator, Heinz Weihrich in his 1982 paper entitled

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"The TOWS Matrix: A Tool for Situational Analysis." What this approach attempts to do is plot the SWOT analysis on a 2 × 2 matrix, with each intersecting quadrant resulting in some strategic direction. This results in the identification of several strategic opportunities as follows:

- **S-O Strategies.** Utilize strengths to maximize opportunities.
- **W-O Strategies.** Overcome weaknesses to maximize opportunities.
- **S-T Strategies.** Utilize strengths to minimize threats.
- **W-T Strategies.** Overcome weaknesses to minimize threats.[4]

The TOWS matrix encourages its users to make the link between SWOT analysis and strategy. It can, however, be a bit formulaic in its approach. Because of that, I believe there is still another way to use the SWOT analysis that does not lead directly to developing strategies but rather leads to the identification of opportunities that can be used as the *foundation* for strategies.

Toward this end, I use the SWOT analysis as a tool to brainstorm opportunities. I then filter these opportunities through my vision, goals, and objectives, and later develop strategies to address whichever opportunities I have chosen through this process.

To perform a SWOT analysis in this way, you will proceed through the task of identifying strengths, weaknesses, and threats, and then list all of the possible opportunities that arise from those three parameters, making sure to follow a few general rules to help you overcome some of the shortcomings of the SWOT analysis that I discussed previously:

1. To address the element of time that is normally missing from the SWOT analysis, I prefer to break the SWOT analysis into present and future rows, with strengths and weaknesses being analyzed with respect to the present state, and threats and opportunities being analyzed with respect to the future. In this way, I am reinforcing the time element that was intended with the original SOFT analysis, and that will be so critical when translating opportunities into future strategic actions. This will also encourage you to introduce your intuition into a tool that traditionally has been much more focused on analysis.

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2. Next, we need to address the lack of relative comparison for strengths and weaknesses. To do that, we must also challenge the notion that strengths and weaknesses are internal parameters and opportunities and threats are external parameters. I have had much more success with the SWOT exercise when applying internal and external elements to all four SWOT dimensions. For the Strengths and Weaknesses side of the equation, this involves viewing your product or company through the eyes of your customers (external) and then comparing that to your own perceived strengths and weaknesses. Not only does this approach help reveal critical gaps between internal and external perceptions, but it also solves the problem of not knowing to which companies or products your strengths and weaknesses are being compared. Now, you will be listing your externally perceived strengths and weaknesses relative to whomever or whatever your customers are most likely to compare you. Revisiting our laptop computer example, if your customers are mainly tablet users, you will list your strengths and weaknesses relative to tablets. If they are desktop users, then that will be your comparison. Either way, it will be important to state this up front so that the target of your analysis is clear, and so that additional SWOT analyses can be performed, if required, with respect to different target markets. On the Opportunities and Threats side of the equation, I equally believe that these are not purely external factors. In fact, there are many threats that can be internally generated. Pending structural changes, looming employee morale issues, upcoming management changes, planned mergers, acquisitions, or divestitures, and potential labor issues are all examples of threats that can be internally attributed. Similarly, on the Opportunities side we might gain access to new skills, knowledge, technology, or suppliers that could generate opportunities from within our own organization. All of these internal factors must be considered in addition to any external opportunities and threats that you perceive.
3. Finally, we need to address the typical bullet-point approach that most people take when doing a SWOT analysis. The remedy for this can be found by approaching the SWOT analysis in a particular order. The key is to go through all

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of your present strengths and weaknesses, which will mostly be derived from your capabilities; then work through your threats, which will mostly be derived from your competitors, the environment, and, in some cases, your company as well; finally you will list your opportunities, which will mostly be derived from your customer and market needs, as well as any gaps you found between the internal and external parameters of your strengths, weaknesses, and threats. When doing the SWOT analysis in this way, it is important that you list as many opportunities as possible, whether or not you intend to pursue them. At this point, you should resist the urge to filter out any potential opportunities based on your own strategic biases. Instead, you should list all possible opportunities, no matter how unrealistic they may appear. Later, you will be filtering these opportunities through the vision, goals, and objectives that you will create in the next step of our process. When performed in this way, your SWOT analysis will take on the form of a story rather than a haphazardly generated list.

When all is said and done, your modified SWOT analysis should look like the one shown in Figure 3.2.

As you work through the modified SWOT analysis, it is important to note that your subject can be a tangible good, a service, or even your entire company. Which one you choose will depend largely on the motivation that you determined during your baseline analysis and the type of strategy you want to compose. The important thing to keep in mind is that your SWOT analysis should always be performed with respect to whatever product you are trying to sell to the marketplace. So if you are developing an overall corporate strategy, the product is your company, and, accordingly, you should perform a SWOT analysis for your business as a whole. If, on the other hand, you are developing a strategy for a particular good or service, then you should focus your SWOT analysis on whatever specific product or service you will ultimately be selling in relation to your strategy.

Let's run through a quick example of exactly how this modified SWOT analysis might be used. Keeping with the laptop example, let's

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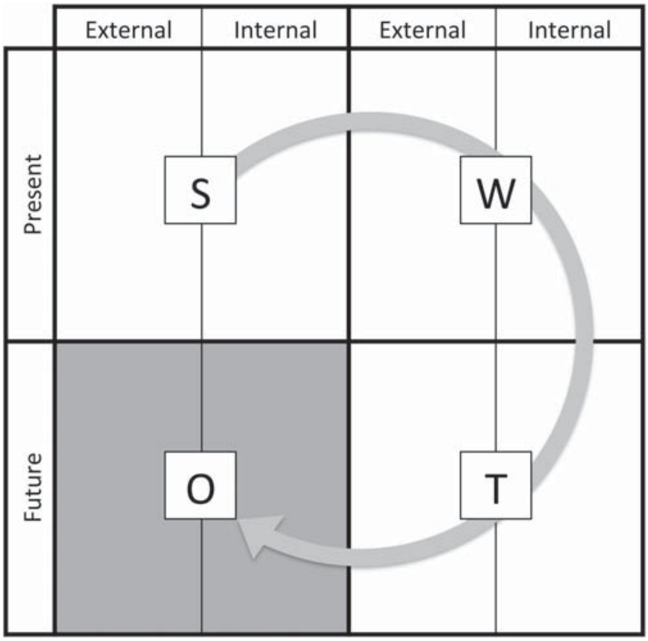
FIGURE 3.2

Modified SWOT Analysis



say that we are a manufacturer of laptop computers. Let's also say that our baseline analysis shows the following, at a high level:

- **Motivation.** Our shareholder value is decreasing due to competing technologies taking our market share.
- **Customers.** Our customers are moving over to those competing technologies such as tablets and smartphones. They value speed, ease of use, portability, and the "cool factor" over performance and versatility.
- **Competitors.** Most of our competitors have moved into specialty laptop markets such as gaming or power business users. Some have also decided to manufacture tablets.
- **Industry.** Socially, everyone wants information and connectivity at their fingertips 24/7, without long boot times, awkward interfaces, or any degree of complexity. As

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technology continues to advance, devices that can meet these needs are becoming smaller, lighter, more powerful, and more secure.

- **Company/Capabilities.** We have significant design and electronics resources within our company. We also have strong supplier relationships and even stronger channel relationships. That said, our current product portfolio is in decline, our financial performance has been steadily decreasing with respect to expectations, and we are losing share to competing technologies.

Now it's time to run through our SWOT analysis in order to come up with some possible future opportunities. Beginning with our strengths, we can brainstorm through our first three SWOT parameters, focusing on present strengths and weaknesses, and future threats, as shown in Table 3.1.

Next, we begin to think about all of the different strategic opportunities that might come from these first three parameters, referring back to our baseline analysis at each step along the way. Thinking about external opportunities that could lead to potential market strategies, and internal opportunities that could lead to potential product strategies (more on this later), we can begin to brainstorm all of the possibilities, as shown in Table 3.2.

Notice that these opportunities are not strategies, because we are not yet talking about how we will go about *doing* any of these things. Instead these are simply opportunities that we might ultimately develop strategies to pursue.

Also notice that we are not yet choosing exactly which opportunities we will pursue. Instead, we are simply listing all of our possible opportunities. Everything is fair game at this point, because all of these opportunities are based collectively upon our own capabilities, the needs of our customers, and any external industry or competitive factors that will serve to either threaten or fortify those dynamics. Admittedly, this is a slightly different approach to a standard SWOT analysis, but it is one that allows you to consider all of your strategic options without prefiltering them through a paradigm that hasn't yet been fully vetted. These opportunities will now serve as your inspiration so that you can develop a balanced vision based upon both what customers want to buy and what your company wants to pursue.

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TABLE 3.1

S-W-T Analysis

STRENGTHS	
External	**Internal**
Versus Other Laptops: Superior customer support Easy to use High quality/reliability Known brand Low price Versus Tablets: Large screen size Component connectivity Long battery life Keyboard input More powerful software Enhanced security Large storage capacity	Abundant technical resources Strong supplier base Strong channel partner relationships Strong customer support and service functions

WEAKNESSES	
External	**Internal**
Versus Other Laptops: Consumer brand only Mid-range speed Versus Tablets: Slow boot time No touch screen Lack of "cool" factor More complex to use Lack of fun apps	Limited expertise outside of laptops Weak channels outside of laptops Reluctance to change Low risk tolerance

THREATS	
External	**Internal**
More advanced laptop/tablet hybrids Tablet apps meeting laptop functionality Increased tablet security solutions Cloud storage New technologies surpassing tablets	Financial performance limits investment Employees leaving for tablet companies Increasing internal costs Risk of divestiture

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TABLE 3.2

Opportunity Analysis

OPPORTUNITIES	
External (Market)	**Internal (Product)**
Identify new user markets for laptops - Specialty businesses - Education - Power users - Desktop users Identify new geographic markets for laptops - Emerging markets - Internet and mail-order Pursue new markets with new technologies - Tablet users - Premium/Breakthrough device users Dominate existing channels - Lower cost products - New laptop models Exit the market altogether	Develop a competing tablet product Develop a hybrid laptop/tablet Develop specialty application laptops Develop a new breakthrough technology Develop a lower-cost laptop

DEVELOPING YOUR VISION, GOALS, AND OBJECTIVES

Before we discuss vision, goals, and objectives, we need to spend a little time defining exactly what these things are. To begin with, all of these terms represent the future, and that is certainly what your strategy needs to be guided by. You may also notice that I have left the term *mission* off of this list. In general, a mission statement defines how a company behaves in the current state; therefore, whatever it contains should already be reflected in your baseline analysis. I want your strategy to be focused on the future, and so I prefer that you keep all of your strategic drivers pointed firmly in that direction.

Toward that end, here is my one-sentence definition for each of the future-looking parameters that will help guide your strategy:

- **Vision** describes who you want to be in the future and how you want to affect the world.
- **Goals** describes the aspirational steps you will take to achieve your vision.
- **Objectives** describes the measurable results of each of those steps.

If prepared properly, your objectives will allow you to validate that you've reached your goals, which collectively will enable you to achieve your vision.

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Let's look at a quick example:

Vision

- I want to affect a radical change in the way people view philosophy, making it more accessible and more applicable to a modern world.

Goals

1. To obtain a doctorate in philosophy from a top-tier university.
2. To become a highly regarded philosophy professor at an Ivy League university.
3. To become a world-renowned author, speaker, and advocate for modern-day philosophical principles.

Objectives

1. To graduate in the top 1 percent of my class and obtain a position with an Ivy League university upon graduation.
2. To publish three internationally recognized papers on the topic of modern-day philosophy in top journals within three years of receiving my doctorate.
3. To publish a book on modern-day philosophy with an internationally recognized publishing house within six years of graduation and sell at least 50,000 copies in the first two years of publication.
4. To have at least four speaking engagements per year, to audiences of at least 250 people, after the book has been published.

As you can see, the vision is very broad. It captures who I want to be at some point in my future and the overall effect that I want to have on the world. My goals provide specific milestone achievements, each of which, cumulatively, should allow me to realize my vision. The objectives, then, give me specific and measurable targets that will serve to guide the actual performance of my goals.

One way to approach your objectives is to use what is commonly referred to as the *SMART method*. First popularized in a 1981 *Management Review* article entitled "There's a S.M.A.R.T. Way to Write Management's Goals and Objectives," by George T. Doran, this method says that objectives should have these five characteristics:

Specific

Measurable

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Attainable
Realistic
Time-bound[5]

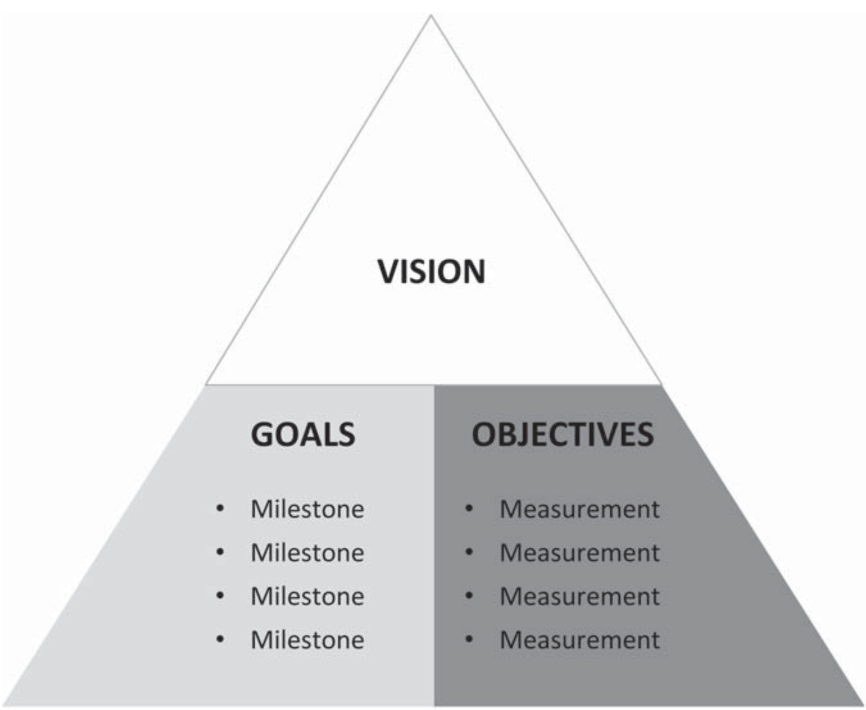
Although contrary to what the article title may imply, it is typical (as shown in our example) to set goals on a broader, more general scale and then set objectives using the SMART method to help achieve those broader goals.

The relationship between vision, goals, and objectives can be visualized as shown in Figure 3.3, with an overarching vision supported by goals and objectives that complement one another in the form of milestone steps and relative measurements.

There does not necessarily have to exist a 1:1 relationship between goals and objectives, as some goals may encompass multiple objectives. It is also important to realize that your objectives are likely to be revised over time, particularly as you approach

FIGURE 3.3

Vision-Goals-Objectives Pyramid



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any one of your milestone goals. One of the benefits of taking this three-tier approach is that you can modify your objectives as conditions require without drastically varying your goals. Likewise, you can modify your goals (albeit to a lesser extent) without having to constantly change your overall vision.

Now that we've defined these three terms, let's see if we can put them to work.

The first thing you need to do is establish your vision. You will do this by going back to your strategic motivation and connecting it with how you want to help your customers, which you will have discovered, at least partially, through the opportunities that you identified in your SWOT analysis. In this way your vision should provide a healthy balance between your own motivation and whatever external factors are inspiring you to move forward.

Your vision will also take into consideration the strengths, weaknesses, and threats that you identified, but it should not be limited by these factors. Ultimately, your vision will serve as a filter to help you decide which opportunities you want to pursue. Your resulting strategy will then tell you how to best pursue those opportunities by addressing whatever strengths, weaknesses, or threats need to be leveraged or overcome in order to attain your vision.

To better understand how this works, let's look at a hypothetical example.

Let's say that you are a product manager for a software company that serves the music industry, and you are putting together a strategy for your portfolio over the next three years. Your main product has a leadership position in the market and because of that, your market share in your current market is saturated. Let's also say that the market growth is currently flat and is expected to decline steadily over the next 10 years.

Based on this scenario, the main motivation that is driving your strategy might be stated as follows:

> **Motivation.** We have saturated our market share with our existing software solution, which is currently stalling our growth. We need to look for opportunities to gain additional share and drive additional profitability to our bottom line.

Although this may be a strong motivation, it is unfortunately not very inspirational.

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After going through your SWOT analysis, you uncovered some very real and very unmet customer needs. In short, you found that musicians would like to have faster, simpler software solutions for music notation and recording that would allow them to increase their output without sacrificing quality. Combining your motivation with your newfound inspiration, you might develop a vision statement that reads as follows:

> **Vision Statement.** We want to be the provider of choice of breakthrough, innovative software for musicians in need of faster, simpler notation and recording solutions that will help them earn more revenue from their music and in turn will deliver more profitable margins to our company.

Had you tried to develop your vision before getting your inspiration, it might have looked something like this:

> **Vision Statement.** We want to be the number-one manufacturer of music software by providing innovative solutions that will deliver profitable margins.

Both of these vision statements are valid, but which is more inspiring? The first is all about the customers, with your company's health being stated as a result. The second is all about your company, with the customer need being stated as a necessary means to that end.

Think back to the example of a songwriter who writes songs for the sole purpose of making money. It might be fun at first, but it would rather quickly become a chore. The same can be said about developing business strategies. Removing the inspiration and focusing only on the bottom line takes all the fun out of it. It's no wonder why so many businesspeople aren't exactly in love with their annual strategic planning processes!

So if we agree that an inspired vision is the way to go, now we can begin looking at our goals and objectives. Being that they are both on the same plane in our vision-goals-objectives pyramid, I usually approach goals and objectives as one step, meaning that I establish both my goals and my measurements at the same time.

The important thing to remember is that your goals and objectives have to collectively represent the measurable results and outcomes that you want to achieve by implementing your strategy. This will not only allow you to validate your vision but will also allow

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you to measure the success of your strategy when you are in the implementation stages.

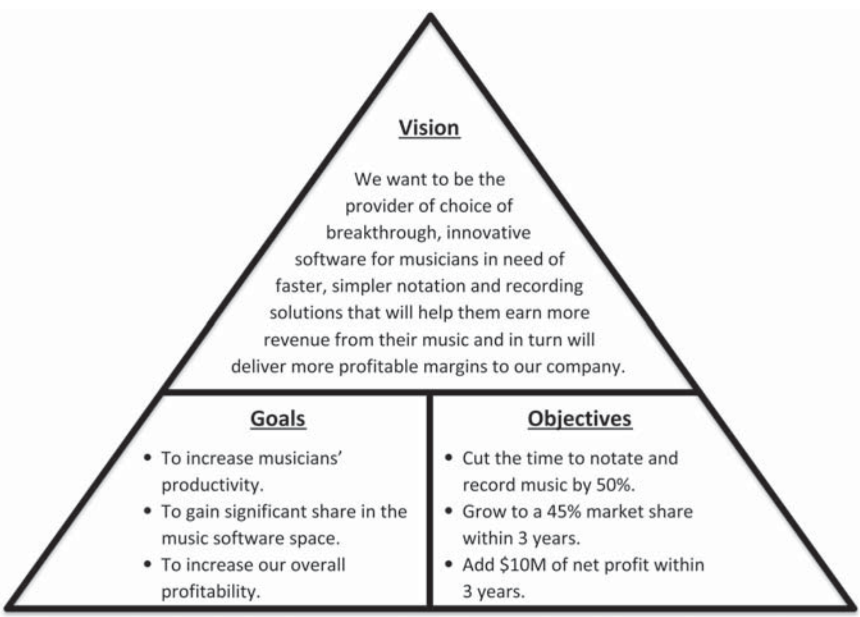
Continuing on with our music software example, some of the goals and objectives that might apply are shown in the completed vision-goals-objectives pyramid illustrated in Figure 3.4.

Of course, there can be many more goals and objectives, but this is a good start. Notice how everything is aligned with our vision. Also note how the goals and objectives align with one another and, as such, could easily be stated as one common phrase. Again, the choice of how exactly to present this step is a stylistic one and will ultimately be up to you.

It will also be important to align the vision, goals, and objectives related to your strategy with your overall company or corporate vision. Using the software example above, if the vision for your strategy is to provide breakthrough innovative software, but your overall company vision is to provide low-cost software solutions, these two visions may well be at odds. Perhaps there is a way to provide an innovative low-cost solution, but that opportunity must certainly

FIGURE 3.4

Vision-Goals-Objectives Pyramid Example



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be explored, or at least reconciled, before your strategic vision is finalized.

Of course, this type of alignment will require that you first understand what your overall corporate or company vision actually is! One of the most interesting parts of almost every strategy workshop that I conduct is when I pose the very logical, not-at-all trick question of "What is your company's vision?" The almost instinctive response is for a large percentage of class participants to jump on their smartphones and punch up the company website. As the network is churning, I implore them to lay down their weapons and just tell me, in their own words, what they believe their company wants to be in the future.

As half the class participants try to work through this exercise with me, the other half are still buried in their smartphones, determined to dig up the vision statement that they know they've seen and were probably even told to memorize at some point. Inevitably somebody produces a laminated card from his wallet that was given to him several years ago and contains the very vision statement he was neither remembering nor following.

Overall company goals and objectives tend to be more clearly understood, but only because they are often tied back, in some way, to employee performance reviews or compensation incentives. As such, these goals and objectives may be overly focused on internal financial performance, which can certainly be motivating, but may not always be inspiring. So if they exist, you should always seek out your company's customer-related goals and objectives as well.

Most people believe that it is incumbent upon their companies to clearly communicate the corporate vision, goals, and objectives to all of its employees. In concept, I generally agree with this sentiment. However, I am also a realist; being a realist, I know that communicating to large numbers of employees with any amount of "stickiness" will require no less effort than advertising products to large numbers of customers. The message has to be transmitted many times, on many different levels, in a language that is easy to understand, and on an almost continuous basis so that people never forget what you are telling them. It takes time, money, and resources that companies may not be willing to spend on internal messaging. And so it is not always done—at least not as effectively as it could be.

The solution that I present for your consideration is that you shouldn't wait for your company to tell you what its vision is.

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Instead, you should seek it out yourself. That means sitting with your managers—and your managers' managers, if necessary—and talking through what the vision is. And if they aren't sure, or if it's not written down somewhere, then you need to spend some time discussing it and agreeing upon it and drawing some conclusions with your management team. Then you need to spend some time aligning others around those conclusions. In short, you need to take matters into your own hands.

While you're at this stage, now is a good time to understand your corporate strategy as well. This may be more difficult to define, and it may not even be written down in a formal way. Later in the process, we will find out how to deduce a company's strategy based on its actions, and you might have to do the same for your company. If you work for a publicly traded company, you should review your company's Form 10-K filing, or equivalent annual report, where a version of the strategy (albeit sanitized for public consumption) will provide at least some high-level guidance about how your company wishes to represent its strategy to investors and shareholders. You should also get comfortable with the fact that corporate visions, goals, objectives, and even strategies are broad, ambiguous, and often loosely defined. This means that *your* strategy will ultimately help to define the corporate strategy as much as the corporate strategy will help to define yours. So not only will you play a key role in understanding the corporate strategy, you will also play a significant role in helping to create it. This is what true strategic alignment is all about.

When all is said and done, you will end up with a strategic vision that has been derived from your motivation, balanced by inspired opportunities, and aligned with your corporate vision. You will also have clear goals and objectives that, if achieved, will allow you to realize your vision in a way that is aligned with your corporate strategy. At this point, you are ready to start sorting through your opportunities and using them to guide your strategies.

FILTERING OPPORTUNITIES

Now that you have your inspired vision, along with goals and objectives to support it, you'll need to filter your opportunities so that you will only be focusing on the ones you wish to pursue. Chances are

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you've already started this process when you were establishing your vision, but it is now time to go back and choose only those specific opportunities that you want your strategy to focus on. To do this, you'll need to understand the difference between market opportunities and product opportunities.

Your market opportunities will arise from the external part of your SWOT analysis. These are usually based on customer needs, industry trends, and opportunities to fill any gaps that may exist between what customers want and what they are currently getting. Product opportunities, on the other hand, are usually based on your own capabilities. These might reflect new technologies that you wish to pursue or any enhancements to existing products that you might want to make. That's not to say that product opportunities won't arise from customer needs, but opportunities that develop in this way will likely appear in the market column first.

When filtering your opportunities, I always recommend starting with the market opportunities and then moving to the product opportunities. This will help you to develop a more externally focused strategy than an internally focused one and also to use your inspiration rather than your motivation to help drive that strategy. It should be noted, however, that it is also perfectly acceptable to start with the product opportunities that you want to pursue and then match the market opportunities accordingly, although choosing in this order is likely to yield slightly different (and perhaps suboptimal) strategic results. I will talk about this more in Chapter 4.

You may also at this point be asking yourself: "Should developing my vision, goals, and objectives come before the SWOT analysis, or after it?" The reason I suggest doing the SWOT analysis first is because it enables you to explore all of your possible opportunities before deciding where you want to go. In this way, you are more likely to develop an inspired vision rather than a motivated one.

Once you have filtered the market and product opportunities with respect to your vision, goals, and objectives, you are ready to begin determining *how* you will actually go about pursuing those opportunities. But before jumping right into your strategies, you are going to want to learn as much as possible about the market and customers you intend to serve. We'll devote more time to obtaining this critical knowledge during the next step of our process.

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IS THE PROCESS REALLY A CREATIVE ONE?

If all of this seems a bit formulaic, the reason is that in business it is not always easy to find your inspiration, particularly in the face of whatever internal factors may be motivating your strategic process. Therefore, the tools that I am presenting, and the order in which I am presenting them, are meant to help you find the inspiration that will help guide the rest of your strategic plan.

Keep in mind that strategy is not always something that you set out to accomplish. Inspiration (and motivation, for that matter) may present itself at any time, not just once a year because somebody asked you to put together a plan. Because of this, general managers or product managers or whoever is responsible for driving the results of a certain business, or part of a business, have to be thinking about strategy all the time. It is this dynamic nature of strategy that often throws the more traditional strategic planning process into disarray, but it can also lead to the development of highly inspired plans.

Some of the best strategies ever implemented were not developed in a boardroom and were not the result of a formal strategic planning process. They were simply inspired, written, and performed—just like some of the greatest songs you've ever heard. The best-laid plans sometimes aren't plans at all; they're inspired streams of reactions. And sometimes that yields incredible results.

The tools are meant to help spark your imagination, but they are not by any means required in a formal way if the situation doesn't warrant it. The important takeaway is the thought process, so that's what you should focus on as you enter the next step.

At this point, just try to answer the bigger question: "What is really driving my strategy, both internally and externally?" If you can answer that, believe it or not, you will have found your inspiration. You can always go back and fill in the blanks to validate your thought process, but never ignore your gut instinct. From this point forward, it will be your greatest guide.

If you choose to write out your inspiration formally, that is the metaphoric equivalent of writing the lyrics to your song. However, a song is but one musical form. Your inspiration can just as well be inside your head, and music alone can allow that inspiration to be expressed. Either way, you must now turn your focus toward writing that music.

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But remember, your music will require artistry, and artistry requires passion, which you can usually find hidden among the unsolved needs of your target market. So before we begin writing our melodies, let's spend just a little bit more time exploring that world.

Finding Your Creativity

Ironically, for most creative ventures inspiration is not something that you actively need to find. Instead, it tends to seek you out. In business, however, we may need a little help opening the doors to the outside world in order to let in a little bit of that inspiration. With that in mind, here are some tips on how to find your creativity during this step:

- The tools in this chapter should be treated as guides rather than requirements. If you truly understand your company, your competitors, your customers, and your industry, you may already have a good sense for which opportunities will be most viable to pursue. Writing things down may help, but instinct has also guided many a great strategy. Don't be afraid to let it guide yours as well.
- If you are having trouble finding your inspiration, look no further than your customers. Visit them, observe them, and see what problems they're experiencing. You will be inspired to have a positive impact on their lives, and this, in turn, will inspire creative solutions to help you achieve that vision.
- Although the exercises in this chapter will certainly draw more heavily upon your Analysis and Recollection proficiencies, you must also utilize your Intuition and Artistry proficiencies if you hope to get any type of meaningful output from this step. Your creativity will be fueled by using some level of *all* of your proficiencies at every step of the process. If you limit these earlier steps to Analysis and Recollection only, you will block your view of what you can ultimately achieve, and stifle your creativity right along with it.

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CHAPTER 4

GENRE

ANALYSIS	RECOLLECTION	INTUITION	ARTISTRY
Present	**Past**	**Future**	**Path**
Company/Capabilities	Influences	Vision	Strategy
Competitors	History	Goals	Story
Customers	Performance	Objectives	Resources
Industry	Experience	Target Market	Execution

← INPUTS → ← OUTPUTS →

PREPARATION	PREPARATION	INSPIRATION	IDEATION
		GENRE	ARRANGEMENT
			ORCHESTRATION
			PRODUCTION
I	II	III	IV

What You Will Do

- Identify and understand your target market

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It would be difficult to imagine a song being written without some level of consideration for its target audience. And the way a songwriter connects his or her songs with a target audience is by choosing to write within a certain genre. I will discuss the musical part of this process a bit later in this chapter, but before I do, let me briefly describe why this concept will also be so important for your strategic process.

Considering your future target market and the needs of that target market is often referred to as your *market strategy*. That encompasses the choice of which market you will pursue, how you ultimately will access that market, and how you will satisfy the needs of that market at a high level.

Market-focused companies will approach their strategic process by first looking at what their customers collectively need, then developing and marketing a solution that satisfies that need, and then managing all of their operations to provide that solution to the marketplace. On paper this sounds like exactly the right thing to do.

The problem is that market-focused companies may have a difficult time staying focused on the market as they continue to grow. When companies grow in terms of revenue, they also increase in size. With that comes a greater fiduciary responsibility to their employees and investors, along with more logistical challenges of trying to coordinate greater numbers of personnel. Although all of this certainly has its benefits, the downside is that companies may experience a natural shift in focus away from the market needs and onto their own needs. Over time their strategic priorities may inadvertently reverse themselves, whereby companies consider their own capabilities first, develop products that *they* believe customers will want, and then push those products onto the marketplace.

Few companies want to view themselves as putting their own needs above the needs of their customers, even though this in reality may be exactly the situation they are in. That's not to say that this isn't a valid approach to take. Companies that focus on being cost-leading commodity suppliers may be very content with considering their own capabilities first. So this approach is valid as long as it is intentional.

In the previous chapter, we used our vision, goals, and objectives to filter opportunities from the SWOT analysis and decide which of those opportunities we wanted to pursue. I chose to start with the market opportunities. But that is very much a choice, and the

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choice you make has everything to do with the strategic outcome you are trying to achieve.

If you wish to pursue an internally focused strategy, you will use your vision, goals, and objectives to filter the internal *product* opportunities you wish to pursue, without much consideration for what the market needs. You will then attempt to push that product into the market and establish a need for it. This approach could be appropriate if you wanted to achieve short-term financial results with little up-front investment or if you were trying to fully absorb the already invested costs of your manufacturing facilities or other internal resources.

If you wish to pursue an externally focused strategy, you will use your vision, goals, and objectives to filter the external *market* opportunities you want to pursue, without much concern for whether or not you are fully equipped to provide that solution. Taking this approach you are likely to invest larger sums of money to invent a new and innovative breakthrough solution that satisfies the market needs, secure in the hope that the market will eventually reward you for it. This is the type of strategy that is more likely to change the world.

If you wish to pursue a balanced strategy, you will filter a combination of both internal product opportunities and external market opportunities, paying close attention to balancing market needs with your company's internal capabilities. For most companies, this is the type of strategy that I recommend. If you plan to take this approach, I recommend, as discussed in Chapter 3, that you filter your market opportunities first and your product opportunities second. Doing so will ensure that you are giving strategic priority to the market needs without completely disregarding what your company is realistically capable of delivering.

The point of this chapter will be to provide further guidance on how to choose the market(s) you wish to pursue and also on how to get to know those markets a little bit better.

CHOOSING YOUR GENRE

The concept of genres is well known within the music world. In fact, with the advent of digital music, being able to categorize the vast amount of music that is now available to us has seemingly become something of a necessity. As of the writing of this book, the music research company

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The Echo Nest was tracking 1,328 unique music genres (each of which can be sampled on the website EveryNoise.com).[1] But what purpose do all of these different genres really serve? Do they exist for the artists, for consumers, or for both?

Looking from the consumer side of the equation, genres can theoretically help listeners to more easily find and categorize their music. Back in the days of record stores, music was categorized by perhaps 20 to 30 different genres. This organization was helpful to an extent, but I can remember plenty of times that I was looking for a record in the wrong section because what I thought should be Rock was actually in the Heavy Metal section. So I may have thought the store didn't have the record I was looking for when in reality it was located under a different genre.

The same situation exists today in the world of digital music. Rarely will I search for music based on any of the 1,328 categories that I referenced earlier because, more than likely, my interpretation of at least some of those genres will be different than the interpretation of the artists (or companies) who categorized their music in the first place. The end result, just as with the record store, is that I might be looking in the wrong place for something that I really wanted to find. So as a tool for finding and cataloging music I think the genre system falls a bit short.

What I *do* use genres for is as a way to identify with the type of music that I enjoy. In this way the genre becomes more of a label or a brand that I proudly connect with. So I am a Jazz fan, a Ska fan, or a fan of Gothic Rock. And in this way I belong to my own private club of people who also have similar musical tastes and interests.

From an artist's point of view, I fear that many artists view genres as categories of musical *styles*. I, on the other hand, prefer to view genres as categories of musical *preferences*. That is an important difference and one that comes back to a concept we talked about earlier: the difference between focusing on your own products and focusing on your customers. Thinking that a genre reflects a musical style is the equivalent of thinking about the product first—that is, choosing a style and then finding someone who might like it. On the other hand, if you think of a genre as a customer preference, you are choosing to think about the market first—that is, thinking about what customers like first and then somehow connecting with that preference.

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That's not to say that if I identify a segment that I want to appeal to that I can do so without having any capability in that area. Again it all comes down to balance. Look at what opportunities exist, and then balance that with your ability and willingness to provide whatever it is that the market wants.

For example, if I were a reggae artist, and I defined that as my style, I would be limiting my market opportunities to only those people who prefer the reggae genre. On the other hand, if I see that there is a growing market for reggae-pop crossover music, I can at least explore my ability (and willingness) to adopt a style that fits this preference and take advantage of a growing market opportunity.

Some artists might view this as selling out, and I am certainly not recommending that artists (or companies) always choose the most popular genre. What I do recommend, however, is that you try to view your product through the eyes of what customers want to buy rather than what you prefer to produce—that is, if you intend to make any money at it.

Most companies will say that they are customer focused, and I believe that is truly their desire. But, let's face it, right or wrong, there's a whole lot of "stuff" that just gets in the way of focusing on the outside world. What, with operations review meetings, quarterly investor calls, annual budgeting meetings, annual strategic planning meetings, and all of the legal and compliance issues, as well as Sarbanes-Oxley requirements, that's a lot of non-customer-focused things for companies to have to worry about. Also there are all of the issues that come up when you try to move tens of thousands of employees all in the same direction at the same time. I can't even seem to get 10 family members together for an extended holiday weekend without focusing nearly 100 percent of my time on trying to convince Grandma that I didn't mean what I said about her, keeping my parents from fighting with my brother, or preventing my cousin from leaving early because he can't deal with any of it any longer. That's just 10 people for three days, so try dealing with 10,000 people 365 days a year.

It is for this reason that company executives will rely on their product managers, marketing managers, and other business strategists to make sure that the customers are being looked after. And it is for this reason that you will want to put your customers front and center in your strategic plan. To do that, you'll need to know who they are.

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MARKET SEGMENTATION

What exactly does it mean to "know your market"? We hear this phrase all the time, but how many times do we actually analyze what it's all about?

Knowing your market generally involves two main parts: (1) knowing *who your customers are*, and (2) understanding *what they care about.*

A market consists of a group of customers who want to transact business. Under this definition, practically the entire world population can be considered to be a market. That's a pretty broad target. So, in order to be able to manage things a bit more reasonably, companies will look to narrow down this focus by identifying only that portion of the population they wish to serve or who they believe can benefit from whatever it is that they are offering. These narrowed-down portions are commonly referred to as *segments*—market segments, to be exact. That's the easy part; I can literally break any given population into any number of different segments. The real question is, what criteria should I use to group them?

To answer this question we need to first understand that there will be several levels of groupings that have to occur. The first level will distinguish those people who *may* buy your product from those people who absolutely *will not* buy your product. An easy example of this is consumers of alcoholic beverages. In most countries, alcoholic beverages can only be consumed legally by people over 18 years of age; in some countries, that age is 21. Therefore, if you are a provider of alcoholic beverages, your first level of segmentation will occur by eliminating all people who cannot consume alcohol legally. We will consider what you are left with to be your Level 1 segment, as depicted by the triangle in Figure 4.1.

The next level of segmentation will determine what portion of the population a company actually *wants* to target or will physically have the *capability* to target. This is often a geographic segmentation, but there can be other factors as well. For example, perhaps our alcoholic beverage manufacturer will only want to target beer drinkers in the United States. In this case, this level of segmentation will have two criteria: one geographic and the other based on user behavior or preference. This allows companies to further narrow down their Level 1 segment into a Level 2 segment, as shown in Figure 4.2.

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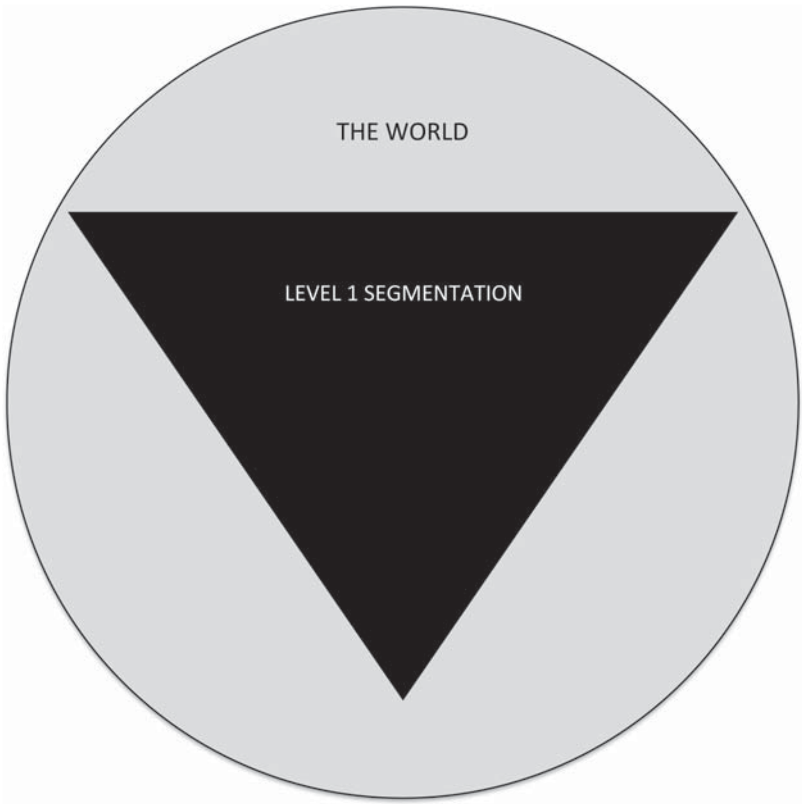
FIGURE 4.1

Level 1 Segmentation



Now that we have a realistic picture of the world that we can actually supply our products to, we need to narrow our market down one more step to filter out those customers who we do not realistically believe we will be able to convert to our products. In this case, the segmentation is not necessarily based on locations or preferences but rather on pure numbers. Continuing with our example, if my company is a producer of beer, I know that there are hundreds, if not thousands, of other breweries that will all be fighting for the same target market. Furthermore, it is unlikely that my brewery will be able take over the entire market. So for this reason I'll need to narrow down the market one more step by estimating what percentage of the market my company will actually be

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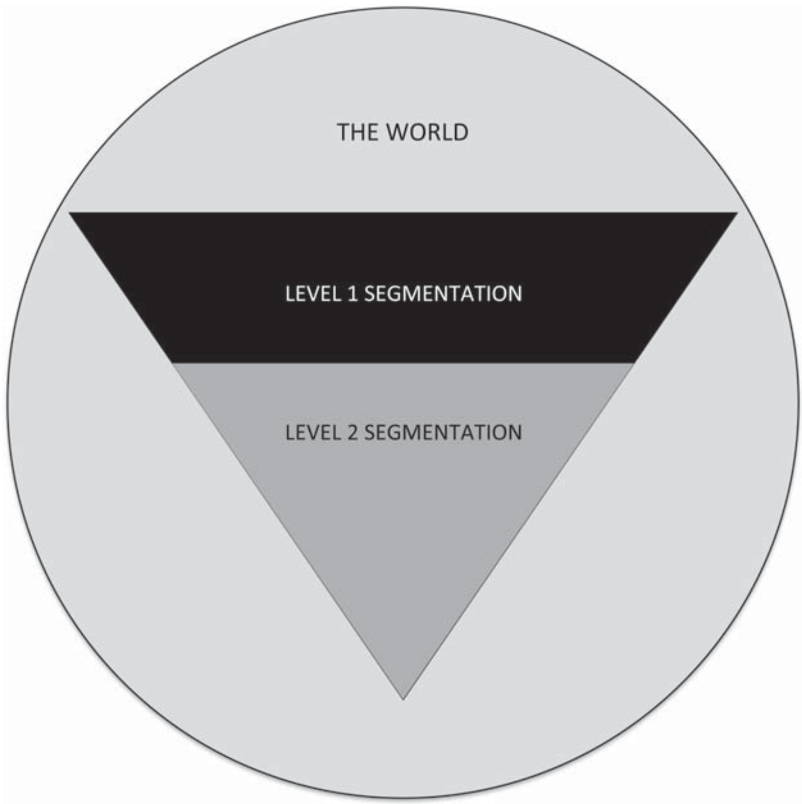
FIGURE 4.2

Level 2 Segmentation



able to convert. This will become my Level 3 segment, as shown in Figure 4.3.

Now we have our base of potential customers, and now we can get down to the business of truly segmenting those customers based on how we believe they will ultimately buy our product.

These different segmentation levels are often referred to in marketing theory as TAM, SAM, and SOM, which can be simply defined as follows:

- **TAM** stands for *Total Available Market* or *Total Addressable Market.* This is the equivalent of my Level 1 segmentation and generally represents the part of the world that actually can or possibly will buy your product.

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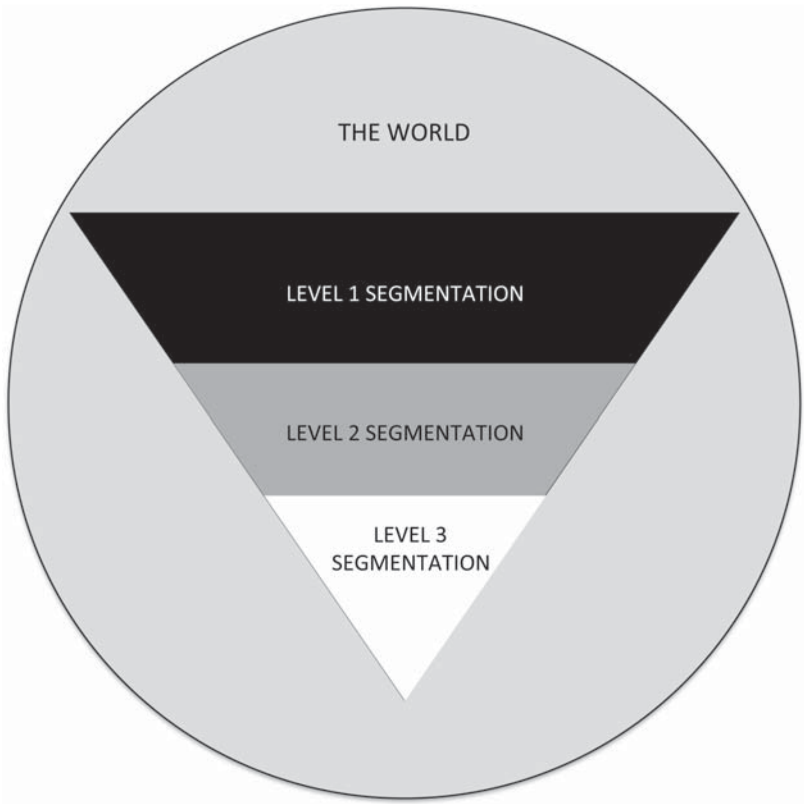
FIGURE 4.3

Level 3 Segmentation



- **SAM** stands for *Serviceable Available Market* or *Serviceable Addressable Market*. This represents the part of the Total Available Market that a company can actually go after, based on capability, geography, and other factors. This is the equivalent of my Level 2 segmentation.
- **SOM** stands for *Serviceable Obtainable Market*, also sometimes referred to as *Attainable Market Share (AMS)*. This is the part of the Serviceable Available Market that you are actually expecting to capture and is the equivalent of my Level 3 segmentation. It should also represent your actual customer base.

Most of the time, you will see the TAM, SAM, and SOM discussion used in relation to forecasting. More specifically, this is a great way for businesses to financially predict how much revenue they can

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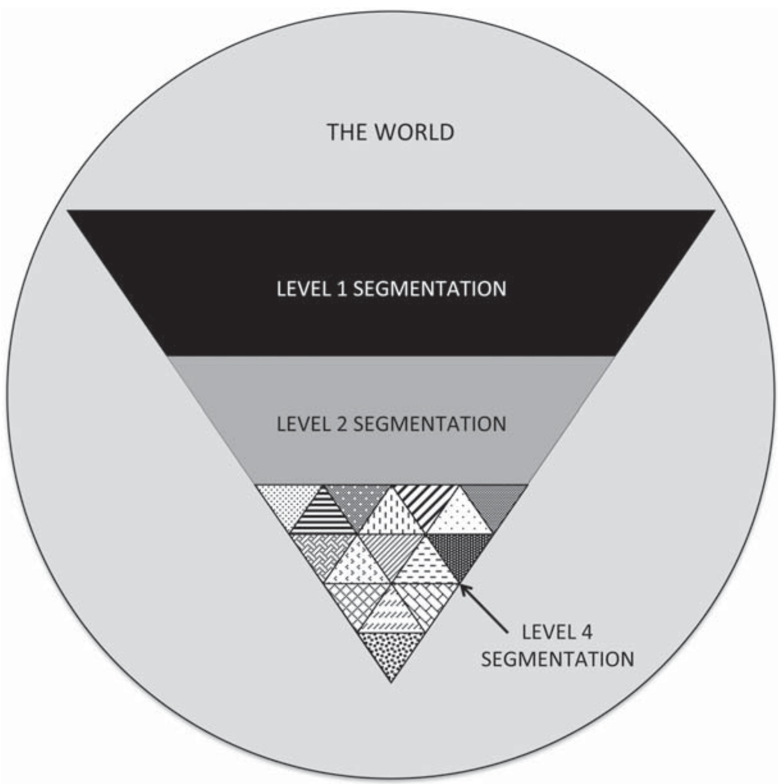
gain using what is called a *top-down forecasting* methodology—that is, starting with the universe and breaking it down bit by bit until you arrive at some reasonable prediction of the size of the market that you will actually be able to obtain. This puts an inordinate amount of focus on the numbers and perhaps not enough focus on *who* the customers in your target market really are.

In my model, I have dispensed with the mathematical formulas and the acronyms because what I really want to focus on is getting to know my Level 3 segment better. I want to know who they are; I want to know how and why they would want to buy my product; I want to know where they're hanging out. In essence, I want to take that Level 3 triangle and slice it up into more subsections, as shown in Figure 4.4. This will become my Level 4 segmentation, and this is how I will begin to truly understand my target customer base.

FIGURE 4.4

Level 4 Segmentation



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Before we talk about how exactly to group customers using this fourth segmentation level, I want to remind you that there are four levels for a reason; I do not want you to jump into this more traditional Level 4 segmentation exercise until you have first narrowed down your playing field using the first three levels. One of the reasons that I like to apply a top-down forecasting methodology to the subject of segmentation is because I might otherwise be tempted to segment the entire world based on their preferences, which of course could be a harrowing task. Companies are ambitious by nature, so it follows that they want to see the entire world as their collective oyster, accessing as many people in as many markets as they possibly can. Doing so, however, would be highly unrealistic, particularly without the right levels of resources, investment, or market presence. It is for this reason that I always encourage companies to first focus their target markets based on what is actually available to them and desirable to them. In this way, the final customer segmentation exercise will be much more palatable.

Note that all of this segmentation should be based on the market opportunities that you identified through your SWOT analysis and that you filtered using your vision, goals, and objectives. However, it is altogether possible as you begin to go through the actual segmentation exercise that you uncover additional market opportunities that you had not previously considered. In that case you should go back and update your SWOT analysis and your vision, goals, and objectives. Such is the strategic process. Each step builds from the last, and each step could well uncover additional information that will cause you to go back and start the process over again. Do not be afraid of this possibility, as this is all part of the iterative nature of strategic composition.

If you do end up reconsidering higher-level market opportunities (that is, opportunities that would otherwise have appeared in your higher segmentation levels), you should be aware that the higher up you target in this hierarchy, the more investment that will likely be required. For example, Level 1 opportunities will require the most investment because these are markets to which you do not currently have access. Level 2 opportunities will require the next highest investment, because you will have to work extra hard to convert more customers away from your competition. Level 3 opportunities—the level to which traditional customer segmentation

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is normally applied—will require the most reasonable amount of investment, because this is the level to which you currently have the most access.

Once you have finally determined what your target market will be, then you can move on to performing the Level 4 segmentation on that target market so that you can determine exactly where they are and what they care about.

Once you are at this level, there are literally hundreds of different criteria that you can use to group your target customers. These are the four most common:

- **Geographic.** Based on customer location
- **Demographic.** Based on objective characteristics, such as age, gender, ethnicity, economic status, and so on
- **Psychographic.** Based on subjective defining characteristics, such as lifestyle, personality, and interests
- **Behavioral.** Based on customer responses to given situations, such as how, when, or why a customer buys a product[2]

For business-to-business applications, there is a fifth methodology:

- **Vertical Market.** Based on a person or company's industry, profession, or trade

In general, geographic, demographic, and vertical market-based segments are all data driven, meaning that customers are grouped based on specific, factual, and undeniable data categories that are not subject to interpretation.

Psychographic and behavioral segments tend to be driven by emotion, meaning that customers are grouped based on how they act, feel, or respond to certain situations; therefore, emotional-based segments are all subject to interpretation, and interpretations are usually reached through a level of observation.

The common thread between all of these segmentation methods is that they are all based on common customer *needs*. As such, you should not segment customers based on any one characteristic just because it is convenient to do so. Instead, you should choose your segmentation models based only on those characteristics that represent a common need with respect to the product or service you will be providing to customers.

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If you are developing a strategy for a preexisting product or service, you will probably have some existing, perhaps even presegmented, customer base to start with. Be careful not to assume that your current segments will remain valid for your future strategy, particularly if those segments have been defined on a corporate level. Each strategy will require its own unique segmentation model, no matter how inconvenient it might be to create. Chapter 2 examined the importance of observing your customers and understanding their problems. What you learn during that step may very well redefine any segment models that you or your company have already established. So you should remain open-minded on this account.

This relates back to our discussion on musical styles versus musical preferences. Predetermined, corporatewide customer segment models are equivalent to musical styles: they exist for the convenience of their creators. On the other hand, carefully chosen segments based on specific, strategic customer needs are the equivalent of musical genres: they exist based on the preferences of the customers. I encourage you, for the purposes of your strategic market segmentation, to always think in terms of genre.

In some cases, you will be developing a strategy for a product that has yet to be conceived. In those situations you will be starting with a target market and keenly observing the problems that they face. This market will likely be chosen based on balancing some core competency that you, as a company, already possess, and some target market that could likely benefit from that competency. As such, your Level 4 segmentation may be based on a combination of customer needs and how (and where) you choose to target those needs. Even so, you should wherever possible seek to define your segments in terms of how your customers will use your products rather than how you wish to provide them.

Sometimes, the subject of customer segmentation is reserved not for strategic planning but instead for strategic implementation (for example, for the purposes of developing marketing materials, creating promotional strategies, and writing customer-focused value propositions). While it is true that you will not have to dive too deeply into your segmentation models at this stage of the strategic process, it is absolutely imperative that you at least have a clear picture of which segments you will be targeting so that your strategy will be firmly aligned with the needs of your targeted market(s).

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This will serve as a necessary guiding focus for your strategy, particularly as you enter into the next steps of the composition process.

With all of this in mind, now that you have a better idea of who the customers in your target market are, you need to spend some time getting to know them better.

UNDERSTANDING YOUR TARGET MARKET

One of the most difficult tasks you will face, especially in the later stages of executing your strategic plan, is learning how to speak to your target customers. By this I mean being able to speak their language and communicating with them in such a way that will allow them to relate more deeply to your company's products than to those of your competitors. Remember that we are all emotional beings. Ignoring that core part of the human psyche means that you will also be ignoring one of the main entry points into your customers' lives.

So if you know who your customers are, how can you now get them to trust you enough so that they'll want to make your product an integral part of their lives? The way to do that is to learn how to feel what they're feeling, which you can do using several now widely utilized techniques.

Many people in product management or marketing are familiar with the concept of using *customer personas* to assist in better understanding and relating to market segments. Personas attempt to capture the essence of customer segments by assigning a representative face, name, and personality to a typical customer within a particular segment so that you can get a better idea of how any of those customers might think, feel, and behave. In this way, companies will theoretically be better equipped to anticipate what a customer within that segment is likely to do under any given set of circumstances.

The use of personas was popularized by noted software developer Alan Cooper in his 1998 book *The Inmates Are Running the Asylum*. He promoted the use of personas to help software developers and product designers better relate to the typical personality and behavioral characteristics that a given product user might exhibit.[3] The practice has since been applied into many different business applications that might require a similar connection with a given type of customer or end-user. Prior to this application, advertising firms, marketers, and even playwrights had been utilizing comparable

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techniques for years, using common characteristics among large groups of people to embody singular character forms that could be used in any number of case studies, advertisements, or entertainment mediums.

Another approach that also seems to have arisen from the world of software development is to use what are commonly referred to as *user stories*. These are meant to be short descriptions or stories about how a customer uses certain products or features of a product. Like personas, user stories should in theory help companies relate to their end-user customers and the multitude of different product experiences that they are likely to have.

Both of these techniques are excellent tools for helping product developers relate to their customers in real terms. Perhaps to a lesser extent they also help marketers identify more completely with their market segments. However, in my experience, both of these techniques, in their current form, fall slightly short in helping product and business strategists truly understand their target markets. The reason is simple: the target for these exercises is a bit too narrow. In actually using and teaching those tools for many years, I feel that they sometimes force people too far into the individual user experience and too far away from the larger segment preferences. This might be useful for product development; however, for marketing and strategic applications, you generally need to think a bit bigger. Sure, it's nice to think about what Kathy in accounting would do in any given situation. But, in focusing so intently on Kathy, we might forget to think about how many Kathys there really are, and how significant that portion of the population is (or isn't) to our plan. So the exercise of getting to know your individual customer is a great one, as long as you remember to transpose that individual personality onto a much larger group.

What I propose, to expand upon the user story and persona concepts, is to create what I like to call a Team Card. Admittedly, I derived this name from my childhood hobby of collecting baseball cards. For some reason, I always cherished the team card. There was just something about being able to group all of these individual team members—each of whose cards I had collected and studied and come to know—and bring them together under one common umbrella. On the team card, I got the chance to see these players all grouped together; I had the opportunity to learn about what the team stood

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for and how the team performed together as a unit. And even though I knew that the team consisted of many different individuals, all with individual talents, skills, and personalities, there was something really captivating about seeing them all in one place at one time. I cherished the team card and the whole team concept in general. And, as it turns out, I'm not the only one.

Our desire to team up with people who have common goals, needs, and interests is about as natural to us as eating and breathing. It has been suggested that this core human desire dates back to an evolutionary need to surround ourselves with other people for the purpose of our own protection and survival.[4] It would naturally follow that this only works if the people we seek out have goals and interests that are in harmony with our own.

In a modern world, things aren't really that different. Not only do we naturally seek out "teams" that we can belong to on a regular basis, we also like to relate to one another in those same terms. Just as a fun little exercise, think of how many teams you currently belong to. Include in that list your company, your church, your community, your neighborhood, any sports teams or societies you belong to, your gym, your social media circles, any of the hundreds of websites that you currently have passwords to (don't get me started on that topic), as well as any of the probably dozens of sports teams, movies, bands, books, or clubs that you are a fan of. All of these affiliations link you to other people with the same common interests. The point is: we have a natural inclination to want to be grouped. When we do it in a negative way, we rightly call each other out on it. When we do it in a positive way, we give ourselves a logo and boast about our commonalities. It is this latter group that I want to expand upon.

The Team Card exercise allows us to quickly and easily group our customers in a positive way, by focusing on what makes them similar, giving them a collective identity, and bringing out a few fun facts that will help guide our strategic process. The reason I want you to think in terms of a card is because I do not want you to write an essay for each group. Instead, you should provide only as much information as would fit on the back of a Team Card.

The Team Card exercise forces us to automatically think in terms of a larger group while still focusing in on the individual characteristics that bind that group together. With that said, here's what I like to include on my Team Card, which is visually represented in Figure 4.5.

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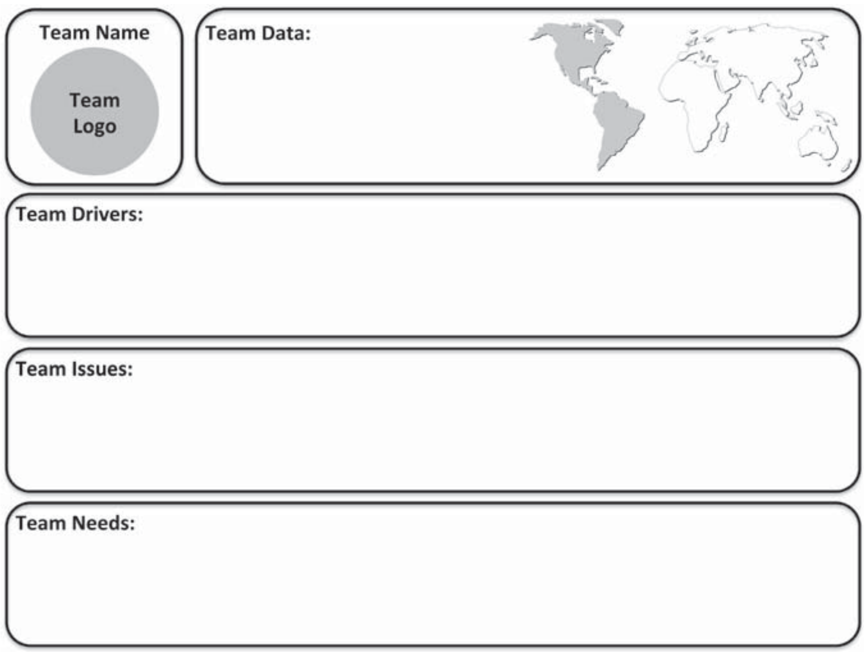
FIGURE 4.5

Team Card Template



- **Team Name and Logo.** Nothing brings together a group of people like a symbol! It can be nothing more than a small picture or icon that is instantly relatable to the defining characteristics of your team. Creating the team logo gives you the opportunity to represent as many common customer characteristics, needs, and interests as you can in a quick sketch. In some ways, your logo will be the visual version of the segment's persona. You should also choose a segment name that can be easily associated with the most important characteristics you are attributing. As an example, the consulting firm Deloitte LLP has published several comprehensive reports on the U.S. healthcare market, one of which contains a detailed view of six distinct consumer segments. With segment titles such as Sick & Savvy, Casual & Cautious, Online & Onboard, and Content & Compliant, these are excellent examples of names that get right to the heart of what each segment stands for in just one short phrase.[5]

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- **Team Data.** This is where you will capture any of the data-driven segmentation criteria that we discussed earlier, which includes geographic data, demographic data, and vertical market information. Do not feel that you have to include *all* of this data, as you should only indicate the range of information that is common to this particular segment, and only if that information is relevant to your strategic vision.
- **Team Drivers.** In this section you should indicate the things that this particular segment cares most about. These could include such factors as school, work, family, wealth, prestige, or any other feelings or aspirations that might drive this segment to take action. In short, find out: *What does this team stand for, and what do team members care deeply about?* For business-to-business applications, this section will speak to company cultures, how they represent themselves, how they behave, and what is most important to them. For business-to-consumer applications, this section will relate more closely to some of the psychographic or behavioral segmentation criteria that we discussed earlier.
- **Team Issues.** This section is the place to indicate the typical challenges or pain points this team has to deal with on a day-to-day basis. Items such as financial issues, health issues, problems at work, or any other everyday frustration can be considered here, but only inasmuch as they relate to the product opportunities that you are considering. This is an important point because this list can become quite broad if you do not keep it focused on the subject at hand. For example, using the previous healthcare example, if I am analyzing any one of those segments, I will want to restrict my observations to the issues that this team has around healthcare and, perhaps even more specifically, the particular healthcare-related product opportunities that I am considering.
- **Team Needs.** This is perhaps the most difficult section to complete, because you might be inclined to *solve* the problems that you identified in the previous section. We are not quite ready for that, however. Somewhere in between problems and solutions are needs. To best illustrate this, I will refer to Harvard Business School professor Theodore Levitt, who is often

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> quoted as having said, "People don't want to buy a quarter-inch drill, they want a quarter-inch hole." In fact, in his book *The Marketing Imagination*, Levitt himself attributes this observation to a gentleman named Leo McGinneva.[6] Whatever the origin, the saying has been quoted, in some form or another, literally hundreds of times, to help put a rather simple but often overlooked concept into context: the drill is a possible means to an end, but the core need is for the hole. Before you can solve any customer problems through your strategy, you first have to understand what customers truly need.

Using this famous drill analogy as an example, the corresponding Team Card categories might look like this:

Team. Residential Cabinet Installers

Team Drivers. They care about providing the highest-quality workmanship, protecting their own reputations, and providing the safest and longest-lasting installations possible for their clients in order to get referrals and repeat business. Doing so allows them to support their families, grow their businesses, and increase their personal wealth.

Team Issues. Cabinets and furniture must be secured to any number of different building materials from metal studs, to brick, to concrete blocks, to drywall, to wood. Oftentimes, the material is unknown or a hole cannot be safely drilled, leading to last-minute design changes or potentially unsafe installations. Also, pipes are often drilled into by mistake, causing additional damage, repairs, and frustration on the part of the end customers.

Team Needs. To provide a clean, fast, and accurate hole in almost any building material and without damaging any nearby pipes or other structures. The hole must ultimately allow for cabinets and furniture to be attached to walls safely, securely, and reliably.

In this case we can see that the needs directly arose from the issues but did not yet translate into solutions. The issues will give the reason for the needs, which is a critical piece of information to have. But the solutions are yet to be developed and in fact will be addressed through your strategies. In this way, the Team Cards will provide the perfect bridge to the strategies that will be developed in the next step of our process.

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We also see that the need, in this case, is much more comprehensive than just having a hole. By walking through this exercise, we discover that what this segment really needs is a hole that can be created without damaging any surrounding structures and that will allow cabinets and furniture to be safely secured to walls. So the need is not the quarter-inch drill *or* the quarter-inch hole. It is actually to secure furniture to a wall! This opens the strategist up to a whole new array of strategic possibilities that might not have been uncovered if we simply stopped at the hole, let alone the drill.

Keep in mind that as in the example just mentioned, the Team Card exercise should be applied to a fairly specific scenario lest it become too broad of an exercise to meaningfully connect to your strategy. Therefore, you should perform the Team Card exercise within the context of a product opportunity that you are considering, and directed at the specific set of market segments that are most likely to benefit from that opportunity. You may well uncover additional opportunities as a result of this exercise, but you still need to provide yourself with some contextual boundaries to start with so that the exercise will be more manageable. It is also not necessary for you to consider every single market segment that could ever use your product or service. This is why it is useful to perform the Team Card exercise only with respect to your Level 4 segments, because it will allow you to focus your strategy more effectively on solving the problems of just those markets that you intend to serve. Your solution may eventually find success in other, perhaps unintended, markets as well, but you can then go back and refocus on the specific needs of those customers when and if your strategy calls for it.

Before you embark on this exercise, I give you one caution: keep it simple! Over the years, I have seen persona and user-story exercises taken to new heights of complexity, only a portion of which actually added any real value to the outcome. Complexity might help to employ more people, but it generally doesn't help companies to make more money. The Team Card exercise is meant to be *simple*. So I encourage you to keep it that way. Have fun with it, and don't make more of it than it's meant to be, which is just a quick and easy way to learn how to speak your customers' language. And, in so doing, you will be able to reach them in ways that your competitors can't.

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REALIGNING OPPORTUNITIES

Now that you better understand your target market, you will need to realign your identified product and market opportunities. Before doing this, it is worth discussing the difference between an opportunity and a solution. Using the drill example, one of the product opportunities that you identified during your SWOT analysis may have been to develop a brand new way to create a hole. Another may have been to enhance your existing drill. These are not full solutions. Rather, they are broader categories of how you might solve a problem through product development or enhancement. In this way, the opportunities you choose will help to guide your strategic solutions rather than define exactly what those solutions will be.

Because your opportunities will serve in this critical capacity, it is important that you go back and realign them with respect to what you have learned through your market exercises. This will ensure that your vision, goals, and objectives are aligned as well, and that your collective inspiration and genre are firmly established before you proceed with developing your strategies. After working through your segmentation, you may, for example, find that your objectives cannot be fully met by pursuing the market opportunities that you had originally chosen, in which case you'll need to revisit these opportunities altogether. Or perhaps your chosen market opportunities can only be met by pursuing product opportunities that you hadn't originally conceived of or that you had previously rejected because you didn't feel that they were aligned with your vision. Again, these will need to be realigned so that you have an updated picture of both the market and product opportunities you want to pursue.

It is entirely possible that new market insights gained through this step will cause you to go back and redefine your vision, goals, and objectives altogether. This is perfectly acceptable as well, and in fact even encouraged, since you will not have had as much information then as you do at this point in your process. As you learn more, and as conditions evolve, your plan will need to evolve as well. This will happen now and at every step that follows.

You may be questioning why, then, I didn't ask you to perform a deep dive on the market prior to performing your SWOT analysis. This is somewhat a matter of preference, but I have found it to be more effective to use the SWOT analysis as a brainstorming tool and

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then use the outputs of that tool to help guide further exploration of the market. Doing this in reverse can result in studying market segments that are too broadly defined or that are not necessarily aligned with your overall vision.

Coming out of this stage, you should have a clear vision, clear goals, clear objectives, a clear view of the market opportunities you want to pursue, and a firm understanding of the product opportunities that will be required to support those market opportunities. In short, you now have all of your "whats" aligned. It is now time to glue them all together and begin working on the "hows."

The foundation of your song is now in your head. It's time to begin writing your melodies.

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Finding Your Creativity

Artists must fully consider their landscape, environment, capabilities, and customer needs before they can begin designing their structural masterpieces. But they will still be stretching their creative muscles even through these seemingly less inventive preliminary steps. Here are some tips on how you can do the same:

- Remember to tap into your Intuition proficiency to consider not only how your customers feel and behave presently, but also how you anticipate they might feel and behave in the future—particularly in response to whatever you have planned for them. Creativity in this step will come from predicting future reactions based on what you observe in the present and what you know from the past.
- As you move closer toward ideation, you will be drawing more upon your Artistry proficiency. Remember that true artistry is not just about having passion; it's also about being able to express that passion in a way that inspires other people to care. And you can only do that if you know who they are, what they feel, and what they ultimately need. Your strategy is your artwork. If you want people to care about it, you must first show that you care about them.
- Although a book typically moves from chapter to chapter, your creative mind does not have to follow that same convention. In practice, you will likely be roaming freely among all three of the steps we have covered so far (preparation, inspiration, genre). This is absolutely encouraged both now and as you move through the rest of the creative process.
- Remember to have fun! There are times that I have intentionally avoided choosing a right and a wrong way to go about doing things. I can tell you what practices, in my experience, have yielded the most successful results, but I will stop short of definitively saying that you should or should not take a certain approach. Doing so would go against the very grain of the creative process I am hoping to instill. So feel free to experiment with your own methodologies as you explore the tools and frameworks I have provided. Who knows, maybe you'll help me write the next edition of this book!

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CHAPTER 5

IDEATION

ANALYSIS	RECOLLECTION	INTUITION	ARTISTRY
Present	Past	Future	Path
Company/Capabilities Competitors Customers Industry	Influences History Performance Experience	Vision Goals Objectives Target Market	Strategy Story Resources Execution

INPUTS → ← OUTPUTS

I	II	III	IV
PREPARATION	PREPARATION	INSPIRATION	IDEATION
		GENRE	ARRANGEMENT
			ORCHESTRATION
			PRODUCTION

What You Will Do

- Compose your strategies
- Develop your Go-to-Market Plan

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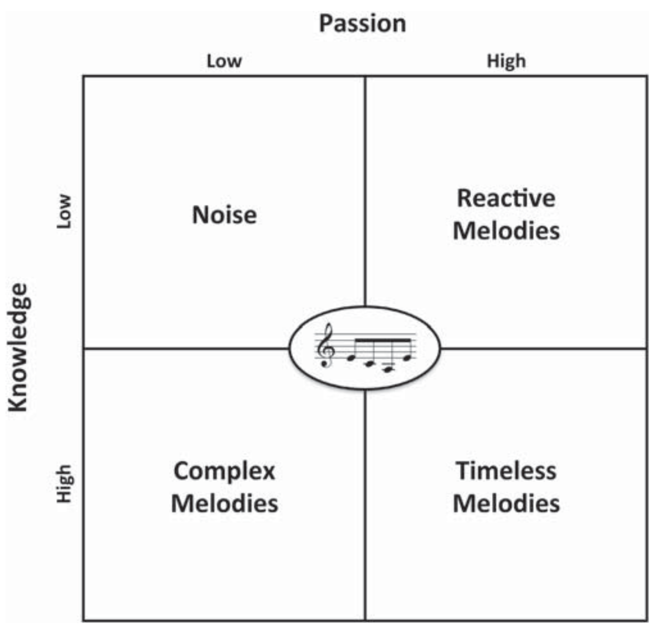
Once I begin writing a song, things just start to flow naturally. To the untrained eye, it may appear as though somebody has just turned on a faucet and the ideas have just started to pour out, seemingly from out of nowhere. However, upon closer inspection, one begins to see that these ideas are actually based solidly in the preparation, inspiration, and genre steps that we've been working on up to this point. So the creative output isn't some form of magic; it's actually quite prescribed. You just have to allow all of these elements to work together and fuel them with enough passion to drive creative results.

If I were to draw my own 2 × 2 matrix to somehow capture how to do this, my dimensions would be knowledge and passion, with ideas resulting at the intersection between the two. I have a database of knowledge in my head to draw from, and I have a passion that is inspiring this knowledge to come together in a way that has never been expressed before. That's how I write songs, and that's how I compose strategies.

Figure 5.1 illustrates this matrix in relation to writing music.

FIGURE 5.1

The Melody Matrix



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Using music as our guide, a composer's knowledge will allow melodies to be crafted that will draw upon tried-and-true musical theories and concepts, as well as the most current needs of the audiences that those melodies will ultimately serve. On the other axis, passion will allow a composer's raw feelings and emotions to be expressed, without regard for how the resulting melodies will connect musically with an audience. Intersecting these contributions will result in the following:

- **Timeless melodies.** Intersecting high passion and high knowledge results in classic melodies that will always be remembered, replayed, and referred to time and time again.
- **Complex melodies.** Intersecting low passion and high knowledge results in overly complicated melodies that may have little feeling and, therefore, no real melodic "hook."
- **Reactive melodies.** Intersecting high passion and low knowledge results in melodies that are born out of raw emotion but may have little musical substance.
- **Noise.** Intersecting low passion and low knowledge will result in nothing more than background noise.

This is just a theory, of course, based more on observation and experience than on science. But if we apply this same matrix to the concept of developing strategic plans, it's difficult to ignore the parallels.

Timeless strategies are based on a strong base of foundational knowledge; they are driven by people with strong passion and an inspired vision of who they want to be and how they want to get there. Complex strategies tend to be highly engineered, but they may lack the passion that will be required to drive any real change. Reactive strategies are fueled by a high sense of urgency, but they may not be based in enough facts or data to be completely effective. And strategies that are based on little knowledge and little passion will be nothing more than background noise.

As with all things, there may be a place for all of these types of strategies, but the strategies that I want you to compose are the timeless ones. To do that, you'll need to intersect the knowledge that you've built (through the preparation step) and the passion that you've found (through the inspiration and genre steps). Both elements are there; you just need to find a way to bring them together

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and express them. This is where your true Artistry lives, and this is the proficiency that you will be drawing upon more heavily from this point forward.

To help you do this, I am going to introduce you to one more strategic theory that typically helps me to formulate strategies from all of the foundational information that I have collected up to this point. It is based on a model put forward, once again, by Kenichi Ohmae in *The Mind of the Strategist*. Here, Ohmae introduces us to his 3Cs model or, as he refers to it, "The Strategic Triangle." In this model, Ohmae suggests that effective business strategies must focus on the 3Cs: Customers, Competition, and Corporation.[1] Even before I was aware of Ohmae's model, I have always considered, quite consciously, each of these three elements in almost every strategy that I have ever developed. However, my way of looking at these dimensions is just a bit different than his and, because of that, I want to introduce you to my derivative of this model here.

In my view, every business strategy should be able to answer three basic questions:

- How will we add value for our customers?
- How will we add value for our company?
- How will we face our competition?

To answer these questions, I like to think in terms of three strategic perspectives as follows:

- The Customer Perspective
- The Company Perspective
- The Competitor Perspective

My theory here is that it will not be enough to simply ask our three questions; instead, these questions must be asked from the point of view of the three different subjects of each:

- As a customer: "What value will I receive?"
- As a company: "How will we benefit?"
- As a competitor: "What effect might this have on me?"

In addition to these three perspectives, I tend to view every business strategy as having both a market dimension and a product dimension; that is, I am selling some product or service to some base

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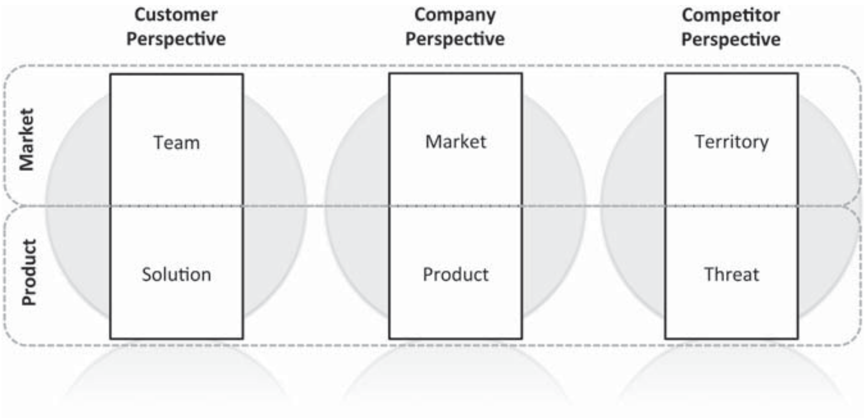
FIGURE 5.2

Strategic Perspectives



of customers. Following the strategic perspectives concept, I need to view both of these dimensions through the same three customer, company, and competitor viewpoints. Therefore, what my company views as its market and product, our customers will view as their team and solution, and our competitors will view as their territory and threat. This is illustrated in Figure 5.2.

In summary, there are two dimensions to consider (market and product), as viewed through three strategic perspectives (customer, company, and competitor). From these five basic elements, all of your strategic ideas will evolve.

STRATEGIC MELODIES

Somewhere between what you want to achieve and the specific actions you will take to achieve it is a summary description of *how* you intend to go about doing this, stated in just a few concise statements. These statements serve as a way to do the following:

- Provide high-level direction as to how you will achieve your vision, goals, and objectives.
- Describe what your overall future plan is all about.
- Categorize your actions.

Oftentimes, these statements take the form of a bullet-point list, with each point being referred to as a *strategic initiative* or *strategy*.

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However, in the spirit of the creative approach I am taking, I am calling these *strategic melodies*. These will capture the essence of your plan, at the intersection of the five dimensions that we envisioned through our strategic perspectives:

- Product / Market
- Customer / Company / Competitor

As you may have guessed, there is no exact formula that will tell you how to write these strategic melodies, no more than there is an exact formula that you can use to write a song. So the best way to explain how this part of the process works is to step you through a hypothetical example using all the tools we have at our disposal so far.

Situation

Let's say that I am a product manager for a company that makes luggage. My company has an existing line of laptop bags sold into broad consumer markets, and we are looking to grow this part of our business. We have already completed our analysis on customers, competitors, industry, and internal capabilities, and, based on this information, we have established the following vision, goals, objectives, and market situation:

Vision

We want to be the customer's first choice for high-quality, fashionable, and innovative luggage and travel solutions that can accommodate portable laptop computers.

Goals

- Grow our market share of laptop bags in North America.
- Offset declining profitability in the broad consumer segment.
- Identify sustainable growth opportunities for specific focused markets.

Objectives

- Increase overall North American market share of laptop bags from 20 percent to 35 percent in three years.
- Increase overall profitability of our laptop bags from 35 percent gross margin to 40 percent gross margin in three years.
- Increase market share of business users in North America from 5 percent to 20 percent in three years.

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Market Situation

Through our analysis, we have found that business users comprise a target market with unmet needs and sustainable growth opportunities. These users want a product that is easier to carry, puts less stress on their backs and shoulders when they travel, and has a professional look and feel that they can feel proud to wear and use. This analysis caused us to clarify a specific objective around this targeted market segment, being that this is also a segment that we are currently serving with our broader consumer brand.

Through this exercise, and drawing upon some of the strategic theory and influences that we have been exposed to, we believe that we want to solve the market problem with a new, differentiated laptop bag that will focus on this specific market. The question is, how will we go about doing this?

Let's start with our *customer perspective*. This is the lens through which the market and product opportunities from our SWOT analysis will be focused, as shown in Figure 5.3.

What we see is a market-focused differentiation strategy beginning to develop through this perspective.

Next, let's focus through our *company perspective.* This is the lens through which the strengths and weaknesses from our SWOT analysis will be focused, as shown in Figure 5.4.

FIGURE 5.3

Customer Perspective

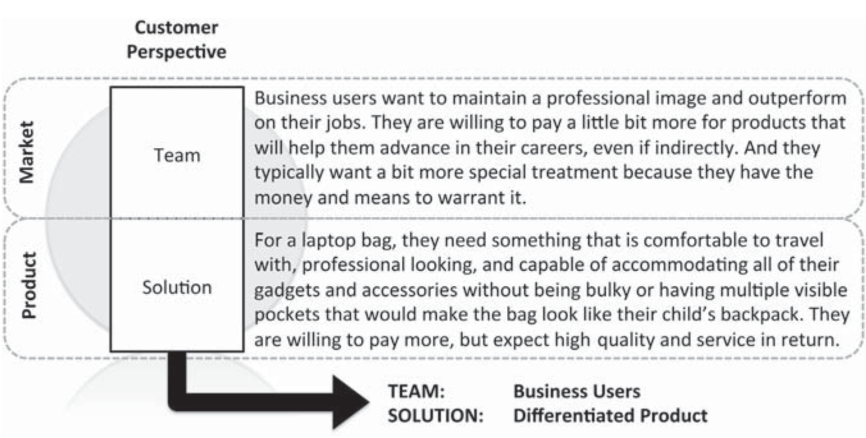

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FIGURE 5.4

Company Perspective

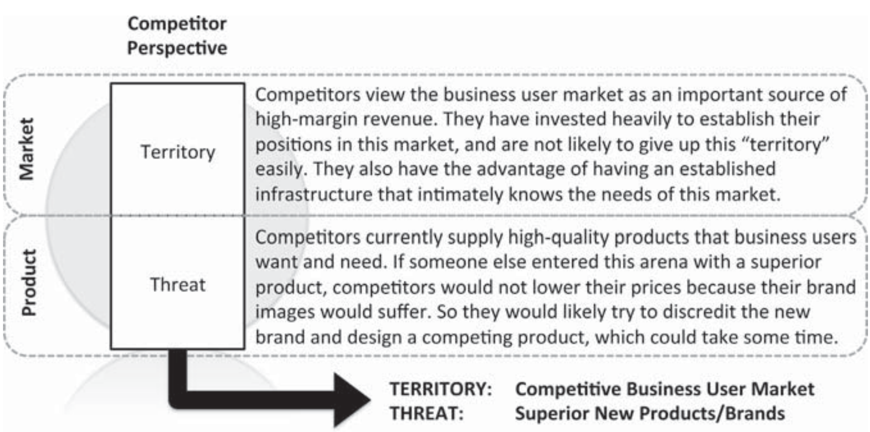
What we see is a product development strategy of providing a new product into an existing market beginning to develop through this perspective.

Finally, we'll focus on our competitor perspective. This is the lens through which the threats from our SWOT analysis will be focused, as shown in Figure 5.5.

We now see a strategy developing based on facing competitors directly and redefining the products that the business user market has become accustomed to.

FIGURE 5.5

Competitor Perspective



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I have drawn upon the already-established strategic frameworks that I presented in Chapter 2 to help define the strategies that were being viewed through each of these lenses. More specifically, I used Michael Porter's generic strategies model to help define my customer perspective, I used Igor Ansoff's product-market growth matrix to help me categorize my company perspective, and I used Kenichi Ohmae's strategic advantage model to help capture what I want to do from a competitive perspective. Just as in music, we can take established and proven theories and combine them in new and creative ways that will yield unique results.

Of course, the examples I have presented are simply overviews of what each of these perspectives might look like. In practice, you can be as detailed as you want, considering all of the many different options that could exist when viewing your situation through each of these lenses. You might also find it helpful to state each perspective in first-person narrative form, taking on the persona of each as you do. This will further enhance the exercise and help you to truly get into the mindset of your customers, competitors, and even your own company.

Visualizing our product and market through these perspectives, our strategic melodies begin to flow, providing a framework for our entire strategy as follows:

- Provide a differentiated laptop bag focused on the specific needs of high-end business users, with constantly evolving features that will be difficult for competitors to react to.
- Promote a premium brand targeted toward high-end business users that leaves a permanent impression on customers that competitors can't discredit.
- Continue to look for specific problems of the business user target market and solve those problems in ways that nobody has thought of before.
- Consistently focus on quality, style, and simplicity over cost.

That's it. Four simple bullet points arising from our baseline analysis, our SWOT analysis, our vision, goals, and objectives, a firm understanding of our chosen target market, and a healthy processing of all of those inputs: balancing Analysis, Recollection, Intuition, and Artistry to arrive at the melodies that will serve as the foundation for our entire strategic song. You can use the strategic perspectives model if it helps you, or you can simply balance your knowledge of the

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past and present to help you anticipate what the future should look like. However you go about it, your strategic melodies should be broad, overarching statements that provide sufficient direction to guide every action that could possibly be carried out, but without specifically stating what each of those actions need to be.

Note that there is not a direct correlation between the strategic perspectives and your strategic melodies. In other words, I did not develop a strategic statement specifically for each strategic perspective. That is by design. The strategic perspectives are provided as a way for you to process information. The outputs will be completely dependent on what you learn and what you feel as you process this information.

Because there is no exact formula to follow in this situation, you might be asking yourself how many strategic melodies you should have. There is no definitive answer to this question, but here's a bit of overall guidance for you to follow:

1. Your strategic melodies should clarify your target market and your product solution.
2. Your strategic melodies should be able to answer, either directly or indirectly, the following three questions:
   - What will we do for our customers?
   - What will we do for our company?
   - How will we face our competition?
3. Your strategic melodies should be both simple and memorable.
4. Your customers should be able to sing your strategic melodies back to you without ever having been told what those melodies officially are.

In many of my workshops, I ask people to tell me what they think Apple's strategy is, and inevitably some variation of the following three points are presented:

- **Innovation.** Develop breakthrough, high-end, high-margin, beautifully designed products.
- **Simplicity.** Sell products that are simple for anyone to choose and simple for anyone to use.
- **Lifestyle.** Focus on providing a complete infrastructure that ties customers directly to Apple.

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I honestly don't know what Apple's official internal strategy is, although it has certainly been surmised many times. And the reason, I believe, that so many people seem to be so comfortable doing so is because Apple consistently demonstrates some form of this strategy through its actions, if not through its words. As consumers, we understand how Apple will serve its customers, how it intends to compete, and how the company will benefit. We know the markets it wants to pursue, as well as the types of products it wants to provide. And perhaps most important, nearly anyone can recite Apple's strategy without ever truly knowing what it officially is or was.

Perhaps more widely publicized is the strategy of Southwest Airlines. The main elements of this strategy (as it stood in 2003) were published in the excellent textbook *Crafting and Executing Strategy: The Quest for Competitive Advantage*, by Arthur A. Thompson Jr., A. J. Strickland III, and John E. Gamble. In fact, this reference only served to confirm and expand upon what I, as a customer of Southwest Airlines, had already deduced the company's strategy to be:

- Gradually expand into new markets
- Focus on direct, point-to-point flights
- Provide friendly, casual, low-price service
- Economize on costs wherever possible[2]

Even in my interpreted version, this is a clear example of how (1) the product and market are both clearly defined, (2) each of the three strategic perspective questions is answered, and, (3) the points are simple, memorable, and capable of being sung by nearly any customer of the company. As with most successful companies, this strategy continues to evolve and, as it does, customers should be able to detect any new melodies and sing right along with them.

Try this with other prominent companies that you do business with and you'll likely be able to deconstruct their strategies as well. Some of the strategies will be successful; others will not. You should be able to deconstruct that aspect as well.

As you begin to develop your own strategic melodies, you should keep this important point in mind: your melodies need to be catchy—so catchy, in fact, that people can't stop singing them. This includes your company, your customers, and even your competitors. Avoid writing complex melodies that are too heavily weighted toward your

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own knowledge, and avoid writing overreactive, knee-jerk melodies that are too heavily weighted toward any specific passion. You should infuse high levels of both of these elements, but make sure they are kept in balance. Doing so will lead to the timeless strategic melodies that will ultimately inspire action, growth, and long-term results.

If you are still having trouble developing your strategies, I offer you a simple summary formula that I often use to tie all three strategic perspectives together:

- Your *customers* need something.
- Your *competitors* are supplying something.
- Your *company* should fill the gap between them.

In that gap, if you search hard enough, you'll find unmet, sometimes even unknown, customer needs. And in that gap is where you'll also find your strategic melodies.

STRATEGY VERSUS TACTICS

At about this point people usually ask me whether or not their strategies are too tactical. Here's my general response: "I think that business people spend far too much time trying to answer this question."

Somewhere along the way, the idea of being tactical seems to have taken on a negative connotation in the business world. This makes little sense to me because taking action should be a good thing! But because of this misplaced notion that being tactical is somehow undesirable, I find that strategists spend a disproportionate amount of energy worrying about whether or not their strategies are too tactical. I reiterate: tactics are good. You shouldn't be afraid of being action oriented.

Where the negative implication most likely comes from isn't from having tactics but rather from *not* having a strategy. Without a strategy, your tactics appear random and unexplained. The same effect will also happen if you have a strategy but don't communicate it effectively. Simply put, if nobody understands your strategy, then your actions will seem out of place. And then you will likely be accused of being too tactical. Your strategy should provide the context for your actions. Then your actions will be embraced in a positive way. It's as simple as that.

Although it will not be necessary for you, as the strategic composer, to lay out every action that could possibly result from your

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strategies, you might find that you need to go just one level deeper to guide how your strategies will ultimately be implemented. To do this, it may be helpful to develop a high-level plan—one level below your strategic melodies—that can be used to guide the more detailed actions that will ultimately be developed and carried out by your implementation team. This will help outline at a high level how you will translate your strategies into marketplace behaviors.

GO-TO-MARKET PLAN

Most students of business have, at one time or another, heard of the 4 Ps of marketing: product, price, promotion, and place. They can be loosely defined as follows:

- **Product.** This is what you are selling to the market and can be tangible (such as a manufactured good), intangible (such as a service), or a combination of both.
- **Price.** This is how much a customer will pay for your product (monetary or otherwise).
- **Promotion.** This is how you will let customers know that your product exists and also convince them that they should buy it.
- **Place.** This is where you will make your product available to your customers.

Often referred to as the "marketing mix," the 4 Ps date back to the 1960s and can be attributed to marketing professor and author E. Jerome McCarthy.[3] When McCarthy outlined the 4 Ps, the idea of a marketing mix was already in existence, that phrase being coined by marketing and advertising professor Neil H. Borden after drawing inspiration from a research bulletin written by another business professor, James Culliton. In this 1948 bulletin, Culliton describes a business executive as a "'decider,' an 'artist'—a 'mixer of ingredients,' who sometimes follows a recipe prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes experiments with or invents ingredients no one else has tried."[4]

Not surprisingly, the 4 P model has been built upon further and modified many times since its introduction. Over the years, some thought leaders have added additional Ps, including packaging, positioning, people, and process. Other derivative models have suggested

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replacing the 4 Ps with more customer-centric terms. Whatever mnemonic you choose, the concept of having a marketing mix is consistently applied among all of these frameworks—that is, each element is like a lever that can be pushed or pulled, and each lever will almost certainly affect the others. In this way, it is Culliton's original inspirational picture of an artist who mixes ingredients that continues to resonate with me.

A good example is the Apple iPad. When the iPad was first introduced, it was certainly a breakthrough product, and it was priced accordingly between US$499 and US$829.[5] Considering that some laptop computers were already in the sub-$500 price range, introducing what, at the time, could easily have been perceived as a large smartphone priced anywhere from one to two times the price of a fully functioning computer was a pretty bold move. That said, what would have happened if Apple would have introduced the iPad at a price of $99? More than likely, people would have seen it as more of a toy than as a tool. Similarly, if the product was designed as a lower-end product made of cheap plastic and featuring a nonresponsive interface, the price would have had to be adjusted to reflect this reality and to match what consumers would ultimately expect from such a device. So price and product were at least to some degree interdependent.

At that time, the iPad was only available at Apple online and retail stores and through "select Apple Authorized Resellers."[6] This essentially translated into a limited placement strategy, which also certainly added to the cachet of the iPad being a high-end exclusive product. If the iPad had been more widely distributed, it might have been seen as less of a breakthrough product and more of a commodity product, which may also have had some impact on its price. Add promotion into the mix, and you have a perfect recipe for managing a product's performance (and perception) in the marketplace.

All of this makes the marketing mix a very effective vehicle to help guide the ultimate actions that will be used to carry out your strategy. Using the marketing mix in this forward-looking way will result in what is sometimes referred to as a *Go-to-Market Plan*.

The Go-to-Market Plan will generally provide high-level guidance for each of the four marketing mix elements. Because these are still guiding statements, they are generally considered to be a part of the overall strategy, which is why I like to consider them at this stage of our process.

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For further direction on how you can create your Go-to-Market Plan, let's explore each of these marketing mix areas in a bit more depth.

Product

Your product is whatever you are making available to your customers. It can be a tangible product like a television, an intangible product like a bank account, or an all-encompassing environment like a theme park. The important thing to know about your product is that it is never any one thing. Instead, it is whatever overall experience your customer has in relation to your company.

Let's consider a mobile phone. If I am a manufacturer of mobile phones, I cannot specify my strategy with respect to just the physical product, because that will make up only one very small part of a customer's overall experience. Customers will purchase the mobile phone at a wireless carrier's store, where they will wait a certain amount of time, be treated a certain way, and receive a certain amount of support to get them started. That becomes part of the experience. Then they will open the product box, examine the included accessories, and glance through the instruction manual. And that becomes part of the experience. Then they will turn the phone on, activate it, transfer their contacts and pictures, and begin using the included software on the phone. That also becomes part of the experience. Then they will begin interfacing with the phone, making calls, observing how well people can hear them, observing how well they can hear others, and thoroughly testing all of the various features, functions, and controls that the phone has to offer. That too becomes part of the experience. They'll find out how easy the phone is to use, feel how light or heavy it is, and think about how awkward or convenient it is to put in their pockets, jackets, or purses. That becomes part of the experience as well. Then they'll drop the phone (accidentally, we hope) and see how well it holds up. And if it didn't hold up, they'll get the phone serviced and see how convenient the repair process is. That also becomes part of the experience. In using the phone, calls will drop, important calls will be missed, and, if they're really lucky, the phone may mysteriously dial someone on its own. And that becomes part of the experience. When they need technical support on any or all of those things, that will become part of the experience as well.

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Sometimes marketers refer to three levels of a product, which can be summarized as:

- **The core product.** This is the primary benefit that a customer receives from a product.
- **The actual product.** This is the tangible product that a customer buys, including the design, brand, packaging, and quality.
- **The augmented product.** These are the intangible added benefits that a customer receives such as service, support, warranty, and so on.[7]

In our mobile phone example there are actually many other factors to consider, particularly in today's high-tech world, where many products interact to provide a collective, often inseparable experience for customers. As I write this paragraph, my computer is running word processing software, which is automatically backing up to a cloud storage service over my high-speed Internet connection. When something isn't working as expected, I have no idea which of these products is the culprit. And I don't really care. Because of that, I'm likely to blame the wrong one and switch to another product as a result. So every company in that chain has to pay close attention to my entire collective experience and, in the ideal case, work together (whether directly or not) to ensure that I receive the best experience possible.

While the three-level approach may be helpful to some, I tend to view products in terms of a more singular experience, with each touchpoint connecting to other interconnected "dots" in that total experience chain. And although each of these individual dots (such as packaging design, user interface, warranty, service, and support) are important to specify, I tend to view those more as specific actions than as strategies. At this stage, what I like to focus on is the overall user experience. In fact, I go as far as to say that my customers' experience *is* my product and that the tangible thing they hold in their hands is only a means to that end. It follows, then, that my strategy will need to provide guidance on what that experience should be for my product—from beginning to end—as well as what that experience needs to be for any other product with which my product will also interface. This is an important consideration in today's modular, high-tech world, and one that I have captured visually with the honeycomb diagram depicted in Figure 5.6.

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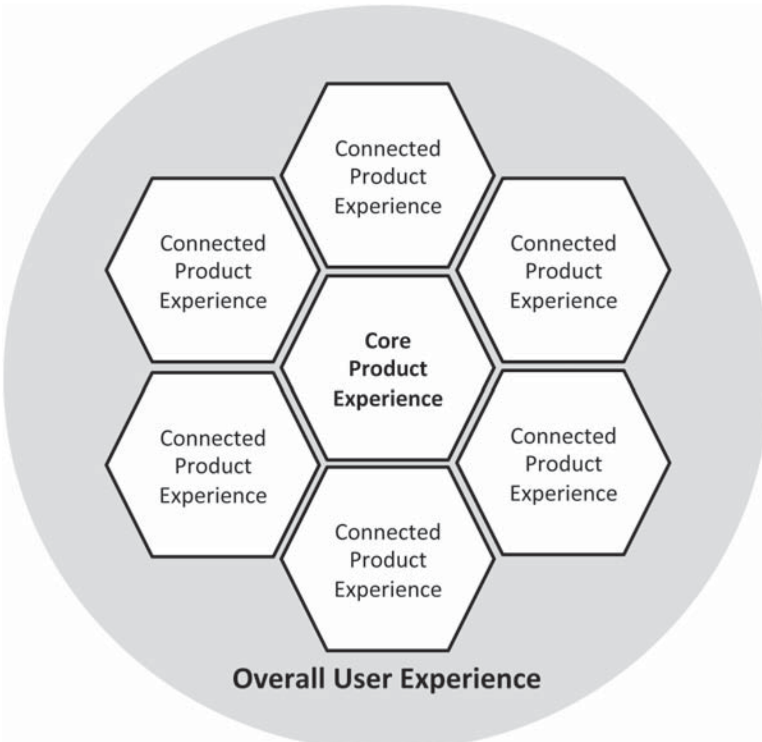
FIGURE 5.6

The Overall Product Experience



Another aspect of your product involves the timing of any revisions, upgrades, improvements, or enhancements you intend to make. It is common to release several versions of a product or to slowly release different styles or variations of your product over a set time schedule. This could serve to control your manufacturing supply, spread out your demand, or increase your share by slowly converting (or reconverting) more and more of the market with incremental improvements over time. A classic example of this could be seen throughout the 1990s with new families of faster computer processors being released for the consumer market every year (and sometimes multiple times within any given year). Each upgrade brought with it more power, faster speeds, and better performance, which eventually created a need for consumers to upgrade their home computers on every third or fourth release. The trend in hard-drive storage followed closely, as did software programs, most of which were

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updated annually at a minimum. Today, this trend of rapid product updating can be seen with smartphones and other high-tech devices. All of these are examples of carefully planned product upgrades with the purpose of attracting new customers and reattracting existing customers who want to take advantage of the latest that technology has to offer.

These preplanned releases are usually captured on what is referred to as a *product road map*, which is often a part of the ever-evolving strategic Go-to-Market Plan.

One last consideration for the product part of the plan has to do with the cost of the product or service that is being provided. You might have a strategic melody (as in our laptop bag example) that requires you to consider user experience over cost. In this case, your Go-to-Market Plan will focus on product features and enhancements that align with this strategic intent. On the other hand, if you were implementing a strategy of economizing wherever possible, your Go-to-Market Plan might include things like consolidating products; reducing labor and material costs; and eliminating other frills that might not be important to your target market. These cost-saving measures would all become an integral part of the product you intend to offer and, as such, would be incorporated, at some level, into your Go-to-Market Plan.

Price

Pricing is an inexact science, which generally makes it a form of art. As such, there are volumes that I can write (and that many others have already written) on this topic alone. But to try to frame this up in a simple way, let's take a quick look at this idea of customer value, as explored through the concept of the customer value proposition.

Although its origins are not completely clear, the term *value proposition* most likely arose from the idea of a "unique selling proposition," the definition of which was solidified by author and advertising guru Rosser Reeves in his 1961 book *Reality in Advertising*. Reeves's definition was centered around three main points:

1. It must point to a specific benefit.
2. It must be unique (something that competitors do not offer).
3. It must be meaningful to large numbers of people.[8]

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Thus the idea of promoting products in terms of some unique and specific customer benefit was born—or at least popularized.

One of the challenges with the unique selling proposition concept is that it generally approaches this idea from the standpoint of selling rather than buying. As such, the tendency might be to put the company's interests above those of its customers. The implication is that if a company can show that its product does something that uniquely benefits customers, then those customers will want to buy it. A subtle yet meaningful evolution of this concept can be seen in the idea of a value proposition, which simply takes this *selling* proposition principle and turns it into a *buying* proposition.

Following this line of thinking, a value proposition is typically stated not only in terms of a benefit that a customer will receive, but also in terms of the quantifiable value a customer might ultimately derive from that benefit. This can be stated in terms of financial gain, time or labor savings, or even an emotional status or feeling. Once you understand the value of your product, you can use that value to help determine your price.

In the absence of a strong value proposition, you may be tempted to price your products based solely on costs and desired profit margins. Doing so would likely result in either pricing your products higher than customers are willing to pay or leaving margin dollars on the table because your products were not priced as high as you could have demanded. Pricing to customer value provides a better alternative that will result in maximizing your prices with respect to the ultimate value your products deliver.

When attempting to set a price based on value, you will quickly find that a 1:1 relationship does not exist between these two factors. For example, if your product will save a customer $1 million over his or her lifetime, it is very unlikely that he or she will be willing, or even able, to pay $1 million for that product up front. The reason is that the $1 million benefit does not come without some level of sacrifice—in this case, waiting a lifetime to receive it. So the customer will not be willing to pay anywhere near that price.

When determining overall price, you generally need to subtract whatever sacrifice a customer must make from whatever benefit they will receive. So:

$$\text{Benefit} - \text{Sacrifice} = \text{Overall Value}$$

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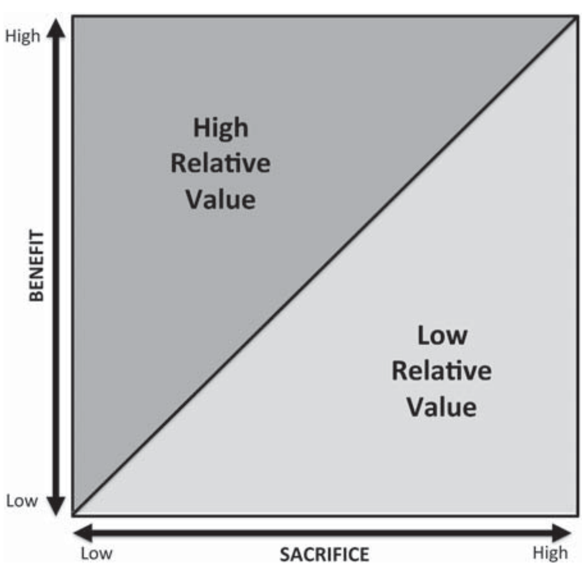
Most discussions around value proposition focus only on assigning a value to the benefits. However, I contend that you must also assign a value to the sacrifice, and then use the difference between these to help set your price. You will still be pricing your product with respect to the benefit a customer receives, but you will now be offsetting any sacrifices to arrive at higher or lower relative values and, accordingly, higher or lower relative prices. This can be visualized as shown in Figure 5.7.

The purpose of this chart is simply to help you think in terms of a product's relative value rather than just the value of its benefits. Products with high relative value will have prices that more closely match the value of its benefits, while products with low relative value will have prices that are adjusted quite a bit lower than the value that their benefits will bring. Every product comes with some level of sacrifice. Even going to a store to buy something or waiting several days to receive something in the mail represents a sacrifice of time or emotion on the part of the customer. The idea is to determine the value of this sacrifice and then use that value to help adjust your pricing accordingly. Of course, doing so will be much more a matter of

FIGURE 5.7

Relative Value Graph



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feeling than of math, and so you must, once again, draw upon your instinct and intuition to help guide you through this exercise.

When I purchased my home, there was a constantly running list in my head of all the benefits that I would receive: location, school district, commute, safety, convenience, status, resale, layout, square footage, amenities, and so on. Each benefit equated to a value, and all of that added up to a price that I was willing to pay. If any of those items were missing, I took that off the benefit list and adjusted my price accordingly. Sometimes the items were available, but I had to do a little extra work or spend a little extra money or time to get them. In that case, I had to subtract the value of those sacrifices, which then caused me to revalue the entire purchase. A different buyer may have placed a different value on those things and might therefore have been willing to pay a different price. And therein lies the conundrum for companies: every customer will have a slightly different value proposition. So it is up to sellers to (1) fully understand the benefits and sacrifices that will impact the majority of their customers, and (2) place an overall value on those benefits and sacrifices in order to establish a price that most people will be willing to pay.

Once you have determined the price of your product based on its overall customer value, there is another factor that you'll need to take into consideration: the basic laws of supply and demand. High value will only translate into premium pricing if there are not too many other products available that can provide the exact same value proposition. In this case, it is important to consider the *entire* value proposition and not just one part of it. This includes any value that will be derived from the features, function, brand, or any other emotional connections that a product may have to its customers. This is also where a direct connection to promotion will exist, because you can only differentiate the value of your product if you let people know what that unique value is. The more different your product is, the more rare it will be, and the higher price it will generally be able to demand, assuming the original customer value was there to begin with.

There are other aspects of how you will execute your pricing that will be determined during the implementation stages of your strategy. These will include your pricing logistics (how you will actually go about attaining your pricing through bundling, discounting, or promotion), as well as your price timing (how you will vary or alter your pricing over time to achieve your desired price position). These

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details will become a part of your implementation plan, since, in most cases, these actions must be dynamically carried out in response to changing market conditions and reactions. At this point, you just want to provide some high-level guidance on how you intend to price your product with respect to its overall value so that all of these eventual actions can be guided by some overarching pricing strategy.

Promotion

With product and price fully considered, we now want to think about how we will promote our product. The good news is that each subsequent element becomes more clearly focused as we move through the mix. Knowing what we now know about our product and price makes it much easier to think about how we will strategically promote our product in order to support these other two marketing mix elements.

At this stage of the game, we want to consider our overall message more than the specific promotional activities in which we will participate. As with the other mix elements, there will be time to talk about these details when we begin preparing our action plans. For now, we just want to provide some high-level guidance regarding how we intend to get our message to our target market and what in general we would like for that message to say. To do this we will need to consider how our product will be positioned.

Positioning is a concept that was popularized by Al Ries and Jack Trout in their book *Positioning: The Battle for Your Mind*.[9] The idea behind positioning is that companies can influence the unique space that their product occupies in a customer's mind. That is accomplished by developing strategies that will speak not only to the value that a product brings but also to ways in which that value compares to competing products or solutions. What makes positioning interesting is that it can be applied to any number of entities, from products to brands to processes to companies to countries and even to people. The idea is to establish a position that makes your offering stand out from the crowd.

In relation to messaging, I like to think about positioning my products in terms of four main parameters:

- Direct competitors
- Indirect competitors

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- Customer needs
- Customer preferences

Any one of these forms of positioning can be combined with the others, or they can be addressed independently of one another. In this way, products can be mapped to these positioning relationships, as shown in Figure 5.8.

Using the model in Figure 5.8, a product can be positioned with respect to any (or all) of these four parameters, which can be described as follows:

- **Positioning with respect to customer needs.** In this form of positioning, you are carving out a specific customer need and identifying your product as the unique solution for that need. A classic example of this type of positioning can be seen with over-the-counter pain medicines, where there are solutions aimed at different symptoms and different types of pain (for example, backache, headache, muscle ache). If you position here more effectively than anyone else, your competitive position will be ensured as well.

FIGURE 5.8

Strategic Positioning Relationships

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- **Positioning with respect to customer preferences.** This type of positioning attempts to associate your product with the trends, styles, and socially embraced norms of your target market. This endeavor might involve adopting a given demographic's cultural or social styles in your logos, packaging, or advertising. Restaurants are well known for taking this approach based on whatever region or demographic they are attempting to target. Again, if you accomplish this more effectively than anyone else, your competitive position will be ensured as a result.
- **Positioning with respect to direct competition.** This type of positioning involves establishing exactly how you want your customers to view your product with respect to a competitor that provides a substantially similar product or service to your own. You can choose to position yourself similarly (for example, Avis vs. Hertz) or somewhat differently from your competitor (for example, Pepsi vs. Coke), and you can also choose to apply your position broadly (for example, "We have the best burgers in town!") or directly against another competitor's product (for example, "Don't settle for those pan-fried burgers!").
- **Positioning with respect to indirect competition.** In this form of positioning, you compare your product not to other similar products but to other similar *solutions*. An example of this might be a manufacturer of household irons positioning its products against wrinkle-free shirts rather than other brands of irons. This form of positioning might also involve comparing certain aspects of your overall product experience with other noncompeting companies that also offer that same experiential aspect. Author Tom Connellan outlines a great example of this in his book *Inside the Magic Kingdom: Seven Keys to Disney's Success*. His very first "key" observes that Disney does not just strive to provide the best customer experience in the theme park industry. Instead, it strives to provide the best customer experience out of any company that its customers might compare it with.[10] Anyone who has visited one of the Walt Disney theme parks can clearly see this general rule in action, and it is a great example of how to position yourself with respect to your indirect competition.

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There is literally an endless array of positioning arguments that you can take, but I find that most of them fall into some combination of these four categories. As Figure 5.8 shows, it is not necessary for you to position yourself in any *one* of these categories exclusively. If you choose to position with respect to a customer need, you should also explore how that overlaps with their preferences, and then refine your message accordingly. You should then check to see if other direct or indirect competitors are already taking that same approach and again revise your plan accordingly.

You may also choose to position your product against other products within your own portfolio. Returning to the pain reliever example, a company might have one product targeted to relieve cold symptoms, another targeted to relieve sinus symptoms, and still another targeted to relieve allergy symptoms. Although these products may all have overlapping ingredients, they can each be positioned differently with respect to different customer needs. You might also choose to competitively position your own products against one another using a "good, better, best" approach or even by marketing the same product under two different brands.

It shouldn't be difficult to see why positioning will form a key part of a company's promotional strategy, because the only way you can actually position yourself is by reaching out to your customers and letting them know where you stand. And just as with product and price, what I am attempting to do by introducing this concept is to provide you with a bit more "meat" in the promotional part of your strategy, so you don't just say something like, "We will advertise our product through print ads, brochures, and word of mouth." Yes, believe it or not, this is what most promotional "strategies" that I see look like. But again this tells you nothing about how you intend to win whatever war you may be fighting. By incorporating how you intend to position yourself into your promotional strategy, you will be giving some much-needed direction regarding what your promotions will actually say. It is the *message* that we are concerned with here, and your positioning can help get you there.

Place

On the surface, *product placement* might be defined as "how a company makes its product available to the marketplace." Although this

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statement is technically correct, I prefer to state this in terms of the customer's perspective. So product placement becomes "anywhere a customer can get our product." This may seem like a subtle difference, but it is important because, when considering where your product will be made available, you will also need to consider whether or not your prospective customers will actually go there to get it.

Have you ever taken a long trip? Most likely you have. And when you took that trip, especially if there was some discomfort involved (which there almost always is), you did so only because there was some compelling reason for you to be wherever it is that you were going. Sometimes people travel for business. Although not many people love this part of their jobs, they do it because it's part of what needs to be done in order to make a living. So taking these long business trips becomes a necessary means to a financial end. Other times people travel for pleasure. In these cases they take the same long and arduous journeys because there is some pleasurable experience waiting for them on the other side. When people travel for pleasure, they are doing so because there is no other way for them to obtain whatever unique experience they are seeking at that time.

If neither of these conditions existed—that is, if people could make a living or they could get a uniquely pleasurable vacation experience without having to travel—then they would not likely make those trips. Likewise, if these same conditions could be accessed in a more convenient way (for example, if either of these end results were closer to home), then people would likely choose that option instead.

What I'm setting up is a relationship between fulfilling a given need or desire and doing so as conveniently as possible. The more we need or want something, the more trouble we are willing to go through to get it. That seems pretty obvious, but now let's apply it to our placement strategy.

If you have a product or service that people absolutely need—that is, they feel they can't live without it and they can't get it from anywhere else—then they will be willing to withstand fairly high levels of inconvenience to get whatever it is that you have. In these (often rare) cases, you can be very selective about where you offer your product or service, because people will travel relatively great distances or go through relatively high levels of inconvenience to get it. On the other end of the spectrum, if you have a product or service that people consider to be somewhat commonplace—that is, it

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satisfies a need or want that can be fulfilled by many other different products or solutions—then you will practically have to deliver it to their doorsteps in order for them to buy it from you. More realistically stated, in these cases you will have to make sure your product is ever-present wherever your target market normally hangs out.

It is hoped that, based on the work you did in Chapter 3, you already know where people in your target market are and where they like to go. Now all you have to do is overlay that information on top of how uniquely your product fulfills a given customer need.

Even given this analysis, you might be inclined to believe that the more places you can sell your product, the more sales you will ultimately get. This may be true in some cases, but this approach also comes with sacrifices—namely, the more places you sell your product, the more your prices are likely to suffer because each of those places, or channels, will be competing for the same customers. In addition, making your product too ever-present could take away any of the cachet that you might have otherwise created had you decided to make that product just a little bit less attainable. This ties back to the supply-and-demand discussion we had in relation to pricing.

So far, we have examined where geographically you want to sell your product (based on where your target market is) and how present you want your product to be within that geography (based on how much inconvenience people will be willing to go through to get that product). Let's call these factors "geography" (where) and "convenience" (ease). The next thing we need to consider is the type of experience you want your customers to have, which will clearly be affected by your choice of channels. If, for example, I am selling very high-end appliances, I am not likely to choose a lower-end retail chain as my main channel partner because the experience will be in direct contrast to that which I want to associate with my high-end products. Instead, I might choose to sell through a channel that will better support a buying experience of luxury goods. As a consideration for our placement strategy, let's call this the "experience" factor.

Another key part of product placement has to do with availability. The objective of this concept is to determine how long customers are willing to wait between the time they buy your product and the time they receive it. In the days when physical storefronts were the norm, product availability was limited to whether or not a store had a given product in stock. Consumers generally expected that

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certain types of products would be readily available, whereas other products, such as large, unique, or custom-manufactured goods (for example, furniture and automobiles), would require some wait time.

In today's world, customer expectations of product availability have shifted. This change is fueled, in many ways, by the convenience factor of being able to shop for and receive virtually any product in the world without ever having to leave the comfort of one's own living room. In this way, the concept of having a product in stock has been replaced in many cases with the concept of getting that product delivered to a customer's doorstep faster than anyone else. Still, this factor of availability, although it has evolved, is a key consideration when choosing how your product will be dispatched to the world.

When an overall placement strategy is determined, these four factors of geography, convenience, experience, and availability are the main elements for which I like to provide guidance. They are summarized in Figure 5.9.

Although I have referenced more traditional tangible goods to help illustrate each of these placement factors, their definitions may take on slightly different meanings for intangible goods. For example, for downloadable music content, the definition of *geography* will translate into the type of currency that is accepted or the different languages that the website features; *convenience* becomes how intuitive the interface is and how easy the website is to navigate; *experience* might include the performance or speed of the download; and *availability* might reflect how many different songs or artists are featured on the website at any given time.

FIGURE 5.9

Placement Considerations

	**Geography**: In which regions will your channels be located?
	**Convenience**: How easily can your customers access your channels?
	**Experience**: What kind of environment will your channels provide for your customers?
	**Availability**: How long are your customers willing to wait for their products?

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As with the other marketing mix elements, there are many other factors that can be considered. I have found, however, that developing a high-level plan around the aforementioned four main placement factors will help to provide the right level of strategic guidance for almost all of the placement actions that will ultimately be initiated in support of your strategy. Saying "we want to make our product available through our existing channels" does not a strategy make. Your implementation team will need to know *why* those channels are important and *how* those channels will help you achieve your overall strategic objectives. Considering the four placement factors will help you to communicate why and how more effectively.

SUMMARIZING YOUR STRATEGY

Let's review where we are in our process and think about how we got here so far:

1. We started with a strategic motivation and a baseline analysis of our customers, competitors, company, and industry.
2. We ran that baseline through a SWOT analysis, which we used to help us anticipate what market and product opportunities might exist that could satisfy our strategic motivation.
3. We then turned our strategic motivation into a set of vision, goals, and objectives that could be used to inspire, rather than simply motivate, our strategy.
4. We used our vision, goals, and objectives to filter the opportunities from our SWOT analysis and focus in on the market and product opportunities we wanted to pursue.
5. Based on our chosen opportunities, we took time to really understand the target market for those opportunities and to validate our vision, goals, objectives, and opportunities with respect to the needs of that target market.
6. Next we created our strategic melodies, intersecting our knowledge and our passion to come up with simple high-level strategic statements that provide guidance on *how* we want to go about pursuing our chosen opportunities.
7. Finally, we completed our strategy by developing a Go-to-Market Plan that provides strategic guidance on how we will ultimately implement actions around each element of our marketing mix.

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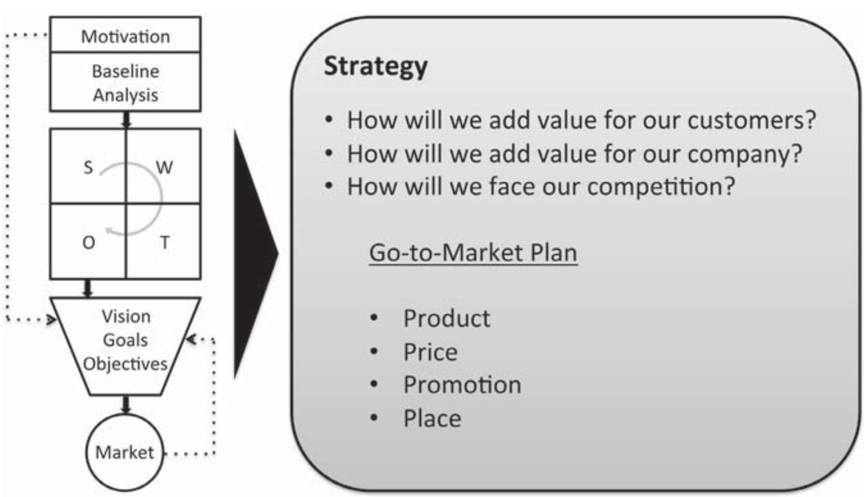
This process is captured in the strategy workflow diagram shown in Figure 5.10.

At this point, it's a good idea to go back and review your strategic melodies to ensure they are in line with your vision, goals, objectives, and target market and that they are written at the right level (that is, not too high and not too low). There's a vocal technique called *melisma* that is commonly used in today's popular music. This is when one syllable is sung between several successive notes. When applied sparingly, this technique can produce a truly beautiful effect. If melisma is overapplied to a melody, however, it can become downright distracting; causing, in extreme cases, the melody to be hidden, confused, or altogether lost in all those additional transitional notes.

To be more direct, you should make sure that your strategic melodies do not have too much melisma. That means ensuring that your melodies remain true to their original intent and that they do not contain any unnecessary words or details that will only serve to distract people from your core message. Keep your strategic messages short, simple, and easy to digest, but still include the right level of detail to both hold people's interest and deliver whatever message you are trying to convey.

FIGURE 5.10

Strategy Workflow



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Remember that your strategic melodies should encompass some elements of past, present, and future. It's not enough to base your strategy on what happened yesterday or even what's happening right now. Good strategy will always consider everything that we know at any given time and use that information to try to anticipate what will happen next. And *great* strategy not only anticipates what will happen next but also considers any number of outcomes that might occur as a result. If your strategy is too broad, it will lack context, and you will lose your ability to predict. If your strategy is too detailed, it will be overly restrictive, and you will lose your ability to react. So, to coin a phrase, your strategy has to be "just right."

To ensure that your Go-to-Market Plan follows a similar model, you should provide a high-level summary for each of your marketing mix elements to accompany your strategic melodies. Doing so will make the Go-to-Market Plan easier to communicate, implement, and dynamically adjust as needed. To create an effective summary, you should break your plan down to only the most salient points by answering the following key questions:

- **Product.** What is the core product you are selling, and what overall customer experience do you want to convey?
- **Price.** What overall value will customers receive, and what price do you expect to demand?
- **Promotion.** What is the main message you are trying to convey, and how will you position your product against customer needs and preferences, direct or indirect competitive solutions, and your own product portfolio?
- **Place.** What are your main expectations around geography, convenience, experience, and product availability through your selected channels?

You've made it this far, which means that you've composed the heart of your strategy! But the process is far from over. Your strategy is meaningless until it is implemented, and it can never be implemented until people understand what it's all about. At this point, your strategies are just melodies inside your head. Now it's time to organize those melodies into a song that you can share with the world. Our next step, then, will be to create our strategic arrangement.

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Finding Your Creativity

Where exactly do ideas come from? Certainly not out of thin air. In fact, most ideas arise out of some combination of what you've been exposed to, what inspires you, and what you're trying to accomplish. If that sounds familiar, it's because these are exactly the steps we covered throughout the first three stages of our process. When it comes to the fourth step of idea formulation, your creativity will emerge through your ability to put those things together in a way that hasn't been done before. Here, then, are some tips to help you find that creativity during ideation:

- When I am writing a new song and ideas begin to flow, I am always conscious of not repeating a melody or chord structure that I have written in the past, or that perhaps someone else had written before me. This is where creativity lives in the songwriting process, because you are always checking and balancing your melodic ideas to ensure that they are truly original. In business, however, I am constantly amazed at how many strategists seek to copy exactly what others have done rather than building upon that knowledge and creating something truly original from it. The message is this: be inspired by what others have done, but don't copy it.
- As with the previous steps, I have presented tools in this chapter to help you formulate your thoughts and ideas more easily. However, as is also the case with the other steps, try not to get too caught up in the process. Business strategy is all about understanding what your customers want, what your company wants, and what your competitors will likely do in response. If you can give customers something they need but that they aren't currently getting, you will have found your creativity. Ensure this aligns with your capabilities and goals, anticipate how competitors will react, and then you will have found your strategy.
- The marketing mix is meant to be a bridge between your strategic and your tactical plans. It will serve as a way to group your tactics to ensure that they align with one another and with your overall strategy as well. But tactics are not devoid of creativity—far from it. Truly original product features, pricing actions, promotional plans, and placement options are all opportunities to explore creative approaches and differentiate your plan even if your higher-level strategies overlap something that has been done before.

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