

resource do not exist, which keeps competitors from offering the same value; and the firm can leverage them to its advantage.<sup>1</sup>

A strategic asset is a resource that the firm owns or controls that can be leveraged in the design or implementation of a firm's strategy. Assets include general resources such as financial assets, human assets (leaders and employees), physical assets (plant and equipment), legal assets (patents and trademarks) as well as marketing assets in the form of strong brand reputations, customer relationships, and powerful knowledge of markets.

*Competencies* leverage these assets to perform activities important to the firm's strategy. They do so through organizational processes, which act as recipes for actions. Without the right assets, these processes are not likely to have much impact. At the same time, the assets, whether they are smart employees, patents, or strong brands, will not help the company unless they are leveraged repeatedly through strong processes. These processes help companies outpace competitors and also make it difficult for them to easily imitate the firm's strengths because it is hard to observe all of the complex activities involved in a competency. Therefore, companies must ensure that they have both the strong assets and processes for leveraging those resources for marketing excellence. If exercised well, these competencies can, over time, add to the strength of a company's asset base by improving customer relationships and brands.

The ability of assets and competencies to support a strategy will in part depend on their strength relative to competitors. To what extent are the assets and competencies unique or rare in the marketplace? If unique now, how easily can they be imitated by competitors? Many assets require a long-time to develop and so competitors trying to build the strength of Amazon's strong customer relationships may be hopelessly behind. Competencies are often difficult to imitate because competitors cannot easily understand the recipe that companies use to create such outstanding processes. This is why Southwest Airlines is known to offer tours of their offices and activities—they know that the special ingredient that makes their culture such a valuable asset can neither be understood nor imitated very easily.

Assets and competencies leveraged across multiple product markets offer additional synergies that can be a source of SCA. Synergies can come in many forms. Two businesses can reduce costs by sharing a distribution system, sales force, or logistics system, as when Gillette acquired Duracell (and later was itself acquired by P&G). Synergy can also be based on sharing the same asset, as with the HP brand shared by the dozens of business units or a competence such as Toyota's ability to manage manufacturing plants across brands and countries. Another source of synergy is the sharing of functional area strategies across business units. For example, the Ford Motor Company may be able to sponsor the World Cup, which would benefit all brand across divisions. Another synergy source is the sharing of R&D. P&G aggregates brands such as Head & Shoulders, Aussie, Infusion, and Pantene into a hair care category not only to provide shelf space guidance to retailers and to create promotions more easily, but also to manage its innovation processes. Finally, a combination of products can provide a value proposition. Some software firms have aggregated products in order to provide a systems solution to customers; Microsoft Office is one example.

### Functional Strategies and Programs

A company's value proposition, assets, and competencies require the support of functional activities to succeed. Assets and competencies should mandate some strategy imperatives in the form of a supportive set of functional strategies or programs.

Functional strategies or programs that could drive the business strategy might include:

- Information technology strategy
- Distribution strategy
- Global strategy
- Quality program
- Sourcing strategy
- Logistical strategy
- Manufacturing strategy
- Analytics program

The need for certain functional strategies and programs can be determined by asking a few questions: What must happen for the firm to be able to deliver on the value proposition? Are the assets and competencies needed in place? Do they need to be created, strengthened, or supported? How?

### PITFALLS IN STRATEGY DEVELOPMENT

Richard Rumelt, noted strategy thinker, has identified some common pitfalls in developing a business strategy.<sup>2</sup> First, a central problem or threat is ignored. The problem could be a quality issue or a receding marketplace. A competitor's innovation or a customer trend could represent a threat. A strategy developed as if either did not exist will be doomed. Second, the strategy is a long-to-do list with no sense of what is important. There needs to be a sense of priorities. Third, a set of goals is assumed to be a strategy. It is not. There can and should be goals, especially long-term goals that go beyond financial measures, but a strategy needs to address the four key dimensions in order to find a path to success. Finally, a strategy is a fluffy description of some desired state of affairs. We will become the industry leaders while increasing margins and addressing sustainability challenges. Rather, the strategies and accompanying action plans need to be specific.

### Criteria to Select Business Strategies

The principal criteria useful for selecting a strategy can be grouped around five general questions:

- **Is the ROI attractive?** Creating a value proposition that is appealing to customers may not be worthwhile if the investment or operating cost is excessive. Starbucks opened in Japan in 1996 in the Ginza district and grew to over 400 units, many of which were in the highest rent areas. The result was a trendy brand but one that was vulnerable to competitors, who matched or exceeded Starbucks' product offerings and were not handicapped with such high overhead because they developed less costly sites.
- **Is there a sustainable competitive advantage?** Unless the business unit has or can develop a real competitive advantage that is sustainable over time in the face of competitor reaction, an attractive long-term return will be unlikely. To achieve a