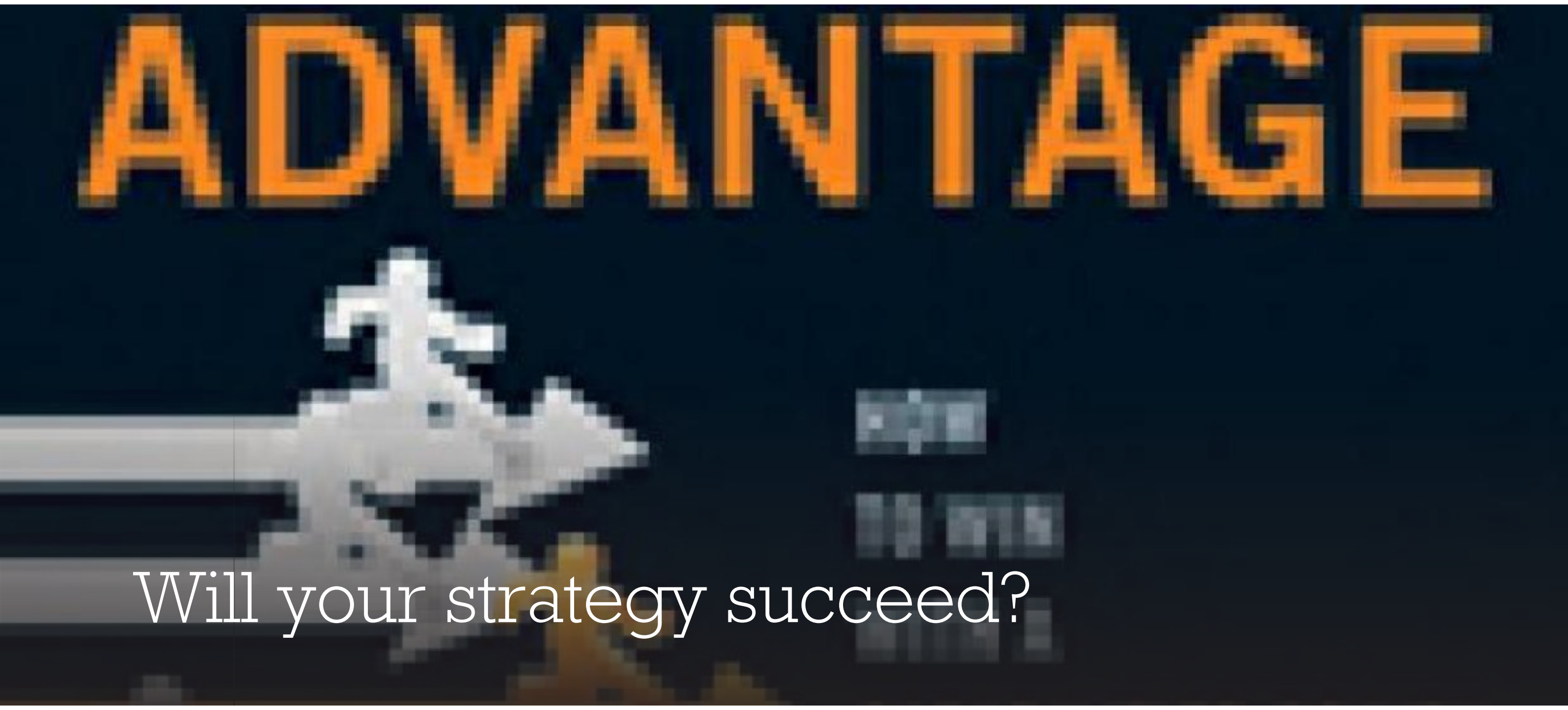

Will your strategy succeed?

What's one of the best ways to gain market share, defy the vagaries of the economy, and adapt to rapidly advancing technology? Booz and Company's Paul Leinwand talks to Cindy Babski about how to win with a capabilities-driven strategy.

What's one of the best ways to gain market share, defy the vagaries of the economy, and adapt to rapidly advancing technology?

Develop a capabilities driven strategy focusing on what you do, not what you make or sell. That's according to **Paul Leinwand**, co-author of a recently published book *The Essential Advantage: How to Win With a Capabilities-Driven Strategy*.

"Good strategy, good value creation, is based on what you do really well and then matching that up with a very good market-backed view of where those capabilities are going to create value," explains Leinwand, a partner at Booz & Company in Chicago.

Too often companies define themselves by what they make and not by what they do. In a volatile or shifting market, that can be disastrous, says Leinwand. Take the case of Polaroid. "The company made the mistake of defining themselves in instant film," says Leinwand. "And as the instant film market went away," he says, "so did Polaroid."

Plotting your capabilities-driven strategy

Instead, in order to ensure long-term success, companies should decide what exactly it is that they do best. These capabilities should either set them apart from competitors, or be superior to those of their main rivals.

It's not about quantity, but quality, stresses Leinwand, adding that the ideal number is three to six capabilities, tops. Those capabilities can range from procurement, to specialised production or a particular know-how in a given sector, such as rapid-flavour innovation in the food and flavours industry.

Once capabilities are determined, the next step is aligning the right capabilities with the right market. That's what Leinwand calls the "right to play." In other words, a company is prepared to participate, or play, in a market. It's like having the right rules for the right game. "You could be great at capabilities in a market that doesn't value those capabilities. That will certainly be a recipe for failure," affirms Leinwand.

In addition to the "right to play," there is another element crucial to achieving success. It's called the "right to win." According to Leinwand, that's "the ability to know that you have what it takes to really satisfy the customers in that market and beat the competitors that are facing you." That means that your capabilities have to be stronger than your competitors' and based on the long, not short, term.

Just because a golden opportunity exists, there is no guarantee everyone is going to benefit from it.

This "right to win" works by prioritising what you do well and is the basis of most corporate strategies. In tandem with the "right to play," it creates a strong model for success. Basically, it means defining what you do well and putting it into practice in the appropriate market for those particular talents.

It sounds simple - and it is, or could be, but companies are all too often their own worst enemies. "The first road block that we often see is the company's portfolio. If you're in many different businesses that require different capabilities to win, already it's going to be a challenge picking the three to six that are going to matter," explains Leinwand.

Blockbuster vs. NetFlix

Stay simple and keep focused on what you do well, or else suffer the consequences. Case in point: Blockbuster, Inc. The movie rental company which filed for Chapter 11 Bankruptcy Protection in September 2010, lost focus of what it did well and is now paying the price.

For years, Blockbuster was second to one in the movie rental market, but that changed when customers stopped going to stores to rent their videos and instead, started renting videos online. Companies such as Netflix, Inc. muscled in on Blockbuster's market share. According to Leinwand, Blockbuster tried to re-adapt to the new market conditions by beating its new competitors at what they did well, rather than focusing on its own strengths and capabilities. Says Leinwand, "They invested in the online technology but like other capabilities, it's very difficult to beat a competitor that specialises in one thing. And we saw NetFlix always a step ahead of them in the online environment."It was a lose-lose situation for Blockbuster. "It's a great example of when you're spread across too many capabilities," explains Leinwand, "you might be sort of good at everything, but not great at anything."

A company often lauded for getting it right is Apple, Inc. But Leinwand said that people often wrongly assume that Apple's strongest capability is innovation. "If you really look at what they do well, it's actually not just being innovative, it's actually really understanding consumer behaviour, and designing products that work with the way that people think," he says. He says that Apple doesn't even use its own computer chips and often buys its parts and pieces from someone else. What Apple has done is made using a computer as easy as using any household appliance. Explains Leinwand: "A simple experience to get the job done, but in a way that people understand and can appreciate."

This article was written by Cindy Babski based on an interview for INSEAD Knowledge.

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