

Using the Strategic Market Position as Your Compass

by Soren Eilertsen, Ph.D.

Successful companies such as Wal-Mart, Apple and Ferrari are very clear on how they want to be perceived in the marketplace. An intended strategic market position guides their ongoing innovation and resource allocation. Many other businesses struggle with making the basic choices and consequently straddle multiple positions or hold a muddled unclear position. Market strategy begins with setting an intention for your general position. This introductory paper suggests how to approach this.

Introduction

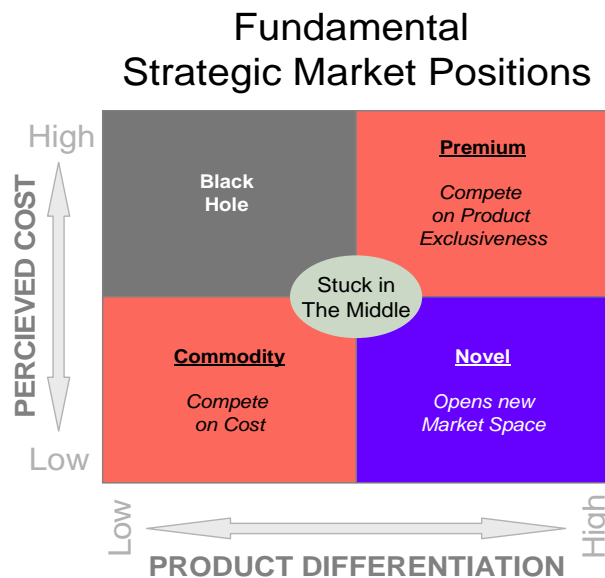
Strategy is about deciding where to invest your resources in order to define a unique market position for long-term competitive advantage and profitability. We believe that every company must map its desired strategic market position so this guides innovation and resource allocation. It is the perception of the buyers and customers of your products and services in the market place that determines the strategic market position.

Many businesses struggle with making the basic choices and trade-offs required to occupy a distinct position in the marketplace. They get stuck attempting to straddle different positions or satisfy multiple buyer groups at once. Bigger firms or firms with multiple heterogeneous product lines or customer groups frequently find themselves with different positions or with a muddled position that people inside and outside the company find hard to discern. Holding numerous positions or a muddled position in the market place makes it difficult to effectively allocate resources and create a brand with associated equity.

There is no one right strategic market position and none is better than others are. The right position is the one that fits with the vision and business model for your firm to establish a successful overall strategy and direction for your business. What makes a difference is setting an intention for the strategic market position that your business should occupy.

Basic Strategic Market Positions

By adding a dimensional aspect to Michael Porter’s important notion that strategies can be positioned along a continuum between product differentiation and cost leadership¹, we find that three different strategic market positions open up. In a simplified view, they are:



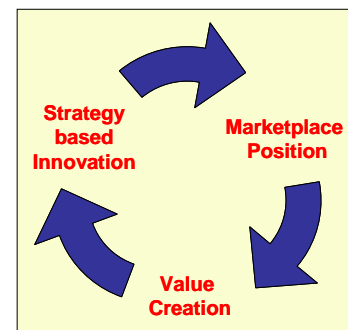
¹ Porter, Michael (1996), *What is Strategy?* HBR, November-December, 1996

- a **commodity** position that provides generally available offerings at a low cost. Businesses with this position compete on cost. Companies like Wal-Mart, Costco, and Best Buy are good examples.
- a **premium** position that provides exclusive offerings at a premium price. Businesses with this position compete on product uniqueness and exclusiveness. Companies like Ferrari, Nordstrom, and Polo Ralph Lauren are good examples.
- a **novel** position that provides distinct offerings at an attractive price. Businesses with this position opens up new market space and as such typically do not find direct competitors initially. Companies like Apple (iPod/iPhone), IKEA, and Cirque Du Soleil are good examples.

The fourth position in the two-by-two matrix – the Black Hole – is obviously a very undesirable place to find yourself.

Porter argued for pure strategy positions; however, reality is that many companies adopt a “hybrid” position where they risk being stuck in the middle. Per Michael Raynor’s² findings, a company takes greater risks (for going out of business) by selecting the pure strategies near the border edges of the matrix; however, the possible returns are also greater. Therefore, many companies play it safe in the middle area where they struggle to obtain a competitive advantage and sustainable profitability. The marketplace finds it difficult to distinguish these positions unless there is a strong segmentation, vision component or other factor at play.

Forces such as ongoing evolution and innovation over time, constantly pushes the frontier of what is possible. This creates a natural gravitational field that draws a fixed strategic market position towards the middle where it may lose its value in the market. Similarly, there is a natural pull from the Novel position to both the Commodity and Premium position. Consequently, businesses must continually reposition themselves relative to the frontier that exists at any moment in time. Innovation based in strategy becomes the vehicle to hold the organization in its desired position.



Competitive Strategy

Porter’s work on competitive strategy³ deeply influences corporate strategy work. Porter sets the standard for competitive analysis within industries (“five forces”) and this perspective looks at an industry from the outside-in to determine the forces that influence competition. In reality, this view confines practitioners to focus on strategies which are limited by industry paradigms, focused on existing customers, and primarily defined in relation to competitors. Hence, product development and marketing initiatives are adjusted to support competitive market share

² Raynor, Michael E. (2007), *The Strategy Paradox*. See Raynor’s discussion of the strategy paradox and the hybrid strategy position in chapter three “Who Dares Wins...Or Losses.”

³ Porter, M. (1980). *Competitive Strategy: Techniques for analyzing industries and competitors*. NY: The Free Press

objectives. In effect, companies within the same industry end up with the same analysis and too many strategies become about doing the *same*—either just at a lower cost or with a slight product differentiation.

Consequently, businesses with Commodity and Premium positions are better understood and face greater competitive forces than the Novel position. The Commodity and Premium positions tend to respond more directly to current and future customer needs, where the Novel position introduces a need that is not yet known by the customer. This points us to the obvious, which is that each of the positions requires a different methodology for detailed strategy formulation.

The Novel Position - Getting Beyond Competitors

Since the Novel position is introduced in this paper, we'll provide a couple of examples of what this position entails.

The Novel position creates new market space and new demand by bringing in noncustomers that are attracted by an offering with differentiated value at a low cost. In *Blue Ocean Strategy*⁴, Kim and Mauborgne argue that companies grow more rapidly and create greater profits if they align their activities in the simultaneous pursuit of differentiation *and* low cost; a blue ocean of uncontested new market space is created at the *intersection* of favorable cost structure and value proposition to buyers.

The Novel position requires a difficult break from industry paradigms. For existing Commodity and Premium players who seek a Novel position, this may happen through market disruption. Clayton Christensen⁵ outlines two ways of doing this particularly useful for firms involved with technology pioneering:

- **Low-end Disruptive Innovation:** A low-end disruption occurs when a firm captures the low-end of an already existing mainstream value network (i.e., customers who are currently being "overserved") by offering them a simplified, easy-to-use offering at a low price point.
- **New Market Disruption:** A new market disruption occurs when a firm attracts a mass of nonconsumers - those who have never owned or used the prior generation of offerings - by producing offerings that are much more affordable to own and simpler to use than what is currently available.

Where disruptive innovation often involves technology pioneering, "value innovation" employs mostly existing technologies. Value innovation is Kim & Mauborgne's term for the simultaneous pursuit of low-cost and differentiation in a manner that creates new, untapped demand by

⁴ Kim, W.C., & Mauborgne, R. (2005). *Blue Ocean Strategy: How to create uncontested market space and make the competition irrelevant*. Boston, MA: Harvard Business School Press.

⁵ Clayton M. Christensen & Michael E. Raynor (2003), *The Innovator's Solution: Creating and Sustaining Successful Growth*, Harvard Business School Press

cutting across and outside existing market and industry boundaries. This way of thinking finds and develops unknown market space where there is little or no competition, and works to exploit and protect these markets.

In Conclusion

While solidly based in existing strategy literature, this paper introduces a couple of concepts that we find very useful for the strategy formulation process.

1. The notion that a business determines a desired strategic market position as an initial step in the strategy formulation process, which will guide the organization as a compass
2. The Novel position, which frequently is overlooked in the typical cost-differentiation continuum and becomes misunderstood as a hybrid or stuck in the middle position.
3. That choice of strategy formulation methodology is highly influenced by the choice of a strategic market position. It takes different methodologies to:
 - break industry paradigms and create new market space than to
 - create breakthrough solutions for existing customers than to
 - innovate the enterprise for a cost leadership position.

As a final note, we want to remind the reader that the paper looked at strategy from the marketplace perspective. This is an important part of your overall business strategy; however, any good strategy must also consider the vision for your organization and the business model.

About the Author

As President of Kollner Group, Soren Eilertsen has helped numerous clients in different industries activate and align leadership teams around business results and innovation. Clients praise him for his ability to guide business leaders and teams to insights and new levels of success.

Soren works as a business consultant, educator and leadership coach specializing in strategy and organization development. He helps clients build effective leadership teams, create winning strategies, and obtain success with change initiatives.

Since establishing Kollner Group in 1999, Soren has helped shape the strategic directions and create results for numerous businesses and non-profits in both Europe and the United States. He has worked on world-class endeavors and been fortunate to engage with leaders in great organizations such as AECOM Design, American Suzuki, McKesson, Mission Critical Technologies, MK Sound, Motown Museum Project, Nordisk Film Biografer, Pacific Coast Producers, Pacific Theatres, Polar Air Cargo, Rand, System Simulations, UC Health System and Vulcan (Paul Allen).

Combining his education as a psychologist with years in corporate executive roles, Soren takes a unique integral approach that enables him to examine a business from the perspective of its internal leadership, systems, and culture as well as from the market-, business value-, and external customer perspectives.

Visit www.kollnergroupp.com to find out more about Soren Eilertsen and the Kollner Group.

Contact Information

Soren Eilertsen, Ph.D.
President / Managing Director
Kollner Group, Inc.
15332 Antioch Street, PMB #335
Pacific Palisades, CA 90272
USA

Phone: +1 310 230-3150
Email: soren@kollnergroupp.com

Website: www.kollnergroupp.com