OUTSIZING

STRATEGIES TO GROW YOUR BUSINESS, PROFITS, AND POTENTIAL

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To my wife, Lalana, and children, Ava and Max, for motivating me to outsize my life every day.

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Position-, asset-, and capability-based advantages allow companies to capture a greater share of economic profit. They help companies strategically answer the questions of where best to compete and how to win.
ow often do you set out to make an Italian meal and add sushi or enchiladas as a side dish? This disjointed feast would contain few overlapping ingredients, the tastes would not blend, and each dish would likely be of mediocre quality. It would be expensive to make and not very appetizing.

Rather than trying to tackle multiple food cultures in one meal, the best chefs choose a theme and build a menu around a specific cuisine. For example, the UK’s Waterside Inn is one of the most renowned French restaurants in the world. It became the first restaurant outside of France to retain all three Michelin stars for a quarter of a century. Described as “unashamedly French, exquisitely executed,” the menu applies traditional French cooking techniques to fuse Provençal flavors into unique dishes. The menu includes fare like pan-fried filet of cod and roasted pheasant. While the Waterside Inn presents customers with a lively assortment of options, it never strays from the French theme. The masterful chefs have similar skill sets to ensure consistent quality and complementary ingredients to guarantee a well-balanced meal.

In addition to delectable dishes, fine restaurants emphasize atmosphere. The culinary leaders know their ideal customers expect a complementary ambiance and presentation. For example, the Waterside Inn fuses an “elegant and contemporary” environment to enhance the CX. Emphasizing the old-world appeal, the restaurant sits riverside in the sixteenth-century village of Bray, where chefs take modern twists on timeless dishes. Waterside Inn also offers a private dining experience in the River Cottage to increase the exclusivity of the culinary event, serving the values of Mr. and Mrs. Privilege, the restaurant’s elite customer type, who appreciate an undisturbed, customized experience.

Fine restaurants are deliberate in what, where, and how they serve customers. You wouldn’t expect a greasy hamburger when dining in the River Cottage. And you likely wouldn’t appreciate
the cozy, chalet-esque character of the Waterside Inn at a modern rooftop restaurant in downtown New York City. Also, New York City is home to a plethora of French restaurants and many Michelin-acclaimed establishments. It would be harder for the Waterside Inn to differentiate itself in one of the world’s most praised food capitals. Where-to-compete and how-to-compete decisions must be carefully evaluated, as these determinations can impact the fate of a business.

Like the Waterside Inn, it’s imperative that companies develop a cohesive, complementary “menu” of offerings by carefully analyzing the market; they must remain focused while making tradeoffs to align finite resources. Just as a restaurant’s location, atmosphere, and menu determine who it serves and who it competes against, every company must strategically position itself in the market to earn outsized economic returns. Additionally, restaurants must design menus that center around a theme to increase ingredient overlap and maximize the chefs’ skills. Strategy must be laser-focused to optimize resource use and enhance the web of advantages.

I mentioned in previous chapters how companies want to do everything. People often think that by doing more, they increase their chances of winning. Too often I see teams cobble together long, strategic task lists, brimming with disconnected and sometimes conflicting agendas. The result is misaligned, fragmented strategy. Cohesive strategy transports companies beyond a random assortment of activities to deliver a congruent and meaningful CX. Because we can’t do everything, we should focus on doing things that highlight our strengths.

Your company may be good at any number of things, but what is it great at? For a company to outsize, it must build from advantages—its distinct differentiators that generate value for the customer. Like the Waterside Inn, you must strategically leverage your market position and talent to produce the greatest outcome. This
calls for the essentialist mindset, encouraging you to sacrifice the good to pursue the great. When building from advantages, consider the following questions:

- **How will you win in your ideal customer’s eyes?**
- **How will you beat your competitive set, the four or five direct rivals who share similarities to you like size, offerings, and audience?**
- **What unique corporate advantages can you capitalize on to build a distinct web of advantages?**
- **What activities, capabilities, and teams can you build to strengthen your competitive advantage?**

**CREATE AND CAPTURE VALUE**

In the last chapter, I introduced how companies build a web of advantages by blending standard and CX activities. The unique sequence and connections in this web create a non-duplicatable strategy. Now, we will focus on how to build the web of advantages by uncovering your company’s strengths and opportunities and weaving them into a cohesive strategy. However, before determining what to focus on, let’s build a foundational understanding of advantages.

I work with many companies that initially insist that strategy comes second to fixing operational “cooking the chicken” issues. Other companies assume that strategy is a plan to strengthen weaknesses and repair shortcomings in the business. While patching weak points in your company is necessary, this should only be one small outcome of your strategy. Fixing what’s broken will not give you a leg up on the competition. It’ll simply equip your company with a strong base from which to build your advantages.
Strategy must go beyond performing well and must seek ways to differentiate a company. It should consider the issues that need to be fixed while identifying opportunities to exceed customer expectations. Advantages give your firm a leading edge to seize narrow windows of opportunity within a market.

Before diving in to understand your company’s advantages, it’s important to step back and understand the problem you are hoping to solve with your strategy. As we will discuss in the final chapter, a strategic problem should be viewed as a major, underlying issue that will impact your organization’s long-term success and well-being. By framing your strategy as the antidote to this problem, you can devise a more targeted approach to attack the challenges.

Capitalizing on advantages provides the solution to your strategic problem. Advantages accomplish a dual purpose. They allow you to solve the overarching strategic problem and delight customers through enhanced experiences. By investing in the advantages that customers care about, you can deliver exceptional, relevant experiences that compel customers to buy, which ultimately leads to value capture.

Outsizing your strategy requires your company to make strategic decisions that enable you to both create and capture value. Nearly every strategy generates at least minimal value for some subset of the market. However, profit is derived from capturing value and should enable an organization to stimulate demand for its products and services. The two related business functions produce divergent outcomes:

- **Creating Value**: To capture value, you must first create value. Every offering and interaction should generate value for your customer. Value creation is defined as the benefit achieved when a product or service enhances the quality of life or satisfies the goals for the end user.
Capturing Value: Capturing value entails monetization of the value created. Your offerings must enable your company to grow and generate cash flow at rates of return that exceed its cost of capital.

Companies often create value but struggle to capture it. This issue has plagued tech firms that provide free access to applications. For example, the popular dating app Tinder has gained widespread usership and a strong brand presence since its launch in 2012. However, in a move to cash in on the value it provides, the firm recently shifted its model by launching Tinder Plus, a premium service that provides new, updated features to users who pay to play. Similarly, Pinterest, a visual social platform, has struggled to monetize its offerings. Although the firm was valued at $11 billion in 2015, it generated merely $169 million in revenue.3

Delivering value to customers while capturing value within your company is the essence of strategy. If you don’t capture value, your ability to create value is abolished. There are three ways that your company can capture value:

1. Charging more. Commanding a price premium by charging more than competitors.

2. Doing it for less. Lowering your cost structure by maintaining revenue while reducing expenses through cost and capital efficiencies.

3. Growing strategically. Increasing top-line earnings by differentiating and forming brand equity so customers consider only your company in their purchase decisions. Customer acquisition and retention result in volume growth. Acquisition is enabled by getting customers to bypass your competition through a strong network and/or differentiated
offer. Retention increases with high switching costs—making it expensive or inconvenient for customers to move their business to your competitors—or enhanced CX, which generates customer loyalty, therefore reducing the likelihood that customers seek other alternatives.

This chapter focuses on building strategic advantages rooted in your where-to-compete and how-to-compete decisions. Companies gain a competitive edge through market ownership, acquisition and allocation of assets and resources, and consolidation of individual and team skill sets.

We will also explore how to convert three sources of advantages—positional, privileged tradable assets, and distinctive capabilities (see Figure 3.1)—into a web of advantages that will drive improved customer experiences and holistic value capture for your company and your customers.

![Figure 3.1: Sources of competitive advantage](image)

**Market Focus & Position:** Rooted in the structural attractiveness of the market.

**Privileged Tradeable Assets:** Differentiated elements that can be bought or sold.

**Distinctive Capabilities:** Unique power or ability to capture higher profits.
SECURE POSITIONAL ADVANTAGES

A positional advantage is a company’s market focus and customers’ perception of a brand and its offerings. Capitalizing on positional advantages leads to price premiums and cost and capital efficiencies. When correctly leveraged, positional advantages yield bottom line growth, enabling companies to capture greater value. However, positional advantages are complex, and companies often apply ineffective frameworks and inadequate or incorrect information when making positional decisions.

The SWOT analysis (strengths, weaknesses, opportunities, and threats) and Porter’s generic strategies dominate nearly every strategy-class curriculum. After graduating, bright businesspeople transfer these frameworks to their organizations and apply the concepts to corporate strategic discussions. The problem is not that these frameworks are wrong; it’s that they’re incomplete. Sixty-year-old frameworks are not always relevant to today’s problems. Both SWOT and Porter’s models focus on long-term planning. Since the inception of these methodologies, the speed of business has vastly accelerated. Companies can’t predict where they need to be and what they need to do in five years if they can’t accurately visualize the landscape a year from now. Outdated, static models fail to account for the modern pandemonium that shapes our fast-moving competitive environment.

Even the strategic masterminds of the 1970s and 1980s had to adjust frameworks to make them more malleable and dynamic. For example, the concept for Porter’s where-to-compete framework, coined his Five Forces, was pioneered in the 1930s by Edward Chamberlin and Joan Robinson. The economists conceived the Structure Conduct Performance (SCP) model. The SCP evaluates how the competitive, cost, and demand structure of the industry impacts conduct, and how competitors behave toward pricing, investments, and innovation—which ultimately affects the financial
performance of the industry. Porter built on the idea of industrial organization economics, defining how five forces—threat of entrants, threat of substitutes, bargaining power of customers, bargaining power of suppliers, and industry rivalry—determine industry attractiveness.

The SCP and Five Forces frameworks should still be considered when determining where to play. It’s critical that companies understand

- industry structure,
- market saturation,
- available substitutes,
- who has the power, and
- what the competition looks like and how it’s changing.

Applying a dynamic lens to the analysis enables you to understand your market and anticipate imminent industry shifts. Industry trends are critical to understand because, as Porter alludes to, competitive structure will dictate the ease by which new competitors can enter the industry, the power of customers and suppliers, the availability of substitutable products and services, and the intensity of rivalry among other firms. To modify billionaire investor Warren Buffett’s quote, I always tell my clients, “When a business with a reputation for brilliance tackles an industry with a reputation for bad economics, it is the reputation of the industry that remains intact.”

However, while industry structure plays a large role, I would shift Porter’s model slightly and build on it with modern considerations. First, Porter’s Five Forces model centers around understanding and managing competition. Knowing the competition in any given market is imperative to determining how you will gain a competitive
edge to procure higher-than-industry-average profits. While you can’t ignore the competition, as I emphasized in the previous chapter, winning strategy revolves around your customers. If you leverage Porter’s model, you risk ending up with a rivalry-oriented strategy rather than a customer-centric strategy.

Customers dictate your what-to-do and how-to-do decisions; naturally, they should guide your where-to-compete decisions. Porter’s model accounts for buyer power, evaluating the amount of pressure that customers can exert on businesses to enhance offer quality or reduce offer prices.

Customers also impact industries by establishing trends. As I pointed out in the last chapter, robust strategies apply behavior and design thinking and values-based decisions to understand the market. Why do customers buy? How do they buy? What emerging customer trends and behaviors will shape the industry? How can you differentiate and create value to convince customers to bypass your competition? What offers and experiences do customers deem

**KEY MARKET CONSIDERATIONS**

Selecting key markets to play in is critical. While doing so, ask yourself the following questions to develop foresight around how you will build a strategy to compete and win in your selected segment:

1. What does winning look like in this key market?
2. What resources and capabilities are required for a company to win in this market?
3. Why will my company have a positional advantage in this key market?
relevant and differentiated, therefore enabling you to command a price premium? Buyer power only scratches the surface of customer analysis. If you apply Porter’s model in isolation without fully evaluating styles, trends, behaviors, and values, you could be missing an important piece of the puzzle.

For example, according to the US Bureau of Labor Statistics, manufacturing is one of the fastest-declining industries in terms of production. US tobacco production decreased from 180,000 tobacco-growing farms in the 1980s to 10,000 farms in 2012. About fifty years ago, roughly 42 percent of the US population smoked. As of 2016, the US rate of smoking lingered around 15 percent. The largest factor causing the steep industry decline is customers’ changing interests and values. Consumers are investing in their health.

The industry is complex, however, and could be considered very attractive through the Five Forces lens. Despite decreased demand, tobacco companies have maintained margins. The small percentage of remaining smokers have succumbed to steep price hikes, demonstrating their lack of power. Barriers to entry are high due to government regulation, thus reducing competition. There are few comparable alternatives to the cigarette, and most competing products, such as e-cigarettes, still contain nicotine, which is derived from tobacco.

On paper, the tobacco industry looks promising. However, the colossal shift in customer values makes it an unappealing place to compete. If we solely analyze the industry from Porter’s view without further considering customer values and behavior, we could risk overlooking the severe impact of customer trends. As smoking continues to fade in society, tobacco companies will confront the challenges of competing in a dying industry.

In addition to the lack of customer centricity, Porter’s model
suggests that industries are relatively stable and, therefore, infers that by capitalizing on a structural advantage, companies can sustain a competitive edge. In my experience, competitive advantage cannot be sustained indefinitely, regardless of industry structure. It must be continuously reinvented and refined, built on strong activities, capabilities, talent, and positioning. Strategies and where-to-play decisions must be consistently revisited to account for shifts that will impact your profits. The model’s applicability varies from industry to industry.

Some industries are more stable and predictable. For example, fast-moving consumer goods (FMCG) are considered one of the safest, least volatile industries.\(^6\) FMCG is composed of an array of daily-use products, including toothpaste, soap, and toilet paper. The top FMCG companies as of 2017 include brands like Proctor & Gamble, Johnson & Johnson, Kimberly-Clark, and PepsiCo, all of which made 1970’s Fortune 500 list.\(^7\)

The same FMCG conglomerates have reigned for decades and are likely to continue to rule this industry. These companies have successfully preserved a competitive advantage due to size, reach, steady and predictable industry activity, and an unchanged industry structure.

However, the consumer goods industry is somewhat of an anomaly. Very few companies maintain corporate dominance for decades. As shown in Figure 3.2, the Fortune 500 list has experienced significant churn since the 1950s. The persistent turnover of the world’s industries ensures innovation and revolution. Choosing a strong industry to compete in is important. However, it will not provide you an indestructible competitive advantage. You must integrate strong market decisions with other positional advantages to increase your odds of winning.
Figure 3.2: Only 20 percent of the top ten Fortune 500 corporations in 1955 remained on the list in 2017.

Additional Positional Advantages

When building your where-to-compete strategy, consider the following factors:

- **Customers.** Those who purchase your offerings. Who are your ideal customers, and where are they located? What trends are shaping their buying behavior? Do your offerings and positioning align to maximize the CX?

- **Channels.** How you bring your product to your customers. Do you deliver your goods and services directly to your end
customer? Or do you leverage intermediaries for distribution? Which channel will lead to an enhanced CX?

- **Geographies.** The geographical area in which you manufacture, sell, and distribute products and services. Geographic trends can encompass a wide range of critical inputs that impact market attractiveness and your company’s relevance in an area, including GDP, educational level, population density, or local and state governments. Consider: What territories do you cover? Will you have virtual or physical locations? How can customers be grouped with similar interests and needs based on location? Will this location allow you to successfully attract profitable customers and grow sales?

- **Products and services.** Your offerings to your customer. Do your specific offerings position you at an advantage over your competition? Are your products and services differentiated and relevant? Can you produce or perform them more cheaply or charge more for them than those in your competitive set can?

- **Stages of production.** The different phases of the manufacturing process, originating with the idea and ending with a final product. Do you own the entire manufacturing and distribution process? Or do you participate at a certain juncture near the beginning, middle, and/or end? What are the benefits of being involved or removed from certain points in the process? How do your organizational capabilities align with your responsibilities in the production process? Does it make sense to insource or outsource certain stages of production?

The goal is to determine where you can position your company to capture value and win. For example, Little Man is an ice cream shop shaped like a huge tin milk jug in the Highlands neighborhood
on the west side of Denver. While the ice cream is tasty and homemade, the iconic structure, situated at the top of the hill in this unique, hip part of town, sets it apart from competitors. The company has seized a one-of-a-kind positional advantage, attracting a consistent line of locals and tourists alike and serving as one of the most photographed structures in the city. Through its position, this company captures value by charging a price premium.

On a larger geographic scale, Amazon announced its expansion plans roughly ten months in advance of determining where to locate its next headquarters, ultimately deciding on New York City and Northern Virginia. The company was extremely deliberate in selecting its geographic locations, accounting for everything from tax incentives and talent to inventory storage, delivery, and transport. This decision can impact value capture in three ways, determining

- how Amazon maintains status as a preferred brand that influences customers to bypass the competition with a wide range of options and shipping supremacy,
- how it can keep shipping and storage costs low by selecting a central hub with affordable land, and
- the company’s ability to hire capable talent to build an operational and efficiency advantage.

Amazon has also attained an advantage from its channel strategy. One of its larger revenue-producing branches is Fulfillment by Amazon (FBA). Amazon stores third-party merchants’ goods in the warehouses and helps merchants “pick, pack, ship, and provide customer service for these products.”

The company’s advanced storage and delivery infrastructure has dismantled other distributors. It rakes in third-party fees for selling merchants’ goods, which now account for 45 percent of the total number of goods sold on the site. Amazon’s decision to serve as a distribution channel for other
merchants has solidified it as a logistics titan and positioned it to trounce competitors.

Other companies may benefit from participating in a specific phase of production. For example, Apple has a complex global supply chain. The tech company leverages more than two hundred suppliers to provide components, materials, and support in manufacturing and assembling its products. Firms like Intel and LG strategically enter at the intermediary phases of production and make high margins off low-cost parts like modems and screen glass.

Lumentum is a supplier of 3-D sensors for iPhone. Its tactical position as the provider of 3-D sensor technology (including facial-recognition technology) for the iPhone has increased the company’s earnings and stock prices and propelled Lumentum into higher, more profitable deciles.

Of course, when making positioning decisions, there are also critical where-not-to-compete considerations. In the previous chapter, I explained how straying from your ideal customer, even temporarily, can drive your strategy into undesired territory. The further you stray and the longer you stay, the more challenging it is to return to your ideal customer base. The same goes for your decision on where not to compete.

For example, Starbucks serves a high-end market segment. The coffee chain prioritizes individuals who are willing to pay $4 for a cup of coffee to ensure consistent quality and invest in a recognizable brand. The brand’s high-priced menu dictates its positioning strategy. Starbucks has invaded city centers. When I walk around any major US city, I can normally spot two or three within a few blocks of each other. Its stature as an urban workday oasis aligns with its strategy—entice the price-insensitive young working generation to conveniently fulfill their caffeine fix. As you move into lower-income, more rural areas of the country, you’re harder pressed to spot the green-and-white mermaid.
Starbucks locations revolve around their ideal customers. Currently 83 percent of the brand’s US coffee stores serve populous, predominantly wealthy and middle-class areas. While Starbucks has received flack for its deliberate tendency toward economic privilege, the company’s decision to avoid certain market segments is strategic, conserving resources for locations occupied by its primary customer types. The company’s calculated positional strategy enables a price premium, therefore providing Starbucks with a lucrative competitive advantage. In fact, the company’s 2017 operating income was roughly 19 percent, while the average coffee shop earns a meager 3 percent.

Conversely, Walmart has positioned itself as the low-cost leader. Walmart has predominantly focused on establishing a presence in rural and suburban areas. The retailer operates with “2.5 times as much selling space per inhabitant in the poorest one-third of states as in the richest one-third.” By minimizing property prices through the establishment of low-frills stores in inexpensive areas, Walmart squeezes out an additional cost advantage over competitors.

Additionally, Walmart eliminates the nonessential intermediary wherever possible. In 2013, it announced an initiative to cut out the go-between and purchase 80 percent of its produce from local growers. By focusing on its channel positioning and turning down the intermediary, Walmart further reduces its costs and passes along the savings to its customers, capturing value through consumer loyalty and a less expensive production model than competitors.

Bold and deliberate positioning strategies like those of Starbucks or Walmart are rare, however. I frequently observe companies defaulting to what is most familiar or convenient rather than positioning to attract profitable customers and capture higher value. Construction companies often pursue markets like hospitality, health care, or higher education, not because these firms have an advantage over the rivals but because the request for proposal bid
process is standard and widespread. I have witnessed companies investing money in expensive reports that reveal the markets and segments projected to experience strong growth. Keeping up with market forecasts is important. However, when a company pursues growth markets for the sake of riding a market wave without regard to its positional advantages, assets, or capabilities, it runs the risk of competing to compete rather than competing to win.

Across markets, most companies tend toward comfortable choices. Many pharmaceutical companies jump into the saturated generics market because it’s familiar. Hotels are frequently positioned near airports alongside tens of other competitors. While the logic checks out, opting for convenience often restrains companies from making the big decisions that outsize their strategies.

Rather than evaluating customer trends or market attractiveness relative to the company’s assets, capabilities, and talent, most organizations attempt to penetrate saturated segments where competition is intense and profit margins are lean. To be effective, companies must apply advantages and align market pursuits with unique opportunities that drive the development of distinct capabilities, ultimately leading to above-industry-average profits. For some, this may mean competing in a secondary market where rival firms will be outmatched or pursuing a narrow, neglected segment that is unattractive to larger firms with high cost structures but fitting for the agile startup.

By making specific, strategic where-to-compete decisions, you position your firm to provide value to your desired customers and capture value in your organization. The next step is to align where-to-compete decisions with your how-to-compete decisions: your asset advantages and capabilities.
DEVELOP ASSET ADVANTAGES

In 2016, the US farming industry was facing its third year of financial distress due to a decline in commodity prices and an excess of grain inventory. An agricultural client was struggling with liquidity issues from eroding profitability and production inefficiencies. The land primarily yielded crops like potatoes, sweet corn, and lettuce. While the farmers knew everything about the land (it was a family plot, passed down for generations), they were ardent practitioners of their parents’ and grandparents’ techniques. They were attempting to compete with archaic production models.

The farmers were relying almost entirely on manual processes. The labor and overhead expenses were ballooning, and the season’s crop was not as productive as anticipated. They waited out the season with the same processes, but once the crops were harvested, they developed and immediately enacted a productivity plan focused on technological investment.

Investment in ag tech was booming at the time; it soared to $4.6 billion between 2012 and 2015, so the industry was ripe for transformation. The farmers began by implementing basic precision-farming technology. Using satellite imagery, they could

CONSUMER-CENTRIC ADVANTAGES

Keep in mind that any type of advantage—positional, asset, or capability—is only valuable if the customers care about it. The advantage must provide customers with higher quality, enable lower prices, or offer a desired attribute or experience deemed worthy of passing up competitors and alternatives.
better anticipate where to plant certain crops based on soil levels and weather patterns. They gradually layered on the Internet of Things (IoT) to further oversee production, driving significant productivity enhancement, not to mention reducing their workloads. The technology enabled them to monitor conditions from the comfort of their homes and effortlessly manage water usage and optimize treatments.

Production skyrocketed, and the farmers transformed into true tech enthusiasts. Their tech-fueled strategy enabled them to procure a competitive advantage, surpassing many of their rivals in low-cost production. As the labor shortage intensified and the cost of labor increased, the company relied on its technological edge to diminish the challenges of finding qualified workers. The farmers’ rivals were not as fortunate.

It was not the purchase of just one piece of technology that carved out an asset advantage for these farmers; it was the effective execution of a calculated asset investment strategy. The farmers’ ongoing investment in new technologies secured an advantage, one that would take years and significant capital for competitors to catch up to.

Companies that make strategic bets with capital expenditures can capture additional value. It’s no coincidence that many of the companies topping Strategy&’s 10 Most Innovative Companies list also appear on the Top 20 R&D Spenders ranking. To achieve this type of advantage, companies must apply calculated investment strategies. Realizing an asset advantage may require some companies to double the investment of the competitive set in capital expenditures, especially in equipment-intensive industries like manufacturing or construction. Funds should be funneled to research, technology, and equipment that, when properly implemented, can generate an innovative advantage for a company.

This might entail ongoing investment and refinement of infrastructure. For example, Google, Facebook, LinkedIn, and Amazon
have all built asset advantages around distinct, highly utilized technological platforms. These platforms’ functionality, usership, and brand equity carve out a unique competitive advantage for the well-known tech empires. Even if a company could copy the site code and algorithms, it would take years to build up the consumer trust and use that these established platforms boast. Consumers bypass the competition to employ these platforms because they’re effective, recognizable, and used by most consumers’ networks. The increased usership enables the companies to heftily charge advertisers to post endorsements and clickbait.

Asset advantages can come in many shapes and sizes. In addition to having a tech platform as an asset advantage, Google is extremely well capitalized. The company has nearly $90 billion in cash sitting on its balance sheet. The cash surplus gives Google an advantage, as money serves as a privileged asset that enables the firm to invest more in other lucrative ventures than its competitors can. For example, Google can afford to hire more people to enhance the platform, improve the CX, or research new initiatives.

While people are not an asset advantage, they are instrumental in building winning cultures, sharing fresh perspectives, and discovering new ideas. Google has poured extensive resources into pioneering the autonomous vehicle industry. The company’s cash has allowed it to invest in and explore new territories, giving it an advantage over less-capitalized firms. In 2012, the tech giant was awarded a US patent for self-driving car technology, which could emerge as a major asset advantage for the company in the coming years.

The patent is one of the most common and powerful asset advantages. The strength of the patent was highlighted in 2016 when the pharmaceutical company Mylan came under fire for spiking the price of its widely used EpiPen. Though the drug Epinephrine was first developed in 1895, Mylan obtained the coveted patent on the EpiPen design, protected through 2025. Mylan raised concerns
when the price of the EpiPen steadily climbed, from $57 to roughly $500 in 2016, making it unaffordable to millions of its users. Because the EpiPen has no direct competitor or substitute, Mylan manipulated its asset advantage (many claim unethically) to power steep margin increases. This enabled the firm to capture value through an acute price premium.

Asset advantages can capture significant value for companies. However, these advantages are not abiding. Equipment and technology eventually become obsolete, capital is invested, and patents expire. Ongoing value capture requires companies to establish additional channels of differentiation. This can be achieved by refining individual, team, and corporate skill sets to produce capability advantages.

**CAPITALIZE ON CAPABILITY ADVANTAGES**

In eighth grade, I wanted to grow up to be a Major League Baseball star. I had been playing baseball since I was a kid and extolled the sport’s greats like Ken Griffey Jr. and Tony Gwynn Sr., who monopolized the sports channels and cereal boxes of my youth. While I continued to play baseball for a few years, the players consistently
grew taller and bigger, team tryouts intensified, and my dream career drifted out of reach. By high school, I began devoting my time to other interests, like landscaping, which ultimately led me to my first business venture and unleashed my entrepreneurial spirit. It would have been a disappointing path had I remained committed to my childhood fantasy of MLB greatness.

The problem wasn’t that I didn’t want it badly enough. It’s that I didn’t have the tools or talent necessary to catapult me to professional sports stardom. Baseball didn’t come naturally to me, as my other interests like finance and strategy have. Unfortunately, regardless of my level of effort, it’s highly unlikely that I would succeed at a sport where I lacked a natural ability, facing competitors whose expertise flourished on the field. Pursuing baseball would have been futile and inhibited me from honing my genuine skills.

Each one of us is gifted distinct competencies. We all have strengths and weaknesses. I am not saying that an underdog can’t come out on top. There is always room for an unlikely hero in the boardroom or on the baseball field. I am suggesting that leveraging our natural abilities enables us to move faster and further in accomplishing our goals.

This is not just true for individuals. The world’s greatest companies are defined by corporate capabilities. While customers aren’t always aware of the intangible internal skills, these capabilities build distinct differentiators that generate value for the end user. For example, few people understand the Git, Java, or Python expertise that has been poured into creating Google algorithms. What they do know is that typing a search term into Google quickly and effortlessly produces a set of relevant results. They likely also don’t acknowledge the managerial effectiveness of Google’s leaders that makes it one of the best companies to work for year after year. However, customers recognize the innovation born of a functional, well-run organization.
Customers appreciate online shoe company Zappos and its speedy shipping policy that promises standard, free delivery to customers within two to three days of placing their orders. Zappos’s advanced inventory management and supply-chain capabilities enable expedited shipment. The company has built a strong shipping relationship through its collaboration capability. The team-oriented culture extends beyond internal operations to suppliers. As CEO Tony Hsieh states, “The benefits we’ve reaped from building relationships with our vendors are endless.” The company’s fast, free delivery is upheld by its strong relationship with UPS. Because Zappos works exclusively with the carrier, UPS negotiates low rates for Zappos.

While Zappos offers the same brands as many other shoe retailers, it has successfully differentiated itself from competitors by delivering what Hsieh refers to as a “wow” experience to customers. The company’s shipment policy, customer service, and pleasant and simple buying experience contribute to its CX capability. By delivering superior value to the customer, Zappos increases the likelihood that customers bypass the competition. Its elevated CX and collaborative capabilities pave the way for value capture, securing the brand a competitive advantage.

Google’s talent or Zappos’s collaboration and client experience are just a few examples among many other corporate capabilities that enable companies to create and capture unmatched value. Your firm can leverage many unique corporate capabilities to form a differentiated advantage. Developing an advantage simply requires you to understand what you’re good at and how to emphasize and continuously invest in your corporate competencies.

Capabilities bundle individual skill sets, managerial techniques, company culture, team ability, and expertise to execute. The strength of your corporate capabilities is a result of the training, leadership, and resources you put into developing them. They define your
organizational identity and sculpt a natural path for your organization, answering the questions: What will we do and how will we do it?

Determining what capabilities to emphasize and strengthen (and what capabilities to spend less time and attention on) plays a large role in what you can accomplish. My adolescent dream of playing baseball, despite my inadequate skill set, parallels many organizational endeavors. Time after time, I see businesses with strong, creative talent underachieving because they don’t understand how to capitalize on strengths. Rather than highlighting a niche set of capabilities, companies attempt to emulate others’ skill sets. They may look at competitors’ earnings with envy and strive to recreate their strategies. However, every company has distinct capabilities. When these undertakings fail, it’s often because the company lacks the competencies necessary to outperform their competitors. They don’t have what it takes to duplicate the competitor’s web of advantages.

For example, in 1994, Richard Branson, founder of the Virgin Group, was running a successful business empire when he decided to challenge Coke and Pepsi. Virgin had no experience in the beverage industry; at the time, the Virgin Group was primarily focused on music production. While the team had strong networks in the music industry, employees knew little about competing in the cutthroat beverage market. Branson reflected on his team’s train of thought, explaining, “Coke is the best-known brand in the world, and if we could topple Coke, we thought it would be a lot of fun.”  

Unfortunately, Virgin lacked the distribution and marketing capabilities to execute. The business extension turned out to be a flop.

LEGO experienced a similar failure. In 2003, the toymaker was operating on the brink of bankruptcy after unfortunate over-diversification steered the company off track. LEGO lost $240 million. Rumors swirled of a Mattel takeover, and private equity firms encroached, looking to get their hands on the global brand.
Can you guess what caused the demise of the toy-making empire? A lack of capability alignment with its new ventures nearly forced LEGO into insolvency. LEGO was attempting to become a lifestyle brand selling “its own line of clothes, watches, and video games.” Its capabilities were planted firmly in the toy industry. LEGO’s innovative high-quality toys defined its success. By shifting away from its core competencies, LEGO abandoned the strategy that earned it a competitive advantage. The company has since regained its standing after executing a bold turnaround plan focused on simplification and innovation, and as a result, “more than 60 percent of LEGO Group’s sales are new launches every year.” By refocusing on its primary capabilities, innovation, and creativity, the company has restored its brand and spiked its sales.

Knowing your capabilities and understanding how to use them can mean the difference between success and failure. To drive results through advantages, you must unleash the power of your capabilities. To understand your capabilities and how to develop and apply them, you can conduct a capabilities audit. Consider the questions listed under each core capability (Figure 3.3), reference the detailed descriptions of the first five, and request that your colleagues do the same. You will see patterns emerge around commonly cited capabilities. These strengths should be at the forefront of your strategy.
**Figure 3.3:** Companies can leverage a variety of corporate capabilities to power value creation and capture.

<table>
<thead>
<tr>
<th>Corporate Capabilities (Non-Comprehensive)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Network &amp; Sales</strong></td>
</tr>
<tr>
<td>Do we form enduring, trusting relationships with our targeted customers?</td>
</tr>
<tr>
<td><strong>Agility</strong></td>
</tr>
<tr>
<td>Can we move quickly to optimize customer-centric activities and capture value?</td>
</tr>
<tr>
<td><strong>Throughput</strong></td>
</tr>
<tr>
<td>How fast can we produce goods or deliver services to turn a profit?</td>
</tr>
<tr>
<td><strong>Strategic Discipline</strong></td>
</tr>
<tr>
<td>Do we commit to plans while making difficult tradeoffs and following through on our intentions?</td>
</tr>
<tr>
<td><strong>Talent</strong></td>
</tr>
<tr>
<td>Do our employees have the competencies and commitment required to deliver the strategy in question?</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
</tr>
<tr>
<td>Do employees feel responsible for executing the strategy and hold each other accountable for the results?</td>
</tr>
<tr>
<td><strong>Learning</strong></td>
</tr>
<tr>
<td>Are we good at generating new ideas and innovating our products and services to best meet the needs of the market?</td>
</tr>
<tr>
<td><strong>Collaboration</strong></td>
</tr>
<tr>
<td>How well do we work as a team to achieve our strategic goals? Are we effective at allocating work by individual’s strengths?</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
</tr>
<tr>
<td>Do we produce a quality end product of value that rivals our competitors?</td>
</tr>
<tr>
<td><strong>Client Experience</strong></td>
</tr>
<tr>
<td>Do we deliver relevant, exceptional experiences that generate unique value?</td>
</tr>
</tbody>
</table>

**Network and Sales:** *Do our processes, employees, and network enable effective sales to relevant customers? Are we gifted at pipeline management?* Some companies possess strong, differentiated offers and the talent to deliver. However, even companies with operational skills and talent may fight slipping margins due to ineffective pipeline management. These companies might lack the sales skills to engagingly position offers to convince customers to buy. On the other hand, there are some companies that have standard products and services that excel with the support of qualified sales teams; scalable, potent processes; marketing aptitude; and connections with the right buyers. Strong sales and network capabilities help companies command a higher price.
point from customers, therefore increasing profitability. An effective sales process also enhances the overall CX, building customer loyalty and safeguarding business from competitors.

**Agility:** *Are we able to quickly adapt to market changes to mitigate risk and capitalize on opportunity?* Bulky bureaucracy limits flexibility. Though large organizations often have capital as an asset advantage, smaller companies can compete through an agility capability. Possessing the dynamism to anticipate and adjust quickly to market changes empowers continuous CX improvement.

**Throughput:** *How fast can you make things happen?* Related to speed, throughput measures the rate at which output is produced. Resources are finite, and the time value of money erodes profitability, so companies that can increase production speed to earn profits faster than competitors capture greater value.

**Strategic discipline:** *Do we share an intellectual, behavioral, and procedural agenda for our strategy? Do we commit to plans and follow through on our intentions?* A company can design the best strategy in the world; however, if employees are not in alignment and don’t know how to execute, the results won’t materialize. Strategic discipline is a distinct capability that differentiates companies. In fact, research shows that executional excellence is the number-one issue facing global corporate leaders. Developing discipline enables companies to ignore distractions and exert full effort toward achieving set objectives. This discipline allows companies to capture value in all three ways (increasing price, reducing cost, or growing strategically) based on the desired outcomes of the strategy.

**Talent:** *Do our employees have the competencies and commitment required to deliver the business strategy in question?* Earlier, I discuss how
companies continue to prioritize traditional value drivers, physical assets, and financial capital over new value drivers, intellectual assets, and human capital. While it’s crucial to develop a strong asset-investment strategy, fully developed employee skill sets are often an untapped lever of competitive advantage. Training typically focuses on improving low-performer production or maximizing the skills and abilities of the top 10 percent. Roughly 74 percent of the workforce falls in the middle of the talent spectrum, however. While these mid-level performers compose the largest portion of the labor pool, on average, managers devote only 20 percent of their focus to this group. Empowered with the right tools, training, and technology, these mid-level performers can rise to the top and drive organizational productivity. By strengthening all employees’ individual competencies, organizations can establish and fortify corporate capabilities.

Once you have determined your capabilities, you will be in a better position to pursue investments, allocate resources, and make strategic decisions. Aligning your asset and positional advantages with your corporate capabilities will power strategic growth. It will enable you to offer customers a cohesive “menu” of options that will outsize the CX, value creation, and value capture.
ABOUT THE AUTHOR

Author, CFO of an international billion-dollar company, and management consultant Steve Coughran has over two decades of experience driving business excellence. Known for his extensive research and writing on strategic growth and corporate financial management, Steve challenges conventional wisdom, earning the reputation of an “energetic trailblazer.” He is an expert on strategy and an acclaimed keynote speaker with over twenty years of experience driving corporate excellence.

Steve has launched and managed three cross-industry companies, gaining a deep understanding of the competitive business environment. He is passionate about spreading his knowledge of strategy and finance with others, developing and leading programs such as the Strategic Financial Leadership Academy and Growth-Driven Leadership and teaching a Strategic Financial Leadership course at the University of Denver.

Steve is a CPA, earned his MBA from the Fuqua School of Business at Duke University, and studied international business across four
continents. He advanced his specialization in strategy through study at the Executive Education Program at the Tuck School of Business at Dartmouth College. Steve lives with his wife Lalana and two children, Ava and Max, in Chattanooga, Tennessee. When he’s not working, he enjoys running and has completed five marathons.