Wise guys

The theories of Professor Michael Porter of Harvard Business School on strategy and gaining competitiveness, although highly influential in recent years, are increasingly being questioned. Mark Stuart wonders who the next big business brain will be and assesses some likely candidates.

Renée Mauborgne and W Chan Kim of INSEAD argue that the way to gain competitive advantage is not to compete but to make the competition irrelevant by creating an uncontested market space. These market spaces are termed blue oceans, as distinct from the existing red oceans where rivals fight over a shrinking profit pool. Red ocean thinking is increasingly unlikely to create profitable growth in the future. Instead, Mauborgne and Kim believe, tomorrow's leading companies will make rivals obsolete and, at the same time, create new demand by discovering new markets. However, new market spaces will require real innovations, and innovation is a hard discipline.

Clayton Christensen has popularised the concept of 'disruptive innovation'. This is innovation that focuses on finding solutions to needs – rather than improving products by making them better, faster or longer lasting. Thinking disruptively has enabled many businesses to achieve competitive advantage by finding a need that the competition hadn't realised existed.

Tea anyone?

The alternative to this kind of innovation is incremental change. However, incremental change doesn't solve the inherent problem that innovation faces: How do you give the customer what they want when the customer doesn't know what they want?

If you can't think disruptively and 'do an i-Pod', you can circumvent the issue of trying to second-guess the consumer by innovating the business model itself. Sahar Hashemi and her brother Bobby founded Coffee Republic in 1995. It is now one of the UK's most recognised high street brands, with a turnover of £30m. Hashemi innovated the business model of the cafe or tea room – which was old fashioned and created limited value. Similarly, Simon Woodroffe, the creative driving force behind YO! Sushi, transformed the restaurant model into a lifestyle one, moving away from the traditional concept of a restaurant where you just go to eat food. Both new business models create value in a previously untapped area.

Driving the brand

A brand isn't just a logo. A successful brand creates a relationship with the customer. Brands such as Quiksilver and Patagonia do this by breaking down the barriers between the organisation and its customers.

Nicholas Ind, a writer and consultant based in Scandinavia, has shown how encouraging employees to engage with the brand leads to increased motivation, customer satisfaction and added value.

THE ANSWER'S EASY

The concept of a no-frills airline, which Stelios Haji-Ioannou effectively invented at the age of 28 in the shape of easyJet, has revolutionised the aviation industry. Stelios identified a flaw in the traditional aircraft business model. When air travel started, it was mainly for business travellers or well-off tourists, and was sold as a luxury form of travel to both these segments. By the time easyJet started flying, the demographic had changed entirely, but the business plan had not. Stelios was able to fire a broadside into expensive, subsidised national carriers by discarding the need for tickets, introducing a super-efficient check-in process, flying to under-used airports that charged lower taxes and running a slick fleet of new aircraft with vastly reduced turnaround time. easyJet is expected to carry 30 million passengers in 2005.

Stelios may have over-reached himself with some of the new directions he has pushed the easy franchise in – what frills are there, precisely, in a cinema? But in terms of creating competitive advantage, Stelios is regarded by many as a genius. Certainly, any company can learn a lot from him.

Much of this new thinking about brands has emerged because the traditional ways of thinking about them are dead. Fifty years ago, a brand was trusted. Consumers would recognise the names Ford or Hoover and know they were getting a reliable product, safe and fit for purpose. But nowadays, all brands offer a trustworthy product – they don't survive very long if they don't. As a consequence, brands now need some other differentiating factor to continue to produce competitive advantage.

In the last decade or so, that differentiating factor has been emotional connection. Adverts for Mastercard show us how some

Inset: Kevin Roberts
Right: Simon Woodroffe

things in life are priceless but 'for everything else there's Mastercard'. The new approach to branding thus manages to turn a dry financial product with similar benefits to its rivals into an emotionally engaging one.

For Kevin Roberts, a brand is a 'lovemark'. Roberts suggests that the successful brands of the future will be those that inspire love in their supporters. This love is then transmitted to customers who will buy, support and also fall in love with the product.

While this might all seem a bit pretentious, consider for a moment Marmite, the Mini, Heinz Baked Beans, Levi's jeans, Smeg fridges, Innocent drinks and Cadbury. These are all brands that their admirers feel passionately about. A lovemark inspires 'loyalty beyond reason'. Turning a brand into a lovemark isn't easy, but it can be a goal for companies to aspire to, as an important component of competitive edge.

The value of intangibles

A company's intangible assets count for as much as 80 per cent of its value, according to research from Cranfield University. David Haigh, Robert Shaw and Bernard Marr are among the academics and business practitioners performing leading work in brand valuation. For Robert Shaw, customer capital is the largest intangible asset in business today, and firms can now measure this. As a result, Shaw thinks, traditional cost-led firms are transforming themselves into customer capital maximisers.

Bernard Marr, a Research Fellow at the Centre for Business Performance at Cranfield, in the UK, believes that 80 per cent of attempts to measure strategic performance are 'complete rubbish', Marr offers a new theory of strategic performance management and how to measure intangible value drivers. Arguing that most organisations don't understand their own business model, Marr's 'value creation map' allows companies to visualise their business model. This stops business strategy becoming a meaningless abstraction that gets ignored while employees get on with the day-to-day business of their jobs.

Peter Fisk is one of the strongest emerging thinkers on how marketing can drive business. His book *Marketing Genius*, published in 2005, describes how a more intelligent, creative approach to marketing can drive long-term value for customers and shareholders in complex markets.

Do the right thing

In his book *Brand New Justice*, Simon Anholt shows how the branding of places and products can help the less developed world. Anholt argues that branding is a powerful tool for economic development – and that if less developed countries (LDCs) branded their products, they could generate considerable wealth. LDCs are currently unable to do this because of the high import taxes that developed countries place on finished goods. Meanwhile, developed countries are happy to buy raw materials from LDCs at very cheap prices. They then refine the products and brand them, and that is where they create value. Anholt's cogent argument for allowing LDCs to brand their own products to generate wealth is compelling.

In the developed world, too, a new breed of business thinker is recognising the need to increase ethical thinking at the heart of modern business. Professor Andy Crane of the International Centre for Corporate Social Responsibility aims to integrate social and ethical issues into his business courses at Nottingham University Business School. Crane's innovative work includes examining the morality of consumption, the implications of notions of citizenship for corporations, the implementation of fair trade policies and the practical implications of business ethics theories.

The new entrepreneurs

Terry Leahy has turned Tesco from a pile-it-high, sell-it-cheap supermarket into a global giant and the first UK retailer to break the £2bn annual profit barrier.

Tesco's growth seems unstoppable. But, in fact, Tesco's growth model is predicated on branching out into new directions (personal finance, insurance, telecoms and energy) instead of growing the core business. Sooner or later, Tesco must run out of new areas it can diverge into. But in the meantime, Leahy's growth tactics are unparalleled when it comes to achieving competitive advantage in fast-moving consumer goods.

Leahy successfully implemented the loyalty card concept with the Tesco Clubcard. Now imitated by almost every other supermarket chain, the loyalty card is successful because it makes customers think they are saving money, while the figures show that they actually end up spending more than they would have done without it. Today, £1 of every £3 spent in a UK supermarket now goes into a Tesco till. ■

Author profile

Mark Stuart is the lead writer of The Chartered Institute of Marketing's series of Insights papers. He is one of the featured writers in the FT Handbook of Management.