SEMINARIO VIRTUAL GRATUITO

10 tipos de innovación para las empresas

Reactivación económica post COVID-19

Del 18 de mayo al 18 de Junio / 19:00 hrs.

Definition of a geographies and/or product

Serves to define *"zones"* within a competitive space. Instead of ***geographies***, can be ***divided*** into:

- **Customer segments or**
- **Distribution channels**

A single **geo-product market can be broadly or narrowly (broad or fine grained)** defined:

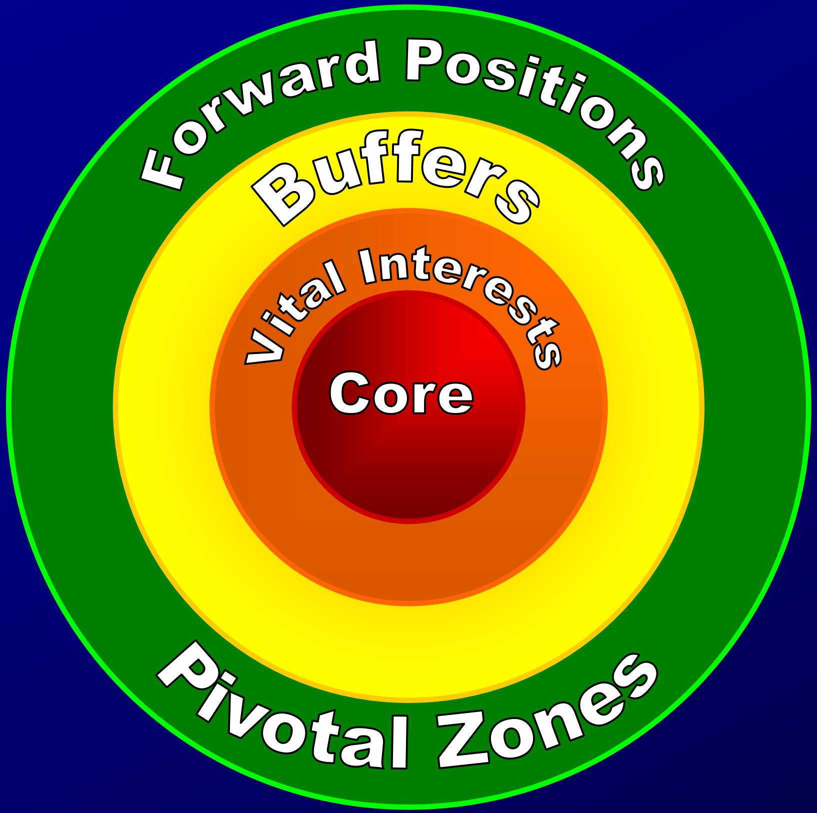
- **Broadly**- Personal care products in America.
- More **narrowly** – Soaps in Northest Mexico.
- **Finer-grained definitions** will yield to **more accurate results.**
- However, **fine grained** data are **often costly to collect or unavailable.**

•Therefore, the **smallest reasonable geo-product market definition** should be used.

•The market definitions should have approximately the same degree of **"fine graininess"** for all the spheres and markets being studied, if possible.

Strategic supremacy; Richad D' Aveni

The sphere of influence



Normally the companies do not have a *single* strategic intent.

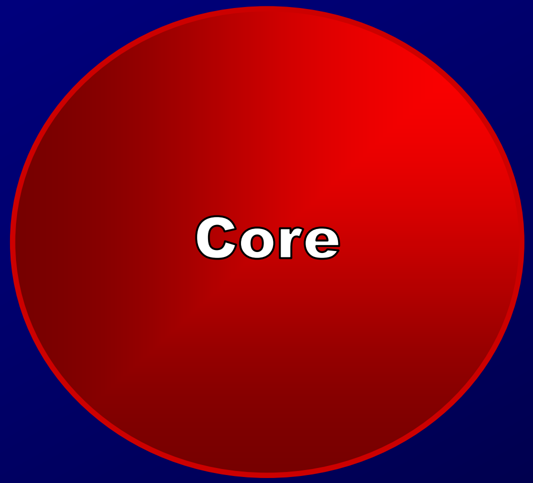
The portfolio have *many* intentions that make up a cohesive whole

Strategic supremacy; Richad D’ Aveni

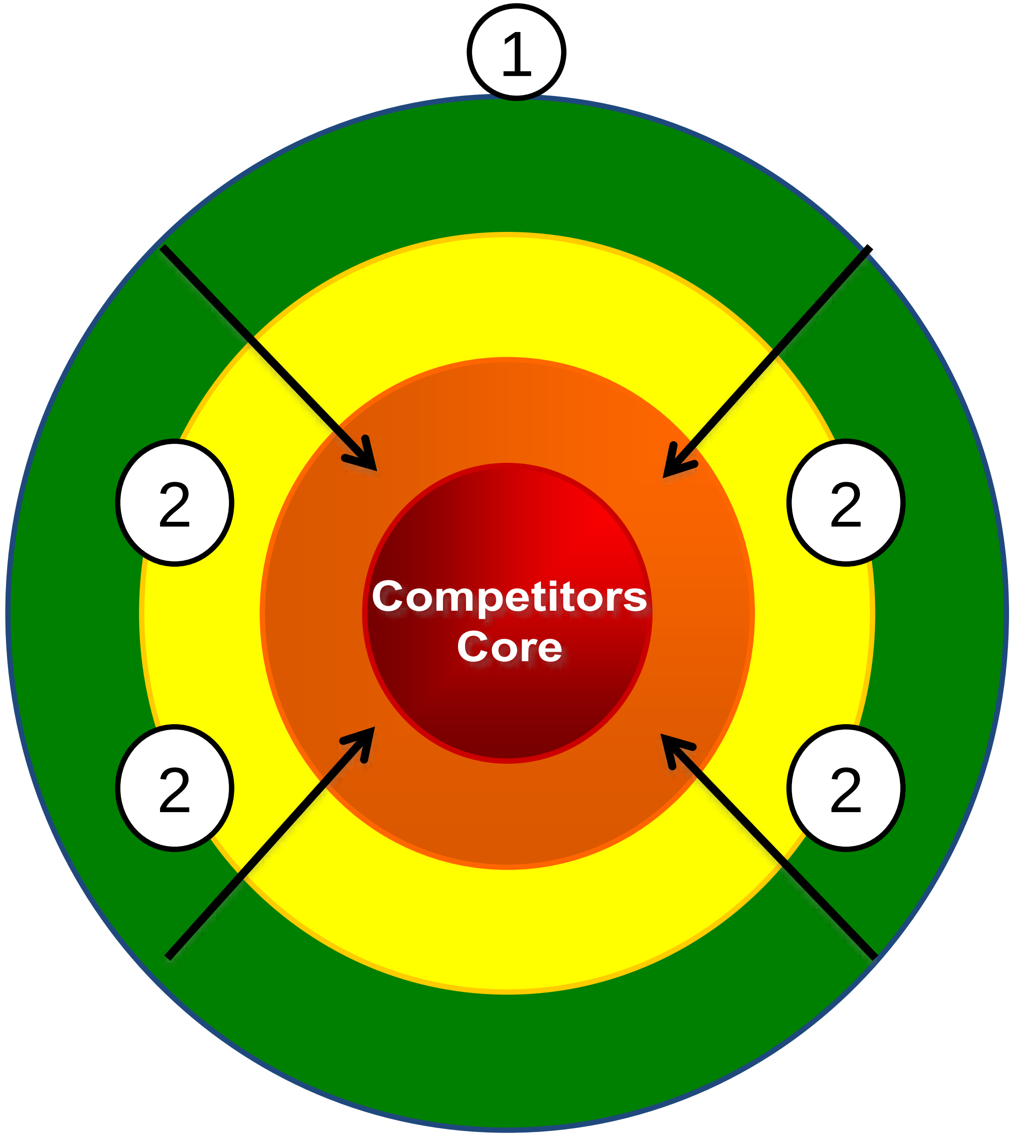
Core Interest

Core Interest CI

- The part that the company must own to survive.
- It is a very significant source of the company revenues and profits.
- Geo markets where the firm set the rules of the game.
- Is not the core competencies used in that market or the subunit responsible



Strategic supremacy; Richad D’Aveni



Phases of Gradual Constriction

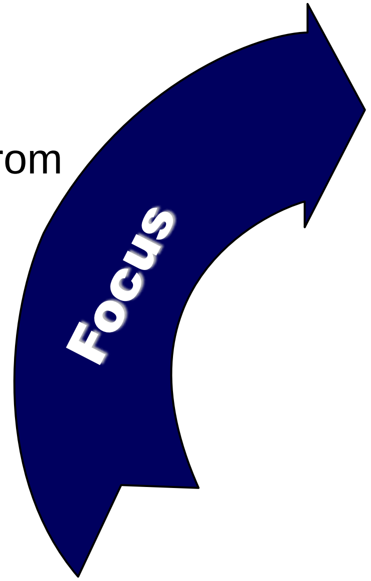
1. Agressor(s) first encircles competitor´s core market.
2. Agressor(s) then closes the circle with several attacks against the competitor´s core market.

Strategic supremacy; Richad D’Aveni

Focus, Expand and Redefine

Focus phase

- Rigurously define your core boundaries.
- *Strengthen core differentiation* at the customer.
- Drive for superior cost economics.
- Mine full operations potential from core.
- Actively work to discourage your competitors from reinvesting in your core.
  - You influence that willingness by:
    - The strenght of your differentiation.
    - Your relative cost position.
    - Your ability and intent to match that investment.



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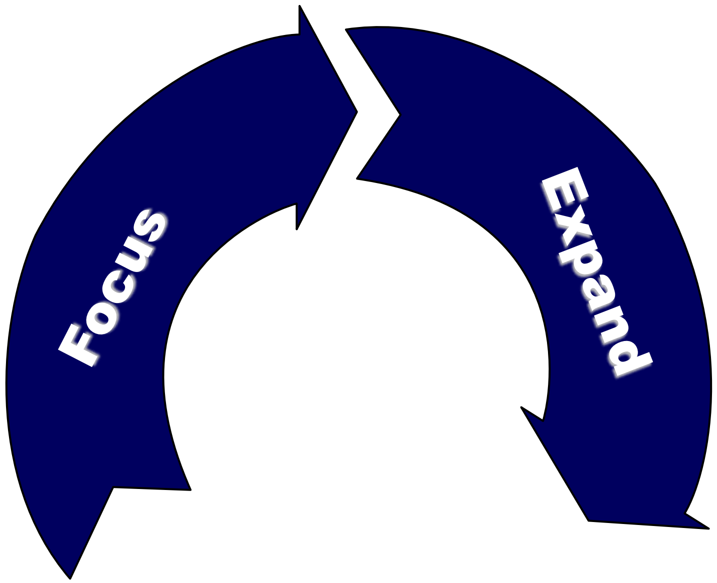

Expansion phase

- Project and extend strenghts
- Invest in the ability to attain superior customer insight.
- Expand into related adjancencies (one at a time)
- Push out core boundaries.
- Pursue repeatable growth formula.
- Recognize the speed at which adjacency success rates declines with distance from the core.

Unstoppable; Chris Zook; HBP

Many Types of Adjacencies Can Radiate from the Core

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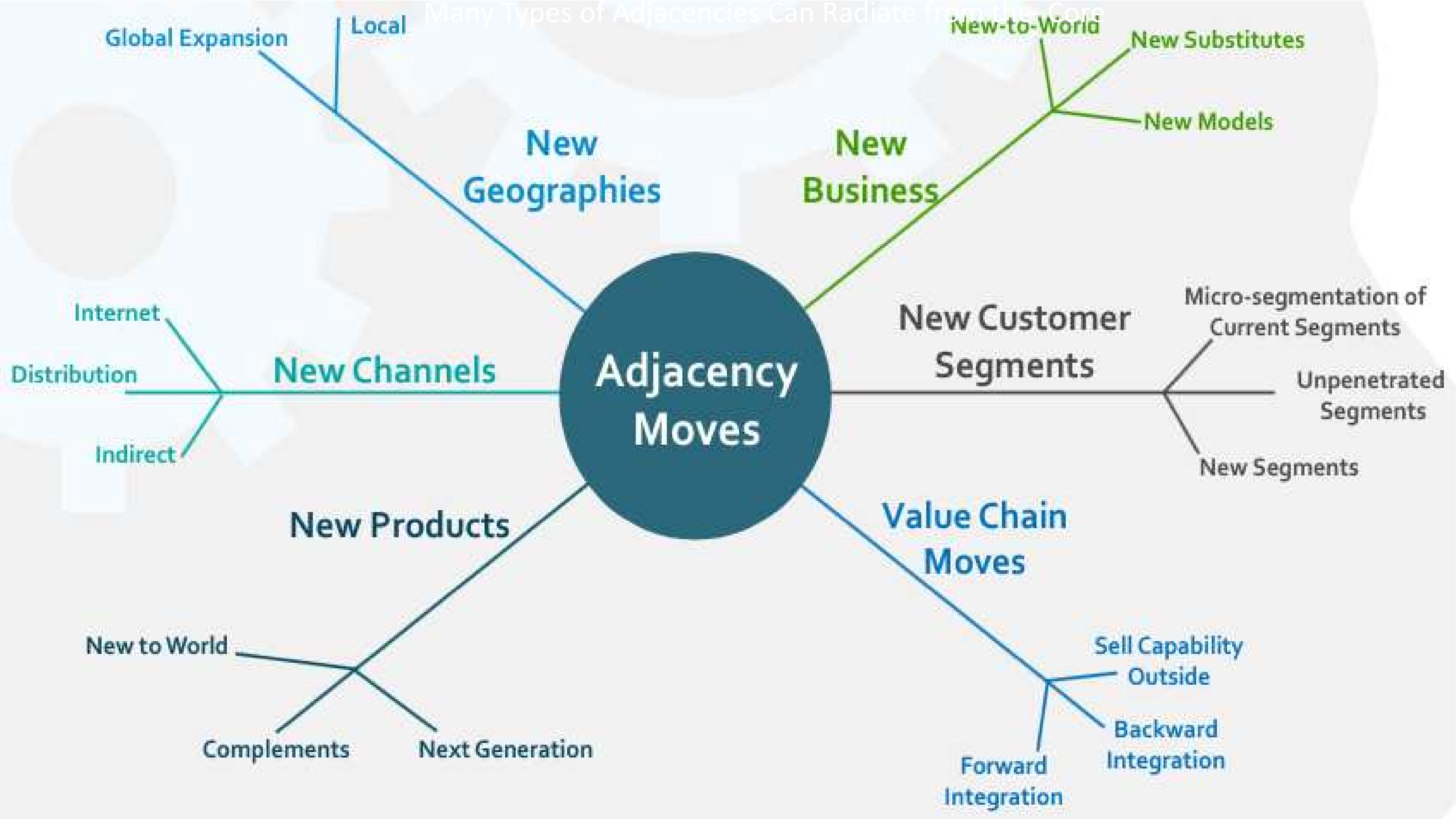


Profit from the core: Chris Zook

Evaluating Adjacency Moves
Success Factors

1.- The Best Adjacencies build on and reinforce the strongest cores.

2.- Drive Adjacencies toward the most robust Profit Pools.

3.- Insist on the potential for superior cost Economics

Source: Chris Zook: Growing Beyond the Core

Assessing Distance From the Core

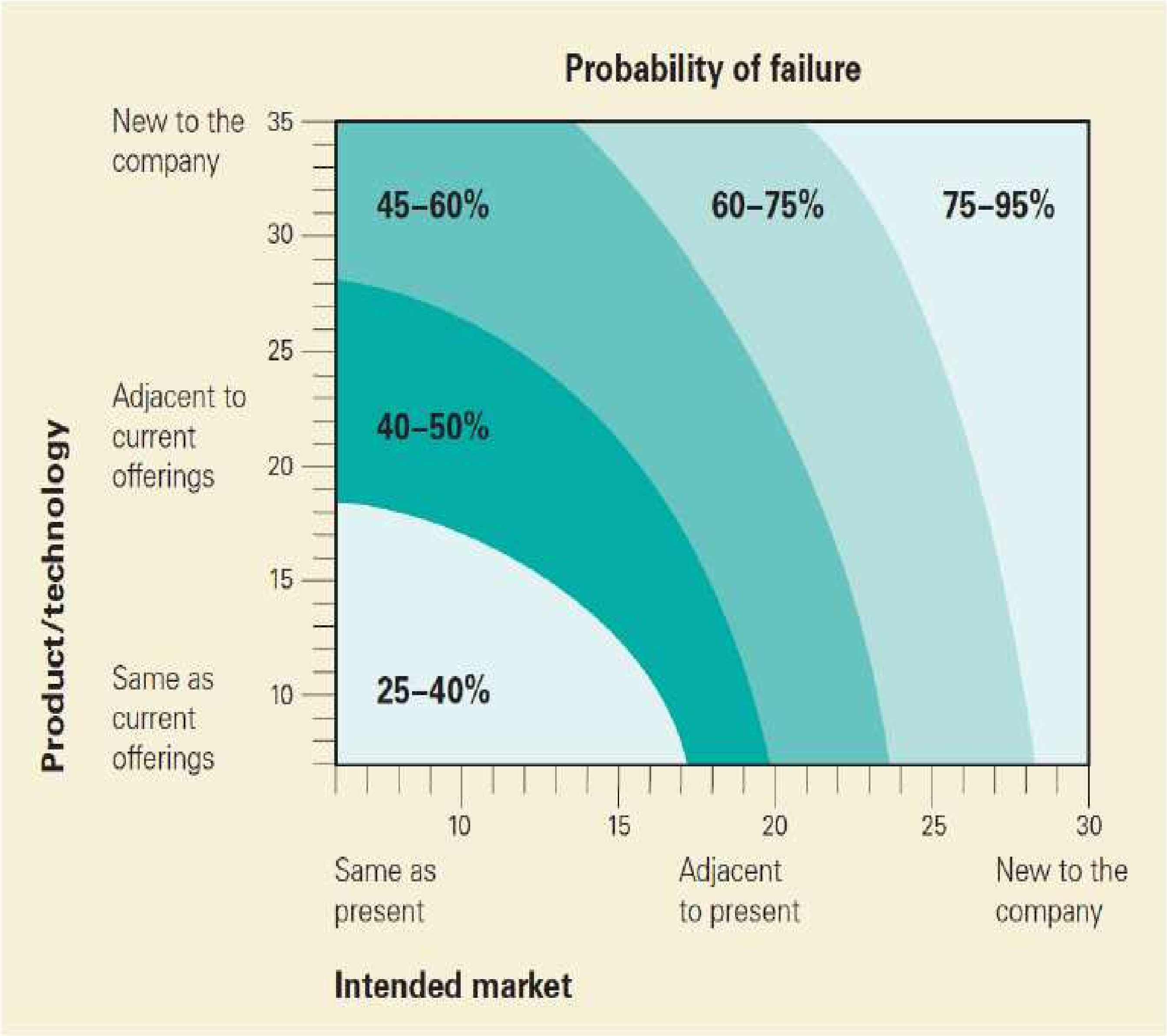
- ***Customers***: Are they the same as, or different from, those currently served?
- ***Competitors***: Are they the same as, or different from, those currently encountered?
- ***Cost Structure***: Is the cost structure (infrastructure) the same or different?
- ***Channels of distribution***: Are these the same or different?
- ***Singular capability***: If there is a singular capability (brand, asset, technology) that gives the core business its uniqueness, then is this relevant in the new opportunity?

Source: Chris Zook: Growing Beyond the Core

Economic distance from the core

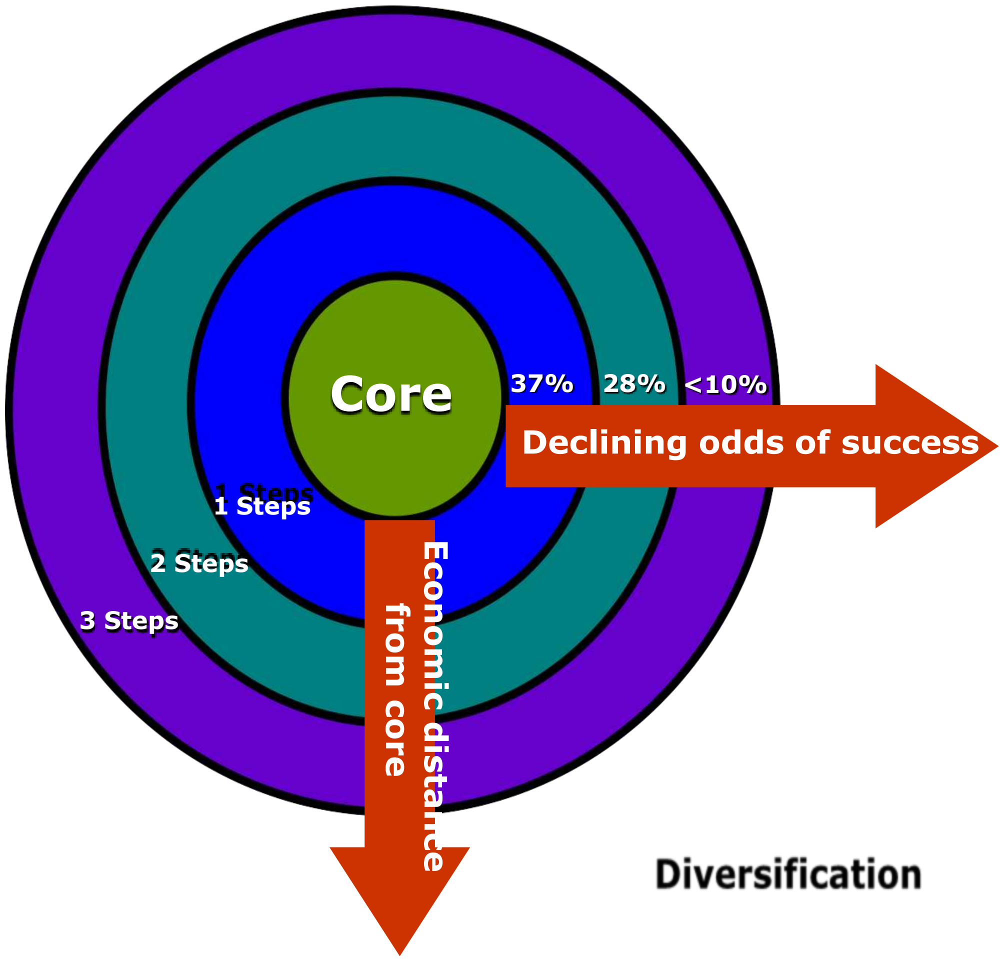
- Using a simple formula based on the number of mayor variables that are changing (customers, competitors, infrastructure, channel, customer needs, etc).
- When two variables are changing at a time (yow were moving two steps away from your core).
- But the odds of success began to plummet (fall straight down at high speed).
- It’s almost as if complexity and a lack of knowledge increase exponentially with the number of major steps from the core.

Far-Horizon Innovation is *Very* Risky



Source: George Day. 2007. "Is It Real? Can We Win? Is It Worth Doing? Managing Risk and Reward in an Innovation Portfolio." *Harvard Business Review*.

Success Declines with Distance from the Core



Diversification

Source: Chris Zook: Growing Beyond the Core

When to redefine your core

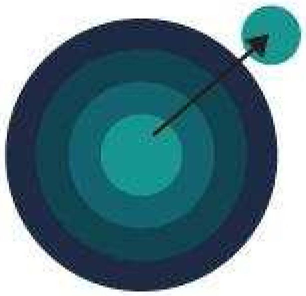
- A few situations are always found at the root of redefinition.
  - A shrinking (profit diminish gradually) or shifting (away from your core market) of the future profit pool.

Eroding core/Industry profit pool pressure.

– Collapse in ability to execute.

– Disappearance of the industry profit pool.

– Eroding position.



► New distant profit pool.

– Profit pool shift in location (along value chain or to other products or applications).

– Blurring boundaries with another core.

Unstoppable; Chris Zook; HBP

When to redefine your core

- A direct threat to the core from the new competitive model or disruptive technology.
  - Success of a new competitive business model.
  - Emergence of a disruptive technology.
  - Competitor achievement of leadership and control in your market.

- An stagnation in the growth formula and an erosion of differentiation.
  - Historical growth formula has run its course
  - Niche business with no room to grow.
  - Historic differentiation no longer valid.

Unstoppable; Chris Zook; HBP

Evaluate your core Business

- Five broad questions can help you determine when it is time to redefine your company's core business.
- For most companies the answers to these questions can be found by examining the categories listed next to each one.
- If the answers reveal that large shifts are about to take place in two or more of these five areas, your company is heading into turbulence; you need to reexamine the fundamentals of your core strategy and even the core itself.

1	What is the state of our core customer?	• Profitability • Market share • Retention rate • Measures of customer loyalty and advocacy • Share of wallet
2	What is the state of our core differentiation?	• Definition and metrics of differentiation • Relative cost position • Business models of emerging competitors • Increasing or decreasing differentiation

Unstoppable; Cris Zook; HBSP

Evaluate your core Business

3	What is the state of our industry's profit pools?	• Size, growth, and stability • Share of profit pools captured • Boundaries • Shifts and projections • High costs and prices
4	What is the state of our core capabilities?	• Inventory of key capabilities • Relative importance • Gaps vis-a-vis competitors and vis-a-vis future core needs
5	What is the state of our culture and organization?	• Loyalty and undesired attrition • Capacity and stress points • Alignment and agreement with objectives • Energy and motivation • Bottlenecks to growth.

Unstoppable; Cris Zook; HBSP

Focus, expand and redefine

Focus phase

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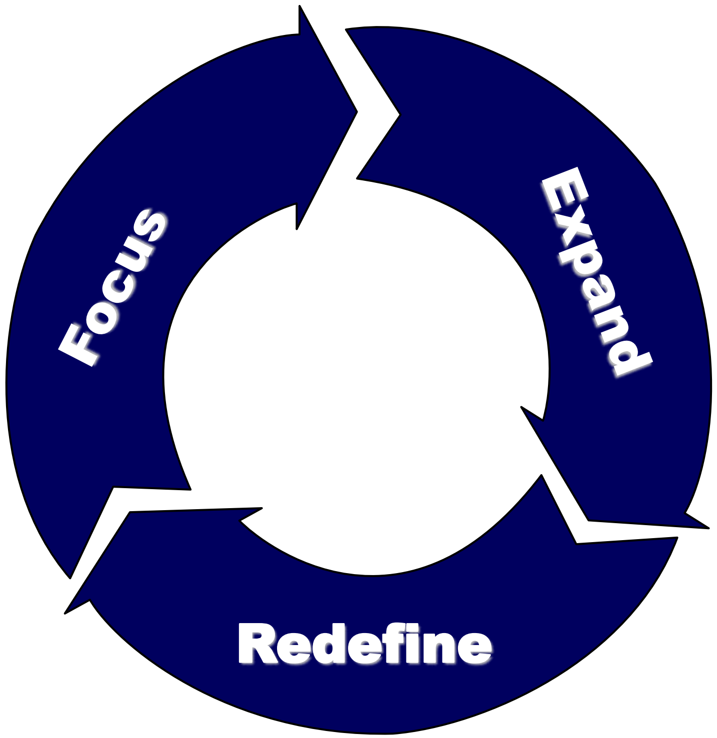

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Redefine phase

- Pursue the profit pool of the future, not the market of the future.
- Build defendable new form of competitive differentiation.
- Focus on structural changes in the business model.
- Invest in significant new capabilities that transform the potential of the core or possibly a shift to a new core.

Unstoppable; Chris Zook; HBP

A profit pool is different from a market

- A Market is the volume and mix of products sold, not the business economics of those products.
- The profit pool for a market consists of the earnings (sum of the operating profits current and future) of each participant in that market from the beginning of the value chain (raw materials) to the end user.
- The key indicator of turbulence in an industry or market is a shift in the size or the location of the profit pool.

Unstoppable; Chris Zook; HBP

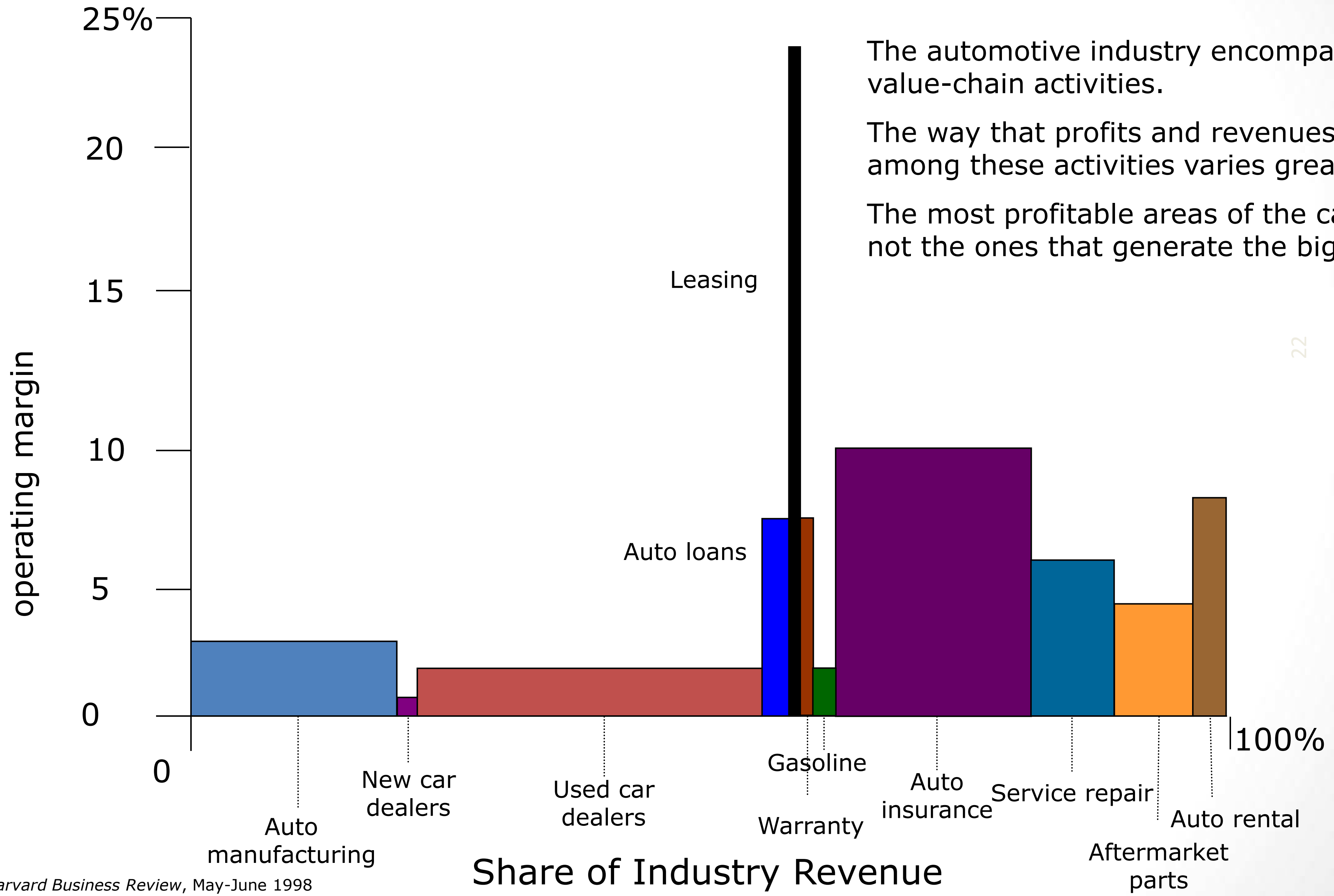
Assumption- ***Profits*** always follow ***Revenue***

Revenue concentration vs ***Profit*** concentration

Look beyond revenues to see their industry's ***profit pools***

Profit Pools: A Fresh Look at Strategy; **Orit Gadiesh, James L. Gilbert HBR**

THE U.S. AUTO INDUSTRY'S PROFIT POOL



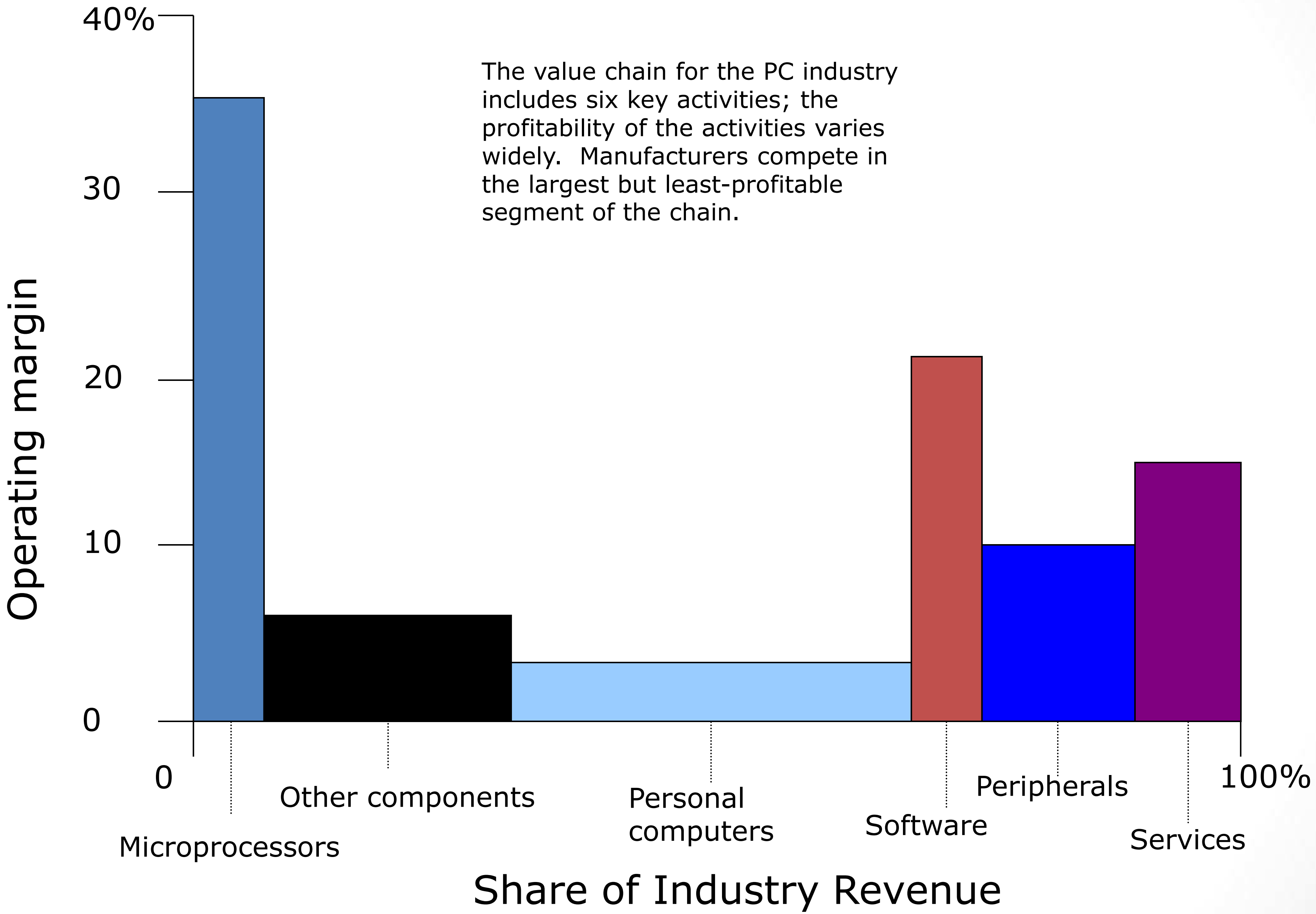
The automotive industry encompasses many value-chain activities.

The way that profits and revenues are distributed among these activities varies greatly.

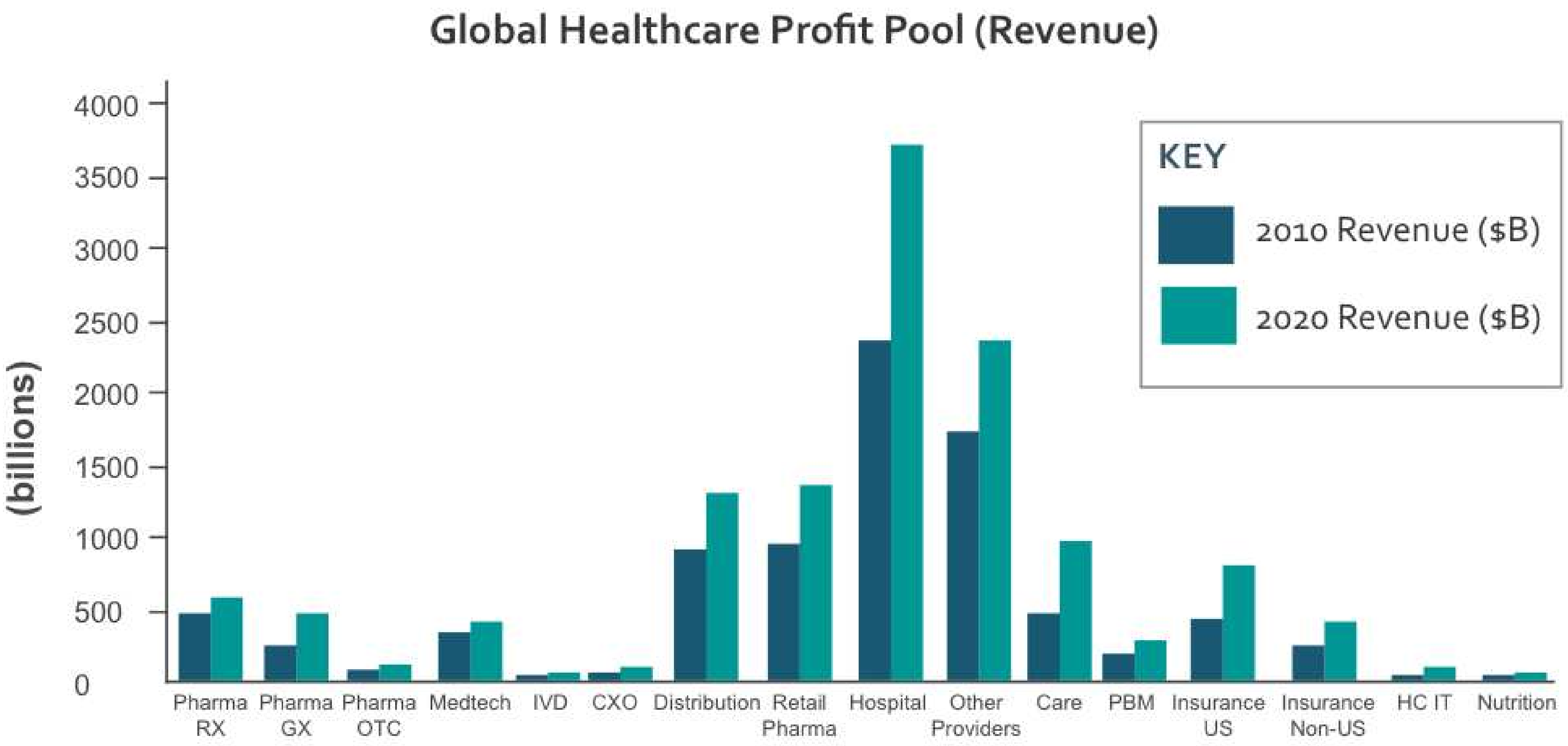
The most profitable areas of the car business are not the ones that generate the biggest revenues.

source: Gadiesh and Gilbert, *Harvard Business Review*, May-June 1998

THE PC INDUSTRY'S PROFIT POOL



source: Gadiesh and Gilbert, *Harvard Business Review*, May-June 1998

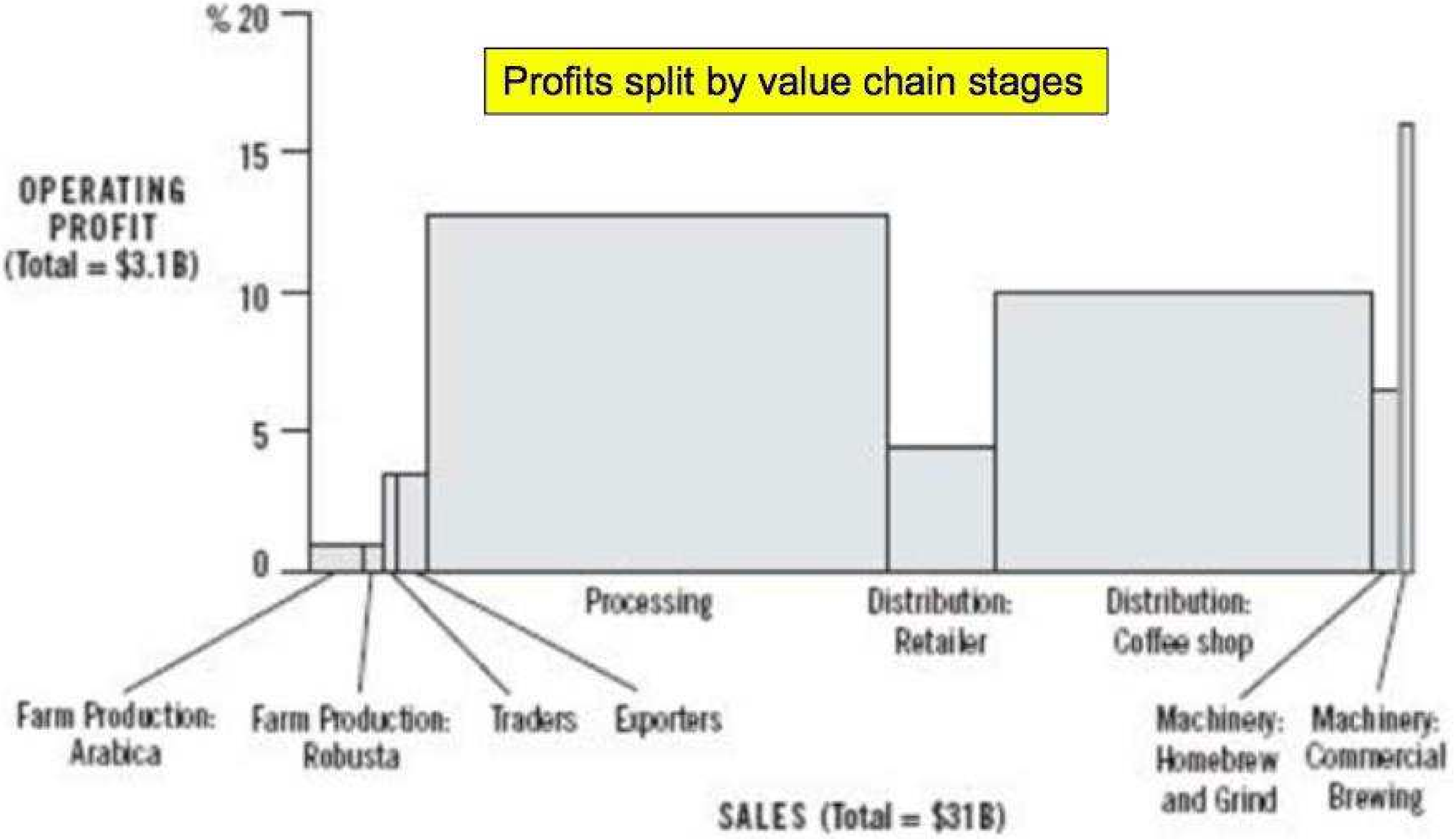


Adapted from Bain and Co, Healthcare 2020, published 2012

CXO – contract research, manufacturing and sales organizations.

Industry Profit Pool

U.S. Coffee Industry – 2005



Where does your future lie?

Hidden Assets

In an undervalued business plattform?

- Undeveloped adjacencies
- Organizations that support the core
- Noncore businesses
- Orphan products

In an untapped insight into customers?

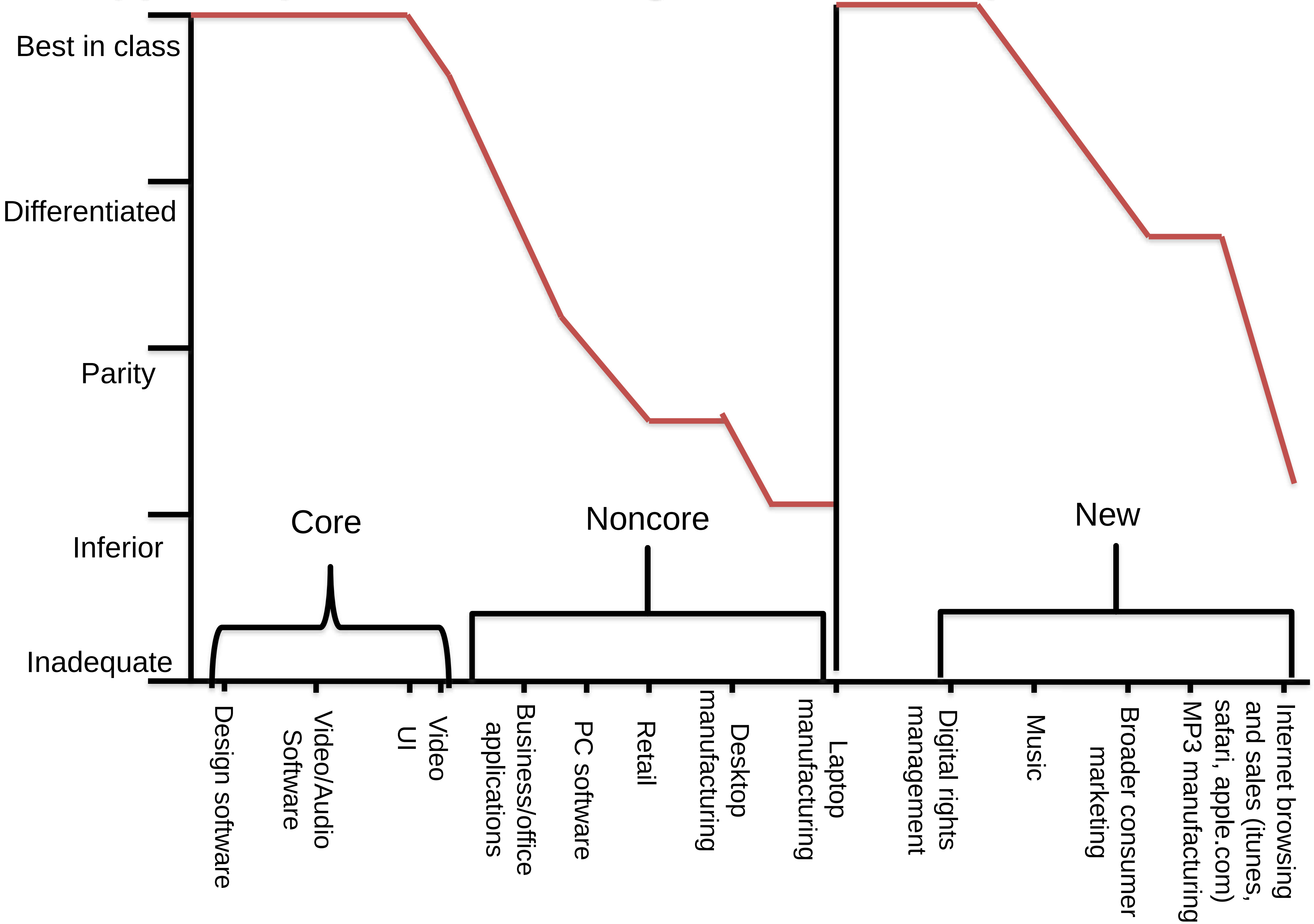
- Unrecognized segments
- Privileged access or trust
- Underutilized data and information

In an underxploited capability?

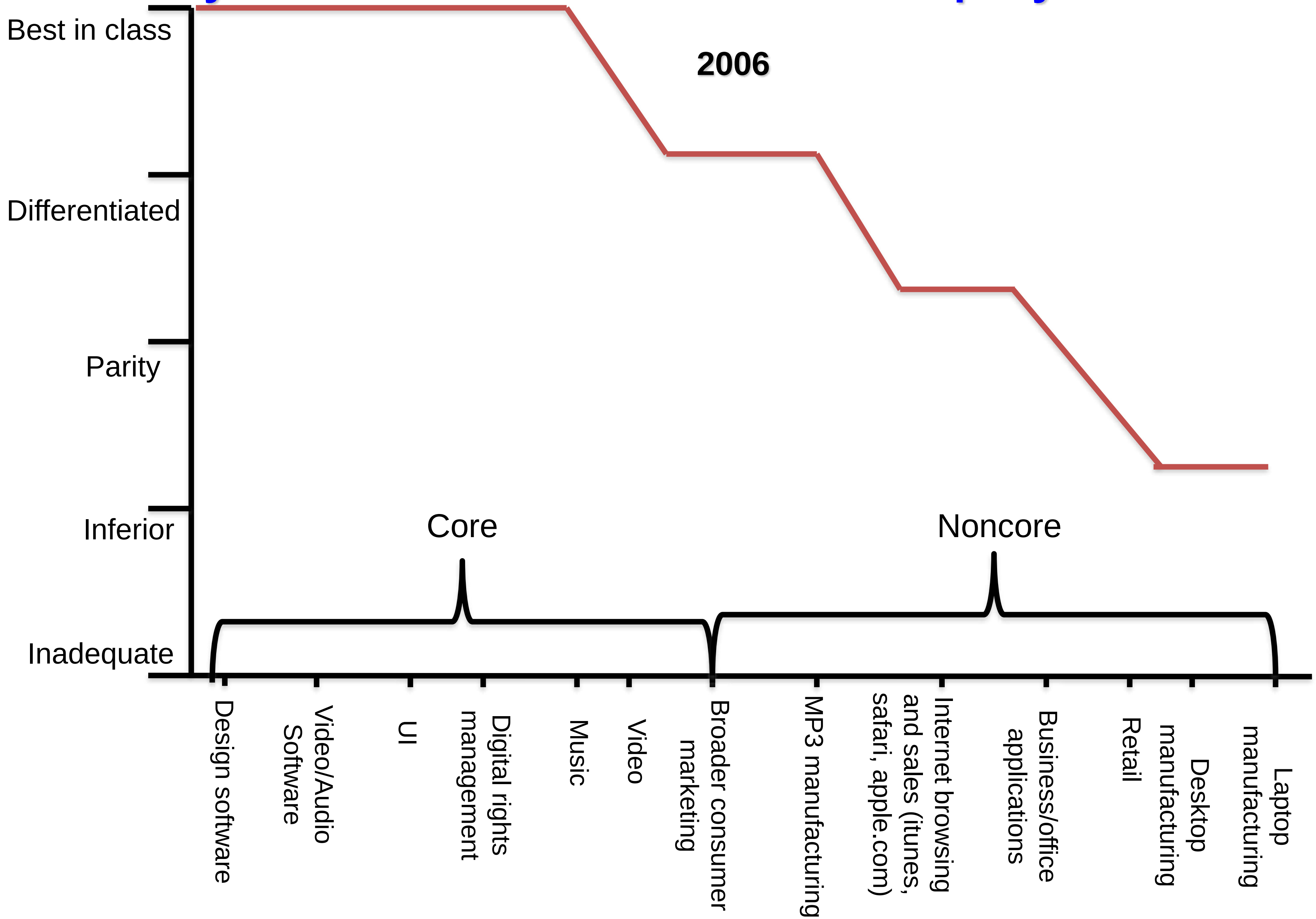
- Hidden corporate capabilities
- Noncore capabilities in different divisions
- Underleveraged core capabilities in different divisions

Unstoppable; Cris Zook; HBSP

Apple acquired and built significant new capabilities…



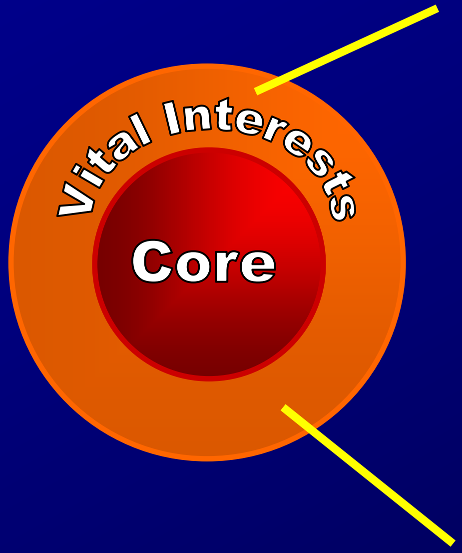
…and many basis formed the basis of the company's new core



Vital Interest

Vital interests V:

- ❑ Markets with high strategic importance because they are used to build the core´s power
- ❑ Markets that are highly interconnected with succes in the core.



❑ C Colony Markets that strengthen the home base by providing critical resources like:

- Low cost skilled labor,
- Raw materials in short supply,
- Unique know how.

❑ V Vital customer markets providing the core with economic (scale or scope) strenghts.

- Also includes complements

- **Complement**: one product's sales favorably affect sales of another because:
  - They are used together
    - service plan for an appliance.
  - Add-ons and special features:
    - Navigation system with Honda or Toyota
  - Cross-selling between products
    - Credit union (free checking)
  - Attract traffic by retailers (loss leader: selling a product below its variable cost in order to attract customers to other products.)
  - Need not happen at the same time

Take-aways

- Bundling: The practice of offer two or more products and/or services at a special price.

- Why bundle?
  - Hide the charge for each component
  - Complementary demand, shift consumer surplus, less costly, lock in future sales

- How to bundle?
  - pure component pricing
  - pure bundling: negatively correlated demand
    - Leader bundling: unbalanced demand
    - Joint bundling: balanced demand
  - mixed bundling (excluding some segments): when reservation price for one product is lower than cost
    - Leader bundling: unbalanced demand
    - Joint bundling: balanced demand

What Products to be Bundled?

- Have complimentary demand
  - Megacable, one year service and internet browsing
- Acquiring one may increase satisfaction of acquiring another one
  - Black & Decker offers one year free service (cleaning, oiling etc.)
- Share the same facilities, equipment and personnel
  - McDonald’s has been hugely successful with bundling offers at 15% discount

Power Pricing; Robert Dolan, Hermann Simon

Which Form?

- **Bundling or not bundling?**

  Condition for bundling

  – Attract price-sensitive buyers without reducing prices to insensitive buyers

- **Pure bundling or mixed bundling?**

  Condition for mixed bundling

  – Some buyers value one item very highly but value the other one less than its costs

- **Leader bundling or joint bundling?**
  - For leader bundling: asymmetric market structure, unbalanced demand
    - Leader: Increase in volume of non-leader will contribute more to the profit than the loss due to the reduced contribution of leader
  - For joint bundling: Symmetric market structure, balanced demand
    - Similar price elasticity, market share and margin

Forms of Price Bundling

- **Pure components strategy**: only the separate prices are offered.
    - A at $5, B at $15

- **Pure bundling strategy (value added bundling):** only offer bundling price.
  - **Leader bundling**:
    - A (leader) is offered at $2.5 discount if purchased with B

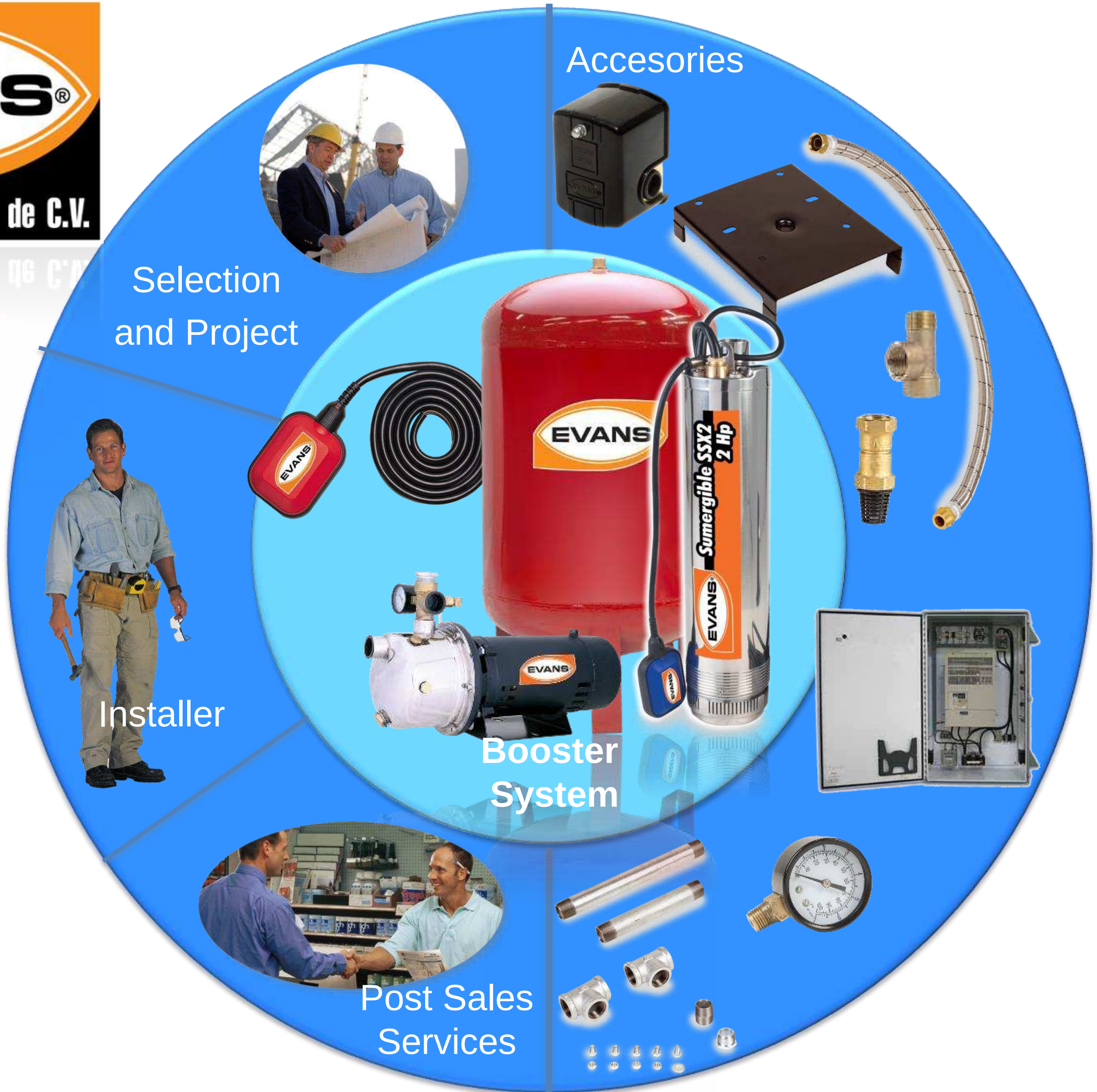
  - **Joint bundling**:
    - A and B together for $17.5

- **Mixed (price) bundling (optional bundling)**: both the bundling price and the individual prices are offered
    - A and B at $17.5, or A at $5 and B at $15

    Individual products/services also available at higher price.

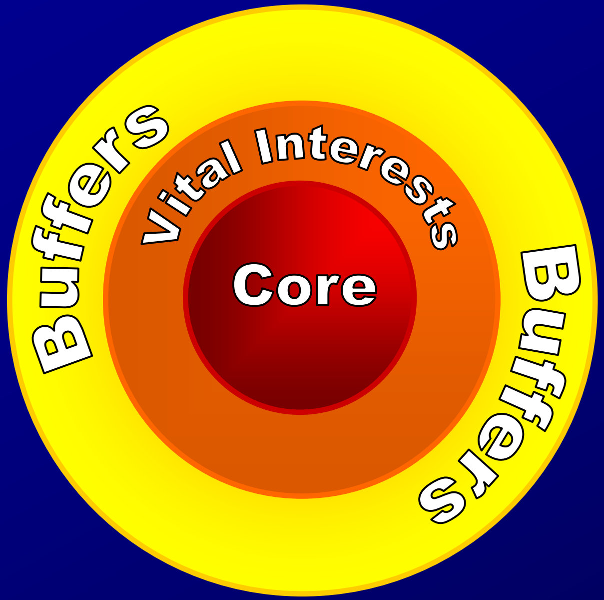
EVANS®

Power Equipment, S.A. de C.V.



Buffers

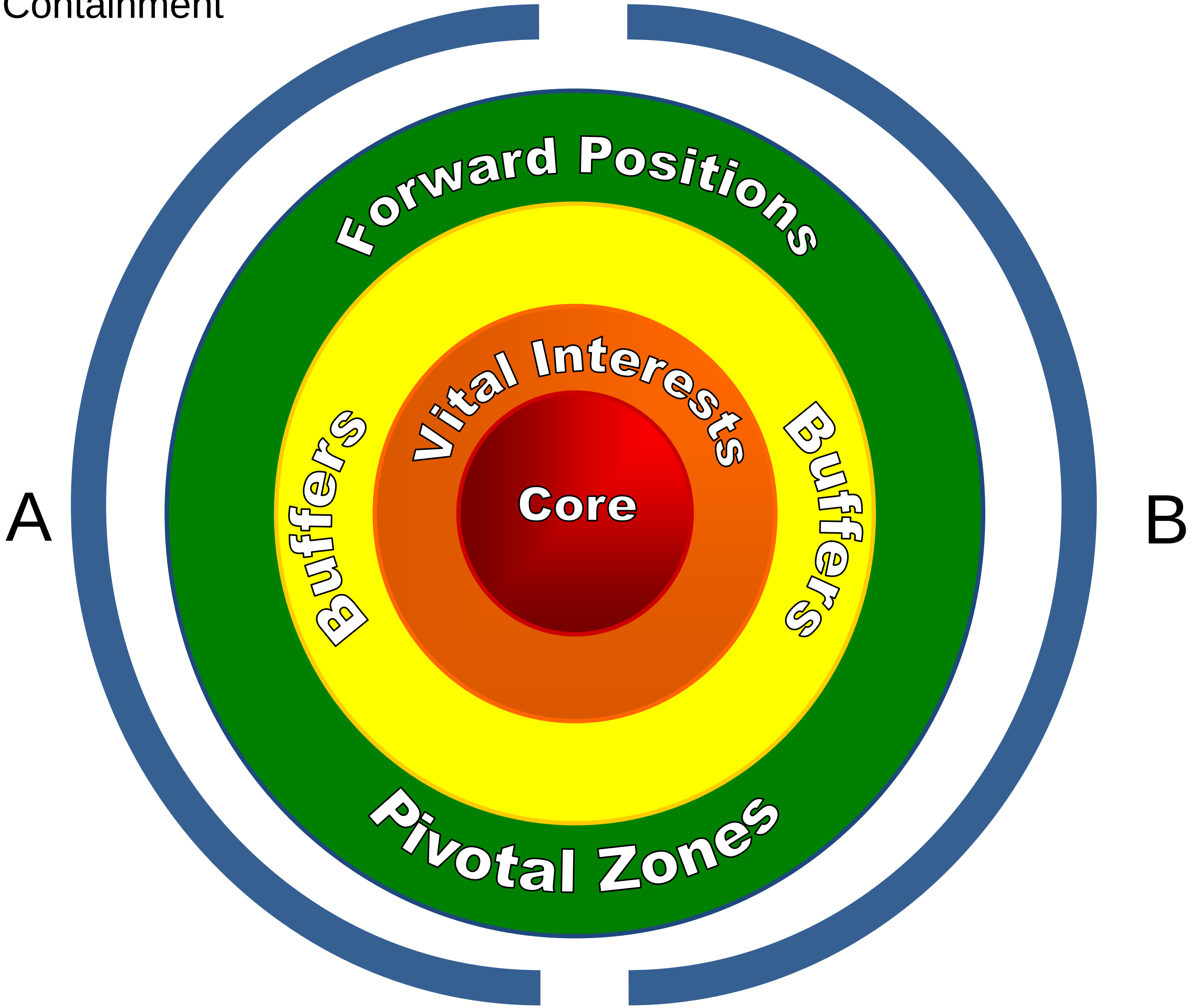
- The role of buffer (deffensive) zones in your sphere of influence depends on your rival´s position,
- Especially if the rival has a strong position in a zone near your sphere´s core.
- Deffensive zones (insulation against attack by a rival).
- Are expendable (Bettter to blody the buffer than the core)
- Protect against expansion by rivals who could leverage their position in a nearby market to enter your core.



- Zones that are good candidates for buffers include:
- Are nearby geographic locations that offer your rival the ability to extend distribution into your core or vital interest.
- Any zone where a major rival produces or sells products that are:
  - Relying on the same core competence
  - Similar to and that are substitutes for or
  - Complementary to your products in your core or vital interests

E **Expendable zones** that will be abandoned or ignored
N **Neutral zones** (negotiated with a rival)
O **Occupied zone** (will not attack because it is too heavily defended)
Blanks = Undecided (too small to consider or not enough information to decide)

Managed Containment



Company A´s : Compression against the sphere´s buffer zones and forward positions.
Company B´s Compression against the sphere´s buffer zones and forward positions.

Strategic supremacy; Richad D' Aveni

Dealing with aggressive low cost alternatives

- *A prevalent problem for premium brands is how to deal with aggressive "no name" products or private labels.*
- *One possible answer is to cut prices permanently, switching to everyday low pricing (like P&G) (EDLP)*
- *A second alternative is to cut prices temporarily and to do this repeatedly in order to keep aggressors at bay (Hi-Lo)*
- *This is the classical promotional pattern adopted by many frequently purchased consumer goods companies (CPG)*
- *A third alternative is to protect flagship brands introducing:*
  - *A Less Expensive Alternative (LEA) or a second brand or a flanker brand*
  - *A fighting brand,*
  - *A generic/no name label or a private label of a retailer.*

To create "stronger points of parity" with competitors´ brands so that more important (profitable) flagship brands can retain their desired positioning.

Power pricing;Robert J. Dolan, Hermann Simon; Free Press

Dealing with aggressive low cost alternatives

Many companies are introducing discount brands as flanker brands to better compete with store brands and private labels and protect their higher priced brand companions. i.e.

Philip Morris introduced a discount brand of cigarettes, Basic which is a no frills flanker brand designed to protect Marlboro and preserves its premium price position.

The slogan is "It tastes good, it costs less".

In designing the fighter, marketers must walk a fine line.

Fighter brands must not be designed so attractive that they takes sales away from their higher priced comparison brands or referents.

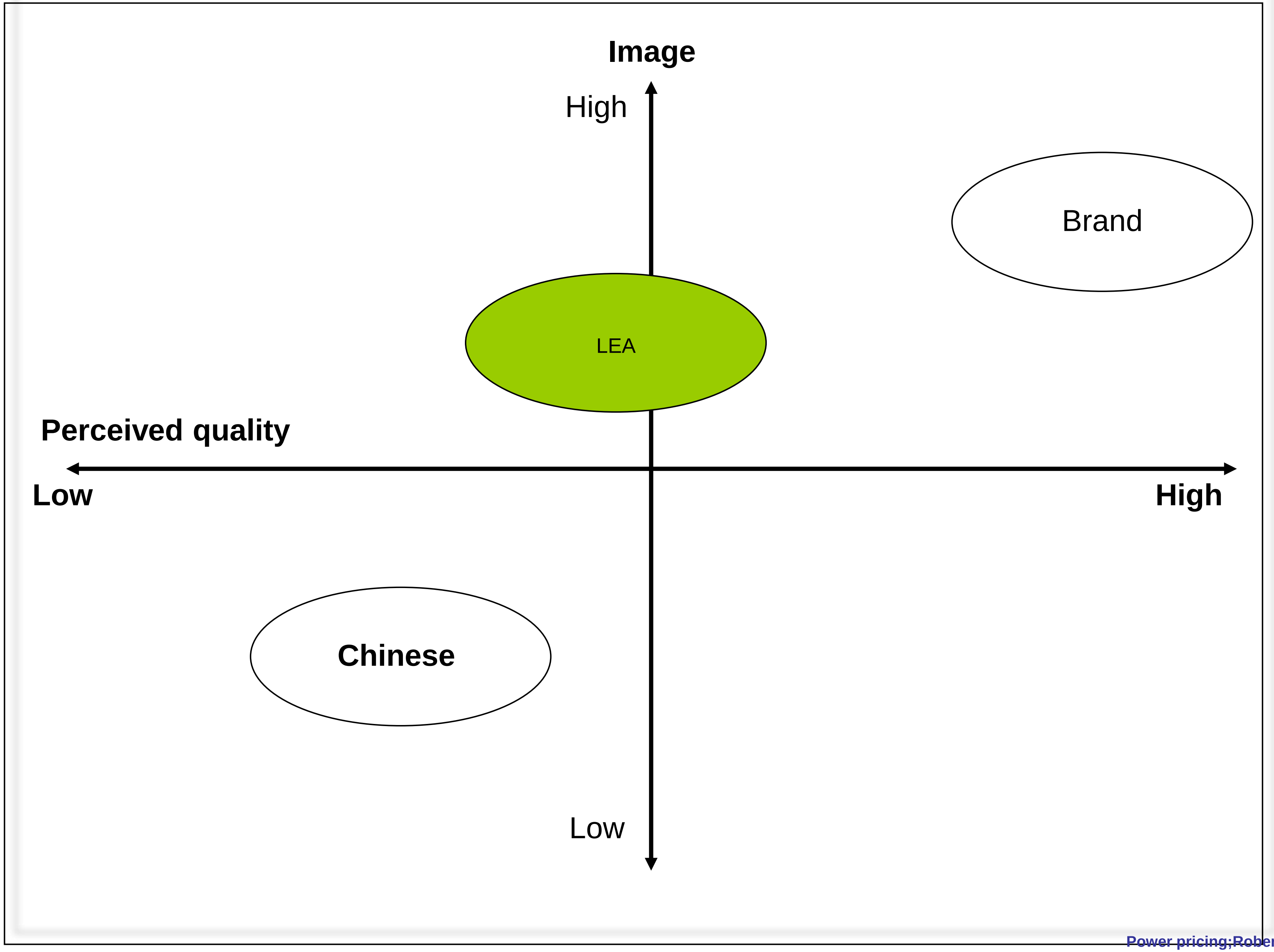
Fighter brands could not be intended to be profitably.

If fighter brands are seen as connected to other brands at the portfolio in any way, then must not be designed so cheaply that they reflect poorly on these other brands.

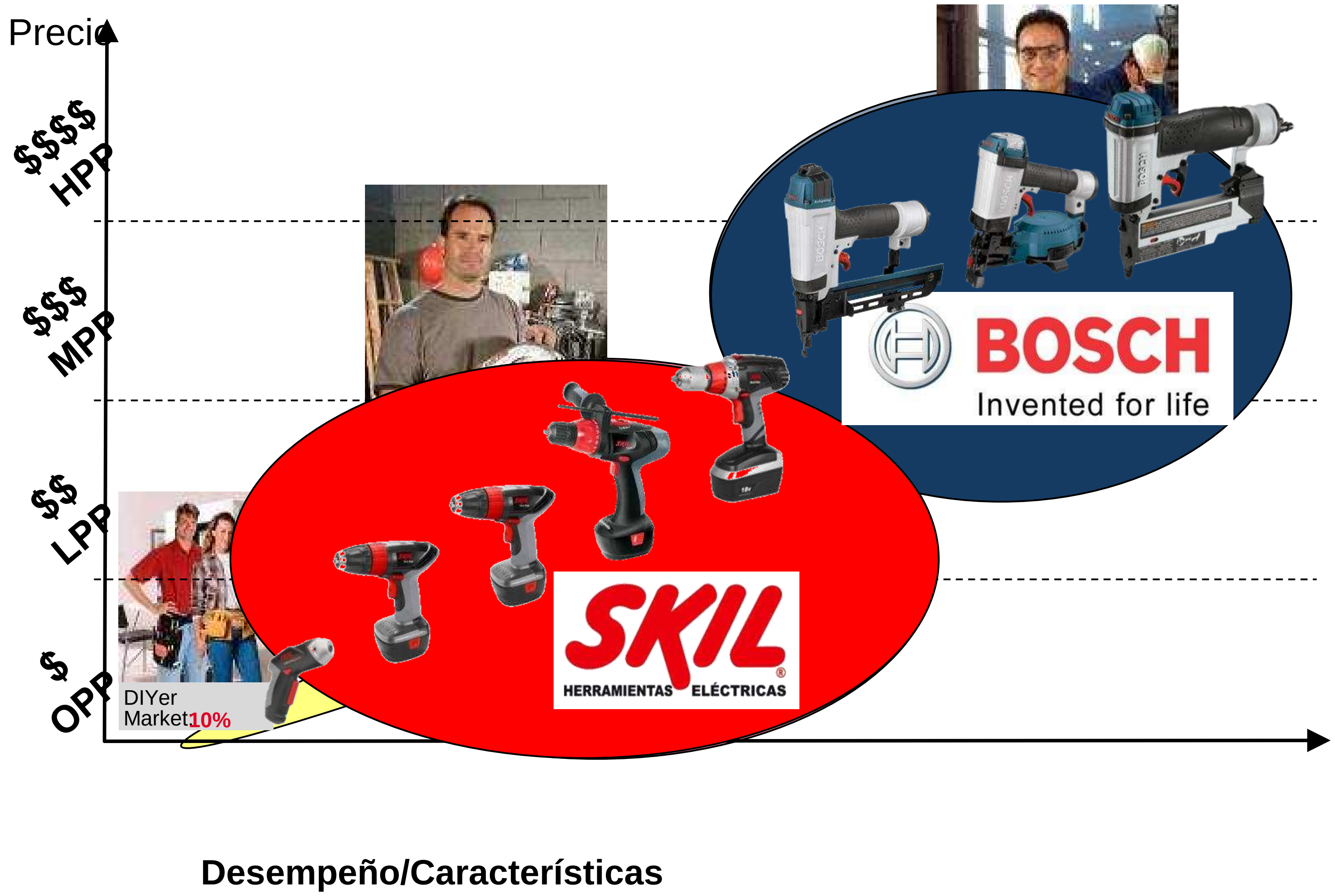
Fighting brands are judged less on their own contribution than on their effectiveness in keeping competitors on the back of the main brands.

Dealing with aggressive low cost alternatives

- *The most critical consideration in deciding on the LEA and its price concerns the product line effects.*
- *Is the LEA primary cannibalizing the premium brand or does it mainly take market share from the price aggressors?*
- *How can the cannibalization effects be minimized through:*
  - *Different product designs,*
  - *Separation of the distribution channels,*
  - *Exclusion of services.*
- *What is the optimal price differential between the brand and the LEA on the one hand?*
- *And the LEA and the aggressors on the other hand?*
- *Is there a risk for the image of the premium brand if it becomes known that the LEA comes from the same manufacturer?*



Power pricing;Robert J. Dolan, Hermann Simon; Free Press


Precio
$$$$
HPP
$$$
MPP
$$
LPP
$
OPP
DIYer
Market
10%
SKIL
HERRAMIENTAS ELÉCTRICAS
BOSCH
Invented for life
Desempeño/Características

Pricing Strategies		PRICE		
		High	Medium	Low
QUALITY	High	Premium  Phaeton	High Value  Touareg	Penetration  Passat
	Medium	Over Charging  Yeti	Medium Value  Jetta	Good Value  Vento
	Low	Rip Off  Beetle	False Economy  Fabia	Economy  Polo

Dealing with aggressive low cost alternatives

- *Is price cutting on the flagship products a viable alternative as a defense against extremely cheap imports from china?*
- *The LEA products was slightly modified and mainly sold through a push strategy and not supported by any advertising.*
- *The LEA strategy is not confined to price but requires a whole battery of differentiation instruments.*

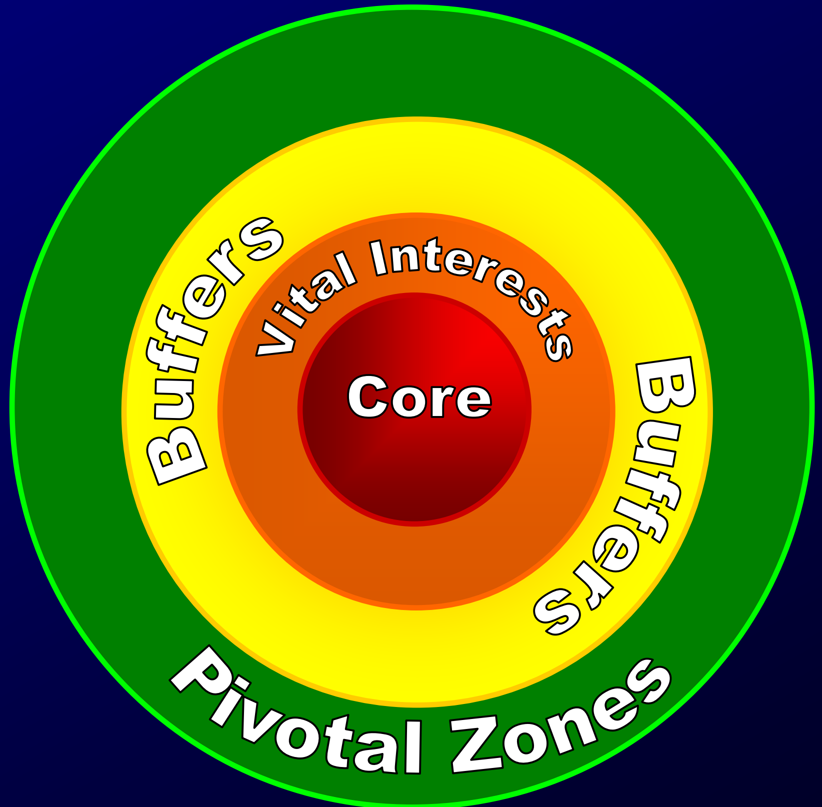
Pivotal zones

- These are zones that will be attractive in the near or long term for various reasons.
- But in which the company is currently weak.
- Are used for growth or long run competitive purposes and include:
    - High potential strategic target markets.
        - Where the firm is capable of building great strength or
        - Where the firm intends to migrate its core in the long term.
    - A market that is in untapped or undiscovered space and provides a great growth opportunity (power vacuums).

Pivotal zones P:

TG Testing ground for high potential,next generation products.

PV Power Vacuum New frontiers/ experiments / options in the potentially critical markets of the future.

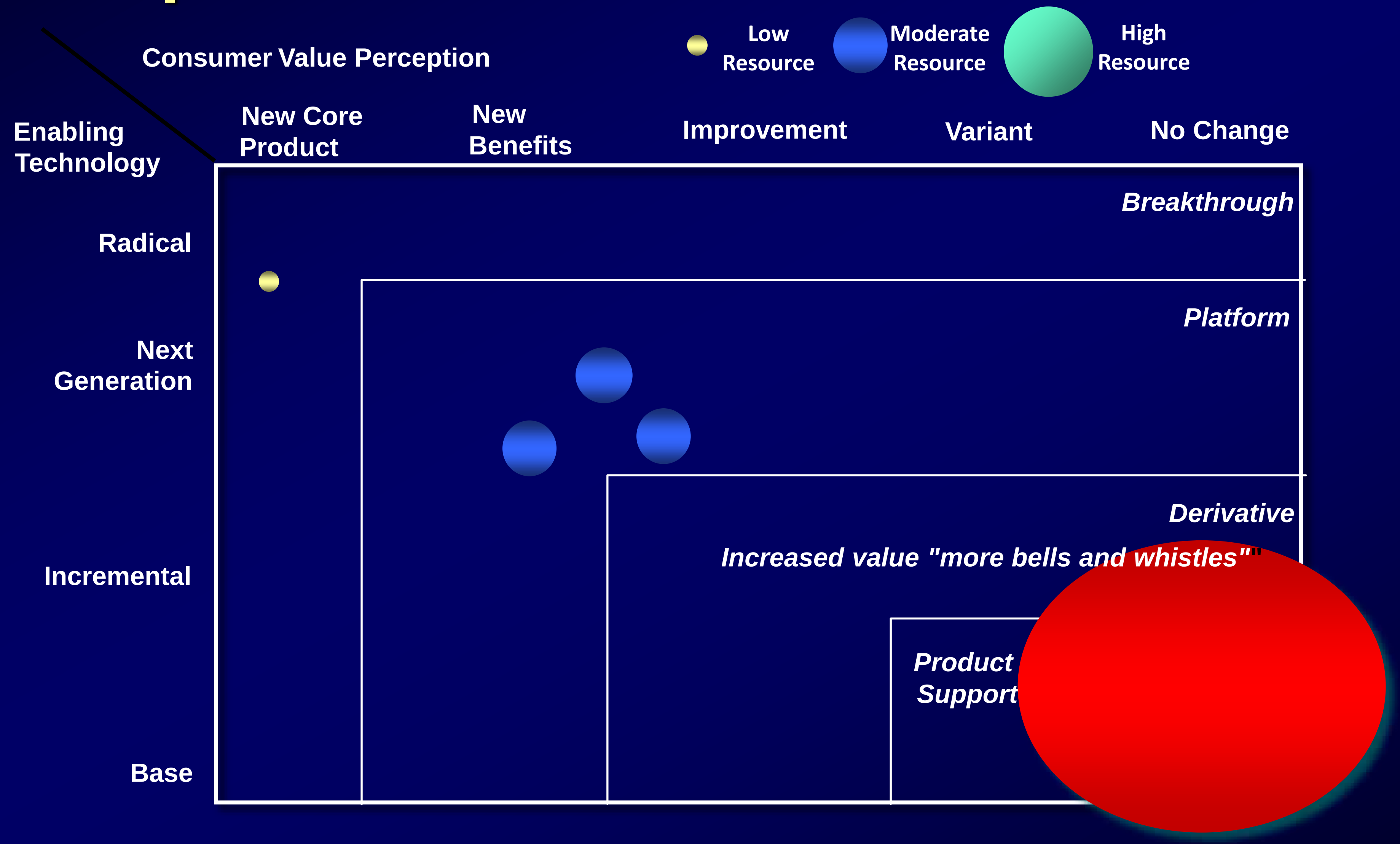


Strategic supremacy; Richad D' Aveni

Unilever’s Managing Risk in Innovation

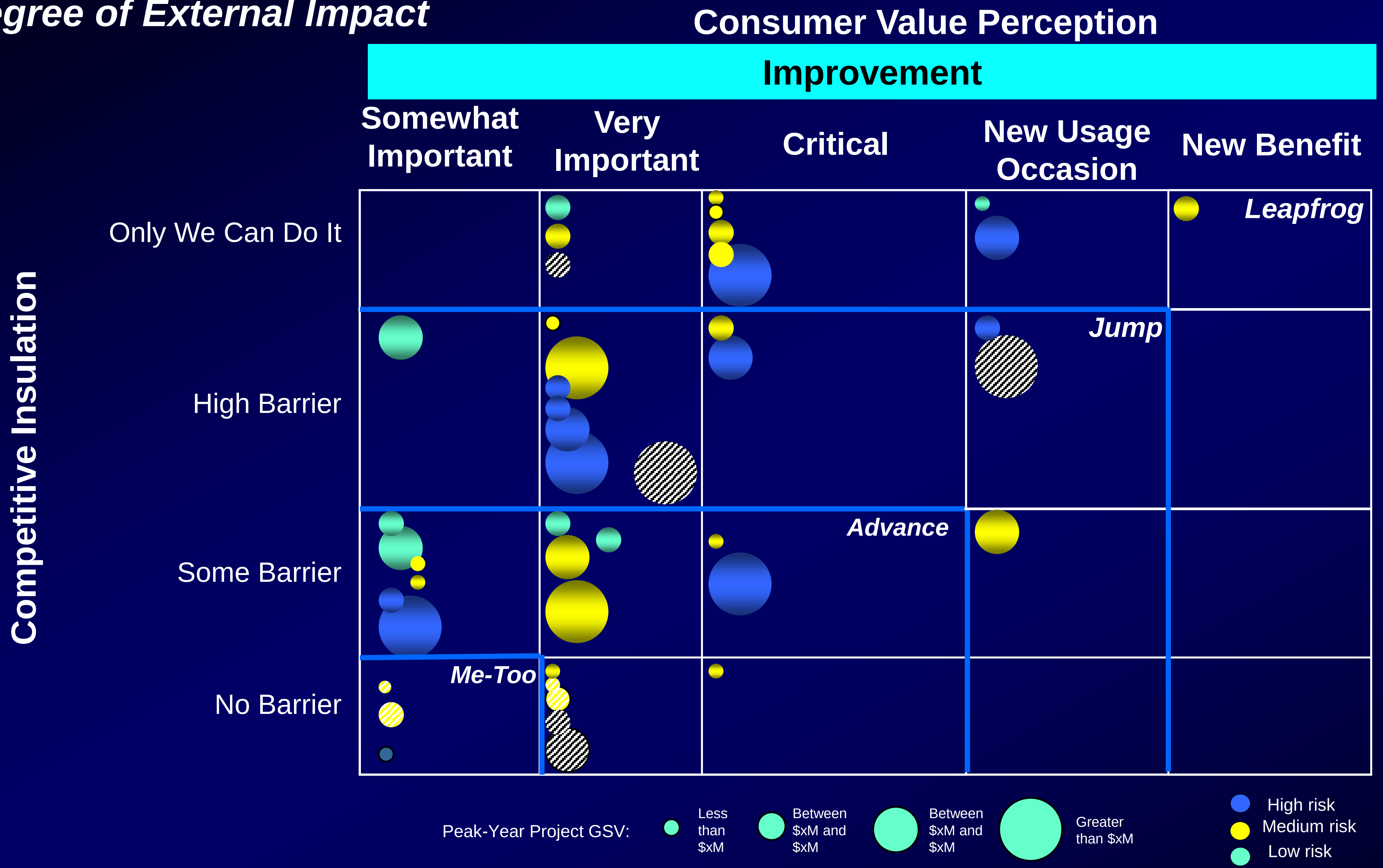
Developing and Managing a Successful Technology & Product Strategy; Rebeca Henderson

An Example



Managing organizational competence; Rebecca Henderson; MIT

Degree of External Impact



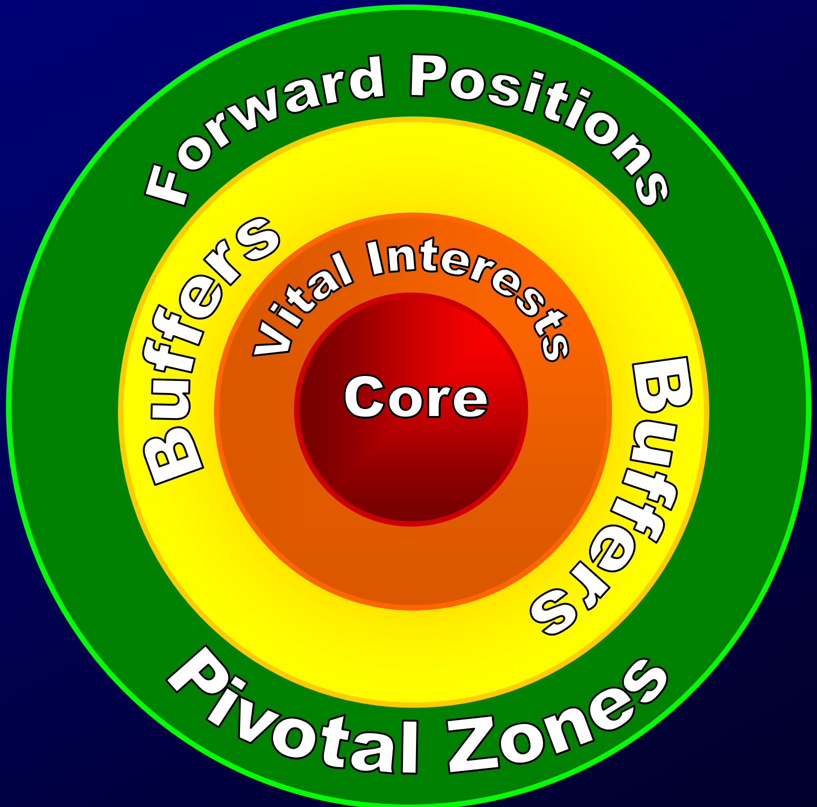
Note: Cross hatching indicates non-resourced concept exploration projects

Rebeca Henderson; MIT

Forward positions

- Forward (offensive) positions serve a company´s sphere by providing:
  - A foothold (beachhead) positions in a rival´s core or vital interest to keep them occupied at home.
  - A signal to a competitor to back off your core markets.
  - A first scale in a full scale invasion of an opposing sphere.
  - A way to “soften up” an opponent before you attempt to aquire it

PE Point of entry into competitors market or a huge market.
T Targeted zone (designated to be taken away from a rival)



Circumventing Competitive Compresion- Setting Growth Priorities

Competitive Compression	1st Steps	2nd Steps	3rd Steps	Typical Sequential Goals
Core is not threatened very much	Add buffers*	Add forward positions **	Add vital* and pivotal** zones	**Step** 1. Protect the core 2. Position to counterattack rivals who might invade the core 3. Enhance the profitability of the present and prepare for the future
Core is under moderate to high pressure	Add forward positions** and vital zones*	Add pivotal zones **	Add buffers***	**Step** 1. Protect and support the present core to hold on to it 2. Search for and discover new zones that can be safe havens outside the focus of the current competitive compression or be a new core if the compression gets worse
Core is under severe threat	Add pivotal zones **	Add forward positions **	• Drop old core • Build buffers* and forward positions ** around the new core	**Step** 1. Prepare for migration of the core using funds from the initial core 2. Buy time to migrate by positioning against rivals who might attack the initial core 3. Secure the future around the new core

Strategic supremacy; Richad D' Aveni

Brand roles and Multibrand strategy

There are a number of specific roles that brands can play as part of the brand portfolio:

1. To attract a particular market segment not currently being covered by other brands of the firm.
2. To serve as a:

   - Flanker, or Second Brands or LEA (less expensive alternatives),

   - Fighter brands,

   - Generic/no name label or a private label of a retailer.

   Which main purpose is to Protect flagship brands.

   The purpose of flanker brands is to create “stronger points of parity” with competitors´ brands so that more important (and more profitable) flagship brands can retain their desired positioning.

Functions and roles that brands might take

3.- To serve as a cash cow and be milked for profits.

Some brands may be kept around despite the dwindling sales because they still manage to hold on to sufficient number of customers and maintain their profitability with virtually no marketing support.

Gillette despites the fact that have moved much of its market to its newer Match3 brand of razors, still sells its older Track II, Atra and Sensor brands.


Functions and roles that brands might take

4.- To serve as a low-end entry-level product to attract new customers to the brand franchise.

It is a variant of the LEA products to attract new customers to the brand franchise

The purpose is not to fend off price aggressive competitors but to attract customers who then remain loyal in their future purchases.

Are aimed particularly at young customers or novices and play an important role.

These sub brands leverage associations from other brands while distinguishing themselves on the basis of their price and quality dimensions.

Retailers like to feature these traffic builders because they often are able to "trade up" customers to a higher-priced band.

- BMW "the car for people on the rise"
- Mercedes Benz's C-Class ("Baby Benz") lowering the entry level price.
- Porsche followed a similar strategy with a coupe priced under $39,950
- "My first Sony"

Mercedes Class A

•Brand extension decisions should not be looked at only through customer research.

•Radical Downward extension
•It compete with Volkswagen
•Didn't pass the "elan test"

This means:
•Destroyed the image of secure car.
•Mercedes image had to be redefined.
•It became non-exclusive damaging Mercedes image.

Functions and roles that brands might take

5.-To serve as a high-end prestige product to add prestige and credibility to the entire brand portfolio

Sometimes called “trading up”

The upward move is usually difficult to achieve. Because the historic image of the product line is in a lower price category.

Audi tried to reposition its products for 15 years toward higher price and prestige categories.

Toyota (Lexus)

Honda (Acura)

Nissan (Infinity)

Ford (Lincoln) acquiring Jaguar

General Motors (GMC y Cadillac)

Chrysler acquiring Mercedes Benz

Premium extensions

The risks of trading up are limited for the existing products,

Since the more expensive new products more improbable are to cannibalize the cheaper old product line,

But if they do this is welcome since a higher margin is earned.

One analyst argued that the real value to Chevrolet of its Corvette high performance sport cars was in "its ability to lure curious customers into the showrooms and at the same time help improve the image of other Chevrolet cars.

It is a "traffic builder". Cast a "halo" over the entire Chevrolet brand

Efecto de Atracción

- Las tiendas departamentales frecuentemente tienen dos departamentos de ropa de Mujer;
- Uno para los diseñadores de marcas de precio alto y por otro lado las marcas que atraen a los compradores mas sensibles a los precios.
- *Efectos del precio de referencia de los productos High end*

	Elección (%)	
Microondas	Grupo 1 (n = 60)	Grupo 2 (n = 60)
1.-Panasonic II (1.1 Pies Cúbicos; $199.99)	-	13
2.-Panasonic I (0.8 Pies Cúbicos; $179.99)	43	60
3.-Emerson (0.5 Pies Cúbicos; $ 100.99)	57	27

Power pricing;Robert J. Dolan, Hermann Simon; Free Press

Functions and roles that brands might take

6.- Often the price elasticity since to be smaller for add-on features than for the base product.

This suggests applying a higher margin on them.

It can also be effective to include add-on features on the base price.

In the same vein customer often accept extras in lieu of price concessions

7.- To increase shelf presence and retailer dependence in the store.

8.- To attract consumers seeking variety who may otherwise have switched to another brand.

9.- To increase internal competition within the firm.

10.- To yield economies of scale in advertising, sales, merchandising, and physical distribution.