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Take Control of Your Value Chain

There will be a race to re-take positions

As the crisis begins to bottom out, or at least appears to, management teams are cautiously turning their attention to the future. For many, the severity of the crisis meant functional and operational managers needed to work more closely than ever – survival literally depended on it. If you can talk about a silver lining around the crisis, this is it: Stronger, more united management teams.

These teams will be able to achieve more coming out of this crisis than they could going in. In the past year, many companies defaulted into a crisis-driven, value-for-money positioning. The race to re-take the highest value positions will soon start. Now is the time to put an ambitious new strategy in place.

Unfortunately, you won't be the only company in your industry with a new strategy. Due to the depth and breadth of this downturn there will be more new strategies launched at the same time than ever before in history. In this context, it will not be good enough for your strategy to be competitive in the traditional sense, you will need to build strategic differentiation. This is about taking control of your value chain in three ways: driving volume and pricing, influencing future trends and guiding innovation. The starting point is your positioning strategy.

Add strategic differentiation to traditional strategy

As you enter your new strategy process, add strategic differentiation to your traditional strategy as described in Figure 1. It will be a natural way for even the most rational Head of R&D, CFO or Chief of Operations to think about it.

Industry leading companies use focused positioning strategies to build strategic differentiation over time. Volvo's focus on safety, Intel's focus on performance and GE's focus on problem

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solving are well-known examples of positioning strategies that have built strategic differentiation. These rather generic keywords describe each company's focus, above products or profits, and provide a reference point for nearly everything they do.

The clarity of the industry leaders like Intel and GE betrays the complexity of the challenge. Great examples of global companies like this are all around us. Yet, many small and mid-size international companies are still incredibly unfocused. Even those with great brand communications often fail to back up their promises because functional and operational managers have not fully understood nor committed to building strategic differentiation. What managers see is just another short-term campaign.

Yes, positioning is certainly about branding and campaigns. But, it requires much more than that. To achieve strategic differentiation you need to build a focused "position" in the minds of people across your value chain. From a management perspective, this means your corporate culture, product/service performance, innovation and marketing all need to be in line with the position you want to build. In most companies and traditional strategy processes, responsibility for these intangibles is scattered across functions such as HR, marketing, R&D and operational management with little interaction between them. Building strategic differentiation requires a more integrated approach with more decisions made by a united team.

Traditional Strategy + Strategic Differentiation

Industry leadership =	Traditional business strategy		Strategic differentiation
	Targeting a desired industry ranking	+	Targeting a desired reputation
	Optimizing a portfolio of businesses	+	Optimizing a portfolio of brands
	Aligning organization with strategy	+	Aligning culture with desired reputation
	Marketing drives sales	+	Marketing also drives positioning
	Tracking financial performance	+	Tracking positioning performance

Figure 1



Figure 2

Clarify the focus of your positioning strategy

The focus of your positioning strategy needs to be true of your company today, relevant across your value chain and high value to your customers. It needs to make sense to people, guide their work and help them make better decisions. Over time, these decisions will build your strategic differentiation.

For some companies, the founder has already made the focus clear. For example, Dell's focus on "directness" is a reflection of Michael Dell's character and beliefs. Other companies look deep within their histories, core competences or customer relationships and find their focus easily. For others, it requires developing and testing positioning scenarios.

Philips, the number one electronics maker in Europe, is a great example of how a new positioning strategy can help accelerate a company out of a downturn. Based on scenario testing they chose to focus on "sense and simplicity," a focus which is now thoroughly understood across their value chain. Gerard Kleisterlee, President and CEO, talks about how his restructuring and M&A decisions are guided by this focus. Engineers embrace it and suppliers work hard to contribute to it. Marketing teams base planning on it and Philips' creative agencies remain true to it while breathing new life into the Philips brand. And, retailers also get it, differentiating the Philips retail experience from crowded, feature-heavy competitors. Most importantly, consumers embraced sense and simplicity. In less than three years, 53% of Philips' sales came from products that lived up to sense and simplicity and Philips' EUR 3b loss in 2003 became a EUR 5b profit in 2006.

Once your focus is clear, your positioning strategy needs to describe how you will influence interactions across your value chain. Use the framework in Figure 2 to structure your thinking. Put your focus in the center and then describe how you will achieve each of the objectives around the outside in a way that reinforces your positioning strategy.

The emotional side of positioning:

Start by reviewing the roles, names and visual identities of brands in your portfolio. Philips had to reduce their brand portfolio and clean up their identity to fit sense and simplicity. How well does your brand portfolio align with your chosen focus? One of the most emotional questions will be how you translate your focus into communication. There may be ten clever ways of saying what you mean, but when it comes to positioning strategy ease of understanding is most important. Volvo says, "For life." Intel says, "Leap ahead." GE says, "Imagination at work." And, Philips says, "Sense and simplicity." A focused positioning strategy is at the heart of a good "brand promise."

The rational side of positioning:

Think about your product and service performance, innovation track record and other key metrics on which you will be measured. Philips created a multi-disciplinary "Simplicity Advisory Board" to review R&D priorities and products. Volvo's standard safety features and ratings are second to none. Intel consistently increases processor performance. Can you back up your chosen focus with solid facts?

The internal side of positioning:

Consider your corporate culture (and not just what is expressed in formal "values"). Intel always had a culture that drove their people to improve performance and "break down barriers to Moore's Law." GE's culture is all about problem solving. How well does your culture fit your chosen focus today and how can you increase cultural uniqueness?

The external side of positioning:

Every touch-point, every piece of communication, shapes your customer's experience. Red Bull's brand, culture and operations couldn't be more different than its big beverage competitors. But, Red Bull's unique sponsorship and media strategy bring their strategy to life. Can you align every marketing decision with your positioning strategy?

If the focus you chose for your positioning strategy still rings true, you are ready to plan how it is going to help you take control of your value chain.

Don't just drive volume and pricing

Your plan should be to emerge from this crisis with the same urgency that it took to survive it. This is not just about facing the competition, this is about taking control of your value chain and making it work more and more in your favor. To do so, you have three priorities:

- > Drive volume and pricing
- > Influence future trends
- > Guide innovation

Effective positioning strategies address all three priorities. Depending on your industry and your company's role in your value chain, your options will vary dramatically. Nonetheless, here are some ways of looking at each.

Guiding innovation is the priority that is most difficult to give general advice about. From service or business model innovations to technical innovations, your goal should be to bring more relevant "firsts" to market. Anything you launch must reinforce your positioning strategy. And, the longer you can remain focused the more value you will gain. For example, Volvo's R&D teams are motivated by saving people's lives and Volvo's suppliers bring innovations to Volvo first because Volvo has proven they can drive volume and pricing of safety innovations. The most important thing is to ensure the people responsible for innovation in your company understand your positioning strategy and how they might contribute.

Use your strategy process to build engagement

Many companies are beginning to think more long-term. This presents a golden opportunity for you to engage the high potential people in your company in a new strategy process. The same is true of suppliers and research partners. Don't be afraid to discuss different scenarios with them. The more engaged they are now; the more they will contribute to building a future together.

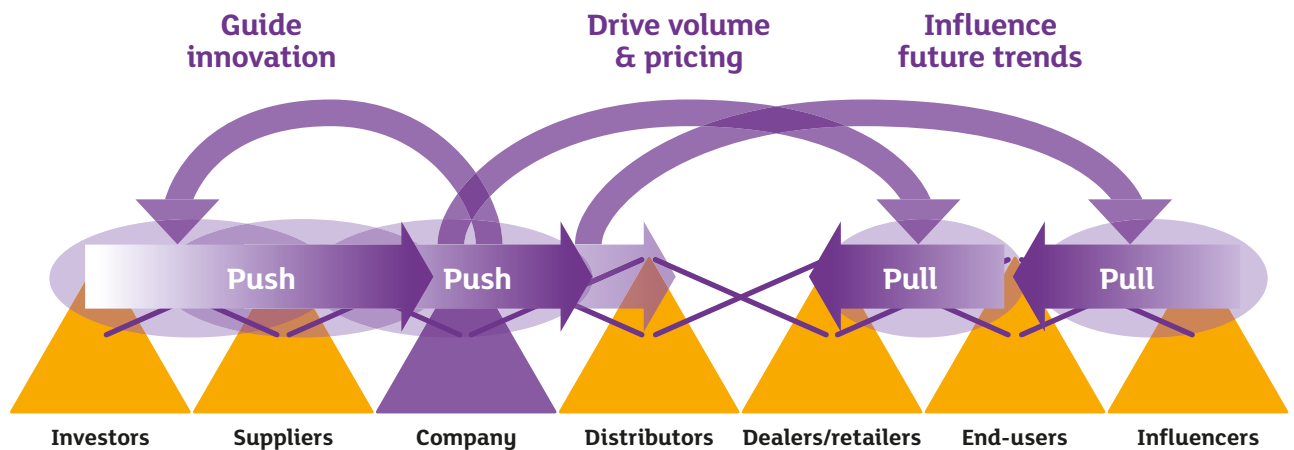


Figure 3

Most companies benefit significantly from being able to predict volume better and command a pricing premium. The most important pre-requisite is a solid approach to market segmentation and a clear segment focus within it. A combination of behavioral and demographic segmentation usually makes most sense, but many approaches work. Once your segment focus is clear, engage your creative and media agencies in developing new ways to drive volume and pricing while reinforcing your positioning strategy. Also look in unexpected places for marketing inspiration. IBM's current "Smarter Planet" campaign originated in their research lab.

Influencing future trends used to be the domain of PR and communications teams. Also consider other mechanisms, from strategic sponsorships to volunteer programs, media engagements and trade associations. Novo Nordisk worked hard to get the United Nations to pass a resolution recognizing diabetes care as a basic human right because it made sense on many levels. Make sure whatever you choose to do clearly reinforces your positioning strategy.

Also, engage your market more than ever. Talk with your distribution partners, service partners and business customers. Look into the latest consumer trend research and develop new insights. Look to companies in parallel industries serving the same consumer segments you are looking at. Are they interested in sharing perspectives, sharing research?

If you want your new strategy to create value externally, but also internally, you need to treat your positioning strategy as one of the most important strategic decisions you will ever make. By looking beyond traditional strategy you can build strategic differentiation and take control of your value chain.