# How to keep one step ahead?

## The Strategy Foundations

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**Hannibal**, the Carthaginian general in a famous battle opposing Carthage and Rome, is usually referred to as the "father of strategy". Through strategic and ingenious arrangement of his 37,000 men, he succeeded in defeating 70,000 Roman soldiers and officers.
**Interestingly**, 900 years earlier, Joshua designed an even more impressive strategy by sending spies to assess the strength of the enemy and deliberately stepping back into the battle against the Midyanites in order to finally encircle them and defeat an army three times bigger.

This is strategy: the art of **allocating resources**, available in limited quantities, so as to create and **sustain a comparative advantage**.

This is all the more important today, as the business environment grows more and more complex, partly because of burdensome regulations.
In the Middle Ages, for example, there is no need for a business strategy. The economy takes the form of a very basic exchange of goods and services. We called this system barter: one shoemaker, one hairdresser, one doctor.
Fast forward to the period extending from the 16th to the 19th century. There is still no financial strategy. Agricultural cooperatives and craft communities dominate the economic landscape. Goods are merely moved to areas of demand - rice from Asia to Europe, coffee from South America to Africa - and was any gain is made on arbitrage.

By contrast, in today's financial environment, the **regulations** are complex, the **competition** is much stronger and the **globalization** process forces us to specialize in very niche areas.

In fact, even great brands may fall when they neglect strategic thinking.
Do you remember the brand of jeans we all wore fifteen years ago? Exactly! **Levi's** flooded the market with its famous 501, 505, 517 cuts. And then, a few new brands with a solid strategy appeared and Levi's was not in fashion anymore. It was not luck for the new comers. Levi's actually paid a very high price for its lack of vision, its **lack of Strategy**.

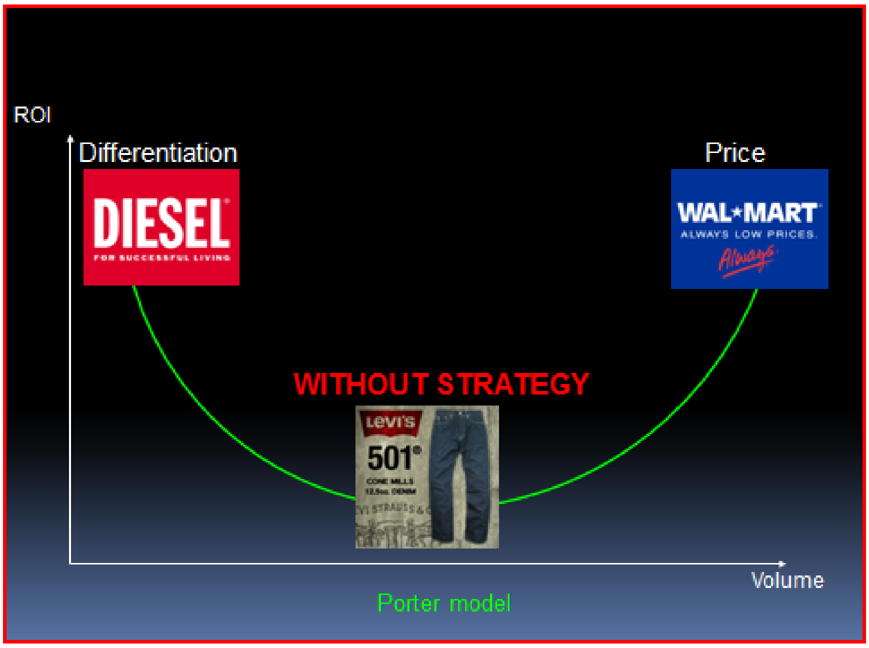


Fig (1)

Let us clarify this interesting phenomenon by looking at the graph in figure (1).

A Diesel jean costs between 250 and 300 dollars. Diesel invested on design, quality and branding. At that price, volume is less important, and return on investment is considerable.

On the other side of the market, Wal-Mart jeans cost a tenth of Diesel jeans. Wal-Mart bets on the most basic formula: quantity and price, which results in huge profits. In between, Levi's is left **without** any differentiation strategy and **without** any pricing strategy.

This is why great economists agree that a **differentiation strategy** - how we differentiate ourselves in our competitive market – is not only good or advisable, it is **absolutely vital**.

Of course, market dynamics should be taken into account as well, as an exogenous variable. At the end of the day, one's market position is determined by the growth of the relevant industry on the one hand and one's market share in this sector on the other hand.

The matrix reproduced in Fig (2), and developed by the Boston Consulting Group, is divided into four very distinct areas that perfectly illustrate this point.

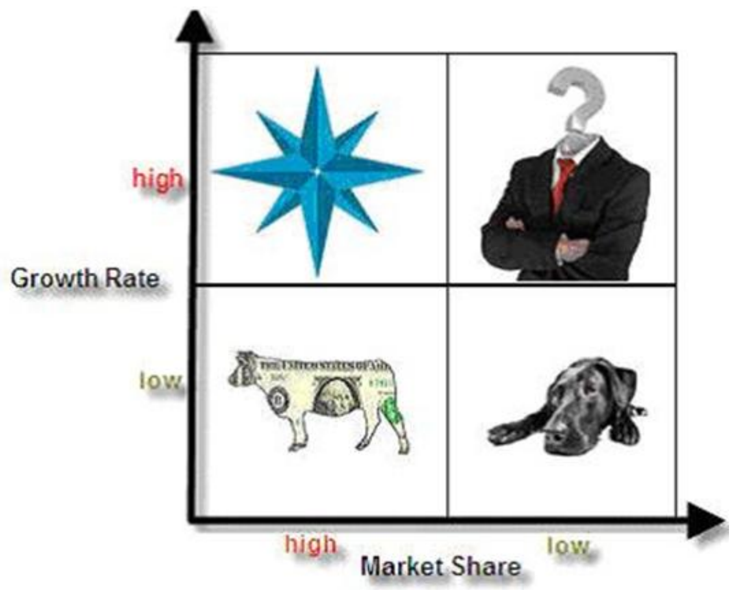


Fig (2)

If a sector is booming (e.g. tablets) and a particular market player has a very high market share (e.g. Apple), the item offered on the market (example: iPad) is located in the upper left area. This product is called "Super Star."
By contrast, an excellent attorney, working in a dynamic law firm (relative growth sector - upper part) may fail to achieve sufficient market share compared to his or her direct competitors (right). In this case, the most likely recommendation would be to adopt different investment strategies or to specialize further.
But what if the industry is not doing so good (e.g. textile, automotive)? Would there be a way to get from the bottom to the top of the table? In other words, **is an SME in a low growth sector in a position to influence its growth rate?**

The answer is **YES**. And the way to (re)**generate sustainable growth** in our businesses is through **INNOVATION**. So do not miss our next article on this topic!