



Business Strategy: Are You Inside-Out or Outside-In?

An ideological gulf has opened in today's business world, between companies that look outward for long-term value and those relying on internal resources.

“Look at Steve Jobs, he didn't ask the customer. It's no use, people don't know what they want.”

That was the reaction of a former colleague of mine during our monthly management team meeting, after I suggested that we try a more structured approach to understanding our customers. This was a fairly normal, fairly successful international business, focused on operational excellence, product leadership, and meeting monthly sales targets.

At this meeting, we discussed our future innovation plans, which led to a debate about the cost and benefits of obtaining customer insights. It wasn't the first time. In fact, we had already sponsored a few lead users (customers who are the early adopters of methods and technologies) as part of repositioning our brand. They had also taken part in a few innovation projects, but the outcome of their rich feedback had so far been modest and purely cosmetic: some cool stripes and a new colour on the original products. We lacked the time and budget to explore deeper changes.

But I felt it was tremendously important that we emphasise customer insights before entering the next phase, especially since we were starting to meet a more active international competition.

This made a few of my colleagues look very uncomfortable. Almost in unison, they objected to the idea of spending additional resources on customer insights, especially in relation to innovation.

“We have a history of showing good results with the resources and specialized knowledge we have internally. Our R&D people know what works,” went one response.

Yet another colleague chimed in, “I just don't believe in it.”

To me this sounded extremely ignorant. Regardless of our own experiences, different studies have shown that 40-90 percent of innovations fail. Studies have also shown that innovation processes involving customers, especially lead users, are more likely to succeed in the market place since they just have better and more creative ideas than internal product developers.

Looking back at the situation, I see status-quo thinking played a major role, especially since I was fairly new to the organisation when this happened. However, the disagreement somehow also came down to our individual backgrounds, experiences, and beliefs in how to run a successful business.

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Inside-Out vs Outside-In

Put simply, there seem to be two ruling paradigms in business today: the Inside-Out approach and the Outside-In approach. George S. Day and Christine Moorman called them *the two paths to strategy* in their book *Strategy from the Outside-In* from 2010. In business the overarching goal is to create [long-term] shareholder value. These two approaches use very different means to achieve that end.

The Inside-Out approach is guided by the belief that the inner strengths and capabilities of the organisation will make the organisation prevail. The Outside-In approach is instead guided by the belief that customer value creation, customer orientation and customer experiences are the keys to success.

From an Outside-In approach, long-term shareholder value is a consequence of listening and providing value to customers and helping them get their jobs done better than the competition while providing a seamless customer experience. The ideal organisational culture is market- and customer-oriented and the targeted customer segments – buyers as well as users – are the source of inspiration and development. There is also a strong belief that if the customers aren't satisfied with the solutions offered, the business will suffer and the shareholder value will diminish.

With an Inside-Out approach to business, you would likely see effective use of company resources and core competencies as the main driver of shareholder value. Inside-Out strategists believe that a company achieves greater efficiencies and adapts more quickly to changing circumstances with this approach.

From Ideology to Immunity

I would, however, go even further and call these two approaches *belief systems*, or even *business ideologies*.

Let's define a *belief* as something one accepts as true or real. A *belief system* is then a whole set of mutually supportive beliefs. And an *ideology* can finally be described as being a set of conscious and unconscious ideas and beliefs that guide and influence one's visions, goals and actions.

What specifically made me think about the Inside-Out and Outside-In approaches as ideologies was reading *Strategy – A History* by Lawrence Freedman. His impressive historical journey shows that strategy is not only about analysis, positioning, clever planning and effective implementation, but also about the experiences, convictions and beliefs of the people behind it. It is built on mental constructs, belief systems and ideologies, that are used to make

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sense of the world, and that determines visions as well as the way goals are pursued (i.e. different strategies to meet an end). Consequently, committing to one ideology almost makes you immune to the arguments at the other end of the spectrum, and even immune to change.

It is illuminating to interpret the dynamics of the management team meeting that I started telling you about from this point-of-view. Neglecting other possible perspectives, we had simply developed different beliefs systems and business ideologies over the years, which made us see very different means to an end, even though we had exactly the same challenge in front of us. Hence, awareness of our own business ideologies could be a first step to a more flexible approach to business and business strategy, rather than one based solely on unquestioned beliefs. Understanding the dominating ideology of your peers and of your organisation may also help you understand everyday conflict.

What's your approach?

There are two simple questions you could ask yourself to evaluate whether you and your organisation lean more towards an Inside-Out approach or an Outside-In approach:

1. Do you know which your targeted customer segments are, what needs and behaviours they have, how to best solve their relevant problems and what kind of value you provide them?
2. Is there a strong fit between your target segments' needs, your value proposition, your overall business model, internal processes and a customer-oriented organisational culture, with focus on creating value for your customers? And do you feel that it is a fundamental necessity of running a successful business?

If the answer is yes to the questions above, there is a high probability that you and/or your organisation lean towards an Outside-In approach. If the answer is no, it's more probable that you and/or your organisation lean towards an Inside-Out approach.

My own approach to business? That I'll leave for you to guess.

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