The insights in this e-book are culled from the University of Virginia Darden School of Business’ thought leadership website, Ideas to Action. For more insights from Darden faculty, please visit ideas.darden.virginia.edu.
The strategist’s challenge is to simultaneously manage three critical factors: values, opportunities and capabilities. In order to devise and execute a successful strategy, you need to analyze each of these factors to understand how your organization can create and sustain value. The various tools summarized in *The Strategist’s Toolkit* can help to paint a complete picture of your organization’s competitive landscape.
Step 1. Define Your Values

Values refer to the mission of the organization. Understanding and establishing your organizational values is a critical first step in devising a successful business strategy and understanding how you can create value for others. Your values define your ambitions and the competitive space in which you operate. Your values help delineate what you will and will not do to achieve your mission. To better define your organization’s values, you might consider and answer these questions:
THREE CRITICAL FACTORS OF BUSINESS STRATEGY

- **Define your mission.** What is the organization’s purpose, its reason for existing?
- **Establish your scope.** In which markets do you operate — in terms of product and geography?
- **Identify your aspirations.** What does success look like now and in the future?
- **Know others’ expectations.** Who are the organization’s stakeholders, and what do they expect of the organization?
- **Declare your values.** What do you expect of the organization? What values and beliefs do you want the organization to hold?

Considering these questions will help you begin to identify competitive positions that create value for stakeholders. After all, strategy formulation is not done on a blank slate. Your mission and values define your opportunity set and help you understand how to leverage and build your capabilities.

Bill Gates of Microsoft set out to create the world’s greatest software company. That simple statement defined Microsoft’s aspirations and the scope in which it operates. Google says they will “do no evil,” declaring a value set that constrains and enables specific strategic actions. Conducting a stakeholder analysis can be very useful in understanding what others expect of you and may be influential in helping to define your own values for the organization. Ultimately, your values serve as boundary conditions for your strategy.
Step 2: Explore Competitive Opportunities

Opportunities refer to the possible competitive positions in the market to create value for stakeholders. To define them, you could take the following steps:

- **Define your industry.** What is the arena in which you are competing with others? Who are your competitors? What customer needs do they satisfy?

- **Analyze the market structure.** What competitive approaches prove superior? How does the structure of the market in which you are operating affect that competitive dynamic?

- **Identify market trends.** How is the industry evolving? What are customers demanding now and in the future?

You need to think clearly about the economic, technological and societal environment in which your organization operates and acutely consider the activities and capabilities of your competitors. Each of the three tasks identified above requires attention and analysis. Defining your industry and competitors is deceptively simple, but it can be greatly informed by a full competitor analysis, environmental analysis, five forces analysis and competitive life-cycle analysis.
Step 3: Identify Your Capabilities

Capabilities refer to the organization’s existing and potential strengths. These ideally fuel the organization’s strategic efforts. To evaluate an organization’s strategy, you need both a clear picture of what makes the organization distinctive and a sense of the organization’s ability to marshal resources and leverage capabilities toward desired organizational objectives. This requires, of course, clarity about those capabilities:

- **Define your value chain.** How do you deliver value? What capabilities do you (or your organization) currently possess? What makes them distinctive?
- **Assess alignment.** Do your capabilities complement one another? Are your capabilities aligned with your external value proposition?

- **Identify competitive advantage.** Are these capabilities unique, and do they provide the basis for a competitive advantage? Are they easily imitated by others?
- **Analyze sustainability.** Are your capabilities durable over time? What capabilities does the organization need to possess in the future? How can they develop them?

Tackling these questions can be informed by an extensive capability analysis. A capability analysis can help you identify sources of competitive advantage and highlight critical gaps in your current capabilities. Other tools such as strategy maps can be useful in highlighting your position versus rivals and to answer whether your capabilities are unique.
Step 4: Integrate Your Insights

These three factors converge in the organization’s competitive position, where value for an organization’s stakeholders is created and sustained. Ultimately, developing effective business strategy is an integrative exercise. It involves looking through a wide lens at the organization. Whereas the functional areas of an organization — finance, marketing, accounting, operations, human resources — often bring specific paradigmatic views to bear on organizational problems and considerations, business strategy is about how all the underlying insights of these disciplines are brought together. Managers do not typically encounter challenges as isolated, atomistic problems with narrow disciplinary implications; rather, they must navigate issues that encompass a whole range of complex, cross-disciplinary considerations.

Business strategy is also integrative because its success involves value creation for its investors, employees, customers, suppliers and support communities. Commonly invoked business axioms like “maximize shareholder returns” can be useful to the extent that
such shorthand phrases imply value creation for investors by way of creating value for all key stakeholders — creating goods customers want, work environments that energize employee contributions and so forth. Maximizing shareholder value is not a strategic direction, nor is it exogenous to creating value for customers, employees or communities. Strategy involves putting these considerations together to align stakeholder interests and create value in an integrative and sustainable way.

Use an integrative, enterprise perspective to think clearly and to exercise sound judgment that creates long-lasting value. When successfully implemented, an effective business strategy can help an organization fully realize its potential.

Darden Professors Harris and Lenox are authors of the book *The Strategist’s Toolkit* (Darden Business Publishing).
STRATEGY MAPS

by Jared D. Harris and Michael Lenox
What are they?

A strategy map is a tool for visually displaying the position of a company or a line of business relative to competitors. Strategy maps generally place firms based on two or three dimensions that capture either critical elements driving consumer preferences or important attributes characterizing competition.

Why do we use them?

Strategy maps are useful visual tools to quickly communicate a large amount of information on a collection of firms. Arguably, there are four main ways a firm can position itself within a market, defined by the source of competitive advantage a firm pursues and the firm’s competitive scope within an industry.
In general, there are two types of competitive advantage a firm can pursue: low cost or uniqueness. Using a low-cost strategy, a firm simply tries to have lower costs than the marginal producer in the industry. With the uniqueness strategy, a firm tries to persuade customers to pay more. A uniqueness strategy usually entails offering products of higher quality or with more features than other products in the marketplace.
Firms may choose to target a broader or narrower segment of the market. Broad-scope firms tend to deliver products and services that appeal to a wide number of these segments. They may do so by offering individual products and services with broad appeal or by offering a portfolio of products that cover the product space. For example, Henry Ford’s Model T automobile was built with a broad target market in mind: people who wanted a simple, affordable car. Alternatively, General Mills offers a broad array of cereals to try to appeal to each market segment.

On the opposite end of the spectrum are narrow strategies that target one or a few market segments. Porsche manufactures and sells high-end sports cars to a narrow segment of affluent automobile owners. Nature’s Path Organic sells healthy cereals to a narrower, environmentally and socially conscious consumer base.

These two dimensions, broad versus narrow and low cost versus unique, define four generic strategies:

Broad-scope, low-cost players are referred to as **COST LEADERS**. Walmart is a classic example of a company trying to appeal to a wide audience with the lowest-cost products. Cost leaders typically engage in aggressive cost-cutting, build market share to gain economies of scale, use low-cost inputs and labor, minimize overhead such as R&D, and invest in low-cost, state-of-the-art operations and continuous improvement initiatives.
Broad-scope, unique players are referred to as **DIFFERENTIATED PLAYERS**. The Target Corporation is illustrative of this strategy. A mass-market retailer, it offers higher-quality products in a more refined setting (and at higher prices) than Walmart does. Differentiators often invest heavily in advertising to build brand awareness, develop innovative capabilities to stay on the cutting edge, and invest heavily in human resources and other ancillary activities.

On the narrow side, we have both focused, **LOW-COST PLAYERS** and differentiated **NICHE PLAYERS**. Kia entered the U.S. market as a focused, low-cost auto manufacturer — offering a narrow line of low-cost cars to a limited market. On the flip side, Tesla was a new entry into the U.S. automobile market with an electric-powered sports car — a higher-end vehicle costing over $100K and appealing to a narrow set of environmentalists and technophiles (not to mention celebrities).

Some firms pursue generic strategies that cross these boundaries. Toyota is a classic example of a company that has simultaneously attempted to be both low cost and high quality (i.e., unique). Some argue that firms do so at their own risk, however. More often than not, these firms get stuck in the middle — being neither the lowest-cost player or all that differentiated in the market.
How do we do it?

Step 1. Select dimensions.

The first step in generating a strategy map is to determine the dimensions. Dimensions can be any factors that help define competition within an industry. These may be based on product styling, such as the conservative versus the sporty automobiles or luxury versus mass-market leather goods. They may be based on price. In other words, low versus high, or they may be based on capabilities or technologies common in the industry, such as microbrews versus mass-produced. Dimensions that capture basic competitive indicators may be used (e.g., revenues, market share or earnings).
Step 2. Assess dimensions.

The second step is to assess a firm or one of its product lines on each dimension. In the best case, this can be done quantitatively. For example, price is a dimension that is relatively straightforward to map. Other dimensions might require customer surveys or expert opinions to quantify and map, as when customer perceptions on quality or customers’ loyalty ratings are needed. As a last resort, analysts may elect to assess firms and businesses based on their intuition or knowledge of the industry.

Step 3. Create a map.

The final step is to place firms on the map based on these assessments. Creating two-dimensional maps is straightforward. You can create three-dimensional maps by using circles to represent the third dimension — the larger the circle, the greater the value on that dimension. The template below gives an example of a three-dimensional map of the auto industry. The two main dimensions for analysis are the degree to which a car model is conservative versus sporty and the quality of the vehicle as measured by defects. The third dimension is represented by the size of the circle and captures the revenues for each car model.
This map conveys some valuable information. For example, you can identify the competitive position of the various firms and their apparent strategies. Firm 1 is relatively small and has positioned itself to sell high-quality, sporty vehicles — a classic niche strategy. Firm 2 is the market leader, selling large numbers of vehicles to a presumably broad audience. Firm 3 seems to be pursuing a low-cost strategy, selling vehicles of average quality. Firm 4 may be pursuing a differentiated strategy, perhaps targeting an older consumer base and selling higher-quality vehicles with conservative styling.

The preceding is excerpted from *The Strategist’s Toolkit* (Darden Business Publishing).
BENCHMARKING COMPETITIVE PERFORMANCE

by Jared D. Harris and Carlos Santos
Today’s world is awash in data, which has the potential to dramatically impact the way we make decisions. Consider, for example, the world of competitive sports; whereas a generation ago the simple win-loss record may have been the primary focus, the rise of detailed metrics and statistics has revolutionized the way we evaluate the competitive performance of athletes and teams. Performance data has changed the game, so to speak. When it comes to evaluating competitive athletic performance, we have a better understanding of what to pay attention to.

What about business? How do managers and organizations benchmark competitive performance in the business world? What competitive metrics influence the decision-making of corporate leaders?

Darden Professor Jared D. Harris’ research took a close look at the underpinnings of that question to determine what kinds of performance feedback managers pay attention to and how they pay attention to it.
“Based on some classic work in behavioral theory, we already have a broad sense of how organizations respond to signals about competitive performance. But the findings of this study add some nuance and give us a subtler understanding of how organizations respond to performance feedback,” he says.

The findings, in a paper written with Philip Bromiley of the Paul Merage School of Business at the University of California, Irvine, were published in a recent issue of Strategic Management Journal.

The study takes as its jumping-off point the idea that managers have traditionally benchmarked the performance of their companies with respect to two different reference points: self-referential performance — checking how this year compared to last year — and a comparison to competitor performance.

The three dominant models often employed to describe how managers evaluate performance have many similarities, but it’s the details that differ. One model argues that managers first pay attention to industry benchmarks, and only switch attention to their own firm’s past performance once they are performing above the industry average. Another model — the one most closely associated with traditional theory — suggests that managers constantly “average out” industry and self-referent benchmarks into one aggregate performance
Harris wanted to see which of these models most accurately described what managers actually do. “All three models typically predict the various outcomes in a statistically meaningful way,” Harris says. “But we wanted to know which model most accurately represented the way managers pay attention to performance feedback. So we ran a horserace between these three well-known models of organizational benchmarking. How do organizations really evaluate their own performance? That was the question.”

To find the answer, Harris used public data on thousands of firms to run the comparison. This resulted in a comprehensive comparison of different benchmarking models, different performance measures and different corporate outcomes, using a common set of data: the first study of its kind.

Surprisingly, the study found that the “averaging” model was least effective at explaining corporate action, though it’s the model most strongly associated with traditional organizational theory. And the winner of the horserace? The model in which social and self-referent benchmarks have independent influence. Which, according to Harris, makes sense: “Individually speaking, this is, of course, how we tend to live our lives; we have different performance targets for different aspects of our lives, and we are constantly juggling. This study shows that organizations do it, too.”

A second surprise was in store. Though it wasn’t the primary objective of the study, the research also shed some light on a long debated
question of which performance metric provides the “best” measure of a firm’s performance. In the academic field of business strategy, more and more focus has been placed on sophisticated, unbiased performance measures. Would these complicated metrics prove more influential? Surprisingly, the study found otherwise.

Harris found that “raw, unscaled income was the most influential performance measure in the way these managers evaluate their performance. It isn’t the most accurate measure of a firm’s true performance, of course, but the study shows that managers don’t pay as much attention to that more sophisticated stuff. They look at the net income and say, let’s up our game. From a research standpoint, it’s surprising the managers favored net income, because it’s the worst, noisiest performance measure.” But it’s the metric that was most influential from a behavioral standpoint. The choice, in part, may be encouraged by external pressure from stock analysts and the press.

“The study was about better understanding how managers and organizations respond to and interpret performance feedback, and what we found is that managers think about different benchmarks independent of each other. In addition, the analysis demonstrated that managers tend to focus on simpler, blunter measures of performance when benchmarking,” Harris says. “That’s just what people in organizations do.”

“Managers are capable of striving for multiple criteria,” Harris continues. “The findings open the door to thinking more carefully about how organizations actually set targets and evaluate their performance, specifically with respect to multiple decision criteria. Better theoretical models of organizational decision-making can lead to better organizational decision-making.” In other words, how we keep score can influence which play we might call next.
LAY’S POTATO CHIPS: THE CRUNCH IS ON

by Jared D. Harris
Just because your company is successful doesn’t mean you can rest on your laurels.

Taking a proactive approach to remain successful in the future requires foresight, recognition of changes in the marketplace and effective analysis of the competition. These are the steps that leaders at Frito-Lay North America took in order to defend their lead in the snack food industry and respond to market changes that threatened Frito-Lay’s dominance. They provide a valuable lesson for others.
The History of the Chip

A beloved brand since 1932, Americans had historically been very loyal to Lay’s potato chips. Frito-Lay, the chip’s manufacturers, had weathered many diet and health fads. However, in 2007, a more substantial change in customer consciousness was afoot: consumers were beginning to show more and more preference for organic, healthy and locally sourced foods. Leaders at Frito-Lay North America grappled with whether to change the composition of their popular Lay’s potato chips in response to these changing consumer preferences.

As a leading snack food company, Frito-Lay North America merged with PepsiCo in 1965. Their Lay’s chips also boasted an astounding 99 percent consumer awareness. The company was also no stranger to sustainability efforts, an integral part of PepsiCo’s strategy. As early as 1991, the company installed “Green Teams” in its plants to ensure environmental compliance.

To meet market demands, PepsiCo launched its “Smart Spot” program in 2005 to help consumers identify healthier snack food choices. Frito-Lay brands, such as SunChips, Rold Gold and Baked!, were in the “Smart Spot” product portfolio. In 2006, Frito-Lay launched the “We Grow the Best Snacks on Earth” campaign, which focused on the fact that Lay’s chips included three ingredients: potatoes, oil and salt.

Similarly, their Tostitos and Fritos brands contained corn, oil and salt.

Their goal in the campaign was to show consumers that they weren’t a purveyor of “junk food” loaded with artificial ingredients, but rather, a company whose core products were natural.
The Healthy Road Takes a Turn

The plan initially seemed to work as snacks in the “Smart Spot” program saw double-digit revenue growth by 2007. Then conditions took a downward turn. By the end of 2007, fewer consumers were choosing Frito-Lay’s products.

Several factors were affecting consumers’ relationships with snack foods. The Great Recession led shoppers to opt for less expensive brands, and an increasingly identifiable demographic devoted to “Lifestyles of Health and Sustainability” (LOHAS) preferred products displaying words such as, “organic,” “natural,” “whole-grain” and “locally owned.” In addition, a growing trend toward eating on the go, combined with talk of government legislation intended to tax less-healthy foods, was also having an impact on the food industry.
Frito-Lay Strikes Back

In an effort to revitalize the brand and win back consumers, Lay’s launched a new campaign in 2009. “Lay’s Local” introduced consumers to five farmers who grew potatoes for Lay’s chips. The idea was to show consumers how localities play a role in developing Frito-Lay’s products. The company also created a “chip tracker” so consumers could learn where their chips were made. Other efforts included the use of electric trucks to deliver Lay’s products. Frito-Lay tried a number of initiatives, some of which were less successful. For instance, new compostable packaging for Sun Chips proved less popular with consumers who liked the idea of biodegradable packaging but complained about the noise the bags made.

Nevertheless, on the whole, the initiatives proved effective. The efforts ultimately won back some of Frito-Lay’s consumers. By 2010, Frito-Lay made more than $13 billion in revenue. Their Lay’s brand products once again enjoyed majority unit market share.

The company held its own as it continued to tell its story of sustainability and simple, locally sourced product ingredients.

“The firm’s true accomplishment arose from its ability to understand its distinctive capabilities and communicate that value proposition to customers, leading to substantial competitive advantage.”
The Lesson

Leaders at Frito-Lay recognized that the marketplace had changed and understood the need to improve on their competitive position moving forward. In this case, the company looked at their existing capabilities, tangible and intangible, before they made a decision to either change or capitalize on such capabilities. Doing so required strategic considerations such as examining the processes, people and systems that enabled them to create value for their customers — three simple ingredients indeed.

In addition, Frito-Lay leaders proactively defended their market share against competitors through storytelling — shaping a narrative to help stakeholders better understand their company’s mission and products. The firm’s true accomplishment arose from its ability to understand its distinctive capabilities and communicate that value proposition to customers, leading to substantial competitive advantage.

Darden Professor Harris co-wrote the case *Lays Potato Chips: The Crunch Is On* (Darden Business Publishing) with co-authors Gerry Yemen and Amanda Lozano (MBA ’09).
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