Mastering Your 70% Zone: The Strategy of Long Term Advantage

Jeffrey R. Williams
Carnegie Mellon University, jrw@cmu.edu

Follow this and additional works at: http://repository.cmu.edu/tepper
Part of the Strategic Management Policy Commons
Shifting energy forward more effectively than your rivals and gaining advanced commitments to the future is the ultimate responsibility of strategy. Here are four steps that can help to identify, early on, and secure commitment to, those decisive initiatives that shape a company’s future.

The most important capacity your organization has is the ability to regenerate itself. Forward-looking strategy has the indispensable task of imagining the possible; charting your future in meaningfully actionable terms; and balancing short- with long-term commitments in a way that propels your organization forward. Sustaining the forward momentum of your organization requires an eye to how your organization can move forward through time as it grows, introducing products, expanding markets, and building customer loyalty. Thus, to focus your strategy forward, you must go beyond the advice of the Red Queen in *Alice in Wonderland*: “…it takes all the running you can do to keep in the same place”—to continually recraft renewal pathways that keep your running field wide open.

As sensible as this notion of advantage is, few companies behave this way. Often, strategy is set by detailing actions to take the next step forward, as if success can be achieved in a competitive vacuum without consideration of the speed of your organization relative to competitors and the sequence of commitments required, perhaps years ahead, to pave the way for sustained growth. Such self-centric views bring to mind the pre-Copernican picture of the world that put the earth at the center of the universe. And like the insights of the Copernican Revolution that followed, a mastery of the forces at work that can propel your advantage forward, or slow it down, is central to the task of renewal.

Assets are not capitalized—visions are. At least 70% of the value of a typical company is based on expectations of performance beyond the near term. Yet, because of the increasingly complex nature of markets, and the understandable pressures of the day-to-day, managers can find it difficult to operate forward in time, in the 70% Zone, where the capital markets want you to operate.
Even strategy that encourages forward thinking does not distinguish how challenging the task has become. Today’s economic realities: shorter product life cycles, global competition, and efficient capital markets place a premium on maintaining a distinctive, competitive momentum. What we will see is that the key to long-term advantage is not based on position (where you are), but on progress and movement (what you are becoming)—your unique ability, given your history, to shift your strategic energy forward more effectively than your rivals.

The most dangerous threat to long-term advantage is not competition; it is entropy: insufficient forward energy directed toward renewal. As they age, once purposeful, high-powered organizations can decay and become low-energy shells of what they once were. The result—“entropic visions”—reflects a kind of purgatory; a lethargic state of weariness experienced by employees, suppliers, and customers.

In contrast, fierce attention to pathfinding—mastering the choices critical to your 70% Zone—counters entropy by identifying early on, and putting forward energy into, critical advanced initiatives. Through effective pathfinding, as we will see, the future can become as real as today, as commitments to future success drive your employees, customers, and investors forward as a whole.

ADVANTAGE FLOWS
Competitive advantage does not simply exist; more properly, it flows. The sum of all actions and reactions to initiatives, every organization’s advantage progresses along a kind of timeline. Here there is a rhythm; a cadence that reflects the distinctive momentum of organizations as each serves its customers, deals with competition, and creates value. Along this timeline, or renewal pathway as it can be thought of, advantage is rarely gained or lost by surprise or by accident—instead, growing and shrinking in stages, step by step, and according to often-predictable flows of events. Thus, to a useful degree and contrary to popular wisdom, the future within your renewal pathway—your 70% Zone—is usefully predictable.

The key to understanding flow-based advantage is to know that every organization has a distinctive competitive momentum, reflecting its competitive mass and velocity. The first of these, competitive mass, reflects the capacity of products and services to resist being displaced by competitors. Reflective of isolating mechanisms, a concept pioneered by Richard Rumelt, competitive mass acts like an entry barrier, preventing established products from being overtaken by competitors, changes in consumer tastes, or environmental change.

To the extent that products have low competitive mass, such as in the case of consumer electronics and fashion items, they are commonly at risk of being displaced by newer products. In these high-velocity, fast-cycle, markets, Nokia cell phones face the need for rapid product refreshment and innovation, fast time-to-market, and dynamic pricing. For more traditional, standard-cycle companies such as Walmart, Toyota, and McDonald’s, the flow of advantage reflects the time-honored emphasis on economies of scale and brand loyalty for repeat purchases over extended periods. Where competitive mass is exceptionally high, as for companies such as
eBay and Microsoft, near-control sets the challenge of extending market ownership into new markets.

Thus, events within renewal pathways are usefully foreseeable when managers understand their organization’s competitive momentum: their own, unique dynamic signature, or path dependencies, which dictate product velocity and how advantage flows forward. Path dependencies have been studied in a strategy context by David Teece, who stresses how important a company’s past is to its future. Unlike economic theory that posits the past as irrelevant, the reality of path dependencies is that history matters deeply. In fact:

Successfully extending your distinguishing path dependencies forward is the single most important challenge to sustaining long-term advantage.

**PATHFINDING—CRAFTING RENEWAL PATHWAYS**

Ask your managers to take out a sheet of paper and imagine where your company will be, one, three, or five years from now. Likely, you will find that divergence increases as you go into the future. This can be good where it reflects creativity, but differences of opinion often reflect a hazy point of reference to anything beyond the near term. The goal of pathfinding is to bring clarity to forward energy, to make operations strategic, and to commit to purposeful, future-oriented decisions that drive your organization ahead.

**Shifting Energy Forward**

Stories abound with examples of companies that have shifted energy forward, into their 70% Zone. Examples include how Toyota overcame General Motors; how Walmart overtook Sears; why Google threatens Microsoft; and how Apple has created entirely new markets. In forward-oriented companies, as we will see, the most important fiduciary responsibility of top management has been realized: building a solid growth trajectory between your present competitive position and future business opportunities.

One challenge to effectively extending your path dependencies forward is the snapshot orientation of strategy. What passes for vision in even the most venerable of companies can be little more than periodic updates of worn-out platitudes such as “to be the leader in …”; “to grow at …”; or “to dominate by …” (fill in the blanks). While understandable, these position-based goals often reflect insufficient forward energy at work. Even when goals such as “growth” and “innovation” are highlighted, upon examination, even the best of organizations can be frozen in their thinking—like an army fixed in place without a battle plan for staking out new territory.

Like photos, competitive snapshots are relatively easy to interpret and low in uncertainty. But they are inadequate representations of the high energy, dynamic culture seen in successful companies that methodically shift energy into the future. Consider the energy-rich culture of eBay, where the mission is “to provide a global trading platform where practically anyone can trade practically anything;” an ethos that moves beyond sterile black-and-white snapshots of competitive position to colorful moving images of competitive progress.

In contrast, reflect on one company with an “innovation” mantra where, upon discussions with management, it became clear that strategy amounted to little more than lackluster variations of aging product lines, even as aggressive competitors were chipping away at the company’s time-
honored brands. When questioned about this approach, the CEO argued fervently that the market “demanded” steady profits, quarter to quarter.

Ironically, however, as we know, even small changes in profits can wreak havoc on stock values for such companies. Why? The answer is that investors can only capitalize on what they can infer and, where a vision conveys inadequate forward energy, investors default to the only measure available: current results, which often reflect more on hopeful extrapolations of the past than on credible commitments to the future. Simply put, undercapitalized companies, those afflicted with an inclination for their stock to swing wildly with changes in current profits, have weak forward momentum.

Short-term behavior is not the fault of the capital markets—but a failure on the part of managers to create credible commitments to the future.

Undercapitalized vision not only places pressure on managers to extract cash from current businesses, it also can create undervalued assets: potentially valuable resources poorly marshaled toward a compelling purpose. Companies that mobilize insufficient energy around potentially valuable assets can become candidates for takeover, as new investors see opportunities to redeploy assets and shift energy forward into the 70% Zone. Recreating forward energy is at the core of the approach of private equity firms that purchase companies with the objective of creating value through renewed forward commitments; comprising a market that has raised more than $2 trillion over the past eight years.

Companies that are engaged in pathfinding shift energy forward; by making sequential, step-by-step choices that create chronological loyalty on the part of customers, employees, and investors, as well as the diligence to experiment with new products and processes that refresh forward momentum. Consider the culture of Amazon, reflected in their forward-oriented goal: “To be earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.”

Or consider Google, where the mantra is that “Ideas come from everywhere. If you have an idea, go out there, innovate, try it out as soon as you can and iterate;” engineers have twenty percent of time where they can work on growth-oriented projects that may start out having nothing to do with core projects (at Hewlett Packard this figure is fifteen percent). Google claims that many of their killer applications have come out of these pathfinding investments. Expressions of commitment to forward advantage by these companies are not just rhetoric; as we will see, they express a genuine, deep-seated dedication to sustaining competitive momentum, to charting new territory that takes these companies far beyond their origins.

But, perhaps you say, “these new economy companies are the exception; the rules for them don’t apply to most companies.” You are right; these companies are remarkable, particularly so in that so many companies like them have passed from the scene—precisely because they failed to secure advantages in their 70% Zone. Thus, if companies like these can prevail against the gale of creative destruction in their turbulent markets, they have something to say about renewal for companies in all markets.

When you look at your own organization, ask yourself: How much forward energy does my organization have? One measure of commitments to the 70% Zone is your organization’s price/earnings multiple. A high multiple reflects expectations as to how much forward energy your organization has and how credible your forward thinking is. Companies with high P/E have
convinced the capital markets that they are making credible commitments to extend their advantage forward.

Consider: to what extent does my organization have more credibility than that provided by current results? Carefully crafted, robust renewal pathways create a powerful buffer against the short-term—a credible image of sustained future success.

Research on how companies renew advantage and discussions with senior managers indicate that effective pathfinding benefits from several reinforcing processes: (1) strategy staircasing; (2) staging commitments; (3) forward imaging; and (4) disciplined imagination; as well as a willingness to move beyond encumbering legacies of the past. Let’s examine each of these in turn.

**Strategy Staircasing**

*Recall that the financial goal of business is not the single-minded “to maximize profits”: it is the more challenging process of crafting the most attractive exchange of today’s cash outflows for tomorrow’s cash inflows.*

This exchange, central to pathfinding, can be thought of as a kind of provisioning; the meticulous staging of strategic choices and actions. Wagon trains heading west faced a dilemma that tested the pioneers and often, in the final analysis, separated the ones who succeeded from those who perished. The problem was one of patience, or provisioning—the ability to sense how fast to consume and plan for reacquisition of scarce resources of food and water. The ones who survived were those who carefully staged the acquisition and consumption of resources along the journey. Successful pathfinders, then and now, show considerable discipline to set aside time and resources now for the acquisition of longer-term strategic resources.
Consider how effectively Amazon has unfolded expenditures in engineering its future. For more than a decade, Amazon operated at a loss. But CEO Jeff Bezos was able, through a careful staging of outlays backed by a commanding vision, to hold the capital markets at bay, yielding time to build competitive momentum. Amazon has been particularly adept at enacting a series of forward commitments that repeatedly move its customers into new territory, while maintaining backward loyalty to earlier products—a process supportive of pathfinding that can be thought of as strategy staircasing.

A staircase strategy specifies the sequential actions needed to pull customers forward into new markets while maintaining backward loyalty to existing products. Since its launch in 1995, Amazon has continually operated in the 70% Zone by gaining loyalty of existing customers while steadily attracting new customers through an expanding suite of new products and services. By systematically expanding customers’ product options while strengthening backward loyalty to existing products, Amazon built competitive momentum around a vision of future success so compelling that investors were willing to wait as forward commitments were realized.

See Figure 1: Amazon’s Strategy Staircase

When thinking about your organization’s future, placing potential actions on a strategy staircase creates a kind of forward due diligence. Where managers cannot otherwise imagine the future in concrete terms, strategy staircasing adds a dose of discipline to the process of imagining doing something several steps down the road and linking it backward to sequential actions needed over time. Because staircase logic openly encourages the listing of sequential behavior, managers are more likely to recognize how advantage unfolds over time, focusing on how to take step-by-step actions that extend the advantages of your business forward. Look up “action” in the dictionary and you will find: “activity, agility, motion, power, discipline, execution, initiative, motivation, vigor.” These energetic, forceful actions can come to life through the rigor of a carefully crafted strategy staircase.

And keep in mind the advice of Ernest Hemingway: “Don’t confuse motion with action.”

IBM’s Lou Gertsner once said, “The last thing IBM needs is another strategy.” What he meant was that, although IBM had devoted considerable resources to strategic planning, insufficient attention had been placed on translating plans into meaningful actions. Part of the problem is that traditional strategy tends to separate planning and implementation. In contrast, strategy staircasing makes little distinction between strategy and action; the staging choices resulting from planned forward commitments become the action items required for implementation. Images of success are spelled out through a sequence of distinct initiatives, which, in turn, make otherwise imprecise commitments genuine and authentic.

In one case, managers from two divisions in a multidivisional company were asking for funding. In the Industrial Division, estimates yielded a comparatively certain return and represented an extension of the company’s core business. In the Consumer Division, the project was more speculative but held the potential to transform the company’s growth prospects by changing how the company served its customers. Initially, Consumer Division managers were told their project would not be funded because it was not clear that the risks and longer payback were worth it. In response, Consumer Division managers held a three-day off-site, where they hammered out carefully staged, incremental steps of commitment that outlined, step-by-step, how to implement their vision. Later, faced with a detailed strategy staircase and a powerful forward image, the
project was approved. As the CEO put it, “After seeing what was really possible, we finally ‘got it’—how could we NOT do it …?”

**Staging Commitments**

One of the most critically-neglected aspects of strategy is the specification of what comes first and what can wait; not just quarter to quarter, but over that uncertain long term where events are less well-defined but where staged commitments plant the seeds for renewed growth. While the pressures of the present are understandable, it is unfortunate how many otherwise well-run companies ignore the influence that a careful series of staged commitments made—or not made—over time can have on their company’s success. Sequencing matters; or as one sage put it, “Time is what prevents everything from happening at once.”

Because path dependencies differ between products, forward commitments that support strategic initiatives don’t happen in the same way or at the same speed in different areas of a company. Thus, another way that pathfinding complements traditional strategy is that forward investments are committed to in a disciplined way based on a deliberate consideration of the mass and velocity of individual products.

As an example, consider the common expression “managing for the long-term.” In low-mass, fast-cycle companies such as Nokia in smart phones, the “long term” means “eating our own children”; encouraging timely and repeated exit for rapidly aging products in order to redirect customers toward the next wave of innovation. Andy Grove once remarked, “At Intel, we don’t have a strategy.” What he meant was that managers need to be careful not to get locked into a specific direction, with little flexibility, for too long. In contrast, for high mass, long-cycle companies such as Merck, managing for the long-term includes planning for ten-year payback cycles from extensions of anchor products such as *Singular* and *Proscar*. Similarly, for long-cycle Microsoft, path dependencies are so strong that, like Merck, the company has been most successful when staking out forward extensions of its Windows operating system; anticipating cash flow payback cycles of a decade or more.

Or consider Honeywell. Making a fast-cycle jet engine sensor that faced rapid commoditization, Honeywell management chose to craft an approach designed to increase competitive mass (based on systems solutions), with the eventual result that their product—AIMS (Automated Information Management System)—gained traction and became a de facto industry standard.

Compare Honeywell’s success to a less fortunate case where the imperative to reengineer path dependencies also was compelling: global competitors were turning the company’s environmental controls into commodities at faster and faster rates, shortening cash flow payback and driving down profits. Although company executives were ready to take the initiative to move into systems, the company’s CEO simply could not imagine how a future based on software was possible. The result? Today, the company’s cash flow payback continues to deteriorate and its P/E sits well below the industry average, while a smaller competitor that embraced a systems approach now leads that industry with a commanding position in high-margin information-management devices.

And no discussion of pathfinding would be complete without mention of Google, where an inspired series of staged commitments have significantly reinforced the sustainability of company’s investments. Like Amazon, Google’s rise occurred through a series of carefully staged forward commitments to the 70% Zone that built on the momentum of early investments
while systematically linking advantage forward into new markets. Eventually, strategy staircasing would enable Google’s transformation to a long-cycle company with sticky products that provided sustainable cash flows and enduring barriers to entry.

See Figure 2: Google’s Strategy Staircase

The process of staging commitments can also help to anticipate and minimize chances of foreclosure—the possibility that some action you take or do not take today will prevent some action needed tomorrow. Identifying growth barriers ahead of time, when a company’s growth pathway can narrow to the point of blockage, would have helped mobilize resources early on in the adverse situation that Blockbuster Video found itself in when Netflix offered videos by mail, and later when cable providers offered “On Demand” videos.

In contrast, consider the early days of eTrade, also facing intense competitive pressure; or as one company executive put it, “We needed to come out with something new every three weeks to keep our customers.” In response, eTrade made repeated commitments to its future by adding “sticky” products to its product portfolio (banking, investment, trading, research, and retirement planning)—commitments that, like those of Honeywell and Google, added competitive mass, keeping eTrade’s renewal pathway open and slowing down competitors’ ability to copy its products.

Forward Imaging

Recapitalizing your organization’s future value on a regular basis is what the capital markets genuinely want—not short-term returns, but a credible image of long-run sustainable growth. In this context, many pathfinding opportunities reflect real asset options; the possibility that if you do something now, you will be more able to do something else later. Although straightforward in principle, in practice staking out options-rich terrain and extending path dependencies forward can be difficult, in part because of the challenges of forward imaging.

Forward imaging is multidimensional thinking or, as Bruce Henderson, founder of the Boston Consulting Group, put it, “Our ability to think strategically is limited by our ability to think in multiple dimensions.” At work is the combination of the left brain, which specializes in the analysis of information; and the right brain, which excels at synthesis; putting isolated elements together to see their value as a whole, as in the use of metaphors and analogies, such as evoking the image of a tree with branches and roots to represent core competency extension into products and services.

Thought processes that underlie forward imaging are not unique to business. Nicola Tesla described how he played mentally with designs for complex electric motors, assembling visual images of motors and checking their parts for wear. Galileo imagined what it was like for bodies of different mass to fall through vacuums. And Einstein described the “happiest idea of my life” in a thought experiment where an experimenter jumps off the roof of the house and visualizes the motion of a simultaneously-dropped stone, thus pointing out the importance of the relative position of an observer to the object in motion: the core of the theory of relativity. Thought experiments can be created around an imagined future state, such as the effect of economies of scale on brand loyalty or the shift in market power from a change in vertical integration. And like creative scientists, research shows that in pathfinding good strategists can rely on the assimilation of varied experiences from diverse disciplines, including mathematics, philosophy,
literature, art, and music. (We note here the value of skills acquired through a liberal education, in contrast to the emphasis on specialized training.)

Through forward imaging, visionaries such as Ted Turner saw the potential of classic films to baby boomers with Turner Classic Movies. Bill Gates, with Corbis, imagined the future value of copyrighted images in a digital economy. Warren Buffett has a knack for seeing the future value of investments today that are not apparent to others; or as he puts it, “I never invest in anything that I cannot imagine where it will be in ten years.” And perhaps a most noteworthy example of how forward-imaging supports pathfinding is Steve Jobs, who has systematically moved Apple’s customers forward along a staircase of ever-expanding offerings.

Apple’s staircase strategy has been particularly effective in creating new markets while anchoring it’s expanding customer base to sticky products that create barriers to entry. Early on, Steve Jobs articulated the unfolding strategy for Apple. His vision of the 70% Zone: to be the end-to-end computer and entertainment supplier, “In your den, your living room, your car, and your pocket.” Integrating it’s own microprocessor and operating system in the iPad yielded a seamless customer experience that competitors would find difficult to imitate, while extending its ability to fashion highly stylish devices earned Apple the moniker, “the Gucci of Electronics.”

![See Figure 3: Apple’s Strategy Staircase](image)

**Disciplined Imagination**

In companies like Apple, the most valuable resource in pathfinding is not money; it is the disciplined imagination of people. Visionary leaders who can shift energy forward have a common trait: the ability to articulate the future in a logical and compelling way. We know that people who share a passion for exploring and building are motivated as much by exciting ideas as they are by money. Andy Grove, while CEO of Intel, was asked what his most important job was. He answered “Education”—meaning that, if he could get people to think like him, he could get out of the way and they would lead.

Most organizations do not lack discipline, but many, unfortunately, lack active imagination. Do you think you have an energetic forward vision? Consider the vision of Dogfish Head Beer: “…For us, brewing is not a process of automation but of imagination and gritty passion. We wrap our hands around plastic shovels to clean out mash tins. We wrap our hands around sticky clumps of whole-leaf hops and toss them into the boil kettle. We wrap our hands around our work because we are proud to make something with our own hands ….” This kind of vitality is the embodiment of the power of the human spirit and the ultimate source of renewal. Imagine trying to put this energy into a spreadsheet.

The point is that pathfinding reflects a combination of both staircase logic and passion. One test of vibrant, institutionalized renewal: your organization will want to achieve its imagined future state so much that forward energy is perpetual and self-renewing from within. Through the power of disciplined imagination, your organization will connect its present to its future in ways that naturally complement traditional capital budgeting processes. Separation between forward planning and implementation will be minimized because authority rests with your vision—**authority is your vision.**
We are all familiar with the elevator pitch directed toward customers and investors, but how often do you require your people to internalize the same disciplined imagination, deep and wide, within your company? Can each member of your management team, given 30 seconds, present a vision for your company that is logical, deeply compelling, and forward-oriented? As one CEO of a Fortune 50 company put it to one of his vice presidents after sitting halfway through a dull PowerPoint presentation, “… just turn off the projector … and tell me about the prospects for your business ….”

**Letting Go – Moving on**

Nearly everything we take for granted today has come about by replacing that which came before it. Although difficult, letting go can be a step toward renewal if it weakens out of date path dependencies, frees up resources, and allows otherwise-ignored approaches to become proven. As Carly Fiorina puts it, in the process of exploring, “Everybody wants to go to heaven but nobody wants to die.”

Ninety-nine percent of species that once thrived on earth are now gone because they failed to change along with path breaking events that reshaped their environment. In business, such analogous events presage a similar fate: a susceptibility to be satisfied with the day-today, even when it reflects narrowing growth prospects that increase the chances of extinction. In particular, path dependencies can sometimes prevent renewal by stifling needed change; particularly so when obsolete approaches are tightly embedded in even the best of companies’ best practices.

Sony, in developing its answer to the iPod, “Sony Connect,” resisted adopting playlist software because it was “an iTunes paradigm,” thus contributing to the failure of Sony Connect. Encyclopedia Britannica repeatedly put off commercializing their own CD product in response to Encarta because of resistance from their direct sales force, resulting in an eighty percent loss in sales and sale by the Benton Foundation of Britannia to financier Jacob Safra for less than its book value. Later, shed of its legacy assets, Britannica crafted a wholly new renewal pathway built on its own CD and DVD versions, *Encyclopedia Britannica Online*, and a Britannica Mobile application for cell phones. Thus, unlike biological species, through a focus on pathfinding, as shown by companies such as Encyclopedia Britannica, eTrade and Honeywell, your organization can alter your DNA to ensure robust, evolutionary fitness.

Or consider IBM, which in the early days of the personal computer industry found that it needed to change how it tracked inventory; to move to a faster real-time inventory management system to allow faster pricing changes due to competitive pressures characteristic of its industry. Later, as the speed and direction of the PC industry began to diverge from IBM’s core businesses, the company sold its PC business to Lenovo. The key point is that withdrawal from the PC business was not a sign of failure but, more fundamentally, an exercise in leadership: the reengineering of renewal pathways to ensure continued growth.

In cases where the old needs to be replaced by the new, forgetting can be as important to renewal as learning. Hermann Ebbinghaus, a German philosopher, pioneered the idea that memory of newly learned knowledge drops by half in a matter of days or weeks. The idea of forgetting has negative connotations, but just as pruning dead branches of a tree releases energy for new growth, eliminating aging processes promotes viability by weakening path dependencies that are a hindrance to renewal. Thus, when it’s time to reengineer your renewal pathway, attention to forgetting clears the way for progress. This leads to another point:
Honoring your past without being captured by it means that your long-term strategy must be different from your short-term strategy.

Only in a non-changing world can long- and short-term strategy be the same. While this seems obvious, ask yourself: Does my vision acknowledge that my future practices will—in some way—be different from my time-honored practices of today? Ask yourself: As our organization charts commitments to the 70% Zone along its renewal pathway, what timeworn practices should we consider leaving behind?

BUT WHY, AGAIN, DO I NEED THIS?

A commitment to pathfinding is important for large, mature companies because their path dependencies can bind them to the past in ways that are no longer relevant. Here is where pathfinding does the heavy lifting; pulling organizations out of complacency, combating entropy, and recapitalizing the future flow of assets. Walgreens’s David Bernauer says, “… We are an old company under constant renewal … there is more innovation going on here today than at any other point in our history.” But, toward this end, how will you know if you are succeeding?

- You will find it easier to gain commitment to critical decisions that shape your company’s future. There will be fewer distractions and less push back where energy is directed toward purposeful, regenerating objectives. Your organization will come alive with a culture of disciplined imagination.

- It will be easier to identify future leaders who are drawn to the challenge of renewal. Talented employees will be easier to hire because, for creative people, a robust, exciting vision based on exploration is a powerful incentive.

- Investors will be more patient as you craft credible forward commitments. Short-term variations in profits will have less effect on your stock price because your valuation equation will be buffered by credible expectations of future success.

Of course, as the classic example of Edison’s 8,000 trials to invent the light bulb illustrates, pathfinding can entail disappointment. To be sure, even companies such as Google have stumbled when it ventured into the medium of local print advertising. Still, when there is a breakdown of initial assumptions and a need to rethink a renewal path, as with Honeywell and IBM, a carefully considered shift in direction is a natural part of competitive exploration. And, if “smart mistakes” are encountered in the process, they should be understood as such and rewarded to the extent that they help redirect energy forward.

You may question: What if I don’t do this? The danger is this: the vital task of shifting energy forward seldom has urgency or immediacy. Failure can take a long time to materialize. Like entropy, repowering the core is something that is all too easy to ignore. Always keep in mind that the ability to evolve your core, while it may not always be urgent, is, among all, the most sustainable of strengths.

Pathfinding continually asks “What are the essential, underlying capabilities of my business that need to be developed today to ensure a viable tomorrow?”
Renewal – The Ultimate Capability
Robust, actionable forward plans for where your organization is headed and how it will get there—commitments to your 70% Zone—are increasingly important. More and more, there is a compelling need to recapitalize your advantage even when these actions are not immediately urgent. A test of leadership, the sources of anticipated future advantage and supporting forward initiatives need to be aggressively refreshed and communicated to your employees, customers, and the capital markets.

Fierce attention to renewal is the most important core capability your organization can possess. The ultimate intangible asset, it goes beyond core competences to the ability to craft dynamic, renewable competences. Sufficiently robust or not, every organization has a renewal pathway. How well have you crafted yours?
Amazon’s Strategy Staircase traces its roots to 1998 when the company augmented their initial online bookstore model with an Internet Movie Database. In 1999 Amazon launched Web auctions services, following this the same year with Amazon Marketplace, which allowed customers to sell used books, CDs, and DVDs. In 2002, Amazon introduced their Visa Card, followed by a feature that allowed customers to use the card for shopping at Amazon within seconds of being approved (since widely copied). In 2003, the company initiated Search-inside-the-Book, allowing customers to search for keywords in the full text of books; that year sponsoring one of the largest events in e-commerce industry with sales of 1.3 million copies of *Harry Potter and the Order of the Phoenix*.

<table>
<thead>
<tr>
<th>Step</th>
<th>Service/ Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amazon.com-online bookstore</td>
</tr>
<tr>
<td>2</td>
<td>Internet Movie Database (IMDB)</td>
</tr>
<tr>
<td>3</td>
<td>Amazon.com Market Place</td>
</tr>
<tr>
<td>4</td>
<td>Amazon.com Visa Card</td>
</tr>
<tr>
<td>5</td>
<td>Search-inside-the-Book</td>
</tr>
<tr>
<td>6</td>
<td>Joyo.com (China); A9.com</td>
</tr>
<tr>
<td>7</td>
<td>Amazon Prime; Acquired Booksurge</td>
</tr>
<tr>
<td>8</td>
<td>Amazon S3; Amazon Grocery; Amazon Unbox</td>
</tr>
</tbody>
</table>

In 2004, Amazon bought Joyo.com, a Chinese online retailing company and A9.com, a company offering innovative technology; then, in 2005, starting Amazon Prime (with unlimited second-day free shipping and $3.99 one-day shipping for $79/year) while also acquiring Booksurge, a print-on-demand company. In 2006, Amazon offered Amazon S3, a data storage service for 20 cents per gigabyte, while starting Amazon Grocery for nonperishable food and household items. That year they established Amazon Unbox, a digital video downloading service (termed Fortune’s Scariest Tech of 2006). Since then, the company has increased its momentum with a sequence of products and services that have steadily gained the confidence of customers and investors.
Google began in a crowded, fast-cycle search technology space that included companies such as Yahoo, Excite, Lycos, Direct Hit, MSN, and Ask. Google management decided early on that, in order to win customers, it needed to keep things simple, maintaining its main home page as clean and straightforward, with the specific goal of keeping current customers as they moved customers into new markets. As early customers became familiar with Google, the company refined models for the auction-based selling of keyword advertising with nonintrusive, text-based ads that expanded Google’s appeal to a growing Internet audience. As network effects set in, text-based ads further empowered the business model, as more and more sellers used Google to advertise, thus creating a tipping effect. This was a sticky mechanism that built competitive momentum while slowing down competitors’ ability to copy company products.

As it derived increasing revenues from online ads, Google built on its momentum by staging the introduction of Online Applications (alternatives to Microsoft Office products), videos (YouTube), news aggregation, Electronic Books, Online Maps, Social Networking, the Chrome Browser, the Android Operating System to power mobile phones, and ventures into Cloud Computing—all designed to expand Google’s markets forward while insuring backward compatibility and increasing customer loyalty.
After Steve Jobs returned to Apple, in 1998 Apple introduced the iMac, the first of a series of “i-branded” products that would become known for their ease of use experience combined with style. The first two Apple Stores opened in May 2001, serving as an invitation for the user to experience Apple products while providing feedback on products for integration into future product lines. In 2001, Apple released the iPod, a revolutionary product for playing music. In 2002 Apple opened the iTunes internet site, offering customers an easy way to manage their music on the iPod, while insuring music companies a guaranteed source of revenue from non-pirated downloads. In 2005 the iPod interface began to be offered in automobiles, in recognition of its growing status, along with iTunes, as a *de facto* standard.

In 2007 Apple introduced the iPhone, another ground breaking product, aimed at the smart phone market. One year later, Apple introduced the iPhone Apps Store, with 150,000 applications created in the first 24 months, vetted and approved by Apple, with the company collecting 30% of all purchases, available through simple one-click ordering (75 million iPhone and iPod Touch devices sold in less than three years along with 3 billion downloads from the associated Apps Stores). Evidence on the ability of the staircase strategy to increase the momentum of Apple is that, although market prices typically decreased rapidly over time for MP3 players and cell phones, prices for iPods and iPhones remained relatively stable. In 2010 Apple introduced the iPad, a tablet computer and iBooks, along with an extended iPhone Apps Store designed to open wholly new markets for Apple-based iPad applications.
ENDNOTES

i Strategies that leverage the competitive momentum of businesses are discussed in Renewable Advantage: Crafting Strategy through Economic Time, Jeffrey R. Williams, 1998, The Free Press.


iv For the importance of commitment to strategy, see Commitment: The Dynamic of Strategy, Pankaj Ghemawat, 1991, The Free Press.