

WOBI on Strategy



EXECUTIVE SUMMARY

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The world's leading authority on competitive strategy

Widely recognized as the father of modern business strategy, Dr. Michael Porter is a renowned economist and one of the world's most legendary thinkers on management and competitiveness. Throughout his career at Harvard Business School, Porter has applied economic theory and strategy concepts to many of the most challenging problems facing companies, economies, and societies.

This 100% digital event led by Porter has provided the keys on how to think about strategy, what is needed to compete in a volatile market, and the impact of digital transformation on the strategic and competitive landscape, essential to ensure the future vitality and prosperity of your organization.

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HOW TO THINK ABOUT STRATEGY

Fundamentals of strategy

We are in a historic moment. The Covid crisis is causing vast disruption and it is now that we begin to think about the strategies for this new normal that has been established throughout the world.

Strategy is an issue of fundamental importance, which has a profound impact on the performance and prosperity of companies, society and citizens. This does not have a unique formula. It must be based on the circumstances and particularities of each company.

The starting point for developing a good strategy is to understand its foundations. Porter says there is no one way to compete. We cannot compete to be the best company. There is no such thing, there is no company that is the best. The key is to focus on becoming a unique company. To think strategically, you have to stop competing to be the best and start competing to be unique.

Strategy vs. Execution

But what exactly do we mean when we talk about Strategy? Strategy is the long-term set of choices an organization makes to distinguish itself from its competitors and create superior performance. It defines a company's distinctive approach to competing, the competitive advantages it will build on, and the customers or customer segments it chooses to serve.

Many times the meaning of Strategy is misunderstood. Strategy is much more than aspirations, it also includes how to achieve them. It is essential to differentiate the objective of the strategy. The strategy is the set of actions that will lead you to achieve the objective.

Multiple levels of strategy

In many organizations, particularly large ones, strategy takes place at several levels. The basis is the business strategy: the one developed for each business unit the company has. This level is always the starting point for strategic thinking. The next level would be the group strategy: an integrated strategy for closely related sets of businesses within the group. Finally, the corporate strategy: which includes a single strategy for the entire corporation. Connect all individual strategies by finding synergies between them.

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The role of the CEO, of the leader of these large corporations, is to make sure that each business has a clear strategy and that they are all aligned with each other, as a group. You also have to ask yourself how you can align these strategies with society (with government, with education...), with all areas that could interfere with the company.

The first step to start developing a strategy is to ask yourself in which markets you operate, what is your business. It seems like an obvious question but the truth is that most companies do not know in which businesses they operate. To find out, you have to analyze two aspects: the scope of the product (What products or product groups constitute different businesses?) and the geographic scope (Is the business local, national, regional or global?).

The Five Forces framework

We also need to understand the structure of the industry (the drivers of competition and attractiveness in each of the various businesses) and our strategic position in this industry. To analyze our industry and calculate our profitability potential, Porter suggests building on five forces: Customer power, supplier power, new entrants, the threat posed by substitute products, and the nature of rivalry.

Operational efficiency is not synonymous with strategy. This first consists of adopting the “best practices” and doing what was done before but better. Whereas the strategy consists of creating a unique competitive position by doing things differently.

Strategic positioning

Strategic positioning is one of the fundamental ideas of the Strategy and consists of two parts:

- **A unique value proposition:** Serve the client in a way that they value and that distinguishes you from your competitors.
- **A distinctive value chain:** The value chain represents the set of activities necessary to deliver that value proposition to customers. The strategy is reflected in the choices about how activities are configured and linked.

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Finding a unique value proposition often involves identifying new needs, new ways to segment the market and customers, and/or innovation in product attributes and service approaches. To define the value proposition and the way in which you will operate to achieve it, three key decisions must be made:

1. What consumers am I trying to serve? Who is my target? This point has to do with end consumers and the channels used to reach them.
2. What needs are you going to satisfy? What products, with which characteristics, and what services are you going to offer?
3. At what price are you going to offer those products or services?

A novel value proposition often expands the market, through serving new customers or new needs.

The last step would be to evaluate our strategy, with the following points to take into account:

- Have a unique value proposition in relation to competitors.
- Have a distinctive value chain, involving clear decisions about how the company will operate differently to meet its value proposition.
- Make clear choices about what not to do.
- Integrate the activities in the value chain so that the activities fit together and are mutually reinforcing.
- Continuity of the strategic direction, with continuous improvement in the realization and improvement of the unique value proposition.

Creation of shared value

Societies around the world today face major changes in social, environmental and economic development. Governments and NGOs often lack sufficient resources and capacities on their own to fully cope with these changes. It could be said that companies are the only institutions capable of efficiently satisfying the needs of consumers on a large scale.

As societal problems continue to grow and companies are seen as contributing to these problems, business legitimacy plummets. This is why companies need a new approach.

Now the role of companies is not simply to maximize their own profit. Their role is to do it in a way that is also beneficial to society, favoring their communities. This is considered Shared Value (addressing the needs and challenges of society through the company itself, with a business model).

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THE IMPACT OF DIGITAL TRANSFORMATION ON THE STRATEGIC AND COMPETITIVE LANDSCAPE

Digital transformation

All industries today are being changed at great speed due to the impact of digital transformation. It is the new reality for the business world. This digital transformation contains three main components for business activity:

1. **Digital technology:** It offers some advantages such as Artificial Intelligence and data processing.
2. **Machines:** They help us get work done and make products. Their advantages include physical strength, consistency, computing power and resistance to harsh environments and climates.
3. **People:** They represent ideation, creativity and innovation. Advantages include their broad recognition of sensory patterns, complex communication skills, and sophisticated sensory and motor skills.

Right now we are realizing that the idea of getting rid of human labor in favor of extreme automation is a mistake. People can reach places where machines and technology cannot; they are adaptable, they can do several things at the same time and have the ability to evolve on their own.

Factors driving digital strategy

Digital transformation has been developing over time in different scenarios. Since its inception in business through to today, four great moments can be identified:

- 1800s - **Mechanical Products and Manual Processes** - Products were manufactured mechanically or electrically and information was processed and collected manually.
- 1960s - **Value chain automation** - Information technology automates processes and the collection and analysis of information in value chain activities.
- 1990s - **Value chain dispersal and integration** - The Internet enables coordination and integration across the value chain, across geographies, and with customers and business partners.
- 2010s - **Smart and Connected Products (IoT)** - Information technology is embedded in the products themselves, expanding the way products create value and change the nature of competition.

Implications of digital transformation

Smart and connected products offer exponential expansion opportunities for new functionality, much greater reliability, much greater product utilization, and capabilities that cross and transcend traditional product boundaries.

This type of product has a series of peculiarities:

- **Identity and security:** We have to make sure that we know who uses this product and that we are not communicating this data to third parties, without the user's permission.
- **The cloud:** This product is connected to the cloud, where all the information is stored. This contains the entire database extracted from the use of said product and also has what is known as "Digital Twin", a 3D digital model where the information is stored.
- **The product:** Composed of hardware, software and sensors that capture the information.
- **Connectivity:** This allows network communication.

These smart and connected products have enabled new capabilities and represent a development for the industry and the company, which represents an adaptation of the strategy:

1. **Monitoring:** Sensors and external data allow you to monitor and supervise the location of the product, its operation, its condition and the environment around it.
2. **Control:** Once the software for this product is built, you can control the way it works and it allows you to customize it much more effectively. The software embedded in the product or the cloud allows:
 - An extension and remote control of the products.
 - Unprecedented customization.
 - Digital interfaces - So that contact with the product is not manual.
3. **Optimization:** The algorithms and data collected make it possible to optimize how the product works (its usability) and allow for diagnostics for a more predictive service.
4. **Autonomy:** All these capacities allow the product to have a high degree of autonomy. The combination of the three capabilities allows autonomous operations, automatic product adaptation and customization, self-diagnosis and service, and self-coordination with other products and systems.

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Digital strategy

This digital transformation has brought with it a multitude of opportunities for industry competition in each of the following areas:

- **Customers:** Expanding opportunities for differentiation, segmentation and change costs.
- **Channels:** Reduction of dependence on channels/service partners.
- **The rivalry between existing competitors:** This allows you to go beyond price.
- **Threat from new competitors:** Market entry barriers grow.
- **Threat of substitute products or services:** Smart and connected products take over the functions of other products.
- **Suppliers:** More independence from mechanical components.

In relation to smart and connected products, there are a series of decisions to be made in strategy that had not been considered before:

- What product capabilities must be developed?
- In-product functionality vs. Cloud?
- Open or closed system?
- Technology development: internal or external?
- What data to capture?
- How to manage rights, access and data security?
- Disintermediated distribution or service channels?
- Change the business model?
- Sell the data to third parties?

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INDUSTRY COMPETITION IN A VOLATILE MARKETPLACE

The definition of business

How are the barriers and boundaries of business changing in the post-Covid-19 world? The definition of our business is one of the pillars to build a good strategy. The structure of the industry determines the nature of the competition and the average profitability of the industry rivals. The drivers of competition are the five forces, or structure of the industry. Changes in these five forces are the way the industry structure changes and evolves.

Today big changes are taking place in the economy that are altering the definition of business in many industries. What business are we in? Do we know which markets we operate in?

To answer these questions and thus create a consistent strategy, two aspects mentioned above must be analyzed:

- **Product scope:** What product/customer groups make up a strategically distinct company? To do this, you have to think about the structure of the industry (based on the five forces). If two products fit within the same structure and have the elements that analyze the five forces in common, it means that these two products are part of the same industry.
- **The geographic scope:** What is the geographic scope of competition and competitive advantage? This aspect compares the similarity of needs across geography and their ability to leverage key activities in the value chain across regions and countries. This scope distinguishes four different main options:
 - Local scope: Different local value propositions and separate value chains.
 - National scope: Different value propositions in different countries and limited use of the value chain in the countries.
 - Regional scope: A common value proposition and an integrated regional value chain.
 - Global reach: A common value proposition and an integrated global value chain.

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Digital innovation

Another factor that is most altering the industry and competition between companies is digital transformation and more specifically within it, Augmented Reality. This is defined as a set of technologies that superimposes digital data, images and control options to the human vision of the physical world. One of the reasons why augmented reality exists and is so in demand is because without it, it would be very difficult to deal with smart and connected products and with all the information they generate.

Augmented Reality substantially improves the capabilities and impact of smart and connected products. These enable new possibilities such as:

- **Visualization:** Increases the user's ability to understand the physical world by superimposing relevant digital information in real time or possible future options and states.
- **Instruction and Guidance:** For users to perform tasks by overlaying digital data and instructions or allowing real-time expert guidance.
- **Interaction:** Augmented Reality as an interface that allows product control through overlay graphics or natural user interfaces such as voice commands, gesture control, or eye tracking.
- **Simulation:** When necessary, virtual reality adds a fourth ability to overcome practical limitations such as distance, length of time, and dangerous environments.

Augmented Reality has also been adopted throughout the value chain of products in the form of virtual product campaigns in Marketing and Sales or the remote experts of the Support team.

It has entered business with such force that it will affect and influence many strategic decisions and is something that all companies should be working on now. Some of the key questions to ask are: How will Augmented Reality enhance a company's product differentiation? When will AR have the greatest impact on cost reduction? Should the company design and develop AR internally, or will subcontracting or association be enough?, among others.

Digital transformation has enabled a new and growing set of capabilities that have dramatically increased the efficiency of machines and products, as well as people. It enables more effective training and guidance to address the skilled frontline worker shortage, improve worker productivity through better collaboration with machines, and counteract the shift to automation by empowering human workers.

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Changes in the way we work

An important aspect of digital is how it is affecting the way we work. The 2020 coronavirus crisis has only accelerated these trends across all business functions. Travel bans, closures and social distancing policies have disrupted businesses around the world, forcing companies to find new ways of working.

There are two main areas of work:

- **Knowledge Work:** Trade with information that is easily captured in digital files and databases. When work is purely digital, location doesn't really matter. Productive work can continue if employees are in the office or working remotely.

There is a trend towards a more distributed, mobile and agile workforce, as knowledge work has become increasingly digital. The COVID crisis has accelerated the growth of knowledge work, taking it to a new level and further emphasizing these characteristics.

- **Frontline work:** Work performed in the real world and involving actual physical work. Frontline workers cannot do their work from home and require knowledge and training to do their job. This has traditionally come in the form of personal experience, training classes, and mentoring. Digital technology is a very powerful transformation in frontline work by providing training, guidance, and collaboration.

Augmented reality enables solutions for frontline workers thanks to its ability to provide the necessary digital content and expert guidance in the context of the physical environment in which frontline work is performed. AR has the ability to be a real-time tool for collaboration between a remote expert and a front-line worker in need of input.

AR is also a cutting-edge technology for frontline worker training, enabling the next generation of educational content and processes.