

Important! The concepts presented in this work have been radically improved as part of a theory launched by BizBigPic (www.bizbigpic.com) in August 2006. We recommend reading these in conjunction with the new theory.

Win the battle before it begins.

Strategy, Redefined.

by Cristian Mitreanu

Over the years, the concept of strategy has been repeatedly redefined in an attempt to maintain validity in an ever-changing business world. Dramatic changes experienced over the past three decades, culminating in the explosion of the Internet, have invalidated one by one all traditional approaches. As a practice, the reliance on environmental stability is losing ground because the competitive landscape is becoming increasingly difficult to define. The belief that ownership of a core competence will lead to a sustainable strategic advantage is no longer widely accepted, as individual ownership is quickly being diluted by informational leakage. Across the board, the root cause of these dismissals is an accelerated free circulation of information. A more interesting observation is the common characteristic that these theories share: they all focus heavily on competition. The underlying reason for their existence is to defeat the competition, overlooking the customer as the main driving force behind the evolving marketplace.

This article will introduce a new approach to strategy that is built around the customer. By focusing on what the customer is trying to accomplish, and treating all offerings as solutions* to their inherent

* Note that throughout this paper the term *solution* refers to offerings in general. Why *solution* and not simply *offering*? Because, the term *offering* maintains an inside-out perspective from which we are trying to depart, while the term *solution* emphasizes the essence of this theory which states that every offering

issues, the new theory advises on positioning relative to the customer, as opposed to positioning relative to the competition. While competition remains a very important factor in strategy, rather than defeating the competitors in direct combat, this technique shows the way to win the battle before it actually starts.

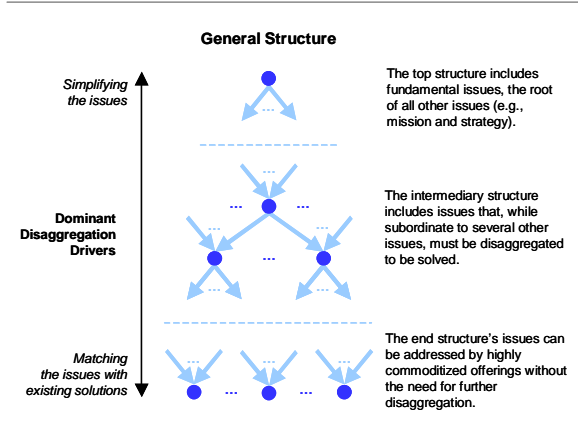
I. UNDERSTANDING SOLUTIONS

Analyzing The Customer's Issues

Years of research have revealed a pattern in the way customers solve problems. It was observed that complex issues are being broken down into more easily addressed subordinate issues. Dependent upon their complexity, these new subordinate issues are further disaggregated (e.g., computer network into computers, which are further disaggregated into components like microprocessor, hard-disk drive, etc.). This cascading process often continues until the lowest level of subordinate issues is addressed with common, easily defined offerings (e.g., for a computer buyer the disaggregation process stops at the computer components level). The result of this

is in fact a solution to a customer's issue. Traditional definitions of solutions as bundles of products and services, and not offerings in general, are being disregarded for their arbitrary character.

Exhibit 1: The Hierarchical Issues Tree



process generates a unique structure of interconnected issues, and their corresponding solutions, which will be referred to as *The Hierarchical Issues Tree*. (See Exhibit 1 “The Hierarchical Issues Tree”)

The issues hierarchy is dynamic, as we will see in the next section. Its structure is constantly refined due to the customer’s continuous accumulation of knowledge. It is very important for a provider to identify, and be aware of all the issues within the vicinity of those addressed by his existing offerings, as this is the potential marketplace in which he plays. For further development of our analysis, it is important to note that based on an issue’s position relative to the top of the tree, representing the customer’s fundamental issues, we can identify three broad *Problem Solving Stages* (See Exhibit 2 “Problem Solving Stages”):

Identifying Status Issues. This stage includes all issues pertaining to the status of the customer as an entity. It includes issues such as *mission* and *strategy*, as well as their subordinate issues referring to organizational structure and business processes. Due to the broad scope and complexity of these issues, the primary objective of the disaggregation process is issue simplification. The main question to be answered in this stage is: How does the current situation need to be changed to achieve the desired status?

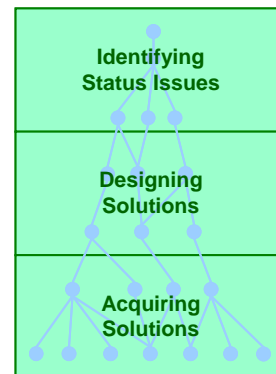
Designing Solutions. This is where matching issues with already existing solutions gains ground against issue simplification as a way of addressing an issue. The objective in this stage is to design a best solution for the status issues identified in the previous section. The process starts with articulating an *ideal* solution. As the *ideal* solution and real-world options converge, the *best* solution, or closest match to the

ideal solution, is generated. Based on these definitions, the customer will generate corresponding subordinate issues. The terms *ideal* and *best* are relative, and are based on the customer’s current knowledge base. The main question to answer in this stage is: What is the best solution for addressing the status issues identified in the previous stage?

Acquiring Solutions. This is the stage where the main objective of disaggregation is to match issues with real-world solutions. This stage mainly consists of issues that can be addressed with existing offerings, without the need for further disaggregation. The main question to be answered here is: What are the components of the best solution identified in the previous stage and what existing offerings will address them?

Note that the customer’s problem solving stages are not the stages of a buying process. The Acquiring Solutions stage refers to the disaggregation of the best overall solution into specific solutions that, based on the existing knowledge base, are available in the market. For example, if a customer reaches the Acquiring Solutions stage with issues like the *computer* and its *components*, that does not necessarily mean that the customer will make the purchase at this stage. Careful analyses of the available options may lead the customer to vary choices on a case-by-case basis. If this quest is part of a networking project, the customer may purchase computers and build a network independently, or he may choose to outsource the entire IT department. While the first transaction takes place in the Acquiring Solutions stage, the last transaction will most likely take place in the Designing Solutions stage. Next, let us see where a transaction actually takes place.

Exhibit 2: Problem Solving Stages



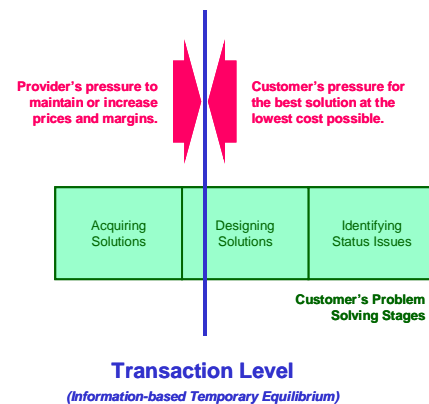
Pressures In A Transaction

There is no doubt that the customer's main objective in a transaction is to obtain the best possible value. To do so, the customer must leverage knowledge. More knowledge about an offering translates into more power in his quest for increased value. For clarity, let us further examine the Issues Tree. To achieve higher degrees of knowledge, a customer has two options: either *learn* more about the solution, or *buy* it if no opportunity for further learning is available. Both cases lead to increased knowledge about the solution, which will in turn lead to further refinement of the Issues Tree. In other words, more information about a solution pushes its corresponding issue to lower levels in the Issues Tree, making room for more specific issues which will increase the degree of customization, meaning higher value for the customer. For example, based on the experience with his existing computer, a salesman determines that increasing job efficiency requires more mobility. Thus, for his next purchase, he will refine the *computer* issue, modifying the structure of the subordinated issues within the Issues Tree so that the *mobility* issue will demote the *computing power* issue. Based on his current knowledge base, he decides to purchase a notebook over a more powerful desktop, which provided the best possible value when the *computing power* issue was central to his quest for a *computer* solution. Therefore, we see how more information leads to increased value for the customer in a transaction.

On the other side, the provider's main driver in a transaction is to maximize his profit. Because cost is usually seen as a more difficult component to act upon in the short term, the natural behavior of the vendor is to persuade the customer to pay a premium price for his offering (assuming that efforts to find customers willing to pay a premium were already made). In other words, the provider must address issues that are positioned higher on the customer's Issues Tree. Given the fact that the customer already has a specific issues hierarchy built upon his existing knowledge base, this is not an easy task. Moving up in the hierarchy means convincing the customer to modify the current tree's structure to incorporate new issues that bring him more value and generate new subordinate issues addressable by the provider's solutions.

Let us revisit the case of the salesman shopping for a notebook. Exploring the issues hierarchy, the solutions provider found that the salesman's notebook would be used to access a spreadsheet that calculates quotations based on prices communicated

Exhibit 3: The Transaction Level



daily from his office via email. The proposed solution, of which the salesman and his organization had no prior knowledge, consisted of several wireless devices and a software application. The devices will allow the sales force to connect to the application via the company's intranet, generating accurate quotations based on real-time prices. The perceived long-term benefits, and lack of extensive information about the solution, compelled the salesman to sign the contract. In this case, the provider moved higher into the issues hierarchy redefining the way the issue referring to the organization of the sales department will be partially addressed. This newly created solution not only generated a higher value for the customer, but also allowed the provider to charge a premium price.

We may now conclude that every transaction occurring at a particular level of the customer's problem solving stages is the result of two opposing forces. One force is generated by the customer, which through continuous accumulation of knowledge strives to achieve a better value-cost ratio. The opposing force is generated by the provider, which through continuous solution improvement, aims to offer increased value for which he can charge a premium price. This information-based temporary equilibrium will be referred to as *The Transaction Level*. (See Exhibit 3 "The Transaction Level")

Mapping A Solution

In the previous section, it was established that the solution provider's goal is to persuade the customer to modify his issues hierarchy, generating new issues addressable by the provider's offering. This is possible only if the customer perceives that the

changes made in his Issues Tree structure will generate a higher value. Although this is an information-based game of perceptions, the value improvement must be real to preserve the business relationship between customer and provider. Therefore, we can say that the pressure sustained by the provider along the customer's problem solving stages is directly related to the value improvement generated by the solution. In the previous example, the solution consisting of wireless devices and the software application increased the efficiency of the entire sales department, while a notebook would have only affected the activity of an individual salesperson. Based on the way an organization operates, we have identified three major levels at which the value generated by a solution may impact the customer:

Strategy Level. At this level a customer's mission, strategy, or simply put, his long-term direction will be affected. This is where the customer deals with issues regarding his identity and the way in which it will be attained. There are few solutions that impact at the strategy level. Issues at this level are usually disaggregated into more specific components for issue simplification reasons, without any attempt to solve them.

Organization Level. Any change that affects an organization's structure or the way its functions interact falls into this category. Classic examples are *outsourcing services*, where external providers perform functions like Information Technology and Human Resources, while the customer implements structural changes integrating these functions once provided by internal departments.

Process Level. At this level a process or specific activity is affected. These changes typically occur within a department. The vast majority of existing

offerings generate value at this level. For example, a *network printer* can improve the document management process within a company's department, without affecting its organizational structure.

Using the solution's transaction level and the value level generated, we can now create a bi-dimensional space where a solution can be graphically represented. This will be referred to as *The Solution Matrix*. As a tool, it will allow us to analyze and better understand a solution's evolutionary character.

Dynamics Of A Solution

We have already identified the opposing pressures generated by the customer and the solutions provider. Having defined the space where a solution can be represented, it is now useful to redefine these pressures as forces that act upon a solution along the two dimensions of the Solution Matrix. (See Exhibit 4 "A Solution's Graphic Representation")

The Commoditization Force. This is a force sustained by the customer. It is the result of refinement of the issues hierarchy, due to the customer's continuous accrual of knowledge. Earlier we discussed the direct accrual of knowledge, where the transfer of information takes place between the customer and provider. At times this accrual takes place indirectly, when knowledge is diffused among competitors, ultimately leading to the same effect for the customer. Increased knowledge about a solution will empower the customer to demote an issue within the issues tree, increasing the degree of customization through the insertion of new specifications for his solution. In our earlier example of the salesman trying to increase his work efficiency, we illustrated how the *mobility* issue demoted the *computing power* issue. The Commoditization Force does not affect an offered solution's value level for an organization. Therefore, as a result of the marketplace learning (customers and competitors alike), the commoditization force acts as a strong, continuous, horizontal force upon a solution.

The Innovation Force. This is a force resulting from two separate forces generated by the solution provider: one being to the provider's push to address customer's higher level issues, and the other the pressure to increase solution's value level for the customer. The Innovation Force is an incremental innovation, and refers to regular improvements of an offering. A good example is seen in the personal computer market, where the *computing power* solution, typically identified with the microprocessor's speed, is improved almost daily.

Exhibit 4: A Solution's Graphic Representation

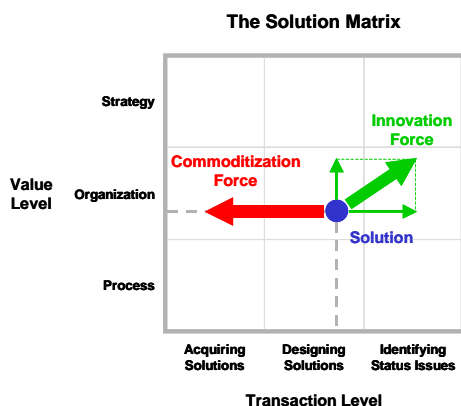
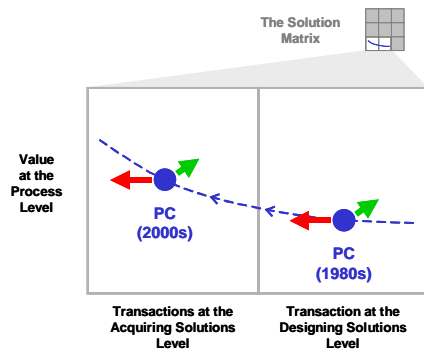


Exhibit 5: The PC Solution Evolution



The combined action of these two forces will determine the evolution of a solution over time. In general, given the dominance of the Commoditization Force over the Innovation Force, a solution will move on a negative, slightly upward direction within the matrix. This trajectory will be referred to as the *commoditization trajectory*.

For example, let us look at the commoditization trajectory of the *PC* solution for business users. (See Exhibit 5 “The PC Solution Evolution”) Although increasing slightly over time, the value brought by the personal computer has not changed significantly; it improves processes. What has shifted considerably is the transaction level. In the eighties, when the personal computer was the major component of a host-centric computing world, transactions were made in the customer’s Designing Solutions stage. In the new millennium the personal computer is no

longer the technological novelty it once was. Today it is simply a small piece of an Internet computing world. Now, the transactions for a *computer* solution occur in the customer’s Acquiring Solutions problem solving stage. As will be discussed later, repositioning its efforts on new and fundamentally improved solutions, affords the provider important power to fight commoditization.

Basic Types Of Solutions

During a solution’s evolutionary process, the variation along the horizontal axis, the Transaction Level, is far more significant than the variation along the vertical axis, the Value Level. While the vertical variation takes place under the same broad value level (process, organization, or strategy), the horizontal variation can cross all three of the customer’s problem solving stages. Considering the fact that solving issues positioned in each of these stages requires fundamentally distinctive approaches, it is important to base the solution categorization on this fact. Consequently we have identified three basic types of solutions. (See Exhibit 6 “Basic Types of Solutions”)

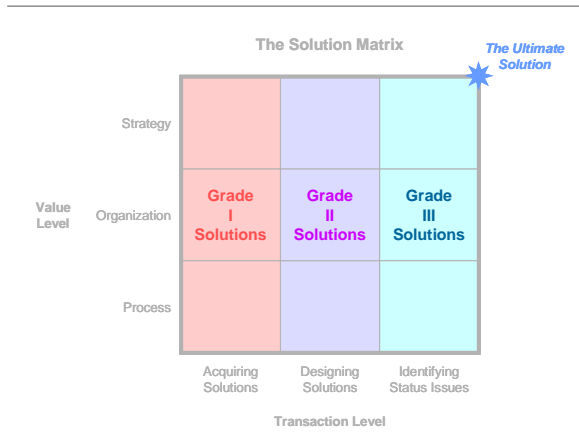
Grade III Solutions address issues positioned in the customer’s Identifying Status Issues stage. This is where issues regarding the status of a customer, as an entity, are generated. Traditionally, the customer is the one that has the information necessary to identify the issues regarding his own status, making issues in this zone extremely difficult for the provider to address. Along with a deep understanding of the customer, the provider requires his collaboration due

The Ultimate Solution

Defining a solution continues to be a subjective matter and varies from one company to another. Furthermore, the direction of attempts to improve a solution via increased customization has never been clear. Given the concepts presented here, we can not only define the types of solutions a provider may offer, but we can identify the direction toward which the innovation efforts are pointing. We can also create a profile of this end point, which we will refer to as *The Ultimate Solution*. The analysis of its position on the Solution Matrix (upper right-hand corner) will help us to identify its most important characteristics.

The value generated by the Ultimate Solution impacts an organization at the highest level of strategy. In other words, this solution affects the root of the customer’s existence. At the same time, the transaction is made at the highest level, where the provider helps the customer identify its fundamental issues. Based on these elements, we can conclude that the position of the Ultimate Solution is characterized by: 1) the highest degree of customization, due to the customer’s uniqueness; 2) the highest degree of customer knowledge, which will allow the provider to generate the solution; 3) the smallest customer base, given the amount of resources required to implement this solution; 4) the lowest level of competition, given the strong relationship between provider and customer; and 5) the highest margins that, based on the strong provider-customer relationship, are most likely tied to the customer’s financial results. These characteristics are neither mutually exclusive nor collectively exhaustive, yet they are enough to identify the essence of this point on the map. Given that the Ultimate Solution position is yet to be reached, aspiring companies must remember the following key words: *Insight, Capabilities* and *Trust*.

Exhibit 6: Basic Types Of Solutions



to the important role played by sensitive information in generating these unique solutions. Strategy consulting companies, which help the management process at the top of their client companies, often generate one-time solutions in this zone.

Grade II Solutions address issues positioned in the Designing Solutions stage, where the customer more frequently attempts to define issues based on existing solutions in the marketplace. Information here is still scarce, due to the solutions' high degree of customization. These are generally first-time solutions that will quickly commoditize after a few replications. In general, *outsourcing services* are representative of solutions at this level.

Grade I Solutions address issues positioned in the Acquiring Solutions stage. In this zone, customers have a clear idea of what they're shopping for. The issues here are defined to closely match existing solutions on the market. Information about these solutions is widely available, translating into a high degree of commoditization. The majority of products and services currently available on the market fall into this category. Additionally, slightly higher value offerings including product extensions, such as warranty, financing and/or user training, typically fall into this category.

II. REDEFINING STRATEGY

A Different Perspective On Marketplace Definition

It is common knowledge that a strategic analysis should begin with the definition of a marketplace. While it is often superficially approached, as a

foundation for strategy formulation, the correct framing of the marketplace is extremely important. Any error at this stage will be propagated and amplified along the process, seriously affecting the resulting strategy. Traditionally, marketplaces are described by industries, which are product-based entities. However, the revolutionary innovations that have invaded the market over the last decade, and continuing today, have accelerated the occurrence of industry overlapping. This phenomenon blurs the boundaries that define an industry and directly affects the associated stability timeframes.

The use of broader marketplace definitions is the most common practice employed by executives trying to overcome the above inconveniences. Another example of forced adaptation to new realities is the utilization of concepts like the *whole product*, which goes beyond product functionality in an attempt to explain how the product is perceived. However, as long as the product focus is maintained, each subsequent improvement will be limited by its ties to increasingly shorter product life cycles. So, fundamental improvements require fundamental changes.

A customer-centric perspective, however, illustrates the fact that the customer is on a constant quest to accomplish something, during which he may or may not use a particular offering. Understanding what the customer is trying to accomplish is vital to understanding the demand for an offering, what alternatives are available, and what improvements will lead to a better solution. Therefore it is essential to adapt our mind-set and begin to replace the product-based marketplace framing with a customer's issue-based marketplace framing.

A New Framework For Strategy

To this point we have only discussed the evolutionary character of a solution for a particular customer. It is essential to mention that even though the Issues Tree is unique for each customer, the same issue may be found in the Issues Trees of several different customers. Furthermore, identical structures surrounding a particular issue may be found in many customers' Issues Trees, making marketplace framing possible. Due to the fact that knowledge diffusion within a marketplace tends to create a majority group of customers characterized by very similar levels of average knowledge, the solution representation on the Solution Matrix for all customers tends to be concentrated in one point. Hence, we can assume that a particular solution will

have the same position on the matrix for every customer within a marketplace. (See Exhibit 7 “A Solution And Its Marketplace”) Subsequently, because every solution requires a particular approach behind it, this lays ground for developing a new framework for strategy.

Having introduced the theory that describes the dynamics of an offering, we can now redefine the concept of business strategy as a hierarchy of primary components: 1) understanding the customer’s issues structure (*Customer Issues Centricity*), 2) will influence a provider’s choice of solutions (*Solutions Portfolio Alignment*), 3) which can be refined relative to the available resources (*Solutions Interrelationships*). (See Exhibit 8 “The Strategy Pyramid”)

Customer Issues Centricity. This first component is the foundation of a successful strategy. It is defined by the capacity to understand the *issue-solution pair* and its surroundings within the customer’s Issues Tree (the potential marketplace). This goes beyond understanding the needs expressed by the customer, based on their current knowledge base, and analyzes what they are actually trying to accomplish. The fundamental assumptions, upon which the strategy will be built, begin with this understanding. Failing to achieve Customer Issues Centricity will lead to flawed strategies. More lethal than a flawed strategy, failure to achieve customer issues centricity may lead to the inability to anticipate or even notice the beginning of shifts within the marketplace.

Solutions Portfolio Alignment. As the central component of strategy, the Alignment is based on the fact that the way offered solutions are scattered across the Solution Matrix gives an organization a unique strategic position. We will start by

Exhibit 7: A Solution And Its Marketplace

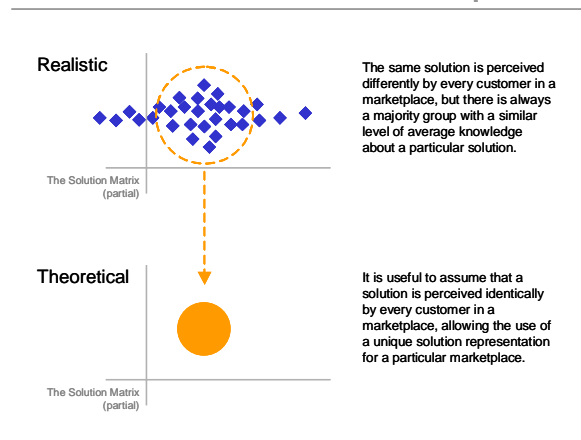
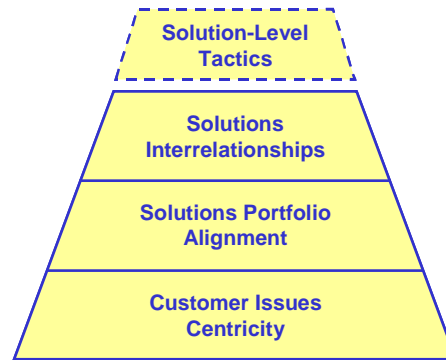


Exhibit 8: The Strategy Pyramid

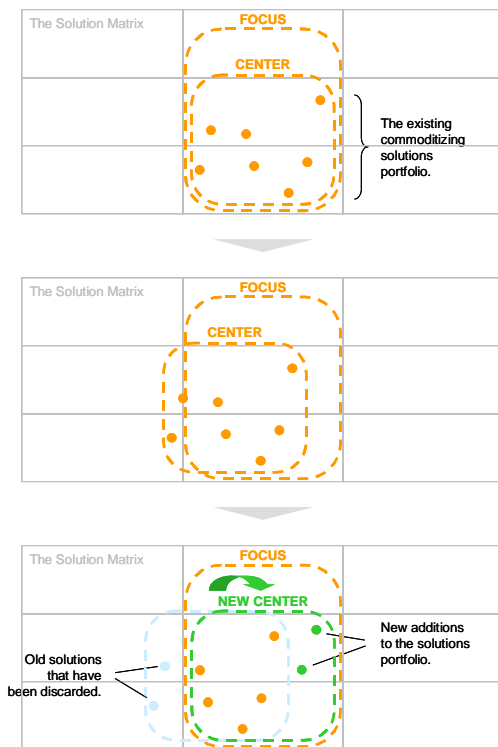


introducing the concept of the *Solutions Portfolio Center*, which is defined by a limited area on the matrix containing the majority of the solutions generating the majority of revenues. Naturally, limited resources will compel a provider to concentrate its efforts on the Center. However, we have already identified three basic solution types, each one requiring a fundamentally different way of generating and providing a solution to an issue. This not only refers to the way a provider operates but also to the way the provider is perceived internally and externally, within the marketplace. Consequently, for consistency reasons, the provider is constrained to associate himself with one of these fundamental approaches. This will be referred to as the *Solutions Portfolio Focus*. Basically, the Focus represents the provider’s vision, while the Center reflects the execution, showing how the existing offerings are actually being provided. To assure successful execution of the majority of solutions a company offers, the Center must coincide or be included in the Focus. (See Exhibit 9 “Solutions Portfolio Alignment”) This is the *Solutions Portfolio Alignment*, of which there are three basic types.

- **Grade I Alignment** is realized within the Grade I Solutions area. In this zone it is still possible to have, albeit for increasingly shorter periods of time, apple-to-apple marketplaces, where traditional competition-based strategies remain effective. Most solutions here are highly commoditized; therefore operational excellence (also referred to as operational effectiveness, operational efficiency, or even operational breakthrough) remains a very important factor in achieving success. The competition is fierce, and margins are generally small. It is also here where the risk of disruption is the highest. The majority of companies have their Alignments

Exhibit 9: Solutions Portfolio Alignment

Center-To-Focus Alignment



Note: To simplify this illustrative example, it is assumed that every solution within the portfolio is commoditizing at the same rate on a horizontal commoditizing trajectory.

here, with Dell Computer leading the pack as a symbol of operational excellence due to their highly efficient direct-sales business model.

- Grade II Alignment** is realized within the Grade II Solutions area. This area has gained significant popularity over the past decade, due to dramatic technological advances that have enabled solutions of this kind. The hope here is for reduced competition and increased profits. Operational excellence remains a top priority, due not as much to price pressures, as to the discipline required by the operational complexity of a business concentrated on higher-grade solutions. Outsourcing service providers are the most representative organizations with solutions portfolios aligned in this zone. IBM has gained notoriety as being one of the first organizations to concentrate its efforts here by developing its Global Services division.
- Grade III Alignment** is realized within the Grade III Solutions area. While still an untapped

area, strong provider-customer relationships, limited competition, and high margins make it increasingly attractive. As we mentioned earlier, providers like strategy consulting companies regularly generate solutions in this zone, yet not one of them is aligned here. In the future, further technological innovations will likely drive companies to align their solutions portfolio in this zone. The acquisition of PriceWaterhouseCooper Consulting by IBM in 2002, which through a blend of capabilities and knowledge will lead to new innovative outsourcing solutions, can be considered a step forward in this direction.

Solutions Interrelationships. The third component of strategy refers to the resources that are shared among solutions within the portfolio. The basic idea is that the sharing of resources, or *synergy*, leads to higher returns. Although the concept of synergy is not new, the concept of *modularity* deserves some attention. Popular among technology companies, modularity can generate higher degrees of synergy if properly used. It can be simply defined as the capacity to construct or deconstruct a solution into new, independent solutions. For example, a *PC* can be a stand-alone solution, yet it can also be a component of a *computer network* solution. Therefore, the same resources for sales or technical support can be shared to simultaneously support the two solutions. Modularity is a sign of commoditization, but if wisely exploited it can significantly improve one's strategic advantage, especially in cases of head-on competition.

Solution-Level Tactics. It is important to note that we do not consider strategy at the solution level to be a primary component of the corporate strategy. Based on its overall importance for a company, the solution-level strategy is subordinate to the previously defined primary components of the organization's overall strategy. The constraints generated by this hierarchy will lead to strategic moves that may not make sense within a solution's surrounding marketplace. A highly publicized example took place in the web browser marketplace, where Netscape Communicator was nearly pushed out of business when Microsoft included Internet Explorer in its Office Suite, basically offering it for free. More recently, the media player marketplace has seen a similar case with Microsoft being blamed for the same "uncompetitive" business practices.

However, an analysis of a solution and its corresponding resources in isolation from the rest of the portfolio does allow us to identify three generic solution-level strategies. Based on the solution's

basic type, there are three distinctive associated strategies, each offering a unique way of achieving strategic advantage: *Grade I Solution* strategy, *Grade II Solution* strategy, and *Grade III Solution* strategy. Fundamentally, each generic solution-level strategy consists of a combination of *low-cost* and *differentiation* initiatives, their importance varying with the grade of a solution. In short, low-cost dominates the lower-grade-solutions strategies, while differentiation is increasingly important for higher-grade-solutions strategies. Yet, the value of this categorization is shadowed by the fact that the commoditization rates are continuously increasing, thus decreasing the time spent by many solutions in a particular *basic* strategic space, which contradicts the long-term connotation of a strategy.

So, although extremely important, we consider that, from the organization's perspective, the solution-level strategy should be seen as a tactical matter.

Strategic Advantage Sustainability

Sustaining the strategic advantage is as important as creating it. In light of the above definition of strategy, sustainability can be characterized as, first, maintaining the Customer Issues Centricity, second, maintaining the Solutions Portfolio Alignment, and third, optimizing Solutions Interrelationships. Due to a solution's evolutionary character, the Alignment is likely the component most difficult to sustain. To achieve this goal, most providers are tempted to focus their efforts on altering the natural commoditization process of their solutions. Some efforts are intended to slow the commoditization process through knowledge monopolization, as seen with the secrecy surrounding Microsoft's Windows code. Other

efforts are intended to accelerate the commoditization process by pushing information to the customer and bringing the solution into a more suitable strategic zone. While this may work for relatively short periods of time, a company still needs to know when to create new solutions as well as when to let go of select existing solutions. As we all know, despite the monopoly on the Windows code, Microsoft has still had to innovate regularly, releasing new and improved versions of their operating system. There are three major strategic options to add new solutions to a company's portfolio. 1) Add a *Brand New Solution* to the portfolio. A good exemplar of a new solution is seen when examining Dell Computer's entrance into the printer market in early 2003, adding not only *printers* as stand-alone solutions to their portfolio, but also *printers* as components for higher-grade solutions that include other equipment and services. 2) Significant improvement based on an existing offering leads to a new higher-grade solution. This is an *Upward Breakthrough Innovation*. In general, *infrastructure outsourcing* is an upward breakthrough innovation relative to the *equipment* offerings. 3) As opposed to the previous option, a *Downward Breakthrough Innovation* has a lower grade than the solution it is based on. The essence of this type of innovation is not improvement but rather simplification. A Windows server can be considered a downward breakthrough innovation for a UNIX server. (See Exhibit 10 "Strategic Options For New Solutions") Armed with these strategic options, not only can the strategic advantage be sustained, but also growth can be generated through the creation or adoption of new solutions. Execution remains essential here, and at times tricky, as we will see in the next section.

Execution And Its Dilemma

For decades, executives have struggled to develop the right organizations behind their strategies. Using the new theory presented in this article, it is easy to understand why. The position of the Solutions Portfolio Alignment on the Solution Matrix dictates the operational approach a company must adopt. Under the constant pressure of commoditization, solutions within the portfolio Center will eventually move out of the Focus zone and into an area where the existing operational approach becomes unsuitable. This situation generates one of the greatest quandaries faced by today's organizations: *The Execution Dilemma*. One must decide to either reposition its Focus as its Center is commoditizing along with the corresponding solutions (*Focus-to-*

Exhibit 10: Strategic Options For New Solutions

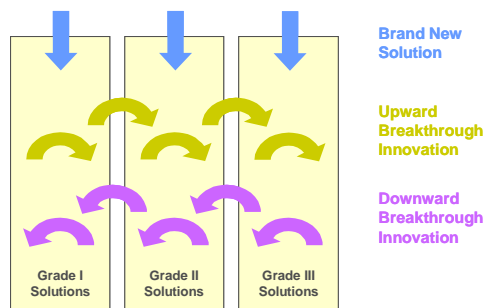
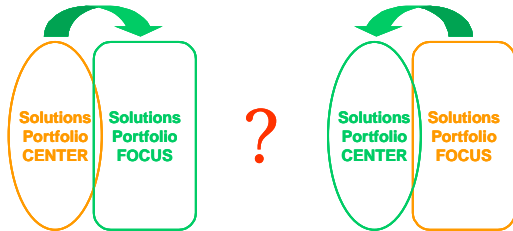


Exhibit 11: The Execution Dilemma

Aligning the Center
with a *fixed* Focus?

OR

Aligning the Focus with
a *commoditizing* Center?



Center Alignment), or to maintain its Focus, while continuously innovating to reposition the Center (*Center-to-Focus Alignment*). In the long run, it is clear that even those who choose the first option will eventually have to innovate, or run the risk of sinking into zero-profit marketplaces dominated by intense price pressures and exposure to disruption. In the short-term, however, this remains one of the biggest dilemmas that executives must face. (See Exhibit 11 “The Execution Dilemma”)

Although we have focused mainly on strategy development, it is also important to acknowledge that regardless of the chosen strategy, the operational excellence must be a top priority in execution. Operational excellence has traditionally been directly related to the price pressures of head-on competition. As this theory illustrates, different solutions have varying degrees of complexity; the higher the degree of complexity, the scarcer the competition. Companies who choose to position themselves in a higher-grade solutions area should not be fooled by the limited competition. More complex solutions coincide with more complex business models, where poor execution can lead to the collapse of a company under its own weight. Therefore, operational excellence must play a focal role in the strategy execution.

III. STRATEGIZING FOR THE NEW MILLENNIUM

The ultimate goal of a theory is to predict the future. The past is used to generate a logic that outlines the future, while the present is what continuously validates that logic. It is well known that the approach to strategy has been constantly redefined

under the pressure of corresponding present realities. Consequently, each new theory comes with the promise of a better emulation of reality, as does the theory introduced here. However, an extremely important and unique set of benefits sets this new approach apart from the rest.

1) This new strategy framework is a customer-centric concept built around the evolutionary character of an offering, eliminating the inconveniences of product-centric approaches that remain strongly tied to increasingly shorter product life cycles. 2) Another important benefit of this theory is its capacity to bridge the gap between strategy as an intention and its execution. The main component of the (redefined) strategy, the Solutions Portfolio Alignment is in fact the result of the combination of the company’s vision - the Solutions Portfolio Focus, and the company’s actions - the Solutions Portfolio Center. 3) This concept links growth generation to strategy. As we discussed earlier, sustaining the Solutions Portfolio Alignment, a component of strategy, may involve adopting new solutions, which ultimately can lead to growth. 4) Finally, its high degree of flexibility makes this concept highly valuable for a wide range of applications, from the business-to-consumer environment to the business-to-business environment and from the solution-level strategy formulation to the organization-level strategy formulation.

Beyond the organizational strategy realm, this theory can also be used to explain broader economic issues. Let us take, for example, two highly publicized debates, *job offshoring* and *the strategic importance of IT*. Our sole intention is to show how the concepts introduced in this paper can generate useful new perspectives on these issues.

The first debate is particularly complex, most opinions focusing on international trade practices and governmental regulations. Still, it is important to highlight a business perspective that can help redefine this debate. As a foundation for our logic, we will start with the fact that most American companies are positioned to deliver commoditized solutions. However, in a low-grade-solution strategic space, low-cost initiatives are dominant and vital, while operations incorporate numerous standardized processes and outputs. A combination of the two proves that job offshoring is just a natural result of a correct strategy. As a result and without going any further, we can now take this debate to a new level by asking: Why are these companies “trapped” in a low-grade-solutions strategic space? Why are they not moving into a higher-level-solutions space, characterized by proprietary processes and outputs,

including newly-defined jobs, which are harder to outsource?

In the second debate, the main argument is that IT has lost its strategic importance. Some see IT as highly commoditized low-grade solutions, while others argue that many high-grade IT solutions still exist. By analyzing the issues solved by IT, and applying previously discussed concepts, we can affirm that both sides are right. The strategic value of an IT solution will depend on the solution's position within the customer's Issues Tree. It is true that, in general, IT solutions have significantly

commoditized over the past decade, but it is also true that IT solutions providers have taken significant steps toward higher grade IT solutions. Therefore, the debate in this case can be simplified to how the IT, a very broad term, is defined. This emphasizes once more the need for a clear definition of the concept of *solution*, also presented in this work.

In closing, it is clear that the insight, comprehensiveness, and depth of this theory, combined with its simplicity and versatility, generate a highly valuable tool capable of producing successful strategies for the new millennium. ♣

This paper, an accompanying poster entitled "Strategy and Business Model Guide", and other materials related to the theory introduced here are available at www.RedefiningStrategy.com.

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