

9 Routes to Stay Ahead & Win

Unless you are an industry leader with an unassailable position - a status that, given the lessons of history, not even Microsoft would be wise to claim - you probably have a greater stake in staging a revolution than in preserving the status quo. The opportunities for revolution are many and mostly unexplored. How should a would-be outright leader begin? By looking for ways to redefine products and services, the market space, and even the entire structure of its industry.

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Radically Improving the Value Equation

In, every industry, there is a ratio that relates price to performance. For every dollar spent, the customer expects a level of value, whether that value cost a dollar to product or not. The challenge is to improve that value ratio and - to do so radically, by 500% or 1,000%, not 10% or 20%. Such a fundamental redefinition of the value equation forces a re-conception of the product or service.

Fidelity Investments, for instance, wondered why a person couldn't invest in foreign equity markets for tens or hundreds of dollars rather than thousands. On a recent flight I heard one flight attendant say to another, "I just moved some of my investments from the Europe Fund to the Pacific Basin Fund. Such a comment would have been inconceivable a decade or two ago, but Fidelity and other mutual-fund leaders have redefined the industry's value equation. Hewlett-Packard's printer business, IKEA, and Starbucks are other industry trends buckers.

(2)

Separating Function and Form

Another way to challenge the existing concept of a product or service is to separate core benefits (function) from the ways in which those benefits are currently embodied in a product or service (form). Any organization that is able to distinguish form from function and then recast one or both has the opportunity to create an industry revolution.

Consider credit cards, which perform two functions. First, a credit card inspires a merchant to trust that you are who the card says you are: your name is embossed on the front, your signature appears on the back, and now, your photo may even appear in the corner. Nevertheless, credit card fraud is a rapidly escalating problem. In what form will "trust" be delivered in the future? Probably through biometric data: a handprint, voiceprint, or retinal scan. Any credit card maker that is not investing in those technologies today may be

surprised by interlopers. Second, a credit card gives you permission to charge up to your credit limit. What new opportunities appear if you distinguish permission as a general function from the particular case of permission to charge? In many hotels, a card with a magnetic stripe gives guests "permission" to enter their rooms. Did credit card makers see the opportunity to use the cards in this way? No, the card security market is owned largely by newcomers.

3

Achieving Joy of Use

We live in a world that takes ease of use for granted. The new goal is joy of use. We want our products and services to be whimsical, tactile, informative, and just plain fun. Any company that can wrap those attributes around a mundane product or service has the chance to be a take everyone by surprise.

What's the most profitable food retailer per square foot in the United States! Probably Trader Joe's, a cross between a gourmet deli and a discount warehouse, which its CEO, John Shields, calls a "fashion food retailer." Essentially without competition, its 74 stores were averaging annual sales of \$ 1,000 per square foot in 1995 - twice the rate of conventional supermarkets and more than three times that of most specialty food shops.

Customers shop Trader Joe's as much for entertainment as for sustenance. The store stocks dozens of offbeat foods - jasmine fried rice, salmon burgers, and raspberry salsa - as well as carefully selected and competitively priced staples. By turning shopping from a chore into a culinary treasure hunt, Trader Joe's has more than doubled its sales over the last five years to \$605 million. What have supermarkets learnt from such success?

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Redefining Market Space

Every company has an implicit notion of its served market: the types of individuals and institutions that are - and are not - customers. Leadership companies, however, focus not just on their served market but also on the total *imaginable* market.

A few years back, who would have considered children a likely market for 35-millimeter film? Would you have given your \$500 Nikon to an eight-year-old? Probably not! Parents today, however, think nothing of giving a disposable camera to a child for a day at the beach, a birthday party, or the family's vacation. The single-use camera has made access to photography virtually universal. In 1995, the single-use camera market reached 50 million units, worth close to \$1 billion at retail prices. From class to mass, adult to child, professional to consumer, and national to global, the traditional

boundaries of market space are being redefined by forward looking companies.

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Striving for Individuality

We'll all buy the same things - but only if we have to. Deep in our need to be ourselves, to be unique, are the seeds of industry leadership.

A woman who wants a perfect-fitting pair of jeans, for example, can now get measured at one of Levi Strauss's Personal Pair outlets, and a computer will pick out exactly the right size. The woman's specifications are sent to Levi's by computer, and her made-to order jeans arrive a few days later. The price? Just about \$10 more than an off-the-shelf pair. Not much at today's prices! Levi's plans to introduce the Personal P air system to nearly 200 stores in the United States by the end of the decade. The company is counting on its revolutionary approach to put a considerable dent in the growing market for private-label jeans.

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Increase Accessibility

Most market spaces have temporal and geographic bounds: customers must go to a specific store at a specific location between certain hours.

But market space is becoming cyberspace, and every day industry revolutionaries are "resetting consumers" expectations about accessibility.

Consider First Direct, a bank that can be reached only by telephone. The fastest growing bank in Great Britain, First Direct was opening 10,000 new accounts per month in mid-1995, the equivalent of two or three branches. The professionals and workaholics who make up First Direct's half million customers carry, on average - a balance that's 10x higher than the average balance at Midland Bank. First Direct's parent overall costs per client are 61 % less than the closest rivals.

The first U.S. banks to experiment with so so-called direct banking estimates that it will ultimately be able to close at least half of its branches.

(7)

Redrawing & Rescaling Industry Boundaries

As forward looking executives seek out and explore new national and global economies of scale, industries around the world - even

office cleaning and haircutting - are consolidating at a fearsome pace. Any industry that was local, such as consumer banking, is becoming national. Any industry that was national, such as the airline business, is becoming global.

Every minute and a half, Service Corporation International buries or cremates someone, somewhere in the world. Performing 320,000 funerals per year, SCI has become the world's largest funeral operator in an industry that traditionally has been very fragmented.

Most funeral operators have been family businesses. By buying up small operators, SCI has reaped economics of scale in purchasing, capital utilization (e.g., sharing hearses among operators), marketing, and administration.

Of course, an industry can be scaled down as well as up. bed-and-breakfast inns, microbreweries, local bakeries, and specialty retailers are the result of industries that have scaled down to serve narrow or local customer segments more effectively.

8

Compressing the Supply Chain

The word disintermediation in its literal sense means: the removal of intermediaries. Wal-Mart, for instance, essentially turned the warehouse into a store, thus disintermediating the traditional small-scale retailer. And Xerox hopes to reinvent the way companies distribute printed documents by disintermediating trucking companies from the printing business. Why, Xerox asks, should annual reports, user manuals, catalogs, employee handbooks, and other printed matter be hauled across the country in trucks? Why not send --the information digitally and print it close to where it is needed? Xerox is working with a variety of partners to stage this breakthrough.

9

Driving Convergence

Leaders not only radically change the value-added structure within industries but also blur the boundaries between industries. Deregulation, the ubiquity of information, and new customer demands give revolutionaries the chance to transcend an industry's boundaries.

For example, a consumer can now get a credit card from General Motors, a mortgage from Prudential or GE Capital, a retirement account at Fidelity Investments, and a checkbook from Charles Schwab. Innovative hospitals "capitate" lives, guaranteeing to provide an individual with a full range of health services for a fixed

sum per year. Insurance companies, such as Aetna, respond by refashioning themselves into health care providers. Boston Market offers hot family-style meals for takeout, and supermarkets respond by offering an ever wider selection of prepared foods, further blurring the boundary between the grocery and fast-food industries.

Industry revolutionaries don't ask what industry they are in. They know that an industry's boundaries today are about as meaningful as borders in the Balkans.

About Vaxa Inc.

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