



THINK *BEYOND* VALUE

Building Strategy to Win

DAVID FLINT

ENDORSEMENTS

“WOW! I have watched this concept grow from a seed to fruition. This book clearly fills a need. David says that the book is designed “to help you make sense of the various perspectives, tools, and concepts about strategy.” And it does exactly that. I have introduced V-REEL to entrepreneurship students and they immediately saw its value. This book will be invaluable in business school classes, to consultants, to entrepreneurs and executives, and to all who strive to make sense of the complex competitive environments of today’s businesses. In addition, the book is easy to read ... and it is a MUST READ!”

**Dr. David D. Van Fleet, Professor and Honors Faculty,
Morrison School of Agribusiness, W. P. Carey School of
Business, Arizona State University**

Dr. Flint modestly describes his V-REEL strategy tool as a “simple, navigable framework that brings the pieces together.” His approach is simple, indeed, but it is also powerful. “Think Beyond Value” will help you create solutions and refine new ideas into something that will actually work in the marketplace. Simplicity in strategy. Finally!

**Dr. Ricardo Thierry-Aguilera
President and Member of the Board, Mexico’s
National College of Industrial Engineers and
Graduate Adviser for Project, Logistics and Industrial
Engineering Programs at Tecnológico de Monterrey,
Mexico City Metropolitan campus**

Dr. Flint presents a strategic approach that is truly the most clear and concise framework I have ever read. In talking strategic planning, simple and impactful aren't the words typically top-of-mind, but *Think Beyond Value* presents a framework that is both easy to grasp and powerful. If you are ready to make a difference in your organization, this is a must read!

**Christine M. Hollinden, CPSM, Principal,
Hollinden | marketers + strategists**

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Building Strategy to Win

DAVID FLINT



NEW YORK

NASHVILLE • MELBOURNE • VANCOUVER

Think Beyond Value

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DEDICATION

There is only One who knows the true value of every soul and every decision and step taken by each soul. For Him and His purposes that carry eternal value.

Proverbs 3:5–6

1 John 5:11–12

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ACKNOWLEDGMENTS

The fact that this book exists is an ongoing surprise for me. The path of life that led to its development was not obviously pointed in the direction of producing this work. Nevertheless, the path led here. The moments of thinking strategically about the options, challenges, and lessons of the journey along the route were combined with opportunities to share life with many, many—I dare say, a multitude of—people who are hidden between the lines of the manuscript, but they are obvious in my thoughts and the memories that produced the text. Those people with whom I shared the path in a variety of ways are very simply the reasons why I can enjoy the surprise of producing *Think Beyond Value*. Can I name everyone in these acknowledgments? No. The list would fill another manuscript with descriptions, anecdotes, and chaotic trips down memory lane. Must I gratefully acknowledge some key influencers who moved me forward on the journey? Yes. Thanks are definitely due and must be given for truly valuable fellow travelers on the journey, without whom the story might have ended before it began.

First, if Christine Hollinden of the eponymous marketing and strategic consulting firm (Hollinden) in Houston had not begun suggesting, cajoling, prodding, and doing what she could to encourage me to develop *Think Beyond Value*, the book would not have been written. It's her fault. Wait—if readers don't find the book interesting and useful, that's not her fault; it's mine. It's her fault that I began taking the steps to develop the book. She's been an encourager with excellent tenacity, and her persistence combined with encouragement is much appreciated.

Without listing all their names, the family members who have encouraged and supported me throughout life in ways they may not even recognize or understand are deeply appreciated. Though I am now part of the senior set in the broader family and miss our parents, aunts, and uncles gone from us, the family voices from both the past and present are heard, remembered, and held closely. My voice, written or spoken, comes mostly from that mix of voices that has surrounded me from my first moments of awareness. I am shaped from the context of their lives. My family is too far away from me now in a geographical sense, and the younger voices are not heard often enough by their old uncle/great uncle David, but the family is never far away in any other sense. Thanks for always being the foundation.

The faculty—past and present—of the Department of Management in the Mays Business School at Texas A&M University has kept me humble, taught me well, challenged my thinking, and provided an academic home for me for most of the years in which I've played in the academic world. Boldly stated, without the friendship, encouragement, and sharing of knowledge of those same faculty members, I wouldn't have the opportunities in life that I've enjoyed. While *Think Beyond Value* is not intended to be an academic text, it has been shaped by the influences of the truly world-class faculty of the Department of Management and the Mays Business School. The collegiality combined

with the rigorous research of that faculty over decades has made the Department of Management one of the best places to be in the world for thinking and learning about organizations. I am grateful to be associated with those colleagues of Aggieland. Of special note, Dr. Asghar Zardkoohi's friendship and guidance over the decades is of legendary quality, and not just for me. He is a special creation in this world. There is nothing but applause for him from my corner.

Two other colleagues who are friends of the caliber one should never take for granted are Dr. David D. Van Fleet and Dr. Kenneth D. Cory. The V-REEL^{TM,1} Framework would not be what it is without their input and feedback across the years. Period. We have published academic articles together,^{2,3,4} but that is a very small and less-than-fully representative indicator of how much they have helped me think... and think... and think... about how to improve and use the oft-times muddled ideas that arise within my gray matter. I shared several years of being a faculty member at Arizona State University West Campus with Dr. Van Fleet. Those were good years. But changes over time and distance haven't diminished his ability to move my life forward by still being part of the journey. I shared a doctoral student office space with Dr. Cory for about five years before he and I had those Ph.D. letters attached to our academic pedigrees. Our paths have continued to overlap in the decades since those long-gone office-sharing days. That's a very good thing. If anybody ever wants a character study on what a best friend should be in life, I could write one using Ken as the pattern.

Finally, though I really could fill another book with bits of written applause to former students, business associates, friends, the faculty colleagues with whom I enjoyed working for five years at the Woodbury School of Business at Utah Valley University, and other travelers along the path to *Think Beyond Value*, I will conclude these acknowledgments with applause for Jose and Joan Quintana. Jose is an encourager of others, pure and simple. His incubation of new ventures and pouring

himself into the people of the community around him is unparalleled in my experience. His friendship is an important part of life, but he did something of inestimable importance regarding the development of this book. He introduced me to his wife, Joan. This book would not exist without Joan's work. She took hours and hours (I lost count a long time ago) of conversations, consulting interactions, interviews, and ideas and made them make sense. The book would not be a book without her gifted guidance. Big, big applause!

In the end, as all authors must do, I shall take full responsibility for the content of this book, which includes any errors, omissions, and silliness that inadvertently may fall within the pages of *Think Beyond Value*. But I shall also note that the contributions of Morgan James Publishing company's very helpful and supportive staff, Erin Casey's editorial suggestions, the Fidelis company's graphics, and the mountain of effort that Joan has put into the book's development have all served to create any positive, valuable, and helpful parts of this book. To say this was accomplished without the help of others would be to tell a very big lie.

I hope that everyone, named or unnamed above, who has helped bring this work to fruition by being part of my long journey up to this moment can find a reason to smile because they were along for part of the ride.

Philippians 1:3

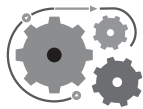
David

ANOTHER STRATEGY BOOK...WHY?

Strategy. It's an overused and increasingly maligned word among business leaders who know a solid strategy is necessary but just haven't found the "right" strategy yet—or at the very least, a strategic approach they can stick with long term. Still, if you are like most business leaders, you, too, are constantly in search of the best approach or an easy solution to developing sound strategy that works in today's dynamic business environment. All the effort you've put into studying strategy books, brainstorming around the table in strategic meetings, and working into the night to think through fresh new business approaches is time well spent. And yet you never really arrive at a clear, well-reasoned plan. And therein lies the problem. Clarity is elusive.

In truth, all the ingredients and tools for sound strategy formulation already exist. What is lacking is a simple, navigable framework that brings the pieces together in a coherent way. My goal with this book is to help you make sense of the various perspectives, tools, and concepts about strategy—most of which are likely familiar to you—so that you can think about and form *your* business strategy. What I am bringing to the conversation is a more coherent way to move from ideas, information,

and data, to recommendations and action plans. What I am offering is a framework to work through all the knowledge and information that you have about your business and your market so that, having spent time and resources on strategy, you arrive at a place of clarity and confidence. My goal is to prepare you to drive your business forward or, in some cases, stop altogether and seek a new or simply better opportunity.



Use V-REEL to plan and run stronger, more financially sustainable organizations.

In this book, I'll explain what I call the V-REEL Framework, a simple and intuitive way to think about *Value* creation, *Rareness* in the marketplace, *Eroding Factors* likely to eat away at your rareness and value creation, *Enabling Factors* necessary to make your business succeed, and finally, but very importantly, considerations of the *Longevity* of your organization. I'll explain how you can use V-REEL to plan and run stronger, more financially sustainable organizations—for profit and not-for-profit alike. I'll show how you can use the framework to uncover winning new ideas and avoid getting caught up in entrepreneurial enthusiasm, all the while forgetting to consider factors that, left untended, could very likely lead to financial catastrophe.

Before we go any further, though, let me be clear: V-REEL is not a quick fix nor is it the be-all-end-all solution to all your organizational problems. It is not even a replacement for existing sound strategy tools. But for those who understand the value of and are willing to invest in strategy, V-REEL can help ensure that your investment offers great returns.

Ugly Statistics: Reasons to Read this Book

Years of teaching strategy have shown me that traditional strategy formulation methods tend to offer a whole lot of information and no real method for thinking through all the data to come up with a clear,

well-reasoned plan to move forward. Let's look at Master of Business Administration (MBA) students, for example. Having completed the academic portion of a traditional strategy course, students are assigned a capstone team project that applies all they've learned to assist a business in the community. These projects require aspiring MBAs to assume the role of consultant and help the client company solve some problems or form a strategy. The students generally do a fine job following all the standard steps of strategy formulation. They work through Porter's Five Forces for assessing competition in the marketplace, look at internal and external factors, and talk through a resource-based view of the firm (more on these things later). They generally do all the right things but ultimately struggle to come up with solid recommendations for what the company should actually do—or not do—given its situation. My students report back to me all manner of information about the company, markets, competitors, etc., but when it comes to offering—let alone defending—concrete, well-reasoned recommendations for the company, students typically struggle to make that final leap. They have all these tools and methods, but it is a rare student who can think through all the information those tools and methods provide and formulate well-reasoned, defensible, strategic recommendations.

It's no surprise, then, that a recent Bloomberg study, "The Bloomberg Recruiter Report: Job Skills Companies Want But Can't Get,"⁵ identified strategic thinking as a skill that is both rare and highly sought after by employers. And unlike other skills considered in the study, strategic thinking is in the "Less Common, More Desired" category across all industries considered. Be it consulting, consumer products, energy, financial services, health care, manufacturing, or technology, Bloomberg's survey of 1,320 job recruiters at more than six hundred companies clearly indicates that strategic thinking skills are in short supply.



Traditional strategy formulation methods offer a whole lot of information and no clear method for developing a well-reasoned plan to move forward.

Before you dismiss the lack of strategic thinking skills as a problem of youth and inexperience, consider how much money corporations spend on strategy consultants, strategic management training, and the like. Executive MBA programs are available at almost every major business school in the U.S. targeting mid- and high-level executives who have an eye toward the C-suite. Often, it's the employers footing the bill. Then there are strategy consultants. Judging by the sheer number of us—as one among the masses I can tell you we are everywhere—it's clear companies are willing or perhaps feel forced to outsource this most critical of business processes. But those same business leaders who write the checks to strategists are the ones telling HR departments to find strategic thinkers.

Also consider those businesses too small to have their own HR departments. Small businesses form the backbone of our economy and yet struggle to survive—let alone thrive—in the marketplace. Perhaps even more than established corporations, small businesses are in desperate need of sound strategic thinking, and they need it to be simple enough for business owners to work through while managing the HR department, being the receptionist, the cook, and the accountant. After all, that's how the vast majority of businesses operate—small, lean, and very likely short on business strategy.

You've probably heard the grim numbers that get thrown around about failure rates of small businesses. The most common statistic I hear repeated has 90 percent of businesses failing. In truth, it's not quite that bad, but it's not great, either. According to the United States Small Business Administration, roughly 50 percent of new businesses,

independent of industry, fail before their fifth anniversary.⁶ Of course, that begs the question, what are the top reasons cited for failure? Review the listing of Specific Pitfalls in Table 1: The Underlying Causes of Business Failure.⁷ Can you see the need for sound business strategy? Every item on that list save disaster could very likely be avoided—or at least managed—if only sound strategic thinking were put into play before the investment of time and resources.

| | Major Cause | % of failure | Specific pitfalls |
|---|--|---------------------|----------------------------------|
| 1 | Incompetence | 46% | Emotional Pricing |
| | | | Living too high for the business |
| | | | Nonpayment of taxes |
| | | | No knowledge of pricing |
| | | | Lack of planning |
| | | | No knowledge of financing |
| | | | No experience in record keeping |
| 2 | Unbalanced experience or lack of managerial experience | 30% | Poor credit granting practices |
| | | | Expansion too rapid |
| | | | Inadequate borrowing practices |
| 3 | Lack of experience in line of goods or services | 11% | Carry adequate inventory |
| | | | No knowledge of suppliers |
| | | | Wasted advertising budget |
| 4 | Neglect, fraud, disaster | 1% | |

Table 1. The Underlying Causes of Business Failure

The bottom line is that all businesses (except perhaps strategy consultants) would be better off if owners, managers, and rising executives successfully practiced strategic thinking skills for a term well before they ever arrived in the C-suite. It would be even better if entire teams could converse around a common set of terms simple enough to intuitively inform the strategic thought process while offering enough depth to summon soundness of reason. That's what I'm going for with the V-REEL Framework: simple and sound strategic reasoning.

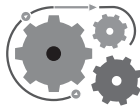
Back in the late 90s, having become sufficiently frustrated with floundering student strategists and wanting to try to improve the situation, I began to form a tool to aid both the teaching and practice of business strategy formulation. After years of tweaking and refining with colleagues and clients across the U.S. and around the globe, I've formed the V-REEL Framework. It is strong enough alone to elicit solid thinking and discussion about value creation. It is also open and flexible enough to allow for the interjection of vetted tools and techniques that can and should inform your planning. However you choose to use it, I believe you will find it useful.

Who Needs V-REEL?

The most natural audience for this book is entrepreneurs—those brave men and women who put it all on the line to bring their passion to life, introduce the latest disruptive technology, or simply keep the family business going. But V-REEL isn't only a tool for start-ups. While certainly those working to devise a business strategy for a new enterprise will do well to work through the framework, so, too, will established businesses and not-for-profits returning to their strategic planning routines. V-REEL will also be useful to product developers preparing to bring something new to market, and it is even helpful for individuals who are thinking through career plans. Any organization or individual

thinking about how to bring value to an audience can use the V-REEL Framework to guide strategy formulation.

V-REEL has great potential to provide teams with a common vocabulary. It can assist leaders in facilitating productive discussions, help get to the root of challenges, and identify where limited resources might best be allocated toward sustaining competitive advantage. The framework helps executives and entire teams recognize the business functions underlying the distinctive competencies that enable them to create value in the marketplace. Plainly, no matter the size or nature of your organization, if you're trying to get your team to think strategically, V-REEL is a framework to help do so.



No matter the size or nature of your organization, if you're trying to get your team to think strategically, V-REEL is a framework to help do so.

The V-REEL Framework for strategy formulation can be applied to a wide range of situations, but there are some particular scenarios where V-REEL can make a real difference in your thinking and plan of action. If any of the following sound familiar to you, then understanding and applying the V-REEL Framework will help you and your team form a strategy to thrive in a dynamic marketplace.

Your gut is telling you to go for it.

Okay. So you've got a great idea, and all your friends nod enthusiastically when you tell them about it. "Go for it!" they say, and your gut agrees. Great! Really, that's awesome... but it will be even more awesome when you've taken the time to think through that amazing value proposition, determine how rare it is in your market, what might

come along to erode that rareness, what enabling resources you need to deliver on your big idea, and how long you have before things change. Do all of that, and if you still have a great idea, please, go for it! But do yourself a big financial favor. REEL in your idea first. Look critically at how you might create value and always be willing to walk away from bad ideas.

Your employees keep bugging you with half-baked ideas.

I'm so sorry. You're a busy person. You really need your employees to think things through before they waste your time presenting yet another unoriginal, logistically impossible, and/or financially infeasible plan. I'm telling you, those strategic thinking skills are rare, my friend. *Really* rare. But try working through V-REEL with your people. You'll be surprised how quickly and easily they'll understand the ideas and adopt the language. And then tell them to REEL in their ideas before they ever set foot in your office to make a pitch.

You have a strategy, but it isn't working out as planned.

That happens a lot. Here's the deal: there are a lot of good strategy books and tools out there. You probably know them—the *Business Model Canvas*, *Blue Ocean Strategy*, SWOT analysis, etc. These are good, but there are things they tend not to consider, like longevity—how long do you have before things change? And incompetencies—those things that you need to fix or influence for your strategy to actually work. V-REEL will help you complete the strategy process and consider both your distinctive competencies and incompetencies so that you can achieve your vision.

You know you need a strategy but have no idea where to start.

Great! It sounds like you're getting ready to embark on something new. Taking the time to think it through is a very good idea, but with

so many tools and plans it can be difficult to know which is best or where to start. V-REEL is designed for that very reason: to help you navigate the strategy formulation process to its completion, making use of available tools as it makes sense for your situation. There is no one-size-fits-all cookie-cutter solution, but V-REEL can help you determine if you have something that's really worth jumping into and how to keep that something going as long as possible.

You're pitching your idea soon and want to be well prepared.

Good for you! It sounds like you've already done a lot of homework, thinking through internal and external environments, understanding your market, and shaping your value proposition accordingly. V-REEL will help you check yourself so you are prepared to respond confidently to the hard questions: Do you have something of value? Is it rare? How will you preserve that rareness over time? What capabilities do you need to put into place to ensure you can deliver? Don't be afraid to use V-REEL to shine a very critical light on your idea. Worst-case scenario, you realize it's not such a good idea after all; you avoid a lot of heartache and free yourself up to pursue something better.

Whether you're working within an established enterprise, considering starting one of your own, working with a team, or even on your own career, V-REEL is a tool you can use to aid and improve strategic thinking. It's a collection of the external and internal questions, considerations, and challenges that you will generally come across with any approach to strategy formulation. V-REEL gets at those ideas using simple language and straightforward tools to guide the thought process to sound conclusions that will leave you confident and with a clear path forward. So, whom will it help?

Entrepreneurs

If you are an entrepreneur, the V-REEL Framework will help you:

- Evaluate the rareness of resources and capabilities and form value propositions that will stand up to market conditions
- Articulate a clear, well-considered pitch that can stand up to investors' hard questions
- Form well-founded assumptions upon which to base financials
- Move forward with confidence that you've thought through considerations likely to impact your business

Executives

If you are an executive working in an existing business or corporate environment, V-REEL offers you and your team:

- A common framework and language that can be used within and across business units to aid productive discussion and inform decision making
- More informed, more justified, more reasoned discussion about go/no-go decisions
- A mechanism to help train up the next generation of corporate leaders and strategic thinkers

Product Managers

As a product manager, you're often under the gun to innovate while managing risk. V-REEL provides:

- A framework for evaluating market viability over time
- A proven tool to help you form clear product strategy
- Clarity regarding the key aspects of product plans

- Tools to help product managers anticipate and answer questions from the executive team

Not-for-Profit Executives

As an executive in the not-for-profit world, you need to deliver value as much as any organization but likely have fewer resources than your for-profit counterparts. V-REEL will help you:

- Discover how you create value in the market
- Identify how your value creation is, or could be, distinctive among other not-for-profits
- Understand what enabling resources you need to have in place to deliver promised value
- Think through how you might sustain your organization over time
- Establish a common language for use among team members and volunteers to foster effective communication

Individuals

As an individual who is thinking about how you can add value at work, in your career, in your community, and even at home, V-REEL is a framework that can help you:

- Think about and discover your personal, distinctive competencies
- Identify areas that are holding you back from being your most valuable
- Devise a plan for sharpening your distinctive competencies and developing new ones
- Think about how you will continue to be at your most valuable over time

What Will Readers Get Out of This book?

Ultimately, V-REEL is a framework to support decision making. As some wise person once said, the world is full of opportunities, and most of them are lousy. Put into practice, V-REEL will make it quite clear when a business or product idea is worth pursuing and when it is not. In this book, you will learn a process to identify which ideas to pursue and when to walk away. Spoiler alert—you should walk away from most.

But this isn't a pessimistic book, nor does V-REEL take a pessimistic perspective. On the contrary, what V-REEL offers is a mechanism for you and your team to REEL in your ideas and know with clarity which ones to throw back. In business and in life, we all need to have a realistic view, not a pessimistic view. Optimism comes from knowing that you've gone through a process, and you've thrown out the ideas that don't work for whatever reason. My hope is that you will use the V-REEL Framework to learn a new way to think beyond value about business operations, entrepreneurial endeavors, and personal objectives to gain a realistic view and define a plan for creating real competitive advantage in the market.

Once familiar with V-REEL, you will have at your disposal simple, straight-forward language to encourage strategic thinking and discussion among your team members. Together, you will be able to work through issues impacting rareness as well as eroding and enabling factors. You'll be able to consider all your planning in the context of time so that you can extend the life of your value creation and know when you need to be prepared with something new to offer the marketplace. As a framework for strategic thinking, V-REEL can help any leader think through and clearly communicate strategic issues and their root causes and identify solutions for exploiting or overcoming them.

How to Use This Book

In Chapter 1, I will provide a brief review of strategic management, defining key terms as well as common processes and tools that may be useful as you apply V-REEL to your situation. If strategic management is old hat to you, please skip the review and move on to what you find of value. Later in the chapter I'll introduce the V-REEL Framework, providing a look at the big picture before we jump into details.

Chapters 2–5 will take you through each aspect of the V-REEL Framework focusing on identifying and seeking to protect distinctive competencies. Each chapter will provide:

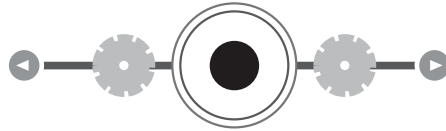
- The definition of the topic and how it relates to the other aspects of the framework
- Insight into why consideration of this aspect of your business is important
- An explanation of things to consider at this point of the framework
- A case study to place the topic in context of the real world
- Sample tools and tables to help you apply the topic to your own situation
- Suggested strategy tools and techniques you might use to support your strategy formulation

In Chapter 6, I will shift focus from value creation to an in-depth discussion of value destruction. We will walk through the entire V-REEL Framework in a second pass, this time in search of and resolving issues related to distinctive incompetencies.

Finally, Chapter 7 will provide specific recommendations for how to put V-REEL to work in your organization based on your particular role. I'll offer suggestions for the following:

- Executives in established businesses
- Entrepreneurs considering a new enterprise
- Not-for-profit organizations
- Individuals

In the back of the book you will find a glossary of terms so that you can quickly review topics as needed. V-REEL is designed to be simple and easy to apply such that it becomes a new, more complete way of thinking strategically. My hope is that this book will spur fresh thinking, encourage innovation and, very importantly, interject realism. If you step away from an idea because V-REEL helped you see its failings, I will count that as a success and hope you do too. And when V-REEL helps you to identify and overcome an eroding factor so that you can extend the life of your product or business model, I'll log that as a win as well. There is a lot of potential for wins here. If you realize that something isn't rare or can't be, that's a win. Simply being able to see some degree of prioritization so you know what you need to focus on first can be incredibly useful. If that's what you take from V-REEL, that's a win. Perhaps you find you are better able to name your distinctive competency or clearly realize a distinctive incompetency and how to get rid of it. Or maybe you'll identify an enabling factor that is missing or needs to be enhanced to realize a substantial increase in the longevity of your distinctive competency. There are lots of possibilities for wins. So let's get started. Let's think beyond value and get you and your team ready. We're accepting the challenge of the V-REEL Framework and we are going for the win.



CHAPTER 1

What to Know Before You Go

There's nothing worse than joining a conversation already in progress, hearing a familiar theme, and jumping in—only to realize you have no idea what you're talking about. You know you're in over your head. The group knows it and, if you're lucky, everyone awkwardly tries to move the conversation gracefully past your blunder. Best case, you're embarrassed, but the conversation moves ahead quickly. Worst case, misunderstanding leads to disagreement. Either way, a good conversation was interrupted because of a poor assumption. Most of us like to avoid making poor assumptions, and no one likes to be embarrassed. As we begin to think beyond value toward better strategy, let's avoid both of those situations with a quick

review of strategic management. For those of you familiar with the discipline, the review will show how V-REEL works right along with many other approaches to strategy. For those less familiar, it will provide a foundation upon which we will build our framework throughout this book. Once we've reviewed strategic management, I will introduce the V-REEL Framework to provide a general sense of it before we dive into the details.

A Brief Review of Strategic Management

The big questions in strategic management are, why do some companies succeed and why do some fail, and what factors will determine the outcome? Historically, the strategic management discipline was developed by people who were economists, and they were looking at big manufacturing firms and focused on the external environment of businesses—those external events, conditions, entities, and other factors outside the organization that influence activities and impact opportunities and risk. Academics were looking to understand opportunities for efficiencies and economies of scale. Michael Porter, one of the founders of the modern strategy field and one of the world's most influential thinkers on management and competitiveness, took that industrial-organizational economic thinking, reworked it, and put it into management literature as his Five Forces Analysis. Porter's model aids business strategy development by providing a mechanism for understanding and analyzing the level of competition within an industry. The following are of concern, according to Porter's Five Forces:

- The threat of substitute products or services
- The threat of established rivals
- The threat of new entrants
- The bargaining power of suppliers
- The bargaining power of customers

From there, Porter turned his focus to the internal environment. He developed the value-chain concept which looks at the processes within an organization with the understanding that how those activities are carried out determines costs and impacts profits. By the late 1980s, others had joined Porter in thinking and writing about the need to focus on what was happening inside the organization. There was a growing awareness that, while the external environment was important, it was not the whole story by any means. Not enough attention had been paid to what was going on inside organizations.



The big questions are, why do some companies succeed and why do some fail, and what factors will determine the outcome?

The resource-based view (RBV) of the firm, first widely presented in 1984 in a *Strategic Management Journal* article by Birger Wernerfelt, takes the position that it is the unique qualities inside an organization that play the larger role in its success. From research conducted in the decades since then, we know that success results from a mix of internal and external factors. Roughly 20 percent of success is attributable to external factors unique to the industry in which it participates, and about 36 percent to internal factors.⁸ The remaining balance includes things that we either do not understand or cannot measure well, such as luck, personal relationships, and trust. The resource-based view, while presumably focused on the internal environment, boils down to a series of questions that you should ask yourself about your organization. In reality, you must do all the thinking about the external environment to answer those internally focused questions.

The first resource-based view question is simple but powerful: What are your key resources and capabilities that are creating value for you? Keep in mind, when we're talking about value, you must understand that value is measured in the ability to create more value than you consume. You consume value to create value—think inputs vs. outputs. So, you're looking for the things inside your organization that make that incremental change in value. With that in mind, we ask the question, what are the key resources and capabilities inside your organization that create value?

Resources can be tangible or intangible. Your tangible resources are your plant, your equipment, your supplies, your people—those physical, tangible assets. But many of your resources are going to be intangible—things like imagination, creativity, skills, knowledge, reputation, and trust—all the soft and intangible things that are real and incredibly important, but you can't touch, smell, or see. You take these resources—both tangible and intangible—and you use them to develop capabilities. Capabilities are the essential implementations of your resources—the capability to do web design, develop branding narratives, offer great service, make an awesome pizza, etc. You're hoping to identify the resource base that you have and then zero in on your key value creating resources and capabilities.

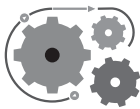
After you do that, you ask the next question: Are any of these key resources and capabilities rare? You ask because it's great that you've got something that can create value, but if everybody else has it too, then as soon as you bring that value into the marketplace, competitors will recognize the value there, and they will enter the market employing their similar resources and capabilities. You won't be able to make any real margin. You won't be able to win in the market because there isn't anything to set you apart from the competition. You want some degree of rareness.

The next question then follows: How do you create rareness? Some of the things that we talk about regarding Porter's Five Forces and barriers to entry could create rareness for you by keeping others from being able to do what you're doing. Or maybe you can create literal rareness in the sense that you are truly the only one that has a particular capability in your market. Some human skills, like reputation and trust, can often be very difficult for others to replicate, and so those intangible factors can be rare and very valuable. You hope for some degree of rareness. And then you hope for some degree of inimitability and non-substitutability. You don't want people to be able to figure out how to imitate your value proposition or substitute something else for the value that you're creating.

In the strategy world, people often remember considerations of the resource-based view of the firm with the letters *VRIS* (Value, Rareness, Inimitability, non-Substitutability). The idea of the resource-based view of the firm is to run your ideas through the *VRIS* filter, and if you have or can create value, rareness, and a high difficulty of imitation *and* substitution, then there is a good chance you have something workable. You might recall the first two considerations of *V-REEL* and note the familiar theme—V: Value, R: Rareness. I'll present both value and rareness in detail later, but I want to point out how *V-REEL* captures the themes of existing and proven strategy methods.

If you discover that you have some key resources that are value creating, are rare, hard to imitate, and hard to substitute, then you may have a distinctive competency in the marketplace. Some people refer to these as core competencies, but I like to think of core competencies as those things that you do exceptionally well in your organization. But the ones that make it through the *VRIS* filter with flying colors—those are your distinctive competencies. They are distinctive because they set you apart in the marketplace in terms of the ability to create value. Some people may refer to core competencies and talk about them

the way I talk about distinctive competencies, but I like to clarify the difference between those two terms. On the one hand, you have core competencies—things that you do particularly well to create value. These may be very important things, perhaps even critical enablers which we will get to later, but the resources and capabilities that make it through the VRIS screen or are much closer to making it through that screen are your real distinctive competencies. When you work through the V-REEL Framework, those distinctive competencies will become the primary focus of your strategic thinking.



When you have a competitive advantage, you've created value for which people will pay a premium; that competitive advantage is driven by the distinctiveness of your competencies.

As you're developing a business or product concept, you hope to have some distinctive competencies. You also hope that the combination of those distinctive competencies will lead you to a true competitive advantage in the marketplace. And by that, I mean you can make real profits because you have market power, you can charge considerably above input costs, win the market competition, and have a true competitive advantage in the marketplace. A true competitive advantage means I am outperforming my competitors; I have better returns than my competitors, and thus, I have more to reinvest in my business in such things as advertising and marketing. That investment then propels me even further ahead of competitors. When you have a competitive advantage, you've created value for which people will pay a premium; that competitive advantage is driven by the *distinctiveness* of your competencies.

To identify distinctive competencies, you need to understand your external environment because many of the answers to questions in the VRIS filter come from that understanding. For instance—what’s valuable? To answer that question, you must know what your customers—your buyers—are willing to buy. You must understand the demographic influences, the macroeconomic influences, all the other general environmental influences, the industry forces of your rivals, etc., to be able to answer this question: In what are people finding value? And of course, that’s subjective. Whatever customers are willing to pay for is valuable.

In terms of answering what’s rare, what’s hard to imitate, and what’s hard to substitute, you must know the external environment because you’ve got to know your competitors, your industry conditions, and how they affect the market. You still must understand your external environment to answer those questions. But during this time of searching for distinctive competencies, you are focusing very much internally and going through an introspective analysis of who you are as an organization and what you’re doing in the context of the external environment. We will use the V-REEL Framework to think beyond value creation and bridge that gap between the internal and external environments. We want to look at both internal and external issues simultaneously and think our way to a clear path forward. Before we do that, let’s talk about a few strategy methods and tools that might be useful along the way.

The V-REEL Approach to Strategy

The concepts of distinctive competencies and distinctive incompetencies are central to the usefulness of V-REEL for strategy formulation. It is these opportunities and challenges that the framework helps you to identify and address, helping you move closer to achieving a sustained competitive advantage in the marketplace. Given how

important competencies and incompetencies are, let's begin our introduction to V-REEL with a clear definition of each.

Distinctive Competencies

Foods with a distinctive flavor are easy to identify. Horseradish is spicy and powerful. Strawberries are sweet. Even if you don't necessarily care for them, you would probably never say they taste like chicken. Meriam-Webster offers a simple definition of distinctive: "Appealing or interesting because of an unusual quality or characteristic." Unusual is a great word. It conjures the idea of rareness. Distinctive competencies aren't simply things that your company can do well. Doing something well, in and of itself, is never a guarantee of true value creation—the kind that enables you to generate more value than is required to deliver in the marketplace. When I talk about distinctive competencies, I am referring to those underlying resources and capabilities—either tangible or intangible—that can create value in the marketplace *and* that are rare. Sometimes business owners overlook what they have that is distinctive. They fail to recognize the real resource or capability that sets them apart in the marketplace.

For instance, I'm sure Coca-Cola is very aware that it has marketing and distribution capabilities that enable it to make water—an extremely ordinary, and therefore not-rare resource in the developed world—something special and valuable. The water itself is not the distinctive competency. In the case of Dasani Water, the distinctive competencies are related to distribution channels and brand loyalty. But suppose you're talking to a local restaurant owner. That owner could be convinced that it is his family recipes that make all the difference and set him apart in his market. He might argue that the secret family recipe is the distinctive competency that keeps people coming back for more. But if the business is doing well, it could very well be the elements of trust, familiarity, and friendliness that distinguish his restaurant experience from others.

People like the owner or like the feel of the place—the experience. They can get that same dish or something very similar somewhere else, but they choose to keep going to the local pizza place because the employees are nice, and they make the customers feel like family.

Very often there are intangibles working alongside other tangible resources. Business owners often fail to realize that it is actually the intangibles that set them apart and are the real distinctive competencies. In both cases—water and pizza—we are dealing with products that are not especially rare, but in both cases, there is a resource or capability behind the product that combines with the product to create value, and not just value, but also rareness. When you have that combination, then you have a distinctive competency. And that is what needs to be protected from erosion and supported with enabling resources and capabilities. We'll cover more on that later.

Distinctive Incompetencies

We've established that distinctiveness is associated with this idea of rareness that is so important to value creation. But when we are talking about distinctive incompetencies we are concerned with value destruction or things that might destroy your ability to create value. While a distinctive competency's degree of rareness increases its value, the rareness of a distinctive *in*competency could actually increase its potentially negative impact on your ability to create value. Returning to the pizza restaurant example, imagine all the brands of pizza delivery places you know. Now imagine that one of those places has horrible customer service—orders are wrong, employees are inattentive and rude, and deliveries are late. With all other things being equal or basically the same—and most chain pizzas are about the same—you're going to avoid the one with horrible customer service. So that distinctive incompetency—poor customer service that makes one pizza company different from all the others—is rare in the market to the degree that

customers can choose a comparable offering and avoid bad customer service. Poor customer service destroyed the ability for that pizza place to deliver value in the marketplace. You can imagine how that could be devastating to a business. We will use V-REEL to identify distinctive incompetencies and determine what needs to be done to remove or diminish their impact on your ability to deliver value.

The V-REEL Framework

As we begin to move through the V-REEL Framework, we will first focus on identifying and working with distinctive competencies that fuel value creation. Once we've done that, we will turn our focus to distinctive incompetencies and learn to identify those places where you are actually destroying your ability to create value. From there, we can determine how to address any issues of incompetence. But first, let's get oriented to the V-REEL Framework. The diagram in Figure 1: The V-REEL Framework provides an overview so you can begin to visualize how it can be used to REEL in ideas and improve processes toward a more strategic operation.

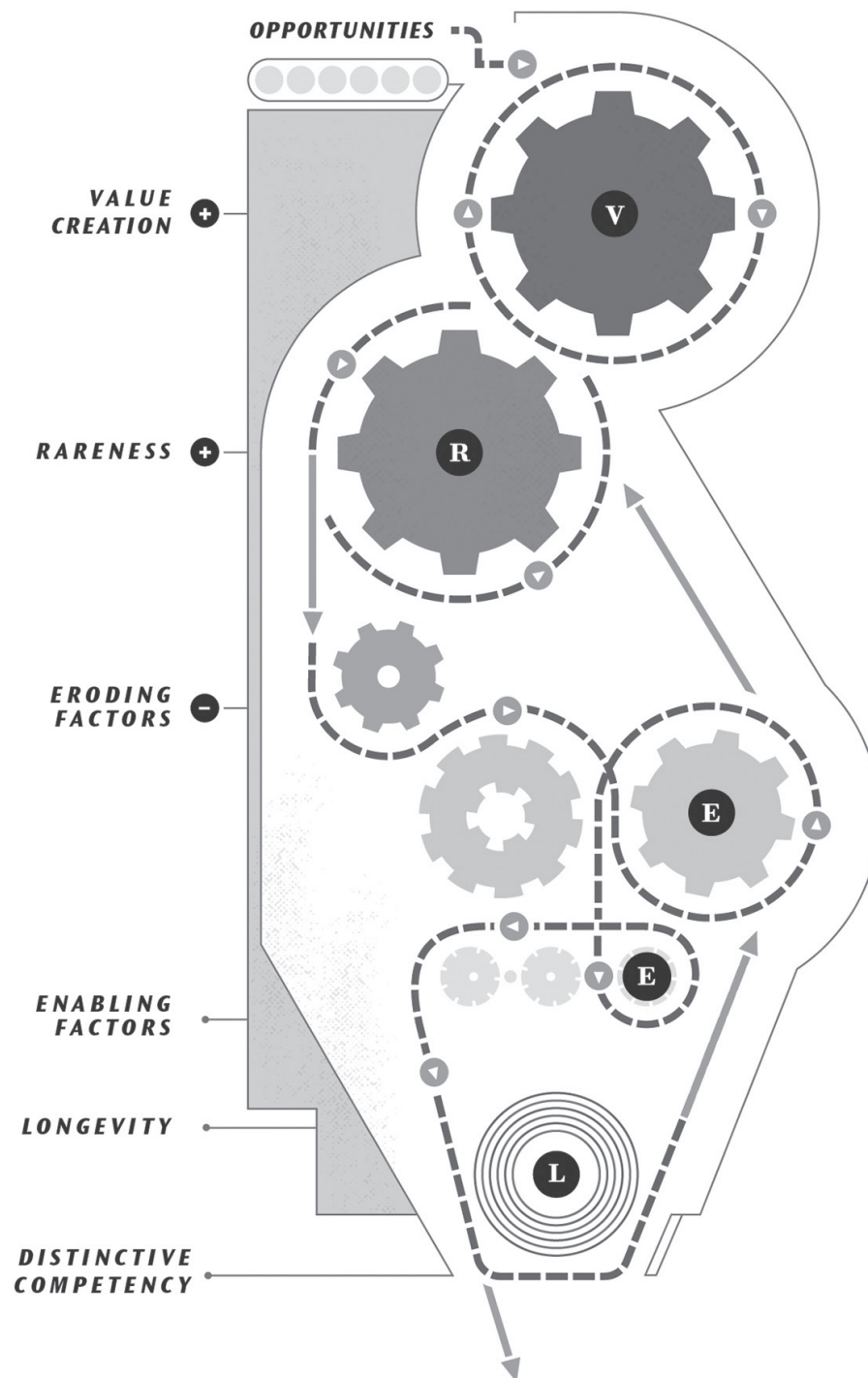


Figure 1: The V-REEL Framework

Value and Rareness

By now you know that the V and the R in V-REEL are value and rareness. In considering these two aspects of your business, you'll need to ask the very same questions that you ask regarding the resource-based view of the firm:

- How are you creating value?
- What resources and capabilities are behind that value creation?
- Are they rare?

When thinking about value, I ask if I have something customers will buy that will create value for them. Then I try to identify the key resources and capabilities that create the competencies underlying that value—always keeping in mind that the source of competencies could be either tangible or intangible. Having completed the resource inventory and identified key resources and capabilities, I then need to ask, are any of my resources and capabilities rare at all, and if so, why? What makes them rare?

Triseum is a start-up educational gaming company that is setting out to change higher education with video games. The company intends to insert commercial-grade video games into academic programs right alongside textbooks to make it fun to learn hard subjects like calculus. Neat idea, right? But what makes Triseum rare? There are quite a few gaming companies out there. Might they also be able to bring games to academia? Triseum, though, has something unique. The company is aligned with a major university that is known for its animation and visualization program and has an on-campus laboratory where games can be tested for educational efficacy. How many other gaming companies have such a relationship that brings very valuable resources like a testing lab complete with student users? Not too many. That's rare. So, in the

case of Triseum, one of the distinctive competencies is the relationship between the company and the university.



Things start to get interesting when you determine that you have something that is both valuable and rare in the marketplace.

As you'll see throughout this book, relationships are often the very things that set companies apart in the marketplace and enable them to deliver value. As an entrepreneur or executive, it is important when developing strategy to understand what those key resources and capabilities are underneath your competencies that enable you to create value. Then you need to understand *if* those resources and capabilities are rare and *why* they are rare. This will tell you what to protect and what might need to be developed around those resources and capabilities to create some rareness.

The rareness discussion can help you think about how you're creating value, and it can help you see if you need to add something to create value that is also rare. It all rolls up together. These are not clean, distinctive steps that allow you to stop thinking about value once you've moved on to rareness. You keep circling back and refining. When—if—you come up with something that is both valuable and rare, then you have a potential distinctive competency. And with that potential in place, things start to get interesting. Keep in mind that while the presence of distinctive competencies is necessary for business success, it is not sufficient. We must now move on to V-REEL's first *E*—Eroding Factors.

Eroding Factors

Given what you know about both your external and internal environments, what is going to work against you over time to erode your ability to create value or your ability to have rareness? Here we are specifically focused on those distinctive competencies identified in the value and rareness discussion. We are not going to concern ourselves with anything else at this point because the resources and capabilities that form your distinctive competencies are the heart of your business. These are the resources and the capabilities that enable you to create value through your competencies, and thus, they all need to be protected from eroding factors. Say you've gone through your thinking of value and rareness and realized that your key resource is the creative ability of one specific person on your team. What if that person leaves or gets hit by the proverbial bus? That is an example of an eroding factor. I will talk more about different types of eroding factors in Chapter 3.

For now, just keep in mind we are thinking about eroding factors that could chip away at distinctive competencies or destroy them all together. But we need to be efficient and think about eroding factors in a prioritized way. After all, some things are far more likely to occur than others. Similarly, if some things were to occur, they would be more devastating than others. With V-REEL, we've created a matrix that you can use to rate what is most likely to occur and how big the impact might be on your ability to create value or be rare in the marketplace. We will go into the Erosion Matrix in more detail later. For now, it is simply important to understand that the matrix will help you identify those eroding factors that present the greatest threat to your ability to create value. Knowing what your distinctive competencies are and understanding where erosion of rareness presents potential issues, you can begin to think about the second *E*—Enabling Factors.

Enabling Factors

By the time you get to enabling factors, if you really understand your key resources and capabilities and have thought through the eroding factors, then you're probably beginning to get a good idea of where you need to pay attention. The Erosion Matrix has helped you to prioritize and focus your strategic thinking. With fresh understanding of your distinctive competencies, their rareness, and any factors that may erode that rareness, you're ready to consider your other resources and capabilities: the ones that don't quite make it to the level of distinctive competencies but might be key to erosion control. The idea here is to use enabling resources to protect and extend the life of your value creation. These key resources and capabilities are the second *E* of V-REEL, and we call them enabling factors. Like many of the items in Porter's Value Chain map, they may be very supportive in nature, such as accounting systems, human resources, delivery partners, and other functions that make the organizational system work. Or they could be necessary only to blunt the impact of an eroding factor. For instance, if a business operation relies on certain government regulations, the company may need to have the capability to lobby the government to help ensure things do not change. The ability to lobby effectively and remain aware of the political situation becomes a key enabling factor for the business.

It is important to have the enabling resources and capabilities to blunt eroding factors and to support the ongoing creation of value. Too often, entrepreneurs will get caught up in the aspects of value delivery that they know, but they'll neglect to give necessary attention to factors that enable them to do the thing they love. We all want to do the thing we love—I get that. If you want to spend the least amount of time possible on what might be the less enjoyable aspects of the business, you once again need to prioritize and focus. Some enabling factors may be far more important than others. If you have an eroding factor with potentially huge impact sitting out there, you may need to develop an

enabling factor like that lobbying capability. And rather than worry about it later, you may need to put that enabling factor in place soon because that eroding factor could absolutely destroy your ability to create value.

You don't want to waste time and resources on things unlikely to impact your value creation, but do invest time developing the enabling factors you really must have in place to protect value and rareness. And in thinking through both eroding and enabling factors, you need to be thinking about *time* so you have some sense of how long it will be before things change and eroding factors become a problem. You need to know when change might occur. You also need to know when you would need additional resources. You invest the time in that kind of dynamic thinking so you can extend the life of your value proposition. Which brings us to the *L* in V-REEL—Longevity.

Longevity

In all the considerations thus far, we've really been taking a snapshot of the world today and understanding how things are currently set. But as the old saying goes, time doesn't stand still for anyone. We all should at least try to guess when eroding factors might occur and when we might need enabling factors to kick in. We need to give our best estimate of how long this snapshot of the world today will hold. How long before my potential for competitive advantage disappears or changes? If I have a pretty good handle on when eroding factors can occur and when enabling factors can be put into place, I might have a pretty decent estimation of how long I have to enjoy a potential competitive advantage in the marketplace. And because you've done all the work leading up to this point, by now you can usually start to see where you can adjust your operation to extend that time and push erosion down the road. By the time we come to discussion of longevity, you can really see what needs

to be addressed right away and what other things can be addressed a little bit later.

Apple provides a great view of how considerations of longevity come into play over the life of a company and product. When the company first introduced the iPhone after many years of research and development, I imagine Apple had planned that its competitive advantage was going to hold for so many months before competitors entered the market. And it did. There was a transition period when the competitors were coming into the market but their products were inferior. By 2016, Apple had lost some of that competitive advantage because the competitors' products were very capable substitutes. But Apple knew this would be the case, so it invested significantly to build up a very powerful intangible—the Apple brand. Through exceptional branding and marketing, Apple has positioned itself as the best, the coolest, and the obvious choice if you can afford it. Apple has done such a great job building its brand that customers are willing to pay a premium for the product largely because of the brand image. The Apple brand, together with other key enabling factors such as supply chain optimization and supplier relationships, supports the strength of the company's value and rareness, and has extended the life of Apple's competitive advantage in the cell phone market.

Even so, Apple continues to look to the future. Leadership knows that cell phones are rapidly becoming commodities, and like every other company, Apple must look to the future, figure out how long it can expect to enjoy the status quo, and then be ready with the next big thing when the situation changes. No matter the size of your business or popularity of your brand, your competitive advantage has a shelf life. Using the V-REEL Framework to identify your distinctive competencies and build a strategy to defend, extend, and even prepare to replace them can significantly improve your ability to create value and even achieve sustainable competitive advantage.

Considering Incompetencies

Value creation is the goal, and thus the focus of strategy formulation tools and processes, but most tools miss a major source of potential value creation: removing value destruction. It is useful to go back through the V-REEL Framework, this time looking for distinctive incompetencies. You must ask:

- Where am I destroying value?
- Where am I doing things that might reduce the value of something, and what are the resources and capabilities that are causing the problem?
- Is this problem common in my marketplace or is this something that is unique to my company?
- Do we have any distinctive incompetencies because of these resources and capabilities?

You must next consider what the eroding factors are that would fix the problem. Instead of eroding away the value and the rareness, what are the eroding factors that would increase your ability to create value and at least bring you to parity with the competition and make your incompetency not rare? Remember, when you are talking about distinctive incompetencies, rareness is bad—think about the only pizza place with terrible customer service—so eroding away the rare incompetency is a really good thing! You are looking for enabling factors that are necessary to put into place to make sure erosion happens. So, what resources and capabilities can you enable in your organization to overcome the incompetencies? And then, when considering longevity, ask yourself how long the incompetency will last and how you can shorten that timeframe. Do you need to fire someone? Add training to the mix? Perhaps you need a whole new competency. The key to this part of your strategic thinking is to look honestly at your resources and

capabilities. It's not the most popular aspect of your planning efforts, but it is essential to your ability to compete and win in your market.



You can't just create distinctive competencies and you can't just eliminate distinctive incompetencies. You must do both to achieve a competitive advantage.

In the first pass through V-REEL, you're looking for distinctive competencies and what's going to erode them away; you then build up defenses against erosion and preserve your competencies for as long as possible. In the second pass through V-REEL, you're hunting down incompetencies and you're trying to figure out how to get rid of them. The interesting thing about this—from a strategic standpoint—is that you really need to complete both passes. You can't *just* create distinctive competencies and you can't *just* eliminate distinctive incompetencies. You must do both to achieve a competitive advantage. Why? Because you could be creating great distinctive competencies but have massive distinctive *in*competencies that offset all the value creation. As a result, you don't really have a competitive advantage at all. It's like trying to drive the car forward with one foot on the brake. You go nowhere. Similarly, you can spend all your time trying to eliminate the distinctive incompetencies but never create distinctive competencies, and the best you can hope for is parity with everybody else. You must be working on both. You should be working simultaneously to identify incompetencies—making sure you don't have any that are holding you back—while you are hunting down the ability to have distinctive competencies that will set you apart and give you a competitive advantage. It's a lot of work. But it is also quite rewarding. Using the V-REEL Framework as your guide, you can proceed with your strategy formulation knowing that

the effort will be worthwhile. So let's begin. We will start our journey through the V-REEL Framework searching for value and rareness as we gain new insights into the external and internal environments. There is much to learn, but this is the way to the win.

