

STRATEGY DESIGN INNOVATION

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HOW TO
CREATE BUSINESS
SUCCESS USING
A SYSTEMATIC
TOOLBOX



ALSO AVAILABLE AS
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OVERVIEW CHART: The Strategy Design Toolbox

OVERVIEW PLATFORM: orientate & connect



Perspective 1:
Creating
Orientation



Perspective 2:
Understanding
Developments



Perspective 3:
Reflecting
Positions



Perspective 4:
Designing
Advantages



Perspective 5:
Engaging
People



Perspective 6:
Realizing
Value



Perspective 7:
Navigating
Success

DETAIL PLATFORM: analyze & create

1.1



What is our vision
and mission?

2.1



Which dynamics
shape the environment?

3.1



What is key to be a
competitive player?

4.1



How do we satisfy
customers?

5.1



How can we develop
an innovative team?

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How can we develop
the organization?

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Chapter 1

DYNAMICS IN THE BUSINESS WORLD AND THE APPROACH OF THE BOOK



On the challenges in a VUCA world, *Bob Johansen* (2013) has highlighted:

GOOD TO KNOW

Business in the VUCA world is a different game than it has been.



Executives are facing considerable new challenges in a so-called *VUCA world*, where *volatility*, *uncertainty*, *complexity* and *ambiguity* set the future pace of competition. In such an environment executives need to understand how to make use of short-lived opportunities, quickly and decisively. The acronym *VUCA* was originally introduced by the U.S. Army War College to describe the dynamics and the strategic impact of today's multilateral world. The elements of *VUCA* pinpoint the strategic significance of foresight and insight, as well as the insight into the behavior of stakeholders, groups and individuals, outside and inside organizations. The following elements represent the context in which organizations in the field of business view their current and future state:

- **V > Volatility:** addresses the nature of change and the dynamics of those forces and catalysts causing the change. Forces of change are often found in new technologies, regulations and trends. This creates new competition, substitutes and shortened life cycles. As a consequence, external change may be faster than the organization's ability to respond.
- **U > Uncertainty:** describes the lack of predictability and the prospects for sudden surprise. The uncertainty of decision-makers about the durability of business models, the use of technologies and changing customer needs is increasingly rising. Forecasts and experiences from the past are losing their validity and relevance. Here the leadership challenge is the requirement to develop a sense of awareness and the ability to anticipate and interpret issues and events effectively.

- **C > Complexity:** indicates the variety of forces influencing an organization and its ability to survive. Multiplex issues and missing understanding of cause-and-effect chains may lead to confusion. Leaders may be lacking the time to reflect and think through these complexities. They end up acting too quickly or getting stuck in analytic paralysis. And, consequently, they may be acting too late.
- **A > Ambiguity:** addresses the haziness of reality and the resulting potential for misreads and confusion. In the digital age information spreads rapidly and is growing exponentially. This makes orientation difficult. The more sources, the more complex the overall picture of an issue becomes. Leaders may not understand the significance of a trend or an event and may respond in an ineffective way. Therefore, the focus is more on the 'why' and 'how' rather than the 'what'.

Bob Johansen (2012) points out that in an uncertain world there is urgent need for a future paradigm of leadership, turning the original *VUCA* idea on its head:

- The threats of *volatility* can be countered by a clear *vision* to think ahead to the future and enable navigation in turbulent times.
- *Uncertainty* can be countered by a deep and solid *understanding* of the developments in the business environment using the ability to listen, to look, to perceive and to understand what makes the environment tick.
- *Complexity* can be countered by *clarity* and the ability to think in networks and systemic cause-and-effect patterns.
- *Ambiguity* can be countered by *agility*, the ability to communicate, to share paradigms for better understanding, to exploit short-lived opportunities. Being agile means remaining flexible and able to act in the face of future changes.

Abidi / Joshi (2015) draw the conclusion that there is a need for resilient leadership skills, comprising engagement themes in planning, knowledge management, impact models, recovery systems and perception systems for behavioural and systemic failure detection.

Rita G. McGrath (2013) shows that some of the traditional paradigms of strategic business development no longer continue to exist. A set of future paradigms has to be developed to keep the strategy moving as fast as the VUCA world requires. In these future-oriented paradigms the understanding of competitive advantages has to recognize that advantages are not sustainable, but transient, on rather short notice. Because of this need for agility the approaches of strategy and innovation – formerly separate disciplines – now have to be interlinked. The understanding of market attractiveness and the relevant competition are shifting from the traditional industry focus to competitive 'arenas'. This is where the real threats and opportunities happen between industries, caused by functional substitution rather than by product substitution and by competitive business models. The rules of the game are becoming more important than compelling product offers.

Table 1.1 lists the changing paradigms for leadership. It shows that the future paradigms from the VUCA world have considerable influence on the way companies have to manage strategy and innovation in their competitive arenas. The approach of *Strategy Design Innovation* is inspired by these future paradigms.

The Suez Canal blockage and its impact on global trade

Volatility: The block in international supply chains led to production risks and financial losses

Uncertainty: The unclear duration of the blockade led to uncertainty in customer supply and to financial risks



Picture: Adobe Stock | Corona Borealis
Ever Given grounding 3D illustration.

Complexity: High dependencies for companies with purely global supply chains and lack of (local) alternatives

Ambiguity: In a tense market environment, even minor announcements caused confusing situations and irrational price changes for production factors

- On March 23rd, 2021 the 'Ever Given,' a 400-meter-long and 59-meter-wide container ship owned by Evergreen, became unable to maneuver in the wake of a sandstorm, it ran aground and blocked the Suez Canal for a week.
- This led to traffic jam of hundreds of ships (up to 422) unable to pass the canal.
- The nearly 200-kilometer-long Suez Canal is one of the world's most important trade routes.
- Every year almost 19.000 ships (more than 50 per day) pass through the canal carrying a total of more than one billion tons of cargo.
- The traffic jam caused delays in global trade and supply chains from Asia for electronic components such as semiconductors, chemical precursors etc.
- Because oil tankers were among the blocked ships, the price of oil increased during this period due to supply concerns.
- What did this mean for the global economy and for individual companies? How would this affect your leadership approach?



3.1 Perspective 1

CREATING ORIENTATION



Overview Perspective 1: Orientation

Some 2,000 years ago *Lucius Annaeus Seneca* accentuated the importance of orientation with the following statement:

YOU MUST KNOW

your destination's port, if you wish to catch a favorable wind.



According to *Hofmann-Wellenhof / Legat / Wiesner (2012)* the art of navigation uses celestial points of reference that are based on the observation of the position of the Sun, the Moon, planets and navigational stars. Such systems are in use both for terrestrial and for interstellar navigation. A navigator can determine his distance from a given point on the rotating earth by referring to a celestial object above that point and by measuring the height above the observer's horizon. This can be transferred as an analogy to the journey a business is intended to make. *Creating Orientation* focuses the issue of effectiveness, which means doing the right things according to a certain point of reference or, in this case, with respect to the organization's set of targets. Orientation can be created by answering the following four questions:



What is our vision and mission?

A clear vision creates alignment in a team for driving a business toward future success. It should address trendsetting ideas, convince the organization's stakeholders and create excitement amongst them for the vision's realization. A vision is an idea of what a company should look like in the future – a picture of the company's future. The implementation is done through the mission. Firms should commit their major goals and corporate philosophy in a mission statement.



What are our values?

Over the last twenty years the idea of Corporate Social Responsibility has become an important reference in running a business. After major compliance scandals since the

year 2000, executives perceived that they have to take more and more responsibility for the behavior on the collective and on the individual level. So an explicit set of company values has become an important point of navigation in an environment where stakeholders' expectations have to be considered.



What is our promise to stakeholders?

All business is people business. Entrepreneurs have to take into consideration that the idea of sustainable stakeholder value creation actually constitutes the organization's right to exist. So the executive's job is to manage and shape the relationships with those groups that have a stake in the organization's activities. It is a characteristic of innovative *Strategy Designs* to develop a higher level of added value for their stakeholders.



What are our objectives?

A company's set of business objectives has to be developed on four levels: corporate level, business level, functional level and – if the company is active internationally – on a regional level. For a distinct orientation of the organization's management and employees it is important to create a set of aligned and consistent objectives and to break it down to clearly allocated responsibilities on the strategic and operational levels.

3.1.3 What is our promise to stakeholders?

Freudenreich / Lüdecke-Freund / Schaltegger (2020) state about the stakeholder theory:

GOOD TO KNOW

Stakeholder theory, as a complementary perspective, asks, [...] with and for whom value is being created.



What it does

According to *Freeman / Harrison / Wicks (2007)* four main trends changed traditional approaches to management: the liberalization of markets, the emergence of environmentalism and social values, the liberalization of political institutions and the explosion of information technology. How to cope with these challenges? Managing for Stakeholders (MFS) is, according to *Freeman / Harrison / Wicks* the key management approach for an organization's survival, reputation and success. Stakeholders in this model are defined as 'any group or individual who can affect or is affected by the achievement of an organization's purpose'. The basic idea is that business can be understood as a set of relationships among groups that have a stake in an organi-

zation's activities. Business focuses on how customers, complementors, suppliers, employees, financiers, the society, the government and, indirectly, competitors interact and create value. For entrepreneurs the task is to know how these relationships work and how they can be shaped strategically. Entrepreneurs have to concentrate on creating and sustaining value for those stakeholders that are key for the survival. This principle is true for any kind of organization, no matter what overall purpose or direction the particular business has set. Several developments lead to fundamentally new conditions and challenges in the relations with key stakeholders:

Customers have always been taken as stakeholders with the highest importance. In nowadays' hyper competition in saturated markets it is no longer that simple to just offer superior quality or low prices to create customer advantages. Outpacing strategies must create segment specific bundles of benefits and customer advantages around price, quality, service and speed. Organizations have to create new and disruptive rules for the bilateral relation with their customers.



Suppliers, traditionally perceived as 'just somebody to buy stuff from', have to be understood from a new perspective, as certification standard liability aspects have become key success factors over the last years with reference to the idea of Total Supply Chain Management. Nobody can accept materials or services from a supplier who creates the offers in an environmentally dangerous or in a socially questionable way. The quality of the value chain is questioned backward and liability does not stop at the point of sale. So the traditional value chain has mutated into a responsibility chain.

Complementors, a rather new category of players, are those players who add value to one's own offer, but without necessarily having an initial contract with this organization. Specifically in digital business models and open innovation approaches complementors take over an important and ambiguous role of '*coopetition*': cooperation in a common value creation approach on the one hand, and potential competition on the other hand. Entrepreneurs need to balance this ambiguity, for example when creating platform strategies for technological lock-in strategies.

Employees need to be given challenging assignments, training skills and comprising perspectives in order to create their individual potential for employability, flexibility and market value. Enabling employees who are different from each other in terms of race, gender, sexual orientation, age, education and culture, has become a new and challenging task for **Managers**, and diversity is considered to be a key enabler for the innovativeness of an organization.

Financiers – external investors and shareholders – have changed their relationship to organizations they could invest in after the scandals of Enron, Tyco and WorldCom at the beginning of the new millennium. The scandals have created a deep skepticism and, as a consequence, tough legislation requires companies to prove, more and more, that all of their strategies, processes and actions can be qualified as compliant. In addition, transparency rules have made the financial markets more competitive, thus creating new challenges for companies to get the buy-in of financiers.

Society expects from a local company to be a good citizen in a new quality: not just obeying the law, donating for charities or sponsoring, but taking responsibility in a virtual and global world.

Governments are no longer monolithic entities but highly differentiated systems creating policy regulations, product liabilities, anti-trust legislation, tax regulations, social policy and constraints and space for national and international economic growth.

Competitors create global and local competition at the same time. Non-domestic competitors, with a different cultural and institutional background and with the financial backing of their governments, emerge with high speed and considerable disruptive power.

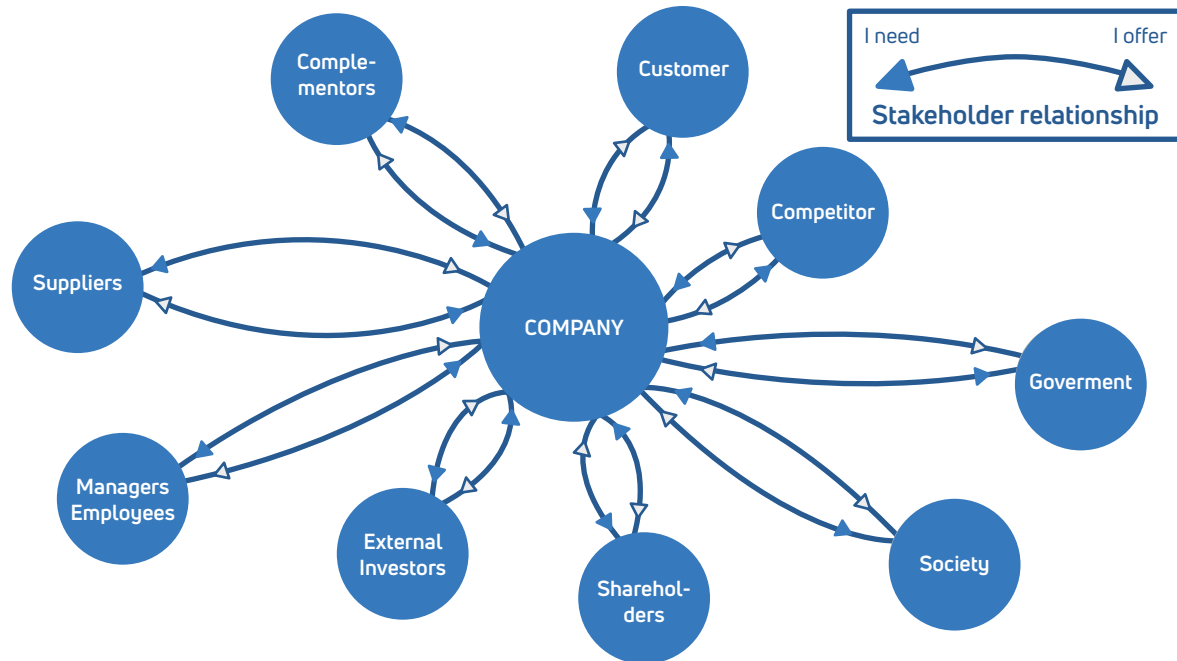
Indirect stakeholders, such as **consumer advocates**, **environmentalists** and other **special interest groups** and the **media** take over important roles. They may have high interest in the activities of the company and, at the same time, they may create considerable impact on an organization's development by influencing their network of promoters and opponents.

Table 3.5 outlines stakeholder relations.



Table 3.5

The executive's job is to manage the relationships among groups that have a stake in the organization's activities. ▼



Further reading: Freeman, R. E. / Harrison, J. S. / Wicks, A. C.: Managing for Stakeholders – Survival, Reputation and Success, New York 2007.

How it works

Freeman / Harrison / Wicks (2007) pinpoint some fundamental techniques for effective stakeholder management and its application in the real world of business:

Understanding stakeholders in depth. Helpful questions:

— Interests

- What are the stakeholder's main interests?
- How do we affect these interests?
- How are we affected by these interests?

— Networks

- Who are the groups and individuals who can affect this stakeholder?
- Who are the stakeholder's stakeholders?

— Paradigms

- What does this group think about us?
- What assumptions are they making?
- What assumptions do we make about them?

— Cooperation

- What are natural coalitions that could occur?
- Where are joint interests? What are the major points of conflict? What might cause a stakeholder to engage in a behavior that is either more cooperative or more competitive?

Mapping stakeholder relations. The relationships between one's own company and specific stakeholders must be evaluated according to the mission and strategy of the organization on the one hand and the interests of the stakeholders on the other. Based on the outlined questions, *Jünger / Wittmann (2021)* have developed the *STIEM* model to understand these relationships and to enable proactive stakeholder management. The *STIEM* model is published for the first time in this book.

Assignment SD-T 1.3 invites you to work out *STIEM* about your organization's stakeholder relations.



STAKEHOLDER MAPPING USING THE STIEM MODEL
 BY JÜNGER/WITTMANN (2021)

Assignment SD-T1.3

Stakeholder	Typology	Influence	Expectations	Measures
<p>Who is the specific individual stakeholder or stakeholder group?</p>	<p>Is the stakeholder internal or external to the organization?</p>	<p>How strong is the influence of the respective stakeholder to the organization; and how likely can the organization influence the stakeholder?</p>	<p>What are the bilateral expectations and offers between stakeholders and the organization?</p>	<p>How does management cope with the specific stakeholder and what strategy and measures does it pursue?</p>

3.2 Perspective 2

UNDERSTANDING DEVELOPMENTS



Overview Perspective 2: Understanding Developments

Coming back to *Seneca's* statement on navigation the Perspective of Understanding Developments underlines the importance of a solid understanding of what is going on in the environment: which weather can be expected, what will be the wind's direction and force, is there a risk of floating icebergs etc. The following questions arise:



Which dynamics shape the environment?

A range of macro environmental influences can affect an organization's development, positively or negatively. The dynamics may come from political, economic, socio-cultural, technological, ecological and legal trends. In order to detect and evaluate these trends it is important to zoom out from a detailed perspective to one that allows to identify relevant dynamics in the macro environment. These trends typically have already started to unfold their impact in one or another area so that they can be detected by appropriate trend scouting instruments.



What drives the rules of the game?

The attractiveness of an industry depends to a considerable degree on the rules of competition and the players setting the standards for coexistence, cooperation, competition or even for cooperation. It is essential to analyze and thoroughly understand the relevant competitive players: current competitors, new entrants and substitutes, buyers, suppliers, partners and complementors. This analysis is a powerful approach to understand more about the rules of the game in a certain industry. Profiling the competitor's potential reactions can help to anticipate strategic moves and to draw intelligent conclusions for the organization's strategic direction.

Overview Perspective 2: Understanding Developments

... continued



How do markets develop?

A company's size and its growth dynamics in a certain market have major impact on the potential to create value. Being a big player can open up a major opportunity for improved bargaining power, for sales growth and for effective cost management. The power to grow is dependent on the current market size and its expected growth rate. In order to evaluate that potential a closer look has to be taken at the market cascade, comprising the total market, the inaccessible market segments, the unserved market segments and the competitive position within a served market. This is a useful approach to develop assumptions for market development and, at the same time, to create ideas for market-based strategies.



What are possible scenarios?

Business people have to develop a visionary understanding of what the future may look like. It is necessary to identify influencing forces, future application fields and living spaces. Pictures of the future can be outlined in a combined process of analysis and synthesis. The results will act as triggers for an organization's competitive *Strategy Design*.

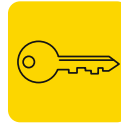
3.3 Perspective 3

REFLECTING POSITIONS



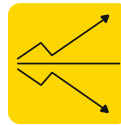
Overview Perspective 3: Reflecting Positions

When *Seneca* mentions the port one is sailing to, he must also have in mind the ship's position in order to define the details of a potential journey. In the art of navigation the determination of a ship's position builds on the concepts of latitude and longitude of a certain place on Earth. Only if the captain can determine both, the latitude as the angular distance north or south of the equator and the longitude as the angular distance east of the prime meridian of the Greenwich meridian, the position can be fixed. Modern navigation relies on intelligent positioning systems by receivers collecting information from satellites. This approach of navigation can also be transferred as an analogy to the idea of the *Strategy Design*. In order to reflect a company's position it is important to determine the 'latitude' and the 'longitude' of the current position in a competitive environment. The following questions are vital in order to learn more about this specific position:



What is key to be a competitive player?

The type of a business implies key success factors for an organization's position. With respect to product business, customer solution business and digital lock-in business the relevant success factors have to be detected for the competitive game.



Which opportunities and threats are relevant?

An organization's current position comprises a set of specific innovation challenges. Business people should be able to detect which incremental, radical or even disruptive aspects are developed by players in the market and which of them are of competitive importance to their own organization. For this process of detection they need appropriate radar systems. It is necessary to find out which impacts can be expected. They can be clustered as opportunities or threats – depending on their power of influence as well as on the level of the disruptiveness of the people creating the competitive future *Strategy Design*.

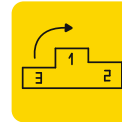
Overview: Perspective 3: Reflecting Positions

... continued



Which strengths and weaknesses are relevant?

An organization's position is strongly dependent on its relative competitive advantages. The benchmarking approach is on watch for best practices that lead to superior performance. Yardsticks for comparing the performance of one's own organization can be: internal business units, industry competitors and even process leaders from outside the industry.



How can we improve our position?

Just like in the art of navigation the position is determined by the synopsis of latitude and longitude, in business, two perspectives must be perceived simultaneously: both competitive strengths and weaknesses as well as the environment's opportunities and threats describe the initial position of an organization in a comprehensive way. This summary is fixed in the SWOT Analysis as the starting point for a structured brainstorming of ideas and approaches of how to improve one's own position. The portfolio of ideas for strategic measures is bundled in the SWOT Synthesis, in a second step.

3.3.2 Which opportunities and threats are relevant?

What it does

Reflecting one's own position is not a static task, as already outlined in the context of Perspective 2 – Understanding Developments. Perspective 3 – Reflecting Positions builds on the dynamic perspective of the previous findings, looking at the developments that have the potential to impact the business in its competitive position. The Opportunity-Threat Radar is a method for deriving the potential impact on one's own business by classifying opportunities and threats.

Heger / Rohrbeck (2021) highlight the importance of a regular observation of opportunities and threats:

GOOD TO KNOW

To succeed [...] many firms have understood the importance of identifying trends and opportunities early and monitoring them continuously.



How it works

The **Opportunity-Threat Radar** is harking back to the results derived in the PESTEL analysis in the *Strategy Design Toolbox (SD-T 2.1)* Which dynamics shape the environment? The essence of the respective discussion is split up into opportunities and threats, allocating them to three different levels of importance:

- **Incremental** opportunities and threats are those having only a marginal impact on the competitive situation of the business. Nevertheless, their development should be monitored.
- **Radical** opportunities and threats are those changing the business in its competitive roots, as indicated by the Latin word 'radix'. A typical example is a quantum leap in the technological approaches of running business processes.
- **Disruptive** opportunities and threats are those changing the rules of the competitive game dramatically. They have the power of substituting needs, existing offers or even existing business models, they may have the power to threaten the organization's survival.

Table 3.13 outlines the Opportunity-Threat Radar approach, merging the PESTEL method with the different levels of incremental, radical and disruptive change.

Assignment SD-T 3.2 invites you to work out the upcoming incremental, radical and disruptive opportunities and threats.

A case study ...

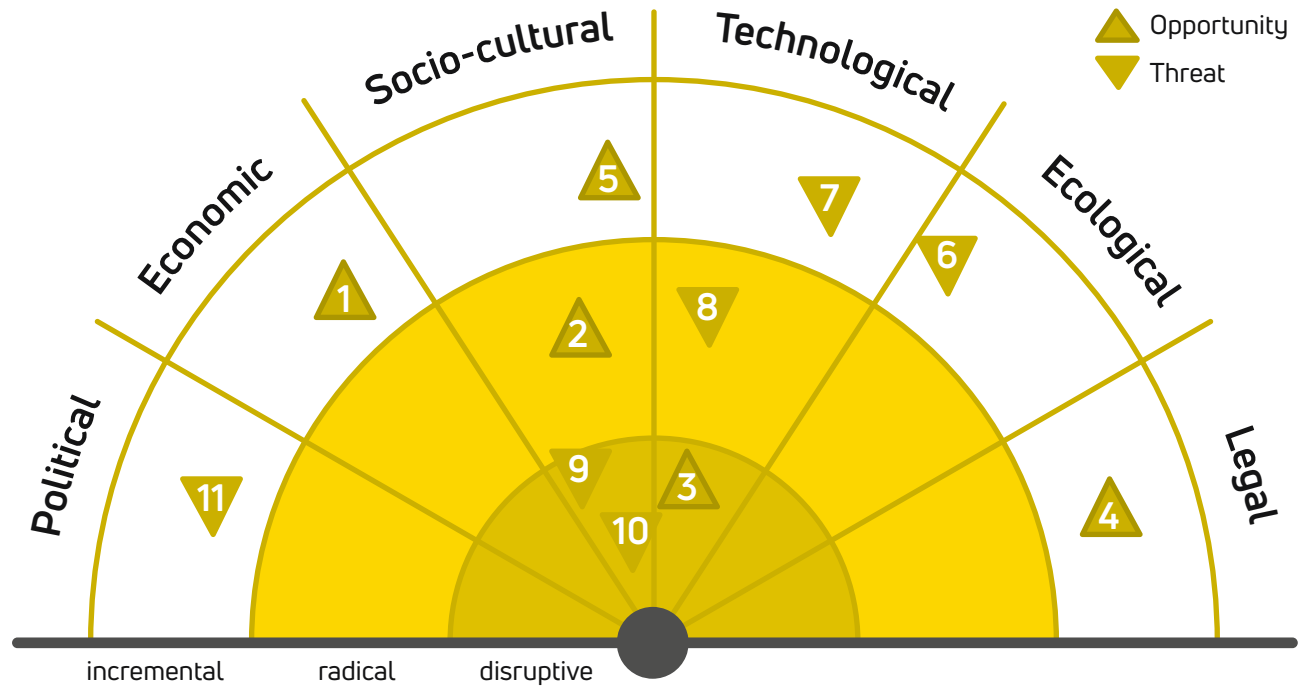
The following example shows the trend in e-commerce sales of pharmaceuticals in the U.S. The focus lies on the opportunities through increasing online sales for vitamins, minerals, and supplements (VMS).



- In 2013 Kurt first indicates, that retailers should see online sales of VMS as an opportunity rather than a threat (economical factor / incremental opportunity).
- An article of 'Nutraceuticals World' highlights in 2017, that online sales for vitamins, minerals, and supplements (VMS) grew dramatically by 20% from \$2 billion in 2016 to \$2.4 billion in 2017 (change towards radical). From 2016 to 2017 Walmart and Amazon grew its number of VMS transactions by almost 15% within one year.
- For the year 2021 a market study indicates a VMS market volume of \$19.0 billion and continues strong growth until 2026 (keeping radical).

The knowledge of the development of opportunities and threats enables to act proactively.

Table 3.13 The Opportunity-Threat Radar contains incremental, radical and disruptive influences. ▼



Source: Wittmann, R.: Opportunity-Threat-Radar, ad|venture consulting, Augsburg 2016.

Further Reading: Christensen, M.C. / Raynor, M.E.: The Innovator's Solution, Creating and Sustaining Successful Growth, Boston 2003.

Further exploration: www.trendexplorer.com, www.trendone.com



3.4 Perspective 4:

DESIGNING ADVANTAGES



Overview Perspective 4: Designing Advantages

To succeed in a sailing regatta it is of critical importance to develop real advantages and to make the best out of them. The same is true for the competitive journey of a business. Designing Advantages is powered by the following questions:



How do we satisfy customers?

The mind of the strategist strives for creating real customer advantages against the competition. This approach means to avoid competition and to create a monopolistic situation: it is like leaving the highly competitive oceans, where cutthroat competition between shark fish turns the market blood-red, while entering the blue oceans opens up untapped market spaces, creating a potential for demand and highly profitable growth. If we want to make customers happy, we need to build innovation around customer experiences.



How do we address market segments?

Customer advantages have to be taken to promising market segments in a targeted way. Which offers and innovations are a perfect match for existing market segments? And where should we try to open up new markets? Where do we have to foster innovation in terms of incremental ideas, radical technology or disruptive and game changing business models? Finally we need to identify suitable measures that allow us to successfully implement this offer-market strategy.

Overview Perspective 4: Designing Advantages

... continued



Which activities create our offer?

Customer advantages are like a promise to the market. In order to deliver on that promise a business needs to design an effective and efficient value chain, outlining by which functions the superior offer shall be created and brought to the customer's experience. The value chain also describes the approaches for make-or-buy strategies and for the localization strategy of a business. Value chain mapping and digital network mapping can be applied to design these business activities.



Which key resources do we need?

On the way of bringing the business activities to life the organization needs a concept specifying the strategic resources and competences as enablers for its success. These resources and competences must fulfil strategic requirements, such as the quality of being valuable to customers, rare in the market, inimitable to competitors, and well organized within the company. These characteristics have to be properly defined and developed. Resources and competencies are important enablers for business success.

3.5 Perspective 5

ENGAGING PEOPLE



Overview Perspective 5: Engaging People

The importance of this inspiration is positively and vividly expressed by Antoine de Saint-Exupery:

'If you want to build a ship, don't drum up the men to gather wood, divide the work and give orders. Instead, teach them to yearn for the vast and endless sea.'

Engaging People is an important enabler and a key success driver in Strategy Design Innovation, dealing with entrepreneurial competence, business acumen, team composition, partnering, networking and communication. The following questions arise:



How can we develop an innovative team?

People's competences and, at the same time, organizational competences are important sources of competitive advantages. To find out which competences are needed for tomorrow's innovative *Strategy Design*, entrepreneurs have to match the competitive strength of their organization with the strategic significance of the relevant competences. Based on that consideration strategies can be developed to select strategic competences, to close competence gaps and to develop ideas for competences that have the power to outpace competitors.



How can we establish powerful partnerships?

Developing powerful partnerships requires profound activities to derive the areas for cooperation within the value chain, to select appropriate partners, to build up trust and to maintain cooperation that is able to create value for both partners. Partner management comprises activities in the integration fields of strategy, organization, personnel, culture, operations and communication with stakeholders.

Overview Perspective 5: Engaging People ... continued



How can we use the power of networks?

In a world of digital business, innovative ideas show up transcending the traditional ideas of limited companies. The ideas of open innovation, crowdfunding and crowdsourcing indicate that innovation has to think rather in systems than in the narrow boundaries of traditional organizational limits. Entrepreneurs can use the approaches of digital network modelling to outline the roles, relationships and rationales between the various players of a digital *Strategy Design*: principals, agents, partners, complementors and platform providers.



How can we we manage promoters and opponents?

Any innovation causes resistance – but the resistance does not prove that the innovative idea is reasonable. To get the buy-in of promoters, to cope with the resistance of opponents or even to turn their rejection into support is the greatest challenge in the field of change. Which instruments can help to convince important stakeholders and to get their buy-in? It makes a lot of sense to take the rather soft aspects of *Strategy Design* into consideration.

3.5.3 How can we use the power of networks?

Frankenberger *et al.* (2021) sum it up in their book 'The Digital Transformer's Dilemma' with the following statement:

GOOD TO KNOW

The digitization of your core business is necessary, but the future of your company lies in its new, disruptive business.



What it does

Looking at companies like Google, Amazon or Wikipedia, the power and the success of networking companies is evident. Disruptive business approaches, such as crowdsourcing, open innovation or crowdfunding open up completely new opportunities. They launch innovative business models in the digital world and unleash considerable scalability and a tremendous profit potential. Striving for professionalism in the digital world requires new competences for understanding the mechanisms of digital business models and for setting up one's own and innovative digital *Strategy Design*.

How it works

Historically, digitization had a restrained impact on companies. Frankenberger *et al.* (2021) state in this context, that companies often did not drastically rethink their business models. Questions like 'why', 'what', 'where' and 'how' to transform often hindered the progress.

However, with the dynamic development of technologies, platform businesses, digital networks, artificial intelligence, new competitors and new customer demands, the development of digital business models has picked up speed. Using the words of *El Sawy / Pereira (2013)*, the world becomes more digitally intensive, and the business environment becomes more turbulent. Existing boundaries between digital platforms, companies and environments are becoming more blurred. It is therefore of particular importance that strategists and entrepreneurs have a clear understanding of digital network modeling, as digital business models are a trade-off of technological, organizational, and monetary relationships.



Table 3.29 outlines six elements of a *Digital Value Creation Framework (DVC Framework)*, which, according to *Christian Hoffmeister (2017)*, are needed to analyze, model and plan a digital business model, including its relationships.

The six elements are:

- 1 **Platform:** How is the platform designed?
- 2 **Services:** What is offered?
- 3 **Gratifications:** What is expected for the service?
- 4 **Performance groups:** Who should use the service?
- 5 **Transactions:** How do the exchange relationships work?
- 6 **Interface:** Does the model get extended?

More details can be found in the book of Hoffmeister, C.: *Digital Business Modelling*, München 2017.

Good to know: *Libert / Beck / Wind (2016)* describe in their book 'The Network Imperative' ten principles to get progress in a digital transformation. Take the time to read through it. It's worth it!

The ten principles at a glance:

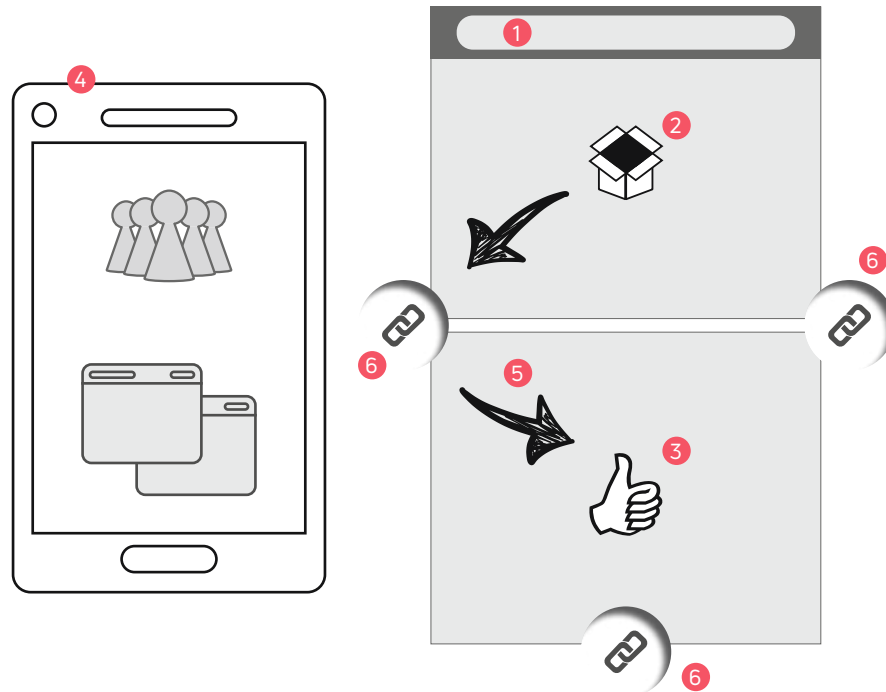
1. Create **digital capabilities**
2. Invest in **intangible assets**
3. Actively **allocate** your **capital**
4. Lead through **co-creation**
5. Invite your **customers to co-create**
6. Focus on **subscription**, not transaction
7. Embrace the **freelance movement**
8. Integrate **big data**
9. Choose **leaders** who **represent your customers**
10. Open your mind to **new possibilities**

In a digital transformation process an organization should get evaluated on each of the ten principles.

Table 3.29

The DVC Framework and the relevant elements for describing digital business models. ▼

- 1. Platform
- 2. Services
- 3. Gratifications
- 4. Performance groups
- 5. Transactions
- 6. Interface



Source: Hoffmeister, C.: Digital Business Modelling, München 2017.



A case study ...

Lemonade is a US direct insurer which offers a completely new and innovative concept. With a digital and platform-based business model, *Lemonade*'s goal is to deliver an enjoyable and transparent insurance experience.

How does *Lemonade*'s business model compare to a traditional insurer?

Lemonade only takes a fixed portion of the insurance premium and uses the rest to pay claims. If there are any unused premiums left, *Lemonade* donates them to charity. *Lemonade* values the fact that it is a Public Benefit Corporation and a certified B Corporation, which means that the company cares not only about business results, but also about the community and the environment.

Lemonade's Digital Value Creation Framework:

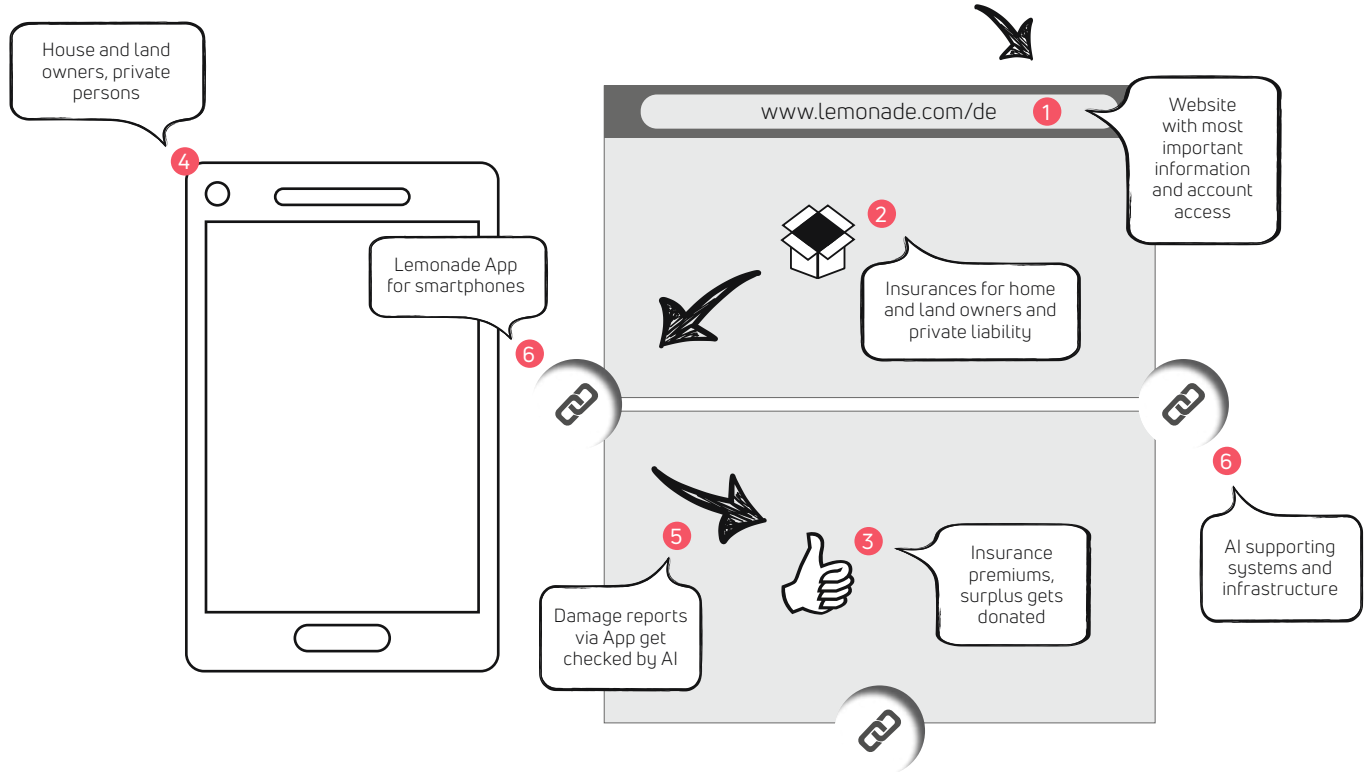
- 1 **Platform:** On the internet, *Lemonade* offers all necessary information on products and prices as well as access to the individual customer account. Via the *Lemonade* App, a damage can be reported effortlessly and at any time via smartphone.

- 2 **Services:** Depending on the country, the range of insurance products is specialized. In Germany, for example, *Lemonade* only offers products in the area of household and personal liability insurance. As stand-alone or in a bundle.
- 3 **Gratifications:** *Lemonade* uses surplus insurance premiums to donate to nonprofits. Customers are involved in the selection process.
- 4 **Performance groups:** The insurance products are designed for specific target groups and partly differ in the countries. In the USA, for example, there are also e.g. products for homeowners, tenants and pet owners.
- 5 **Transactions:** If a claim is reported via the *Lemonade* App, the report is checked by an AI. If the damage is approved immediately, the AI pays directly. Otherwise, the AI transfers the claim to customer care. *Lemonade* highlights that approx. 40% of the damages are processed immediately.
- 6 **Interface:** Communication is done through digital media and supported by new technologies such as AI.

How does the digital business model look like in the DVC framework? Try visualizing it right now!

A case study ... continued

TRANSFER OF THE LEMONANDE EXAMPLE (GERMAN MARKET) TO THE VISUAL DVC FRAMEWORK / REAL-LIFE APPLICATION





3.6 Perspective 6

REALIZING VALUE

Overview Perspective 6: Realizing Value

Coming back to *Seneca's* idea of effective navigation. Passage planning is the procedure to develop a complete description of a ship's voyage from start to finish. The plan includes leaving the dock and the harbor area, the route of the voyage, up to approaching the destination and mooring. According to international law, a vessel's captain is legally responsible for passage planning. So passage planning has to comprise two qualities at the same time: fixing the guardrails for a planned route and being flexible enough to react to changing conditions. So passage planning comprises all the necessary aspects of how to organize a ship's entire voyage and, eventually, how to realize success with the passage. In *Strategy Design Innovation*, accordingly, Perspective 6 – Realizing Value asks the following questions:



How can we develop the organization?

An effective and consistent set of structural and cultural components can foster organizational innovativeness. Aspects like leadership, effective team work, training, a creative climate and enablers for a learning organization can boost the innovative potential of the organization.



What is the roadmap for implementation?

Passage planning for a business has to define the initial situation, understand stakeholders' expectations, define targets, develop key concepts, set milestones, allocate resources and, understand risks and opportunities for the journey. The essence of the ideas developed with the questions and instruments of Perspectives 1 to 5 have to be broken down to a project management structure along a timeline. After the discussion of more strategic issues now entrepreneurial spirit has to deal with the very operational aspects of project management. The resulting roadmap allocates milestone actions and prepares for effective implementation of *Strategy Design*.

Overview Perspective 6: Realizing Value

... continued



How much money do we need?

This question directly interlinks with the previous question about the appropriate roadmap and its work packages. Once you know the actions, the milestones and important stage gates – like the market entry of a business innovation – the task is now to identify the financial impact on cash, resulting from the defined actions.



How can we win investors?

Bottom line, the impact of everything in *Strategy Design* Innovation is now boiled down to the one-dimensional perspective of cash flow – an important dimension for investors, as they state 'cash is king'. But how can an entrepreneur balance the dilemma of being as creative as possible on the one hand, and, on the other hand, coming up with promising *Strategy Designs* that have the potential of winning investors? Along a Stage-Gate Process, the phases of generate ideas, select ideas, develop prototypes and implement ideas can help to develop concepts with a clear market focus. The principle 'invest a little, learn a lot' can help to win investors' attention, step by step: from a first and rough idea about the value proposition through an outline of a specific business model down to a full-blown *Strategy Design*.

3.6.2 What is the roadmap for implementation?

What it does

Perspective 6 – Realizing Value is focusing on all the aspects you need to get things done. With question 6.2, 'What is the roadmap for implementation?', the *Strategy Design Toolbox* takes the discussion to the methods of project management. You and your team need to derive all the actions that have to be taken to bring your *Strategy Design* to life.

Roadmapping therefor is one of the most important approaches for strategy implementation. *Imoh Ilevbare (2011)* highlights in this context:

GOOD TO KNOW

The value created in roadmapping arises from both the finished form of the roadmap created and the process of its creation. It is strongly suggested that roadmaps be updated frequently.



Since there are only few theoretical approaches and concepts in the literature *Jünger / Wittmann (2015)* have closed this gap within the framework of Strategy Design Innovation. They call it the '*Strategy Design Roadmap (SDERO model)*'. It is published for the first time in the book *Strategy Design Innovation (SDI)*.

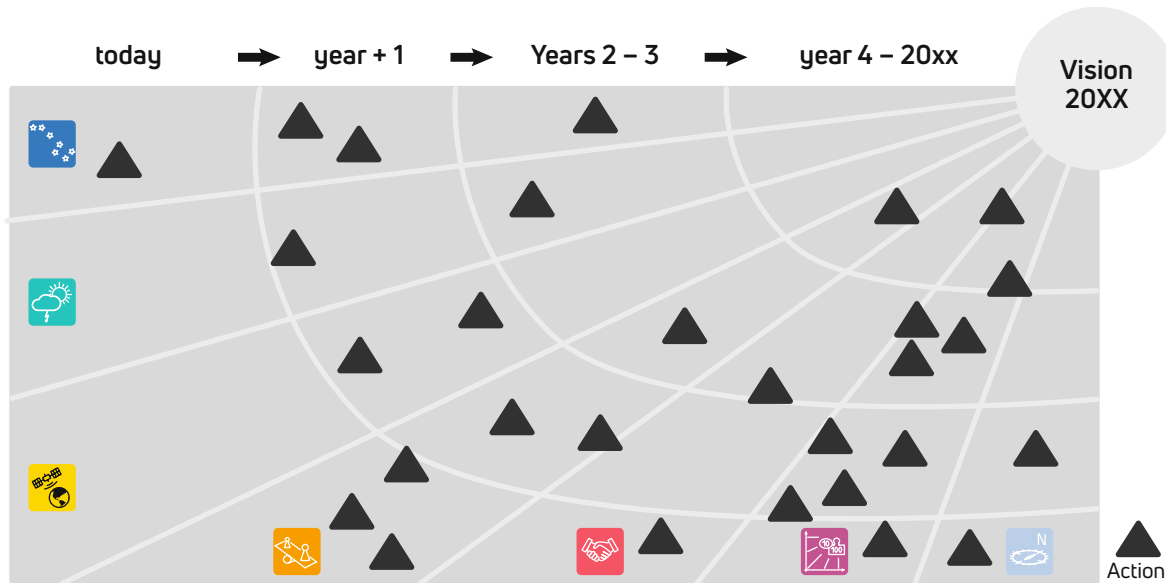
How it works

The *SDERO* model follows a 4-step plan:

- Open up a roadmap along a time funnel – starting from today, moving to the next few years (e.g. 4-5 years) and finally to your 'Vision 20XX' (see Table 3.34).
- Walk through all the fields you analyzed and the findings you created during your journey within the *Strategy Design Toolbox* tools.
- By using e.g. brainstorming in workshops you can create a list of necessary actions. Integrate all relevant people who will later support or manage actions.
- Clearly name (and describe) the actions and allocate them into your *Strategy Design Roadmap (SDERO)*.

Table 3.34

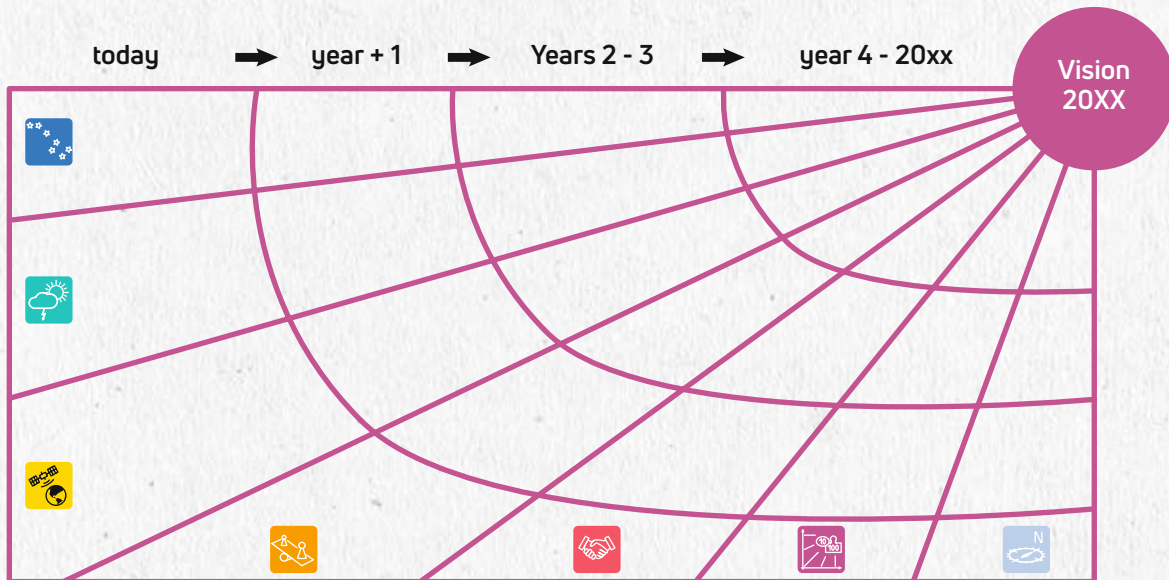
The SDERO model (roadmap) allocates milestone activities for effective implementation. ▼



Source: Jünger, M, Wittmann, R.G., Workshop result (SDERO) within the development process of Strategy Design Innovation (SDI), Augsburg 2015.

Assignment SD-T 6.2

HERE YOU CAN WORK OUT YOUR IDEAS ABOUT YOUR ORGANIZATION'S ROADMAP FOR IMPLEMENTATION.



In order to involve stakeholders substantially and to ensure the realization of the actions, a clear assignment of responsibilities is required. Table 3.36 shows an exemplary *RACI* chart which therefor offers an effective method. It lists the main actions down the side and the various stakeholder along the top.

According to *Paul / Cadle (2020)* the stakeholder responsibilities (*RACI*) can be the following:

- **Responsible:** This person or role is responsible for creating or developing the deliverable or performing the task.
- **Accountable:** The person or role who decides if the task was done correctly and in expected quality.
- **Consulted:** This person or role has to be consulted to provide relevant information.
- **Informed:** This stakeholders must always be informed about the deliverables and current developments.

The literature knows different variations, e.g. an extension to 'RASCI'. Here, the 'S' describes a supportive person or role.



Table 3.36

Exemplary illustration of a RACI chart. ▼

Action #	Executive	Project Manager	Business Analyst	Business Advisor	...
Action 1	A	R	...	C	I
Action 2	I	A	R	...	C
Action 3	I	A	...	R	C
Action 4	C	A	R	I	...
Action 5

Further reading: Ilevbare I., et al.: Integration of TRIZ and roadmapping for innovation, strategy and problem solving – TRIZ, roadmapping and proposed integrations, Papers Centre for Technology Management, University of Cambridge, July 2011.

A case study ...

A *hospital* assigned a turn-key contractor to build a new ambulatory department. The contractor is responsible for the complete realization and completion. This includes the coordination of possible subcontractors.

To get an overview of the stakeholders involved and their contribution to the project, the purchasing department of the hospital created a *RACI* chart.

Action #	Project Manager	Architect	Contractor	Hospital	Investor
Clarity on functional needs	I	R	I	A	I
Planning technical solution	A	C	R	C	I
Create clinical pathway	A	R	C	R	I
Allocation of third-party services	A	I	R	I	I
Realization	A	C	R	I	I
Handover	C	C	R	A	I





3.7 Perspective 7

NAVIGATING SUCCESS



Overview Perspective 7: Navigating Success

In the art of navigation, nowadays, modern satellite systems such as Global Positioning Systems (GPS) provide relevant information for tracking the progress of the journey. Also in *Strategy Design* there are helpful instruments assisting the entrepreneur on the journey. The following questions foster Perspective 7 – Navigating Success:



How can we capture financial value?

This question addresses the financial mechanics of a *Strategy Design*. It refers to the basic concept of an organization's rationale of how it creates, delivers and captures value. The concept of *Economic Value Added (EVA)* uses a value driver tree that can be used to analyze an organization's mechanics of value creation and to derive effective measures for economic profit. It is necessary to build a bridge between the commercial understanding of business and the functional understanding of people who are stakeholders in the various areas of and around an organization.



How can we control our objectives?

Management needs a proper approach to track the execution of their strategy. Starting with a deep understanding of the relevant drivers in the perspectives of customers, markets, processes, employees and finance and their interrelationships, a management cockpit for navigation can be established with the *Balanced Scorecard*. The instruments of the cockpit of a *Balanced Scorecard* make a direct recourse to the outlines of Perspective 1 – Creating Orientation. So the idea here is to close the loop in order to develop a consistent, effective and efficient implementation of *Strategy Design*. The strategic approaches have to be translated into business drivers, metrics, targets and concrete responsibilities along the principle 'What gets measured, gets done'.

Overview Perspective 7: Navigating Success

... continued



How can we manage risks?

When you set up a concrete *Strategy Design*, both opportunities and threats will show up. We have looked at various potentials for opportunities, because entrepreneurial spirit puts considerable emphasis on generating them. But nevertheless it is a vital characteristic of entrepreneurial spirit to also manage the risky side of *Strategy Design*. So it is important to identify risk along the process of *Strategy Design Innovation*, to evaluate these risks, to handle and control them.



How can we learn and get out of thinking boxes?

On the way to create a specific *Strategy Design*, entrepreneurs and strategists have to understand the drivers of the business. This task can only be managed by setting up models and by making assumptions. Unfortunately, these assumptions often are ambiguous: on the one hand they are necessary to build the model, but on the other hand they may be a wrong starting points for the description of the real world a *Strategy Design* has to survive in. Therefore it is important to see the Perspective of *Strategy Design Innovation* as a Portfolio of questions which help to get out of traditional thinking boxes. True to the statement of *Francis Picabia*, a French writer and artist: 'The head is round so that thinking can change direction'.



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This workbook offers a new and systematic approach about how to engage and excel in the practice of Strategy Design Innovation. Here are seven questions you can use to check whether this book will offer value to you:

- Are you striving to create orientation for your team?
- Do you see a need to understand the developments of volatility, uncertainty, complexity and ambiguity in your business environment?
- Are you challenged by innovative competitors threatening your strategic position?
- Do you feel the need to create tangible advantages for your customers in order to win the competitive game?
- Are you trying to do your best to engage people inside and outside your company?
- Are you searching for a smart way of implementing your business concepts?
- Do you intend to set up a targeted navigation system for your journey toward success?

If your answer to one of these questions is 'yes', this book is for you.

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- Founders – and their teams who drive innovation and start-up a business.
- Entrepreneurs – business people who need to innovate their business in a challenging and game-changing environment.
- Intrapreneurs – executives who are responsible for developing their business unit strategically, operationally and with a clear strategic fit.
- Consultants – who support managers on their way to success.
- Investors – who need to analyze the potential for value creation in a specific business design.

We hope this book will set your entrepreneurial spirit free, driving your business to lasting success.



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