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Whitepaper

A New Perspective on Strategy

by Anthony W. Ulwick

The goal of strategy formulation is to create a unique and valued competitive position, but until now, how this is done has been unclear.

This article explains what strategy really is and reveals the six growth paths that a company can pursue in any market to differentiate its offerings and grow revenue.

Contents

Introduction 2

Deciding What Markets to Pursue 3

Devising the Product Portfolio Strategy 6

Optimizing Profitability 13

A New Perspective 15

Introduction

There are fundamental truths about strategy that are universally acknowledged. We know, for example, that a company can outperform rivals only if it can establish a difference that it can preserve, and we know that to succeed, a company must deliver greater value to customers or create comparative value at a lower cost, or both.[1] In the words of strategy guru Michael Porter, strategy is the creation of a unique and valuable position.[2] Other widely espoused theories about strategy, however, have been less compelling. As companies become less tolerant of failed strategies, those theories should be debated and scrutinized.

One assumption in particular should be reexamined. In his explanation of strategy, Porter also puts forth the notion that “activities are the basic units of competitive advantage.”[3] This notion is widely accepted today, and Porter’s theory regarding strategy, which is centered around choosing activities that are different and/or performed differently while also being sustainable, is based on this assumption. Our interactions with hundreds of companies, however, have led us to another conclusion: we believe there is a more relevant and appropriate basic unit of competitive advantage: customers’ unmet needs.

We put forward the proposition that all cost and price differences between companies ultimately derive from which unmet customer needs companies choose to target for value creation and the solutions that companies devise to satisfy those unmet needs. Similarly, differentiation arises both from the choice of which unmet needs to target and how those needs will ultimately be satisfied. A company secures a unique and valued competitive position by devising and delivering products and services that satisfy unmet customer needs. Activities, on the other hand, are enablers of competitive advantage, not basic units. They are what a company performs to execute its strategy—they are performed to satisfy customer needs or to create and deliver the products and services that a company chooses to offer.

This sheds new light on just what strategy is. A strategy is a plan that sets the groundwork for how a company will grow. An effective strategy must inform a company along three critical fronts. First, it must identify attractive markets for value creation so that only worthwhile markets are pursued. Second, it must determine what unmet needs to target and what product portfolio is needed to gain the company a unique and valued competitive position. Third, it must dictate what operational capabilities and business model to employ to maximize revenue and minimize cost. With these insights, a company can pursue attractive markets with products and services that create customer value and company profitability. At the foundation is the recognition that when it comes to strategy, customer needs are the basic units of competition advantage.

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[1] Michael Porter, “What Is Strategy?,” *Harvard Business Review 74, no. 6* (November–December 1996), 62.
[2] Ibid., 68.
[3] In “What Is Strategy,” Porter states that “cost is generated by performing activities, and cost advantage arises from performing particular activities more efficiently than competitors. Similarly, differentiation arises from both the choice of activities and how they are performed.” He concludes that “activities, then, are the basic units of competitive advantage”, 62

Deciding What Markets to Pursue

Strategy begins with market selection, a task that entails discovering attractive new or emerging markets and deciding which, if any, should be pursued. This process poses distinct challenges, as new market discovery is often a chance occurrence and sizing markets has traditionally required knowing the amount of revenue generated by products sold in the market—which in a new market is zero.

But these issues stem from a problematic definition of "market." A market is sometimes defined by a technology (for example, the semiconductor market or the search market); other times, it is defined by the users of a product or service (the gamer market or the application developer market). Still other times, it is defined by a product or service (the printer market or the insurance market). Although adequate for many purposes, these definitions are unhelpful when it comes to market analysis and deciding what markets to pursue. We have found that it is much more useful to define a market in terms of high-level customer needs.[4]

We know that people use products and services to get jobs done.[5] Given this fact, it is possible to define a market in terms of the job executor (the person performing the job) and the specific job or jobs they are trying to get done. For example, an interventional cardiologist uses an angioplasty balloon to restore blood flow; parents use a reward system to motivate their children to get good grades; a home owner uses an electric door opener to open the garage door. The jobs of restoring blood flow, motivating children, and opening the garage door all represent potential markets. As you may imagine, a near endless number of markets exist.

A market thus defined is exceptionally stable because the jobs customers are trying to get done don't change much over time, although the solutions they use to get those jobs done may. The jobs of restoring blood flow, motivating children to get good grades, and opening a garage, for example, have been around for years, even though the solutions devised to get those jobs done have changed. Companies that stay focused on the job and not the solution can avoid the greatest business pitfalls. If Penn Central had recognized that its market was not railroads (which represent a solution), but rather, that it was helping suppliers of raw materials with the job of

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[4] See Anthony W. Ulwick and Lance Bettencourt, "Giving Customers a Fair Hearing," *MIT Sloan Management Review 49, no. 3* (Spring 2008), 62–68, for a detailed description of how to define customer needs in terms of jobs and outcomes.

[5] This idea was first articulated by Theodore Levitt in "Marketing Myopia," *Harvard Business Review 38, no. 4* (July–August 1960), 45–56. We made the job the customer is trying to get done the unit of analysis in our consulting engagements beginning around 1995. We shared our idea with Clayton Christensen, who cited and publicized it in "The Innovator's Solution," cowritten by Michael Raynor; *Harvard Business School Press* (2003). Today, it is commonly accepted that people buy products and services to get jobs done.

transporting those materials, helping manufacturers with the job of transporting finished goods, and commuters with the job of getting to and from work, it might have avoided bankruptcy in 1970. Other companies were eventually formed to help customers get those jobs done.

Those companies who are first to recognize the emergence of new jobs and to address them with effective products and services will realize the all important first-to-market advantage.

Although our definition of "market" is centered around a job executor and the job the executor wants to get done, it is important to note that the executor and job exist in a market ecosystem with other constituents. The purchase decision maker, for example, executes the job of making the purchase; the installer performs the job of installation; the maintenance department executes the job of troubleshooting and repair. Of course, people don't buy products so they can install them or have them repaired; they buy them to get a job done. However, these other activities are important to the overall execution of the job. We call these secondary activities "consumption chain jobs."

As we shall demonstrate, defining a market in terms of job executors and the jobs they want to get done not only helps a company discover new and emerging markets, it also makes it possible for the company to size those markets. Companies can also redefine existing markets from this perspective, thereby gaining a stronger focus on the creation and delivery of customer value.

Discovering New and Emerging Markets

New jobs (and hence markets) are constantly emerging. They arise from many sources, but four in particular are worth mentioning: macro changes, discoveries, policy changes, and the introduction of a new product or service. From climate change, for example, emerged the jobs of monitoring ocean levels and controlling emissions; from the discovery of DNA emerged the job of DNA sequencing; from new policies surrounding prescription drug purchases in the United States emerged the job of acquiring prescription drugs from Canada; and from the invention of the airplane emerged the jobs of piloting and maintaining an aircraft. Those companies who are first to recognize the emergence of new jobs and to address them with effective products and services will realize the all important first-to-market advantage.

New market discovery can be accomplished in one of two ways. First, companies can ask their current customers what new jobs they may want to get done as a result of a specific macro change, discovery, policy change, etc. Second, a company can select an attractive demographic to study, such as business owners, the elderly, health care providers, or carpenters, for example, and uncover what new jobs have arisen or may arise for that demographic as a result of a specific macro change, discovery, etc.

In preparation for these interviews, the company must be aware of macro changes, discoveries, policy changes, and recently introduced products. Interviewees should be asked specifically about each macro change, discovery, and so on. For example, in today's environment, a company might ask home owners what new jobs they would like to get done given that housing prices have declined (a macro change). They might find that home owners

want to obtain a new property value assessment so as to lower their property taxes or to renegotiate a mortgage with a lender to reduce the risk of foreclosure. With dozens of possible new markets in its crosshairs, a company can then turn to sizing those markets.

Sizing a market that (from a traditional view) doesn't exist

When using the job as the unit of analysis, much can be discovered about the size and attractiveness of a new or emerging market even before any product has been introduced into it. Through primary market research, a company can determine:

1. How many people execute a certain job
2. How frequently they execute that job
3. How satisfied they are with their ability to get that job done
4. How much money they spend today piecing together solutions to get that job done
5. How much time they spend getting that job done
6. How much they are willing to spend to get that job done perfectly
7. The longevity of that job—the number of years that job will likely be performed

A market would be considered most attractive if it has a large number of job executors, if they attempt to get the job done frequently, if they are currently unsatisfied, if they currently spend considerable time and money trying to get the job done, if they would be willing to spend significantly to get the job done perfectly, and if the job will be around for years to come. With this basic information, a company is able to size a new or emerging market. For example, if 6 million people execute a job once a week and are willing to spend $20 each time to get the job done perfectly, then the addressable market is approximately (6,000,000) * (1*52) * ($20) = $6.24 billion per year.

Once a company has determined that a market is attractive from a revenue-producing perspective, it can evaluate the market's attractiveness along other dimensions, such as the degree to which job executors are unsatisfied and the organization's ability to create a valued solution, sustain a market leadership position, and limit organizational risk.

This approach to market selection differs markedly from the way companies typically select a market. It is not uncommon, for instance, for companies to generate a product idea before the market selection exercise is even contemplated. What we are suggesting is that a company should decide upon the market it wants to pursue first and only then start thinking about ideas that address needs in that market. This will keep the company from wasting time and resources creating, prototyping, and testing product or service concepts for markets that are not attractive targets to begin with.

Devising the Product Portfolio Strategy

> Deciding what unmet needs to target and how to satisfy them for purposes of positioning and competitive advantage is the heart of strategy formulation.

Once a company has selected its market, it must determine what unmet customer needs to satisfy (and with what combination of products and services) so that it can achieve and sustain a unique and valued competitive position. Deciding what unmet needs to target and how to satisfy them for purposes of positioning and competitive advantage is the heart of strategy formulation. Ultimately, the price that a company is able to charge, its costs, and its ability to differentiate are all derived from this process.

Before a company can devise a product portfolio strategy for a select market, it must understand the job the customer is trying to get done, uncover all the needs associated with getting the job done, and determine which of those needs are unmet.

To understand the job the customer is trying to get done, a company must create a job map. A job map describes in detail not what the customer is doing, but rather the job the customer is trying to get done.[6] The job map serves as a framework for capturing all the metrics that customers use to measure the successful execution of the job. These metrics are the customers' desired outcomes, the detailed components of the customers' needs, which the company must understand before it can begin devising solutions to help customers get the job done better. The job map also serves as a framework to define other, related jobs that customers may want to get done, thus enabling companies to devise solutions that help customers get those jobs done as well. Customer needs, when defined as jobs and outcomes, are the basic units of competitive advantage.[7]

Once the company has a complete set of customer needs in hand, it must conduct quantitative research to determine the degree to which each need is unmet. This will show the degree to which the market is under- or overserved and which needs in particular should be addressed to achieve a unique and valuable competitive position.[8] Then the company is ready to devise its product portfolio strategy.

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[6] See Lance Bettencourt and Anthony Ulwick, "The Customer-Centered Innovation Map," *Harvard Business Review 86, no. 5* (May 2008), 109–14, for a detailed discussion of the job map and how to create it.

[7] Anthony W. Ulwick and Lance Bettencourt, "Giving Customers a Fair Hearing," explains how job and outcome statements should be structured and how they are captured. The methodology surfaces all needs, including those that have traditionally been thought to be latent and those that customers struggle to articulate.

[8] A complete set of needs typically consists of between 50 and 150 outcome statements describing how the job executor measures success when getting the job done and between 25 and 75 related job statements describing the other jobs the job executor is trying to get done relative to the core functional job.

The six growth paths

When deciding what unmet needs to target and how to satisfy them for purposes of positioning and competitive advantage, a company must know what options it has to choose from. Traditionally, when devising a portfolio strategy, companies must choose between low-cost and differentiated strategies, between sustaining and disruptive strategies, and between core-market and adjacent-market strategies.

But how does a company know when to choose one over the other? How does it know when more than one strategy should be pursued? We have discovered that there are six primary growth paths that explain how a market evolves through a series of innovations, often over a period of years.[9] With this knowledge and this framework, a company can position itself on each of the growth paths, thereby achieving market leadership, profitability, and a market position that can withstand competitive attacks.

The growth paths are derived from three questions that a company must ask about each market it wants to pursue: Should the focus be on the core job the customer is trying to get done or on the core job plus related jobs the customer is trying to get done? Should new features be added to the current product platform or is a new product platform required?[10] Finally, should a product be created for the traditional job executor or a new job executor? The framework resulting from this set of variables is shown in Figure 1. Whether one or all six growth paths should be pursued depends on what unmet needs exist in the market and what it will take to address them. Let's look at each growth path in turn.

Growth Path 1: When customers struggle to get a job done and it is technically possible to devise a feature set that will address those unmet needs on the current product platform, then a company should pursue the core- or sustaining-market growth strategy. A company that adopts this strategy must choose which underserved (insufficiently satisfied) outcomes to target and add a set of features to the core platform that will address those outcomes, enabling the current job executor to get the core job done better. When the Robert Bosch Tool Company created the award winning CS20 circular saw, for example, they applied this strategy after uncovering and targeting 14 underserved outcomes in this seemingly mature market. Because they were able to devise a feature set that addressed each outcome, they were able to enter the North American circular saw market successfully in 2005 and capture a dominant position—a position they still hold today.[11]

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[9] A company can also grow a market by expanding its presence into other geographies, through mergers and acquisitions, and through other activities. The six growth paths introduced here, however, are the primary options a company has at its disposal when it comes to achieving organic growth through innovation. In other words, product innovation is conceived within this framework.

[10] We define "platform" as the subsystems that deliver the core product or service, enabling the customer to get the job of interest done, and the infrastructure that enables the subsystems to work together. For a product, the system infrastructure may consist of materials, the subsystem interconnections, the energy source, and the product's size and shape, while core mechanical, electrical, chemical, and/or software components would be considered subsystems. For a service, the system infrastructure may include core physical assets such as trucks and buildings and other resources such as people, information, organizational structure, software, communication systems, and the like.

[11] See the Bosch CS20 circular saw case study for more details on Bosch's successful entry into the North American circular saw market. The case study can be downloaded at www.strategyn.com.

Growth Path 2: Sometimes, when performing the core job, the job executor also wants to get other jobs done, but is not able to do so easily. In this case, a company should pursue the related-market growth strategy. This strategy requires a company to add new features to the current product platform to help the current job executor get other, related jobs done. Microsoft, for example, learned that IT professionals not only wanted operating system upgrade rights (the core job), they also wanted to deploy new operating systems, train employees on software upgrades, and prevent internal security violations. Microsoft adopted the related-market growth strategy, improving their Software Assurance offering to help customers get these additional jobs done. Between 2004 and 2008, Microsoft was able to substantially grow the Software Assurance business and dramatically increase annual renewal rates.[12]

Figure 1. The Six-Growth-Path Framework

+ Related Jobs	**2. Related-market Growth** Add a set of features to the core platform to help customers get a related job or jobs done.	**4. Related-market Convergence** Construct a feature set on a new platform to help customers get a job or group of related jobs done better.	**6. Disrupted-market Convergence** Add a set of features to the new platform to help new customers get a related job or jobs done.
Core Job(s)	**1. Core- or Sustaining-market Growth** Add a set of features to the core platform to help customers get a core job or jobs done better.	**3. Core-platform Disruption** Construct a feature set on a new platform to help customers get a core job or jobs done cheaper and/or better.	**5. Core-market Disruption** Construct a feature set on a new platform to enable new customers to perform the core job of a specialist.
	Core Platform	**New Platform**	
	Current Job Executor		**New Executor**

Pursuing either the core- or related-market growth strategy will not work if there are no underserved desired outcomes or jobs, respectively. Adding more features to the core platform in those cases will only serve to add product cost, not desired function. People carrying out the job of shaving, for example, feel well served by the number of blades in a razor, so razor manufacturers who continue to add more blades to a razor are merely increasing the cost without addressing an underserved outcome.

[12] See the Microsoft Software Assurance case study for more details on how Microsoft's Software Assurance business used this methodology to successfully turn around and grow this market. The case study can be downloaded at www.strategyn.com.

Growth Path 3: If unmet needs cannot be satisfied on the core platform and there are no other jobs that customers want to get done, a company should pursue the core-platform disruption strategy. This strategy requires that a company create a new platform and a new feature set that will help the current job executor get the core job done better. Flat-screen television, for example, created a new platform and a new feature set that supplanted cathode ray tube television, satisfying a number of unmet customer needs. Not only did flat-screen television disrupt the cathode ray tube television market, but at the same time it replaced a commodity with a product that produced higher margins and higher profits. This disproves the notion that disruption (a new platform and business model) always leads to a lower-margin business. Disruption, however, does lead to a lower-margin business when a market is overserved (there are no unmet needs), though we find such markets account for less than 5% of those we have studied. In those rare cases, a company should still pursue the core-platform disruption strategy, but it must create a new platform that will significantly lower product cost while continuing to help customers get the job done. In the steel industry, this was the strategy that minimills followed, creating a low-cost platform that did certain jobs as well as the more expensive platform utilized by traditional steel mills. Once established, the minimills pursued a strategy of helping customers get other jobs done (growth path 2), further expanding and strengthening their position.

If unmet needs cannot be satisfied on the core platform and there are no other jobs that customers want to get done, a company should pursue the core-platform disruption strategy.

Growth Path 4: In some markets, the job executor wants to get a group of related jobs done, but because of technical constraints, the additional jobs cannot be addressed by simply adding features to the current platform—a new platform is needed. In such a situation, the company should pursue the related-market convergence strategy. This strategy requires that a company create a new platform and a new set of features to help the current job executor get a group of related jobs done. It is an effective strategy because helping customers get many jobs done (rather than one) is the best way to create customer value and a high-margin business. The idea is to converge the execution of many jobs on a single platform. This is the strategy that Apple used in plotting its success with the iPod. In that situation, for example, people didn't want only to listen to music, they also wanted to acquire music, create playlists, organize their music libraries, and share music with friends—all jobs that were not and could not be addressed with MP3 technology alone. A new platform was needed. Apple combined iTunes with the iPod, creating a new product/service platform that enabled customers to get these and other jobs done. The success of this well-executed strategy has bolstered Apple's market position, not to mention its stock price. The company has used the same strategy to make the iPhone a success.

It is a natural evolution in many markets for the job beneficiary to eventually become the job executor.

Growth Path 5: In some markets, we find that the person executing the core job is executing it on behalf of another person, whom we call the job beneficiary. Providers of services often fall into this category. For example, nurses perform jobs that benefit patients, as do dentists, chiropractors, and doctors. Similarly, consultants perform jobs that benefit companies. When these sorts of markets are appropriately or overserved, a company should follow a core-market disruption strategy. This means that the company must help a new job executor get the core job done using a new value delivery platform. P&G, for example, pursed this strategy when it released Crest Whitestrips, taking the job of whitening teeth away from the dentist and putting it in the hands of the individual—a new job executor. P&G also pursued this strategy with Dryell, a product that took the job of dry cleaning clothes away from the traditional dry cleaner and put it in the hands of the individual. Many consulting firms apply this strategy when they teach their clients to execute tasks that a consultant would normally perform for them. It is a natural evolution in many markets for the job beneficiary to eventually become the job executor.

This strategy is less likely to work when the market is underserved, that is, when the current job executor struggles to get the job done. This is because if a skilled job executor has trouble getting a job done, it is unlikely that a company will be able to devise a new product platform that would make it possible for a new, less-skilled job executor to do the job successfully.

Growth Path 6: Finally, sometimes a new job executor also has other, related jobs they would like to get done in addition to the core job. In this case, a company should pursue the disrupted-market convergence strategy. When pursuing this strategy, a company must help a new job executor get the core job and other, related jobs done using a new value delivery platform—as P&G did when it improved Crest Whitestrips by adding tartar protection, which is a job related to whitening teeth. Panasonic pursued this strategy when it introduced its electric massage chair. It replaced the masseuse as the job executor and included features to make it possible for the new job executor to get other jobs done as well, such as a reading light and a heated backrest. As this example demonstrates, the related jobs that the new job executor wants to get done will likely differ from those of the original job executor.

Using the Six Growth Paths to Explain Historic Growth

We have found that markets naturally evolve through this series of six innovation growth paths, often in a predictable order. In general, companies try to help customers get jobs done better on existing product platforms, then get more jobs done on new platforms. Eventually, the job beneficiary becomes the job executor (if it is not that way to begin with), or chooses to acquire the service from a cost-effective supplier.

Consider the evolution of the music production market. Fifty years ago, musicians had to rely on professionals using a magnetic recording device to record a track of music. Laying out multiple tracks, mixing, and other activities were performed using multiple pieces of equipment. Over time, these magnetic recorders became sophisticated enough to enable professionals to execute some of the other jobs on the recorder (growth path 2, related-market growth). Twenty years later, digital devices made their debut and enabled recording professionals to get these jobs done more effectively (growth path 3, core-platform disruption). Shortly thereafter, these devices incorporated new functions that helped recording professionals get still more jobs done (growth path 4, related-market convergence). More recently, home recording studios have become popular. These enable a new job executor (the musician) to record music on his or her own (growth path 5, core-market disruption). With the advent of programs such as Apple's GarageBand, musicians can now perform most of the jobs that 20 years ago required the services of recording professionals (growth path 6, disrupted-market convergence).

But it doesn't always go this smoothly. Consider the newspaper industry. Originally, newspapers targeted people (the job executors) who wanted to stay abreast of newsworthy events (the job to be done). Following the first growth path, newspapers built themselves around skilled journalists, who obtained and wrote stories of interest, and a well-coordinated delivery system, which delivered the news directly to the home. This platform served newspapers well for years. Over time, newspapers came to help customers get other jobs done, such as looking for employment, buying and selling homes, and selling personal items (growth path 2, related-market growth). Helping customers get these jobs done created new revenue streams. Then along came the Internet, a new platform that enabled customers to get the core job done better: up-to-date news written by qualified journalists from all over the world became available 24 hours a day (growth path 3, core-platform disruption). At the same time, organizations such as Monster.com, Craigslist, and various real estate companies created web-based offerings that helped customers get those critical related jobs done. These companies diverted the revenue streams of the newspaper companies, but it didn't have to happen that way.

The newspapers have never chosen to follow the fourth growth path (related-market convergence), and failure to do so has hurt them gravely. To execute related-market convergence successfully, a newspaper would have to find a way to help customers get all the jobs done that a traditional paper helps them get done, plus others—all integrated into one platform with a business model that ensures profitability. Such a platform would offer news written by credible journalists as well as services such as those delivered by Monster.com, Craigslist, Realestate.com, Zagat, Wine Spectator, and others. It can still happen. What we have seen develop to date instead are less-credible journalists writing and distributing news through blogs and through Twitter—a new platform (growth path 3, core-platform disruption) that will shape the way we view news until existing newspapers can successfully execute a strategy of related-market convergence.

Using the Six Growth Paths to Achieve Future Growth

Once a company decides to enter a market, it must do everything in its power to own and lead that market. Since markets evolve as described above, the most effective strategy is the one that will optimize company profitability across all six growth paths. If a company determines that a number of unmet outcomes can be addressed on the core platform to help customers get a job done better, than it should pursue a strategy of core-market growth. If it is also determined that one or more underserved jobs could be addressed on the core platform, then the related-market growth strategy should be pursued as well. If, after this, a number of unmet outcomes still remain that cannot be addressed on the core platform, then the core-platform disruption strategy should be pursued. If it is also determined that a number of highly related but underserved jobs exist that cannot be addressed on the core platform, then the company should develop a new platform that makes it possible to execute all the jobs (related-market convergence). When the job is currently performed for a job beneficiary, then the last two strategies should also be pursued (core-market disruption and disrupted-market convergence).

Strategy, then, is about formulating a plan for growth along all the pathways through which a market will inevitably evolve. Failure to take this comprehensive approach will eventually leave the company vulnerable to a competitive attack that will likely capture a current or future revenue stream. Only with a focus on the basic units of competitive advantage—customer needs—along all growth paths can a company capture and maintain a market leadership position.

Optimizing Profitability

After approving an attractive market for pursuit and formulating a product portfolio strategy that will secure a sustainable competitive position, a company must next determine the best formula for optimizing profitability. This is accomplished by selecting a set of activities that will ensure successful product creation, delivery, and support and then devising an effective business model that leverages those choices.

Deciding which Activities to Pursue, and how

As stated earlier, activities are what a company performs to enable the satisfaction of customer needs or to create and deliver the products and services that satisfy customer needs. They are enablers of competitive advantage. Consequently, before deciding how to execute an activity, a company must determine which activities are key to its success.

Activities may be customer facing or internal facing. We define the customer-facing activities as consumption chain jobs. These are the set of jobs that a customer must get done in order to acquire and use a product or service: when it comes to a product, the customer must be able to purchase it, receive it, set it up, learn how to use it, interface with it, and transport and store it. The customer also must be able to maintain, upgrade, and replace it, as well as dispose of it. Services are similar: a customer must be able to acquire, access, set up, learn how to use, interact with, maintain and modify, and eventually terminate the service. Which of these jobs the customer will have to execute will depend on the product concept that the company has chosen to develop. Preferably, none will be required. Realistically, some of the jobs may pose a challenge; the company will then have to determine how to meet those challenges. Competitive advantage can be gained by outperforming a competitor in executing one or more consumption chain jobs.

Internal-facing activities are generally supply chain activities. For a product, they may include the regulation of natural resources, raw material extraction, purchasing, the production of components and subassemblies, final assembly, logistics and distribution, storage, and delivery to the point of purchase. For services, internal-facing activities may include those just mentioned and more. A company must also decide how each of these activities is to be carried out effectively and profitably given the product or service concept that is to be delivered. Here again, competitive advantage can be gained by outperforming a competitor in the execution of these jobs.

Formulating the Business Model

Once the company has decided how it will execute each pertinent customer-facing and internal-facing activity, it must formulate its business model. The business model states how the company will generate revenue from its concept offering and control costs through its operations to produce profitability. A solid business model will leverage both the value created by the product or service and the way the selected consumption and supply chain jobs are to be executed. It is likely that different business models will be required to optimize profitability for each of the six growth paths.

In order to optimize profitability, a company must maximize its revenue and minimize variable and fixed costs. For example, a company that conceives the idea of a tooth-cleaning chewing gum may decide to minimize its costs by insisting that the supplier providing it with the chemical for dissolving food particles provides the needed ingredient in a directly processable form, thus avoiding additional processing costs and investment in capital equipment. The company may decide to maximize revenue by selling the gum to restaurants as an eloquent alternative to the toothpick, in addition to selling to consumers through typical channels. These cost and revenue decisions are two elements of the company's business model and explain how this product can make money for the company.

Companies can reduce variable costs in a number of ways. They may for example, pass a cost on to the customer, a supplier, or a distributor; outsource inefficiently executed activities; own the infrastructure, not the content; obtain supplies, materials, or labor for free; use barter; turn a cost or waste into a revenue; or make a variable cost fixed. Companies can increase revenue if they are able to take a revenue source from someone else in the value chain; sell by-products such as waste, information, or energy; collect revenue at a different frequency; accept a noncash form of payment or a nontraditional form of ownership; or add a buying-related or support-related revenue source.

For example, when constructing the iPod/iTunes offering, Apple leveraged the concept of owning the infrastructure, not the content when it established its proprietary file format and created iTunes to enable the distribution of the content. It leveraged the concept of collecting revenue at a different frequency when it freed buyers to purchase individual songs. In this case, as in most successful business models, the business model leveraged a product or service platform that addressed unmet needs and the activities that were selected to support that product's creation and delivery.

A New Perspective

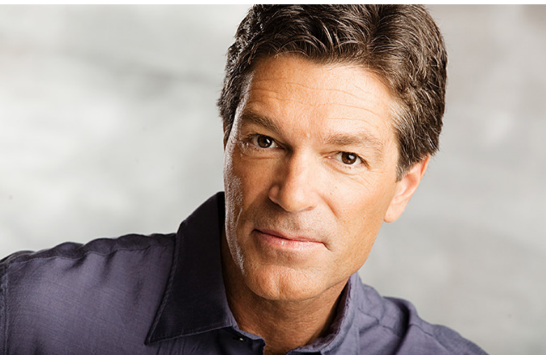
An effective strategy will produce a product or service that customers will buy. Strategy formulation includes targeting the right market (job executor and job) and devising an offering that addresses a carefully chosen set of unmet customer needs. In addition, it includes plans to address all pertinent consumption chain jobs and carefully structuring and effectively executing supply chain jobs. Finally, it requires a business model that maximizes revenue while minimizing costs. The entire process of strategy formulation becomes much clearer when customer needs (not activities) are considered the basic units of competitive advantage.

Three Views of Strategy

The first two views are taken from Michael Porter's "What is Strategy" article. The third view, outcome-driven strategy, is the perspective described in this article.

1. Implicit Strategy Model	2. Sustainable Competitive Advantage	3. Outcome-Driven Strategy
One ideal competitive position to the industry Benchmarking of all activities Benchmarking of all activities and achieving best practice	Unique competitive position for the company Activities tailored to strategy	Unique competitive position for each product or service the company offers Activities are tailored to optimally execute the required consumption chain and supply chain jobs
Aggressive outsourcing and partnering to gain efficiencies Advantages rest on a few key success factors, critical resources, core competencies Flexibility and rapid responses to all competitive and market changes Operational effectiveness is often mistaken for strategy	Clear trade-offs and choices vis-à-vis competitors Competitive advantage arises from fit across activities Sustainability comes from the activity system, not the parts Operational effectiveness is a given position	Develop the capabilities that are needed to create and sustain a market position Competitive advantage arises from selecting what unmet needs to target and finding the best ways to address them Sustainability comes from an ability to execute growth strategies across all six growth paths Operational effectiveness must be tied to activities that satisfy unmet needs

Contacts



About the Author

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