



STAY AHEAD OF THE GAME

Stability, not change, is the state that is most dangerous in dynamic competitive environments. The end of competitive advantage means that the assumptions that underpin much of what we believed about running organisations is deeply flawed

RITA G McGRATH

FUJIFILM, in 1980s, sensed a fundamental change potentially afoot in the photography business — technology that could create film-free photographs. Fuji invested heavily in building expertise in digital technologies and by 2003, had 5000 digital processing labs throughout the USA when Kodak had below 100. Fuji also extended its reach to opportunities outside the photography business.

Today, Fujifilm has significant health care and electronics operations, obtaining 45 per cent of revenue from document solutions and office printers. All this was accomplished during several decades in which Japan's domestic industries were moribund and the country seemed unable to escape stagnation. In 2011, Fuji's revenue was \$25 billion, employees, 78,000+, with a 377th rank on Fortune's Global 500 list. Kodak was bankrupt.

Fuji's story suggests that simply manag-

ing well, developing quality products, and building up well-recognised brands is insufficient to remain on top. Stakes for the company were huge — it risked undermining its existing advantages, and had to make a bet on a highly uncertain future. Yet, ultimately, it was Fuji's approach — investing in new advantages and pulling resources from declining ones — that proved to be more robust in the face of change.

When competitive advantages don't last, or last for a much shorter time than they used to, the strategy playbook needs to change. Executives need a new set of strategy frameworks and practices for winning over the long haul.

Your strategy is based on old assumptions

Sony, Research In Motion, Blockbuster, Circuit City and NYSE. The list of once-storied organisations that are either gone or are

no longer relevant is long.

Deeply ingrained structures and systems designed to extract maximum value from a competitive advantage become a liability when the environment requires instead the capacity to surf through waves of short-lived opportunities. This perspective challenges two foundational assumptions in the field of strategy:

■ **Industry matters most.** Industries consist of relatively enduring and stable competitive forces that one needs to deeply understand to create a road map for other decisions that is likely to last for some time.

■ **Once achieved, advantages are sustainable.** Having achieved a solid position within an industry, optimise people, assets, and systems around these advantages.

This is not what the world looks like any more. Music, high technology, travel, communication, consumer electronics, the auto-mobile business, and even education

are facing situations in which advantages are copied quickly, or customers seek other alternatives and things move on.

The new logic of strategy

The assumption of sustainable advantage creates a bias toward stability that can be deadly. Stability, not change, is the state that is most dangerous in highly dynamic competitive environments.

The assumption that within-industry competition is the most significant competitive threat is a rather dangerous way to think about competition. In more and more markets, we see industries competing with other industries, business models competing with business models even in the same industry, and entirely new categories emerging out of whole cloth.

Industries haven't stopped being relevant — just that using industry as a level of analysis is often not fine-grained enough to determine what is really going on at the level at which decisions need to be made.

An arena — a new level of analysis that reflects the connection between market segment, offer, and geographic location at a granular level is needed. Arenas are characterised by particular connections between customers and solutions, not by the conventional description of offerings that are near substitutes for one another.

As in military, battles are fought in particular geographic locations, with particular equipment, to beat particular rivals. The driver of categorisation will in all likelihood be the outcomes that particular customers seek and the alternative ways those outcomes might be met. The most substantial threats to a given advantage are likely to arise from a peripheral or non-obvious location.

Further, a firm may not have a single approach that holds for all the arenas in which it participates. Instead, the approach may be adapted to the particular arena and competitors it is facing.

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The new strategy playbook

The end of competitive advantage means that the assumptions that underpin much of what we used to believe about running organisations are deeply flawed. Some of the new playbook is well understood already, such as the need to innovate (although firms still struggle to get it right). Other elements of the new playbook have received little emphasis, such as the prac-

tice of continuous reconfiguration and disengagement.

"Continuous Reconfiguration" explores how companies can build the capability to move from arena to arena, rather than trying to defend existing competitive advantages. Moving from advantage to advantage is seen as quite normal, not exceptional. Clinging to older advantages is seen as potentially dangerous. Exits are seen as intelligent, and failures as potential harbingers of useful insight. Companies develop a rhythm for moving from arena to arena, with each one being managed as its particular life cycle stage suggests. And rather than the wrenching downsizings and restructurings that are so common in business today, disengagements occur in a steady rhythm, rather than in high dramas.

Disengagement — the process of moving out of an exhausted opportunity — is core to the business. Particular arenas are evaluated for withdrawal regularly, rather than advantages being defended to the bitter end. Early warnings are paid heed to, rather than ignored.. ■

(The writer is a professor at Columbia Business School and a globally recognised expert on strategy in uncertain and volatile environments. She will address a select group of top executives at a one-day summit in Mumbai in February 2014)