

SMASH

Using Market Shaping to Design
New Strategies for Innovation,
Value Creation, and Growth

SMASH

Using Market Shaping to Design
New Strategies for Innovation,
Value Creation, and Growth

BY

Suvi Nenonen

Kaj Storbacka

*University of Auckland Business School,
New Zealand*



United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2018

Copyright © 2018 Emerald Publishing Limited

Reprints and permissions service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78743-798-2 (Print)

ISBN: 978-1-78743-797-5 (Online)

ISBN: 978-1-78743-839-2 (Epub)



ISOQAR
REGISTERED

Certificate Number 1985
ISO 14001

ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.



INVESTOR IN PEOPLE

CONTENTS

<i>Acknowledgments</i>	ix
<i>Preface</i>	xiii
1. Your Strategy Playbook Has Expired	1
Nokia: From Hero to Zero by Doing Everything by the Book	1
Hero – Best Products and Most Efficient Supply Chain	2
Zero – Expiry of Nokia’s Strategy Playbook	4
Nokia’s Expired Playbook May Be Your Book!	7
Uber: Transforming Transport by Intuitive Market Shaping	9
Poor Market View Makes for Poor Strategy	14
Markets Are Not Industries!	15
Don’t Think Product Markets, Either!	17
The Poor View Impoverishes Strategy from Every Angle	20
Embrace the Rich Reality of Market Systems	24
Markets Are Complex Adaptive Systems	25
What the System View Tells Us about Markets:	
Emergence, Design, and More	27
The <i>Function</i> of a Market System Is Exchange,	
for the <i>Purpose</i> of Value Creation	29
Markets Are Socially Constructed, so You Can	
Reconstruct Them, too	30
Putting It All on the Table: Rich and Poor Views,	
Side by Side	31
The Pay-off: Strategies for Market Shaping	32
What Is Market Shaping Anyway?	32
FAQs about Market Shaping	36
The Strategic Baby and the Bathwater	38
Making the Rich View Actionable: Introducing the	
“Market Fan”	39
The Rest of the Book	44

2. Frame Your Market	49
UPS: Thinking Outside the Boxes	49
“So, What Do You Do?”: Define Your Business	51
Your Business Definition Frames Your Market	52
Your Frame Filters and Interprets Intel	53
Beware! The Product View Worms Its Way in through Restrictive Business Definitions	55
Cast Out the Worm! Polish Your Frame for Clarity, Point It for Choice	56
Brainstorm New Business Definitions by Zooming Out and Zooming In	57
Zoom Out: Leave Product Myopia Behind	58
Focus on Firm Resources and Capabilities	61
Focus on Network Resources and Capabilities	62
Focus on Customer Processes and Situations	66
Focus on Other Beneficiaries’ Processes and Situations	69
Zooming Out Too Far: Beware Reckless Diversification	72
Zoom In: Find Growth Pockets and Adjacencies	73
Zooming In as Turbocharged Market Segmentation	74
The Tool for Zooming In Is the Business Arena Generator	75
Three Broad Applications of the Business Arena Generator	76
Customize Your Own Arena Generator	78
Starbucks: A Zooming In Success Story	85
Decouple Market Shaping and Business Redefinition	86
3. Shape Your Market	91
Stora Enso: Many-Layered Market Shaping	91
Exchange: What Is Sold, How It Is Priced, and How Buyers and Sellers Find Each Other	94
Sales Item: What Is Being Exchanged, Exactly?	95
Pricing: How Much Is It Worth?	99
Matching Methods: How Do Sellers and Buyers Find Each Other?	103
Network: Right Partners, Right Know-How, Right Infrastructure	106
Actors: Do We Have the Right Actors in Our Network?	107

Roles and Know-How: Is Work Division Optimal; Does Everyone Know What They Need to Know?	112
Infrastructure: What Do Customers Need to Use Our Products and Services?	115
Representations: Harnessing Language, Information, and Symbols	118
Your Language: Naming, Describing, Familiarizing	119
Information: Helping Others to Make Sense of the Market	123
New Symbols to Legitimize Markets: Events, Awards, and Associations	126
Rules of the Game: Influencing Standards, Regulations, and Social Norms	129
Standards: Without Them, Nothing Fits Together	130
Regulations: Defining What Is Legal	134
Social Norms: Making Things Acceptable and Desirable	138
4. Learn Shaping Principles and Plays	145
Les Mills International: Working Out with Winning Timing	145
Timing Is Everything	149
Understanding When Your Market Is Shapeable: Striking While the Iron Is Hot	149
Shapeable Market: First Mover or Fast Follower?	153
Non-Shapeable Market: The Art of Active Waiting	156
Make Your Strategy Win-Win-Win	158
Ensuring Win-Win-Win within the Minimum Viable System	158
Quantifying the Win-Win-Win to Get Others on Board	163
Collaborate to Shape, Compete to Share	166
Use Generic Plays	169
Relocate the Exchange Interface	170
Directly Deliver Step-Change in Use Value	176
Use Market-Widening Pricing	179
Widening Customer Catchment Area	184
Breaking Supply and Efficiency Bottlenecks	189

5. Leadership for Market Shapers	199
KONE: Lifted Up by a New Type of Leadership	199
Redefining Leadership	203
Inform Yourself about Resource Potentiality	204
Perform the New Market	205
Explore – Not Look Ahead, but Look Around	206
Explore the Potentiality and Density of Resources	207
Sense Value by Triangulation and Peripheral Vision	208
Cultivate Diverse Perspectives on Your Own Firm	212
Experiment – Not Plan and Control, but Probe and Respond	215
Experiment at the Boundaries	216
Invest in Experiments according to Affordable Loss and Simple Rules	218
Create a Safe-to-Fail Environment	221
Foster and Exploit Emergence	223
Express – Not Read the Map, but Draw the Map	225
Put the “Art” into “Cartography”: Market Expressions as Art	226
Choose Language that Moves Market Actors	228
Claim Markets with Labeling and Symbolic Actions	232
Engage – Not Take the Lead, but Share the Lead	235
Build Credibility for the Market-shaping Initiative	237
Orchestrate to Activate	241
Pivot Yourself to Greatness – Repeatedly	243
 <i>Notes</i>	 249
 <i>References</i>	 281
 <i>About the Authors</i>	 301
 <i>Index</i>	 303

ACKNOWLEDGMENTS

Kaj insists on cultivating an image of book-writing à la Swedish film director and author Ingmar Bergman’s writing process – months of toil on a far-flung Scandinavian island with the company only of our interior muses. But while we write from homes on offshore islands both in New Zealand and in our native Finland, the process of realizing the volume in your hands has been anything but a solitary endeavor.

We are firm believers in what we call theorizing *with* managers, rather than merely about them. As social scientists, we see little point in detaching managers from knowledge creation; we would much rather make and shape our new ideas and frameworks in partnership with them. Therefore, our first and most fundamental thanks belong to those 37 companies who welcomed us in and shared their experiences through the four “SMASH – Strategies for MArket SHaping” consortia projects in Finland, New Zealand, Singapore, and Sweden. From A to Z, the 37 companies are: Affecto, Aktia, Beca, Blunt Umbrellas, Comptel, Designer Textiles, Fletcher Building, Fonterra, Griffin’s, Heartland Bank, Huhtamäki, IAG, Icehouse, Inspecta, K. Hartwall, Kiwibank, Lemminkäinen, Lobster Exporters New Zealand, MetService, New Zealand Trade & Enterprise, Normet, NZ Post, OP Group, Outotec, ReGen, Relacom, Spring Sheep Dairy, Tamro, Texas Fibre, Tru-Test, Turners & Growers, Uponor, Villa Maria, Vodafone, Wärtsilä, YLE, and Zespri.

The four consortia projects would never have taken shape and held together, though, without the robust and responsive

organizational backbone of the institutions we work in. Our deepest thank-yous are therefore also extended to Talent Vectia Ltd, The University of Auckland Business School, and Hanken & SSE Executive Education Ltd.

The foundational research for this book has been financially supported by the Royal Society of New Zealand and their Marsden Fund grant (grant number UOA1333). During this research project, we had the privilege of studying in detail 21 successful market shaping firms in the four economies through a series of 82 interviews. Those companies and their executives are the unnamed heroes of this book. And to the extent we had muses, these were they: the insights from the research project have inspired many of the ideas we present in this book. Here is also the place to thank our wonderful research project team for their stellar and unstinting work: Dr. Charlotta Windahl, Dr. Catherine Frethey-Bentham, Mattie Wall, Joel Allen, and John Lim, we owe you more than you can imagine.

Academic work always stands on the shoulders of giants, past and present. Looming particularly large for us is the late Professor Robert F. Lusch, who was a continuous inspiration for us and directly influenced the last chapter of our book. Our collaborations and conversations with several individuals have been vital to the evolution of our own thinking over the last 10 years: Dr. Melissa Akaka, Professor Luis Araujo, Professor Roderick J. Brodie, Professor Pennie Frow, Professor Hans Kjellberg, Professor Cristina Mele, Professor Kristian Möller, Professor Adrian Payne, Professor Jaqueline Pels and Professor Stephen L. Vargo.

Research and writing also require safe and stimulating intellectual homes. We are deeply grateful to the former Dean, Professor Greg Whittred, and former Associate Dean, Professor Jilnaught Wong, for welcoming us to New Zealand and The University of Auckland Business School. Thank you for trusting us and opening so many metaphorical doors for us. In Finland, two people in particular have provided us platforms to test and develop our

frameworks. Tom Lindholm, CEO of Talent Vectia, and Kaj Åkerberg, Business Development Manager at Hanken & SSE Executive Education: thank you for believing in us, year after year.

On the writing side, we want to thank our brilliant and devoted freelance editor, David J. Thompson. David is not only masterly at the micro tasks of turning our “Finglish” into proper sentences, but he is also our most trusted macro critic of logic, structure, and flow ... or lack thereof! All the flair and wit in the following pages have also flowed from David’s pen. We may have done the heavy lifting of figuring out what we wanted to say, but David’s magic made it both lucid and, we hope, enjoyable.

Finally, no amount of research or writing would have sufficed without connection to a publisher! One of the legends of marketing, Professor Jagdish N. Sheth introduced us to Jeanne Glasser Levine, President of Pub Zone Consulting, who was instrumental in making that connection. And as the final link between us and the reader, Charlotte Maiorana, Senior Editor and Nick Wolterman, Assistant Editor at Emerald Publishing deserve the last word of thanks.

Lest that list forgets anyone: we are deeply grateful for *all* the support we have received. And in case we share the love too widely: while we owe most of the insights that follow to others, any errors, of course, are completely our own.

Suvi Nenonen and Kaj Storbacka
Krokö and Waiheke Island
August 2017

PREFACE

Time and again, in one company and one country after another, our consultancy and research experience hammers home one point: What makes or breaks strategy is whether managers “get” something so overarching it mostly escapes attention: the very nature of markets.

For, whilst markets are the core concept of economics and commerce, they have so far been overwhelmingly glossed over or misunderstood by orthodox strategy. But in 2018, business has crossed a threshold of complexity where a correspondingly complex market view becomes indispensable.

FOUNDATION: MARKET VIEWS MAKE OR BREAK STRATEGY

Today, only by getting the nature of markets as *complex adaptive systems*, can firms hope to read and respond to their environment? More enticingly, only by learning to operate, and co-operate, in complexity, can they take part in proactively adapting that environment to themselves – instead of reactively adapting themselves to the environment? And therein lies the strategy’s new prize, which turns established strategy paradigms on their head. Mastering the collaborative dynamics of complex market systems enables Strategies for MArket SHaping — SMASH. Market shaping unleashes value gains from greater market size, efficiency, and

profitability which dwarf the zero-sum wins eked out in market-share increments by traditional competitive strategy.

The importance of market views – in other words, why readers should even care – crystallizes from our opening pair of case histories: the puzzling fall of Nokia Mobile Phone and the dazzling rise of Uber. Infamously, Nokia plummeted from sure market leader to a fire sale of its mobile phone business line in a few short years. Yet, conventional explanations for the demise of Nokia Mobile Phone miss the forest for the trees. Those explanations overlook the secret lurking in plain sight by seeking answers at the firm level: failures of Nokia’s leadership, or failures in product-related competitive advantage against industry rivals, causing loss of product market share.

Ironically, Nokia CEO Stephen Elop raised his eyes to the market level and glimpsed the true explanation in the leaked Burning Platform memo from 2011. He concluded: “Our competitors aren’t taking our market share with devices; they are taking our market share with an entire ecosystem. This means we’re going to have to decide how we either build, catalyze, or join an ecosystem.” Elop’s ecosystem epiphany, of course, was too little, too late. But he can hardly be faulted for that. What really stands out is that Nokia went *from hero to zero because it did everything by the book* – a strategy playbook complete with an implicit view of markets that had passed its use-by date.

If Nokia was the model student following all the rules of the doomed old school, Uber Technologies Inc. doesn’t just represent the new school; it’s unschool. The online ride-sharing company, with its game-changing app that lets riders hail, track, and pay for a cab online, and its alleged non-workforce of mere partner drivers, is shaking up market institutions and flouting the rules of the old taxi-scape. Uber understands that markets are shapeable, makeable systems. It’s a born market-shaper – and one of the most radical.

ORTHODOX STRATEGY STATES NO VIEW OF MARKETS, BUT IMPLIES A POOR VIEW

The case histories generalize. Nokia represents the received view of markets and strategy, while Uber gestures toward an intuited, but as yet unarticulated, alternative. For decades, the received wisdom of management strategy has largely skipped over articulating any theory, or view, of markets. However, by working backwards we can deduce the views it implied. Our text dubs these as the poor views.

The standard playbooks still weighing down managers' bookshelves have taught a single meta-formula of strategic success. Broadly, the formula goes: Analyze your market to identify opportunities, find your unique position, and create a master plan to outwit your competition.

Working backwards, this strategic posture makes assumptions, assertions, and approximations about markets, which imply that markets are either very simple, like a supply and demand graph, or utterly incomprehensible.

Variously:

- The market is externally given: from whence it came, we cannot know. The exception is that occasionally a heroic outlier launching a breakthrough technology manages to conjure into being an entire new market.
- Market opportunities are precursors to strategy. The non-heroic majority of firms are stuck with the market they've chosen, and must adapt their firm to the opportunities that they find.
- Market dynamics are deterministic. They can be analyzed, predicted, and operated on using the everyday mechanical logic of cause and effect.
- Markets are synonyms for the aggregate demand for products — hence phrases like “the mobile phone market.” What this view leaves out is the value created when customers use the product.

- Markets are industries. Consequently, we create institutions that limit our ability to look beyond the boundaries of the industry: statistics that measure the growth of the industry, and trade associations that stabilize the market.

None of these premises is true, and many are incompatible.

Poor Market Views Impoverish Your Strategy Playbook

To strategize on this basis is to build strategy on sand. In most cases, the operating environment is so inherently unpredictable that market analyses aren't worth the pixels they're written in. The poor views impoverish strategy from every angle:

- They make strategy reactive and defeatist because markets are supposedly given.
- They doom firms to compete for market share in a zero-sum competitive game.
- Their very dominance kills the hallmark of good strategy: originality.
- Finally, they miss the main chance: to unleash value that is orders of magnitude greater than market-share increments. In other words, they miss *market shaping*, achieved by adapting markets to the firm, not vice versa.

If these poor market views and the strategy built on them are so deficient, why do they still prevail? We argue they have persisted partly because of sheer incumbency; partly through self-reinforcing definitions in the data on markets and industries; and partly for the lack of an articulated alternative. But the day of reckoning has come in one field after another as markets have crossed a threshold of complexity. Globalization, digitalization, and network effects render the old models of markets and strategy obsolete.

A RICH MARKET VIEW REQUIRES SYSTEMS THEORY

Drawing on the transdisciplinary science of systems theory, and combining insights from biology, psychology, and sociology as well as economics and management, we offer the rich reality of markets as complex adaptive systems. That's "complex" like an ecosystem or a society, rather than merely "complicated" like the flight deck of a Dreamliner. Indeed, as frequent fliers, we're delighted that airplanes still obey mechanical cause and effect. But complex systems don't. They can be neither controlled nor safely predicted. Markets as systems constantly evolve; partly by random "emergence," partly by the deliberate market shaping efforts of the likes of Uber and its smart entrepreneurial cousins. Consequently, the firm is part of the market, rather than the market being external to the firm.

Markets are complex systems of exchange for the purpose of co-creating value. More precisely they create what classical-era economics called "use value" to the customer. Use value is as opposed to our standard neoclassical metric: exchange value, which is really price. Yet boosting use value – which is limitless – can ultimately boost exchange value, markets, and profits.

The complex systems' view of markets has always been true but only recently become essential. Recognizing markets as complex systems spells strategic implications. Notably, just as markets are socially constructed, so they can be reconstructed by social methods. And while they cannot be predicted or controlled, they can be *influenced* by market players.

THE BOOK REBUILDS STRATEGY ON THE RICH VIEW OF MARKETS

Rooted in the richness of market systems, the book therefore traces the three main resulting shifts in strategic thinking: (1) from firm focus to context focus, where the relevant context is our

definition of the market; (2) from competing and winning to value creation and cooperation; and (3) from analysis, prediction, and planning to non-predictive strategizing and experimentation.

The book weaves these three strands together into a cohesive strategic framework – market shaping. Market-shaping strategies acknowledge that much of firm performance, both turnover growth and profitability, is explained by the markets where a firm operates. Crucially though, strategic choices go beyond market selection, entry and exit; markets are malleable and therefore firms can – and should – actively seek to shape them in their favor by value-creating coalitions.

KEY CONTRIBUTION: AN EASY, ACTIONABLE FRAMEWORK FOR MARKET SHAPING

Market shaping is not entirely new. Research by Boston Consulting Group and McKinsey suggests that 9% of firms already engage in market shaping. However, most of them do so intuitively. Therefore, their methods are hard to replicate. What is new – and the book’s key contribution – is systematizing and articulating a universal, teachable, and actionable framework for understanding and shaping markets. Whereas traditional strategy skipped glibly over the subject, SMASH recognizes markets as strategy’s necessary foundation and then rebuilds.

Crucially too, our framework is one that any firm can grasp and practice. It does not take traditional market power and resources, or intuitive genius, to understand markets as complex systems and to shape them to your own benefit. As a master metaphor and structural device, we use the colorful, reader-friendly diagram of a market Fan, comprising four layers plus a core. The Fan groups and orders the 13 elements of markets we’ve identified that savvy market shapers of any size can influence, in closely explained and topically illustrated ways, to reshape the whole.