

CONTINUOUS LEARNING

STRATEGY



Are you running as fast as you can to stay in the same place? Revisit modern theories of business strategy, consider your options, and get ahead.

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# ARE YOU A PRISONER OR AN OPTION INNOVATOR?

**T**HERE is a lesson in evolution which can be described as the 'red queen effect' or the evolutionary arms race. In Lewis Carroll's *Through the Looking Glass*, the queen has to run as fast as she can to stay in the same place. This is also how evolution works with animals – lions chase antelopes, and over time both the lions and the antelopes get faster. Why? Because the antelopes that are faster survive longer and pass their genes on to the next generation. An individual mutation that manages to survive will pass on the advantage. The same selection process is true for lions. The universe is, therefore, run by selection, where the fittest survive, where the pace becomes increasingly faster and where there is constant escalation.

What are the implications for business? Business takes place in a competitive environment where self-interest is inevitable. True, and executives have to be faster, more innovative and more inventive today, just to ensure that they stay

where they are. Viable strategies for organisations by implication mean that more and more effort has to go into just keeping abreast of the competition. So, companies will reason that if they had been cleverer in the formulation and implementation of strategies and the execution of their operations than, for instance, a year or two before, this will be rewarded by more customers flocking through their doors and by an increased market share. They reason that their effort will be more or less directly related to increased success in the marketplace. What they all aim for is more market share, but what they all forget is the red queen effect – more and more effort is needed just to maintain their current position in the race.

This is perhaps why strategy gurus like Gary Hamel and Tom Peters emphasise

the competitive demands being placed on organisations, and why organisations should constantly innovate and outwit their competitors just to remain competitive. Hamel talks about the age of revolution, stressing that we are entering an age of unimagined competition. From a macro perspective, the 'gene pool' of all companies is becoming increasingly stronger, and it seems that this legacy is more of a burden than an advantage.

The reality of the phenomenon called the 'red queen effect' is that many previously competitive businesses grow for quite a period, but fail to make it in the long term.

The reason for this is that it becomes increasingly difficult for existing companies to compete against the 'super genes' of a new-generation company. They simply cannot run fast enough even to stay where they are. Perhaps it is the law of nature at work – only the fittest and strongest survive, also in business. It would appear that life in the strategic landscape is continuously evolving, and that reinvention, re-

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talisation and reengineering have become permanent necessities in this landscape.

Another 'face' of competition appears in one of the most famous operas – Puccini's *Tosca* – and brings to the surface an idea which was also explored by philosophers like Rousseau and Hobbes. The idea, commonly referred to as the prisoner's dilemma, points to one of the most basic realities of capitalist society, namely that of self-interest. Robert Koch, in his book *The Power Laws* (2000), elaborates on this dilemma.

Imagine, for instance, a situation where two prisoners are held in separate rooms. The police only have doubtful evidence, but offer a deal – if one prisoner confesses before the other does, that prisoner will be granted indemnity from further prosecution while the other will be given a serious penalty based on the new evidence. If neither confesses, both will probably come off with a light sentence. The end result? The rational thing for the two to do is for neither to cooperate with the authorities. But will they? Working together probably does not make sense to each prisoner, although cooperation would benefit both, albeit less so when seen from an individual self-centred viewpoint. An outcome in the interest of both parties seems difficult owing to the overriding effect of self-interest.

What then if you look at this from a slightly different perspective, with rewards rather than punishments? Imagine two parties are playing a game, scrutinised by investment analysts and punished or rewarded by shareholders. Both parties have an opportunity simultaneously to choose a colour. If both choose red, they receive a reward of R10. If one chooses red and the other blue, the one who chooses blue will receive twice that reward (R20), and the other will only receive half the reward (R5). If both choose blue, they will only receive half the reward. The general conclusion is that mutual cooperation would be in everyone's aggregate interest. However, in most cases, self-interest will predominate to the disadvantage of the larger whole or common good, especially if there are incentives. We tend to go for the chance of a big reward – even if that

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means knifing others in the back. We call that competition. But we forget that we can also suffer a big loss (which is usually the case).

The inevitability of self-interest, and the sub-optimal outcomes associated with it, has become a dominant feature of our world. Bertrand Russell describes this state of affairs as follows: "... if men were not acting in self-interest ... the whole human race would cooperate. There would be no more wars, no more armies and no more bombs." That is, unfortunately, not the case. We work and live in a world where self-interest prevails and where we can't wait to compete.

How, then, should companies (in their own self-interest) protect themselves from their own self-interest? That self-interest is not optimal will be recognised by most,

## WHAT ARE MY OPTIONS?

BY LOOKING FOR NEW MARKET SPACES THROUGH DIFFERENT LENSES, NEW OPTIONS CAN BE IDENTIFIED IN THE FOLLOWING WAYS.

- **By looking across industry boundaries – Mortgage originators filling the gap between banks and estate agents.**
- **By looking across strategic groups within industries – Sony's Walkman combined the acoustics and the 'cool' image of a hi-fi with the lower price and convenience of a radio, creating the portable stereo market with new users like joggers and commuters. Today sophisticated mobile music**
- **By looking across complementary product and service offerings – Most of the petroleum suppliers, like Shell, BP and Engen, have opened on-site convenience stores through their retail dealerships to extend their offering to customers on the move.**
- **By looking across function-**

**devices like the iPod are well established.**

- **By looking across buyer groups – Women are increasingly recognised as a target market by financial service companies, since they are key decision-makers when it comes to financial prioritisation in modern families.**

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but as Koch puts it, “the dilemma is that self-interest is inevitable” – the game is rigged that way.

One way for business people to solve these conundrums of competition is not to compete directly at all.

This starts with a view and ability to create new market spaces where the current industry or competition do not have their focus. This is what Kim and Mauborgne refer to as *blue ocean* strategy where new market offerings are created, as opposed to the *red ocean* strategy of direct competition.

New market space creation is the result of crossing a variety of traditional boundaries as well as making progress with real tough business challenges. See text box.

The third option for business growth is, of course, to cooperate with others. This is

easier said than done. As previously pointed out, it is very difficult to break away from our self-interest position. What we need to accept is that cooperation has become the highest form of self-interest. How so?

The theory of co-opetition was developed in 1996 by Brandenburger and Nalebuff where the concepts of competition and cooperation are combined to define cooperation as *how value is created* and competition as *how value is captured*. Complementors are competitors whose actions enlarge the size of a market. Microsoft and Intel are complementors where the software of Microsoft requires ever more powerful processing chip capacity from Intel. The key idea is to identify complementors in the business value system whose cooperative efforts will lead to a

bigger pie from which more value flows for all competitors.

Sometimes our own fears, doubts and self-imposed restrictions keep us from doing really great things. We stay in our comfort zones and choose to ignore the signals that announce new patterns. If we keep doing the same things, we cannot expect different results.

What are those unfamiliar territories we need to explore to move our current business to new heights?

We all have options and choices related to the strategic landscape. What are you going to choose? <sup>a</sup>

*Source: Ungerer, M., Pretorius, M. & Herholdt, J. 2011. Viable Business Strategies: A Fieldbook for Leaders. Randburg: Knowres Publishing.*

al / emotional appeal of offerings – Coffee bars (like Wiesenhof, House of Coffees, Mugg & Bean and Starbucks) have added appeal to their offerings to turn coffee from a commodity product into a chic, classy beverage, consumed in a gathering place where the product is associated with status, relaxation, conversation and creativity.

- By looking across time – CNN created the first real-time 24-hour news service based on the trend of globalisation.
- By exploring digital space – For many businesses the internet still contains unoccupied opportunity spaces.

**THREE BROAD OPTIONS AVAILABLE TO GROW A BUSINESS**

**1**

Compete in existing market spaces: a red ocean strategy approach

**2**

Create uncontested market spaces: a blue ocean strategy approach

**3**

Cooperate with complementors to grow the market space: a co-opetive strategy approach

- By investing in service excellence – In a world where sameness rather than differentiation is the rule, service quality is a cost-effective way to create new space in which to compete.
- By exploring customer-empowerment approaches – The self-help revolution is an irreversible trend.
- By identifying choke points – By capturing the new competitive space of digital certificates early, Mark Shuttleworth, CEO of Thawte Consulting (a small Cape Town-based internet company) was able to sell his digital certification product and process to Verisign for \$575 million in January 2000.