

Best Business Books 2005: Strategy

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This year's three best strategy books — *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, by W. Chan Kim and Renée Mauborgne (Harvard Business School Press, 2005); *MarketBusters: 40 Strategic Moves That Drive Exceptional Business Growth*, by Rita Gunther McGrath and Ian C. MacMillan (Harvard Business School Press, 2005); and C.K. Prahalad's *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (Wharton School Publishing, 2005) — offer practical tools and analogies to help practitioners. Although none of these books offer foolproof navigation, they represent dramatic progress beyond the strategy books of the past.

Strategy by Analogy

MarketBusters, by Rita Gunther McGrath and Ian MacMillan, takes a less analytical approach to the development of breakthroughs, using analogies with companies successful in other industries or geographies. Although using a tool based on analysis may seem superior to reliance on analogies, managers may find the analogies more helpful. Indeed, successful companies often develop value innovations through analogy. Think of Starbucks's Howard Schultz emulating the Italian coffee shop, or Sam Walton borrowing the Sam's Club concept from Price Club and the Supercenter concept from Carrefour's hypermarkets. Moreover, recent research in cognitive psychology suggests that analogies are the most efficacious way to create complex innovations (like business models).

The authors of *MarketBusters* have their own equivalent to *Blue Ocean Strategy*'s "value innovation." They call it a "marketbusting move," defined as "an action taken by your firm to deliver markedly superior performance." Although the authors don't tell the reader *how* to make a market-busting move, they catalog 40 such moves, sorted into five categories. Companies can use these categories to stimulate their thinking:

1. **Transform the customers' experience by eliminating** or improving steps in the "consumption chain" — from the time a potential customer first becomes aware of a need, through purchase and use, to final disposal.
2. **Transform your offerings**, either by enhancing the attributes that customers most value or by reducing or eliminating attributes that customers don't like.
3. **Redefine profit drivers**, the metrics your company uses to measure performance at the business unit level.
4. **Exploit industry shifts** such as business cycles or restructuring of the value chain.
5. **Enter new markets (new to you)** to take advantage of emerging opportunities by monitoring "tectonic triggers," like new technologies that

change what is technically feasible or affordable, changes in social norms or attitudes, institutional and regulatory changes, and demographic shifts.

Our favorite category is No. 3, and it is a good illustration of the authors' approach. By "profit drivers" or "key metrics," they mean the way a business keeps track of what it sells and how it makes money. These metrics represent some of the most fundamental yet unexamined elements of any business. Eight of the 40 market-busting moves involve changing key metrics. One move is to radically change what the company sells. Broadcasters, for example, shifted their model from offering free television to consumers by selling advertising, to a new model in which consumers paid through subscriptions. Another market-busting move is to radically improve productivity, as National Credit Systems, a collection agency, did when it reduced its fees from the industry standard of 40 percent of collections to only 8 percent, by improving the effectiveness of letter writing — the lowest-cost and most effective way to collect debt. A third move is to improve cash flow velocity, ideally to achieve negative working capital (payables greater than receivables plus inventory) as Dell Inc. does. The fourth metric-oriented move is to reduce asset intensity, by relying on contract manufacturers or information technology outsourcers.

The other four market-busting moves in this category involve redefining the key metrics of the company's *customers* to enhance their profitability or address their pain points. Monsanto developed seeds that improve yield and reduce the use of expensive and environmentally dangerous chemicals. General Electric's businesses send Six Sigma teams to help customers address their problems. UPS recently branched out from its core business of package delivery into other businesses that improve customers' cash flow, like repairing Toshiba laptops for Toshiba — eliminating steps in the process, integrating repair and shipping activity, and reducing the time taken to repair a broken PC.