Is Strategic Market Thinking Outmoded or Remodeled?

By

Boniface C. Nwugwo

June 2000
Abstract

The purpose of this paper is to demonstrate that in today's new market economy, strategic market thinking is not outdated, rather it has been remodeled and transformed into digital strategies. Businesses still need marketing strategic plans, however, any business that wants to succeed in the new Internet economy must abandon its old ways of strategic planning in favor of some creative, organized chaos or what is known as digital strategies. Several definitions of marketing concepts are provided including definitions for cyberspace, market, strategy, marketing strategy, strategic thinking, and strategic planning. A discussion of the traditional strategic market planning is provided as well as the digital strategies. Finally, a discussion of how strategic thinking has been and can be transformed into digital strategies is presented.
# TABLE OF CONTENTS

Abstract .............................................................................................................................................i  

Introduction .....................................................................................................................................1  

Definition of Terms .........................................................................................................................2  
  - Cyberspace ..................................................................................................................................2  
  - Market .........................................................................................................................................3  
  - Marketing Strategy .......................................................................................................................4  
  - Strategy .......................................................................................................................................6  
  - Strategic Planning .........................................................................................................................6  
  - Strategic Thinking .......................................................................................................................7  

Traditional Strategic Market Planning ...........................................................................................9  
  - Planning Stage .............................................................................................................................11  
  - Implementation Stage ..................................................................................................................13  
  - Control Stage ...............................................................................................................................15  

Digital Strategies ...........................................................................................................................17  
  - Digital Strategy vs. Traditional Strategy .....................................................................................18  
  - The Principles of Digital Strategy ...............................................................................................25  
  - Transforming Strategic thinking into Digital Strategy ...............................................................30  

Conclusion .....................................................................................................................................32  

References ......................................................................................................................................34
Introduction

One of the most common business phenomena is also one of the most perplexing. When successful companies face big changes, they often fail to respond effectively. Many assume that the problem is paralysis, but the real problem is active inertia -- an organization's tendency to persist in established patterns of behavior. Most leading businesses today owe their prosperity to a fresh competitive formula -- a distinctive combination of strategies, processes, relationships, and values that sets them apart from the crowd.

Yet, for many organizations when changes occur in their markets, the formula that brought success instead brings failure. Stuck in the modes of thinking and planning that have been successful in the past, market leaders simply accelerate all their tried-and-true activities. In attempting to dig themselves out of a hole, they just deepen it. In particular, four things happen -- strategic frames become blinders, processes harden into routines, relationships become shackles, and values turn into dogmas.

This paper discusses how contrary to contemporary belief, strategic thinking is not outmoded, but rather it has been remodeled and transformed into digital strategies. Only those organizations with healthiest environment for identifying and
fostering what Downes and Mui (1999) termed "Killer Apps", will translate their “digital” strategies into market dominance. I would further show why in today's market, established businesses that want to succeed in the new market economy must abandon many of their most revered planning and control processes for some organized chaos and creativity, with old strategies jettisoned in favor of digital ones. First, a definition of terms that will be used in this paper is in order.

**Definition of Terms**

**Cyberspace**

Cyberspace is defined as “a collection of digital technologies that together create an increasingly believable illusion of place” (Downes and Mui 1999, p.30). In other words, it is a virtual place as opposed to a solid structure located in a certain place. As activities, functions, and people are migrated from the world of the physical to the world of the digital, this new environment created by digital technologies is popularly referred to as cyberspace. Because of the virtual nature of the new environment, cyberspace is still disorienting to many, and it will take some time for everyone to get used to it.

As the paper would show later, cyberspace is the world of tomorrow, which has enabled the power of information as a public
good. Those who are first to embrace and exploit the powerful and unfamiliar features of the new world would gain significant advantage over organizations that are straddling their feet in embracing it.

**Market**

A market is made up of potential consumers who happen to be people with the desire and ability to buy a specific product (Berkowitz, Kerin, Hartley, & Rudelius, 1997). Having the desire to buy a product without the means does not make a market. For that reason, the people that make up the market have to have a need to buy as well as the ability to buy. For the purposes of this paper, "market" refers to the new market, which is enabled by the Internet or the open market in the truest sense of the word. "Market" in this context refers to the broad business-to-business market, which can be divided into two "worlds" -- the consumer world and the business-to-business world (Silverstein 1998).

1. The consumer world is comprised of every prospect or customer who considers the purchase of a product for him or herself, or another consumer.

2. The business-to-business world comprises of individuals. These individuals are consumers who have the additional responsibility of evaluating and purchasing products for their own businesses or for businesses that employ them.
The focus of the paper will be on the business-to-business world of market.

**Marketing Strategy**

A *marketing strategy* “is the means by which a marketing goal is to be achieved, usually characterized by a specified target market and a marketing program to reach it” (Berkowitz, Kerin et al. 1997, p.50). Having a marketing strategy implies that a marketing goal exists for which the strategy is supposed to outline a vision for attaining that goal. This involves making strategic decisions such as forming relationships with your competitors and adversaries. An example of such a market strategy is the turn around of misfortune at Apple Computer by Steve Jobs in the late 1990s.

Faced with dwindling market share and declining sales with its stock value hitting rock bottom in 1997, Apple Computer looked up to Steve Jobs for help. Steve Jobs who co-founded the company in the early seventies and was later ousted by its board of directors, came back to Apple in September of 1997 as its interim CEO and immediately went to work. The first thing he did was to refocus the direction of the company by recommitting to its original mission of bringing the best personal computing products and support to students, educators, designers,
scientists, engineers, businesspersons and consumers in over 140 countries around the world (Brady and Cotton 1997).

Apple then launched its new G3 series computers, with simplified design and significantly better price-performance than the newest "Wintel" Pentium products. The simplified design enabled the Company to streamline manufacturing so its computers could be built just in time to exact customer specifications. Apple also opened its online Apple Store giving the consumer the ability to buy a built-to-order Macintosh over the Internet. All of a sudden, customers in the United States now had three ways to purchase Macintosh computers: through the retail and reseller channel, through direct field sales in education, and through Apple (Brady and Cotton 1997).

Another strategy was to enhance relationships with old adversaries and competitors such as Microsoft. By January of 1998, Microsoft and Apple Computer made a series of joint product announcements, as part of Steve Jobs' keynote address at the 1998 Macworld Expo/San Francisco (Meek 1998). Included in the deal were Office 98 Macintosh Edition, Internet Explorer 4.0 for Macintosh and Mac OS 8.1. The result of these strategies was that by 2nd quarter of 1998, Apple was reporting over $100 million in profits compared to its $161 million loss the year before.
Strategy

The Webster’s student dictionary defines strategy as the “planning of action” (Collin 1999, p.457). However, in the business world, we are taught that strategy involves careful, analytical understanding of current market conditions and leverage points (Downes and Mui 1999). It is something that companies do from the top down because it takes time to develop, execute and evaluate. In today’s network economy as we will see later, strategy simply means being creative.

Strategic Planning

After reviewing several materials on strategic planning with no clear definition of what it is, I am forced to provide my own definition. Therefore, strategic planning can be thought of as the process by which an organization creates and implements its marketing tactics and decisions in order to gain competitive advantage over its competitors. The output of this process is a strategic plan, which is simply a roadmap with an organization’s vision and mission with detailed actions on how to achieve those objectives. The strategic plan, which is different from other business plans in its breadth, is the overall plan that lays the overarching strategies. The strategic plan typically covers a multi-year time frame.
Strategic planning approach has dominated the marketing landscape for the past twenty years until recently. The new model which Downes and Mui (1999) called digital strategy and enabled by the Internet, is fast becoming the model of choice for the so-called dot-com companies. In many ways, digital strategy is what distinguishes the old economies from the new economies. We will see in the following sections how strategic planning differs from digital strategies.

**Strategic Thinking**

Strategic thinking is one of those concepts that everybody talks about but can never quite define what it means. Instead, people tend to talk more about what it is not. Liedtka (1998) describes *strategic thinking* as creative, disruptive, future-focused, and experimental in nature (p.30). For this reason, many organizations with more bureaucratic, financially driven and incrementally focused approaches to planning rarely encourage its development and expression. In most cases, organizations tend to practice strategic planning even though what they need is strategic thinking.

Those that utilize strategic thinking concept suggest that there are five major attributes of strategic thinking in practice (Liedtka 1998). The five characteristics of strategic thinking are:
(1) A systems view. A strategic thinker always takes a holistic view with a mental model of the whole system of value creation, how his/her role fits within the whole system, with a good understanding of the interdependencies (Liedtka 1998).

(2) Intent-driven. Individuals within an organization need the strategic intent as a focus to pay attention, resist distraction, and concentrate for as long as it takes to achieve a goal (Liedtka 1998).

(3) Thinking in time. Strategic thinkers tend to link the past, present and future. As far as they are concerned, future intent alone does not drive strategy. It is usually the gap between the intent for the future and today’s reality that is crucial (Liedtka 1998).

(4) Hypothesis-driven. The central activities of strategic thinking are generation of hypothesis and testing. In this sense it mimics the “scientific method”. Naturally, strategic thinking is both creative and critical. On the other hand, scientific method sequentially adapts both creative and analytical thinking in its use of iterative cycles of hypothesis generating and testing. Creative “what if...?” questions are posed during hypothesis generation while the critical “if..., then...?” questions bring relevant data to bear on the analysis (Liedtka 1998).
Intelligently opportunistic. Use of a well-articulated strategy does not mean that alternative strategies better suited to a changing environment cannot be formulated. According to Leidtka (1998), “there must be room for intelligent opportunism that not only furthers intended strategy but that also leaves open the possibility of new strategies emerging” (p.31).

**Traditional Strategic Market Planning**

Under the traditional strategic market planning process, companies often hire consultants to help prepare their strategic plans. To respond to changed circumstances, businesses often dust off the old strategic plan, identify which assumptions have changed, and try to adjust the plan accordingly. In a study of strategic market planning in hospitals, Zallocco and Joseph (1991) found that although the use of strategic market planning by hospitals is continuing to grow, a lot of improvement is still needed in several areas (p.5).

Prominent among the things that need to be improved is environmental analysis. Environmental analysis includes analysis of market trends, competitive analysis, and consumer surveying which are all essential in the process of defining a hospital’s market niche and developing differential advantage. In addition to environmental analysis, the role of the outside consultant in
strategic market planning needs to be clarified. According to the study (Zallocco 1991),

Many hospitals use consultants to write marketing plans. However, much of the value of the planning process is lost when the managers who will implement the plans are not involved in their formulation. The process of planning is as important as the plans that are finally written. Furthermore, planning is not a one-time activity to be performed by an outside "expert." Instead, the formulation of marketing plans should be a participative and iterative process, carried out by the persons who will execute them and whose performance will eventually be judged by the results of the plans (p.5).

As the health care environment is in constant state of change, analysis of market trends, competitive analysis, and consumer surveying are essential in the process of defining a hospital’s market niche and developing differential advantage. Zallocco and Joseph’s findings are typical of traditional strategic planning whereby sustaining above-average performance requires a strategy and the will to implement it. The traditional strategic market planning is based on analyzing the market conditions, assessing competitive strengths and weaknesses, and developing long-term strategies for keeping a competitive edge, as well as monitoring the progress of those strategies (Downes & Mui 1998).

While many of Zallocco and Joseph’s findings are still salutary, especially for the health care industry, the techniques have become unsuitable for today’s business survival in cyberspace. Porter (1996) recognized this in a Harvard Business Review article in which he acknowledged that “developing a
strategy in a newly emerging industry or in business undergoing revolutionary technological change is a daunting proposition” (p.62).

Since the strategic market planning process is a central activity for most organizations, its output is formalized into a strategic marketing plan. The process for accomplishing this is divided into three phases – planning, implementation, and control (Berkowitz, et al 1997).

**Planning Stage**

The planning stage of the strategic market planning process involves analysis of the organization’s present situation, where it wants to go, where it is headed, the internal and external factors and trends affecting it. This approach is typically used by most organizations, including Eastman Kodak.

When George M.C. Fisher joined Kodak in 1994, he conducted an analysis of the company’s situation and concluded the following:

1) Kodak brand name is well recognized all over the world,

2) Kodak’s core business is photography (imaging),

3) Kodak’s strong and growing traditional core business in photography should be able to fund its digital strategy,
4) both film and digital imaging markets will grow in the 90s and beyond,

5) Kodak’s product cycle time is too long,

6) Unit manufacturing cost (UMC) is too high.

In addition to the situation analysis, a focus on what products to offer and to which customers needs to be made. This means setting measurable marketing objectives that are achievable. For Eastman Kodak, this meant focusing on Kodak’s core business, imaging – traditional and digital and letting go of all other businesses that were weighing the imaging giant down.

The other aspect of this planning phase is developing the program’s marketing mix and its budget. For Fisher and Kodak this meant offering various digital-imaging solutions using both online and off-line media. This included the introduction of a new film format, the advanced photographic system (APS) that takes advantage of magnetics, which Kodak had the preeminent technology to implement. It also included introducing new and improved single-use cameras. In addition, introducing output devices such as the Kodak CopyPrint Station to take advantage of Kodak’s digital imaging technology, and relaunching of PhotoCD were all part of the new marketing mix strategy.
This required that Kodak commit time and money to it, which it did not have. Fisher and Kodak were both running out of time because for Fisher, most of his compensation was tied to the company’s performance and he had less than five years to turn the company around. For Kodak, Fuji was fast encroaching into its US market share and it needed to reverse the trend quickly. The budget for these programs was enormous and there was no money to implement. Meanwhile, Kodak was losing money from its pharmaceutical company and other subsidiaries. So something needed to be done to generate cash, hence the divestiture of all businesses that did not contribute to Kodak being world leader in imaging.

**Implementation Stage**

The implementation stage of the strategic market planning involves executing the plan that emerged from the planning phase. Having a plan without effective execution of the plan means that the time spent in the planning phase was a waste. Implementing the plan involves obtaining needed resources, designing the marketing organization, developing realistic schedules, and executing the plan as drafted in the planning (Berkowitz, et al 1997). Continuing with Eastman Kodak as an example, here is how an organization facing the implementation phase of the strategic market planning process handled it.
When George Fisher joined Kodak in 1994, he needed financial resources to implement the ideas identified earlier in the planning stage. In the spirit of focusing the company on what it does best, he sold Kodak’s pharmaceutical, household products, and chemicals businesses, raising about $6 billion. This money provided him the resources needed to implement Kodak’s strategy to grow its core imaging business (Berkowitz, et al 1997). He continued to divest other Kodak businesses that did not lend themselves to the strategy of becoming the world-imaging leader. Kodak’s Copy Products business and Verbatim™, the subsidiary that manufactured floppy disks were subsequently sold.

In designing the marketing organization needed to implement this marketing program, Fisher looked outside the company for new breed of leaders that could think they way he did. He called on Carl Gustin, the former Apple Computer marketing executive to head the marketing organization and gave him the responsibility for making the marketing plans a reality. Part of Gustin’s marching orders were a set of milestones and deadlines for meeting the goals. The deadlines included the following:

- By end of 1st Quarter 1995 – introduce a more improved, single-use camera.
- By end of 2nd Quarter 1995 – launch the Kodak CopyPrint Station (an output solution that allows old snapshots to be scanned, blownup, and printed).
• By March 1995 -- relaunch the PhotoCD for compact disk, targeting the desktop computer market.

• By end of 4th Quarter 1996 – introduce a new advanced photographic system (APS) in the form of a new film format and camera.

• Tap into emerging markets such as China, India, Russia, and Brazil and setup improved distribution networks (Berkowitz, et al 1997). This included the opening of a manufacturing plant in China by the turn of the new century.

To ensure that the managers met the targets, Fisher devised a new performance-based compensation structure for management, tying thirty-percent of their salary closely to performance. He developed some strategic partnerships with five of Kodak’s competitors including Fuji, Canon, and Nikon to develop the APS film and camera (Berkowitz, et al 1997).

Control Stage

The control stage of the strategic market planning process involves making sure that the marketing program is working as expected. This means that the marketing manager needs to compare the marketing program results with the written goals for deviations. If there are deviations, the marketing manager must take corrective actions. These deviations could be negative or positive. If negative deviations arise, those need to be corrected, however, if those deviations are positive, they need
to be exploited (Berkowitz, et al 1997). Continuing with Eastman Kodak as an example, here is how Fisher handled the control stage of his strategic marketing plan.

Prior to George Fisher’s arrival in 1994, Kodak’s revenue growth was practically flat, hovering around the 3 to 5 percent growth (Berkowitz, et al 1997). Fisher needed to grow the revenue by 6 to 10 percent doubling its return on assets (ROA). To accomplish this goal Kodak introduced a flurry of new and upgraded high-quality products into the marketplace in 1995 and 1996. To maintain effective control of the program, deviations to the plan were identified (Worthington 2000).

One of the positive variations was that the Kodak CopyPrint Stations was such a hit with consumers that Kodak exploited the consumer acceptance by producing and installing more units around the world. In addition, more sophisticated, do-it-yourself versions were introduced. Another correction that Kodak made was upgrading its PhotoCD system and re-launching it targeting the desktop computing market.

But as we have seen from this brief example with Kodak, strategic market planning does not count for much unless it is followed up by action. The new digital economy has turned strategic planning on its head. The traditional strategic market planning simply does not often work in times of great change, as
we are currently experiencing now. In his 1994 book entitled ‘The Rise and Fall of Strategic Planning,’ Mintzberg argues that one of traditional strategic planning’s false assumptions is that generally, the future can be forecast based on current climatic conditions in the business environment (Mintzberg 1994). The truth is that due to the rapid growth and disruptive nature of this new economic revolution, many organizations find it difficult to predict with any certainty, what the future holds. What we have now is a brave new world, one that requires a new strategy. The new strategy must be dynamic, requiring not just regular but constant rethinking. In this new age of digital economy, it requires digital strategies.

**Digital Strategies**

Digital strategy is simply a new approach to strategic planning. It consists of twelve design principles. These design principles guide the process for discovering and shaping what Downes and Mui called the “Killer Applications or Killer Apps” (Downes & Mui 1998).

A killer app is defined as “a new good or service that establishes an entirely new category and, by being first, dominates it, returning several hundred percent on the initial investment” (Downes & Mui 1998, p.4). Examples of killer apps include the personal computer, electronic funds transfer, and
Capella University’s online education. They have the tendency to displace unrelated older offerings, destroying and re-creating industries far from their immediate use.

They disrupt the complex relationships between business partners, competitors, customers, and market regulators. A typical example is the impact of the World Wide Web on everything from financial services to manufacturing, from government to the computer industry itself. Digital technology has simply become the essential disrupter of existing operating models and their underlying assumptions. In other words, it is no longer the solution, rather, it has become the problem.

**Digital Strategy vs. Traditional Strategy**

In many respects, digital strategy departs from the old strategic approach. One key difference is the role played by technology. In the old economy, digital technology was treated as the critical tool for implementing change (Downes & Mui 1998). The Information Services (IS) department was rarely consulted when forming business solutions. The project teams simply decided how the business models should change and then informed IS which is expected to design the components of the new solution. Basically, technology according to the authors of *Reengineering the Corporation*, was the “essential enabler” of change (Hammer & Champy 1993).
However, according to Downes and Mui (1998), “this attitude toward technology is wrong today and will be wrong in the conceivable future” (Downes & Mui 1998,p.61). They argue that today, instead of being used solely as a tool for implementing change, digital technology now originates business change, particularly with the killer apps.

Another difference between the old and new strategic planning approaches is that the plan produced under the traditional strategy is largely static. Generally, a team of senior executives or the staff of a specialized department responsible for strategic and corporate planning goes off for a period of time to perform some situation analysis. When they come back, they return with a document, which is the plan. The document remains the company’s plan until the next planning cycle. Digital strategy is not like that. At the heart of a digital strategy is a dynamic plan that requires regular and constant rethinking. No single person or department has the sole responsibility of the strategy, it is the job of everyone, especially line managers in large corporations or heads of functional groups in smaller organizations (Downes & Mui 1998).

Another subtle difference between the old and new strategic planning approaches is time frame for the plans. Traditional strategic plans are usually done for a period of three to five
years. Although many companies are uncomfortable with plans that go beyond three years, there is still a large number of organizations that plan that far off. Even three years is too long. Due to the rapid growth and disruptive nature of the new digital economy, it seems less likely that managers and executives in various industries can predict with certainty, what the future holds. It is now more difficult to confidently predict more than six months to a year in advance, exactly what products and features to build, what technologies to deploy and what customers will buy.

As the window of opportunity has continued to shrink, the “new planning horizon is closer to twelve to eighteen months” (Downes & Mui 1998, p.63). What this acceleration of planning time frame means is that, there is less time to respond which subsequently leads to less time for analysis or detailed planning. The consequence is that many managers, executives and entrepreneurs are increasingly embracing the prospect of strategy implementation before it is entirely thought out, or before a detailed business case can be made. As transaction costs continue to approach zero with technology relentlessly journeying into the realm of smaller, faster, and cheaper horizon, businesses are able to afford to experiment with a new strategy cheaply, even if it is not well thought out or before a detailed business case can
be planned. A good example according to Downes and Mui (1998) was the decision made by Playboy to have a presence on the Internet.

When Playboy Enterprises decided to experiment with electronic distribution of its content, it was based on instinct. The CEO, Christie Hefner simply had a hunch that if Playboy offered online service, something would happen. So, Playboy launched its own photo archive on the then unproven World Wide Web. Playboy initially gave away digital photographs at a manufacturing and distribution cost of nothing. Hefner’s intuition paid off big time. The site was so successful (about 5 million hits per day in 1996) that Playboy was soon able to sell enough advertising to pay the full costs of running the experiment. Playboy is now offering a subscription-based service, something Hefner avoided until technology became available that allowed subscribers to retain anonymity (pp.63-64).

More often than not, it is the quick execution of plans that makes digital strategy planning lose the appearance of a traditional plan. For those companies that operate in cyberspace today, the plan usually disappears and gets replaced by series of small experiments or projects, which are constantly tweaked. The projects are combined with a vigorous marketplace of new ideas, which are floated, debated, and selected or rejected. Again, these compressed time frames are made possible by digital technology.

There are key pressures or forces that influence competitive leveraging. To sustain competitive advantage requires that a company leverage at least one of the five forces – the customers, suppliers, competitors, new entrants, and substitutes (Porter 1980). As an example, for a cost cutter like Wal-Mart, to
Strategic Market Thinking 22

establish a substantial presence, its strategy was to force suppliers to give up margin. For FedEx as a premium provider, its strategy was to offer unique and valuable services like guaranteed next day delivery and convenient pickups that customers were willing to pay premium prices.

In addition to the five forces, digital strategy introduces additional three new forces – digitization, globalization, and deregulation (Downes & Mui 1998). According to Downes and Mui, these new forces are generated by the interaction of digital technology and Coasean economics. Coasean economics is based on the work of the economist Ronald Coase who in 1937, observed that the phenomenon of the complex, geographically dispersed firms was a result of market inefficiency. He argued that firms organized to reduce the transaction costs of repeated and complicated activities involved in creating, selling, and distributing their goods and services (Coase 1994).

Digitization unleashes trends toward rapid deregulation of industries and globalization of markets exerting tremendous new pressures on the competitive environment, superseding the old forces that a generation of senior executives, managers, and strategists have been trained to follow. Its velocity and trajectory creates more frequent and more ripples than did earlier technologies, giving everyone a permanent case of what
Alvin Toffler many years ago called “future shock”. This phenomenon is what Downes and Mui refers to as the “Law of Disruption” which states that “where social systems improve incrementally, technology improves exponentially” (Downes & Mui 1998, p.8). To take advantage of the exponential nature of technology, businesses must learn to creatively thrive in some form of organized chaos.

As we are experiencing today, computing power and communications bandwidth are becoming faster, smaller and cheaper to the point that they are treated as disposable. The computer in the cellular phones we use today has more power than all the computers used during World War II combined. Personal computers were costing more than $3,000 when they debuted in 1985, today they are available for less than $1,000 and are, at the same time, several orders of magnitude more powerful.

With the improvements in transportation and communications, a borderless economic world has emerged. This has taken many businesses long considered local to global status, sometimes overnight. The decline of economic protectionism, the formal economic integration and free trade among nations, and the global competition among global companies for global consumers have significantly affected world trade. This impact of globalization is felt throughout the production and distribution life cycle. It
is not uncommon to have component sourcing and assembly provided by a global network of partners and suppliers. Many companies take advantage of the earth’s rotation to pass work back and forth between Europe, Asia, and the Americas, effectively engaging in 24-hour operation. Consumers are getting used to the idea of borderless commerce. Today, many customers are more than willing to shop on an international basis from entertainment to cars, to software and electronics, and for even goods and services traditionally considered national or local (Berkowitz, et al 1997).

Regulation exists in some form for every industry. But sometimes, there is strong movement for deregulation generally stimulated by the belief of buyers and sellers that a free market, thanks to plunging transaction costs, is a better regulator of an industry than governments. The recent mania for deregulation evident in the rise of economic integration among nations with similar economic goals have resulted in transnational trade groups or signed trade agreements for the purpose of promoting free trade among member nations local (Berkowitz, et al 1997). The passage of the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), the European Union (EU), the Asian Free Trade Agreements (AFTA), and the dramatic collapse of the highly regulated
economies of the former Soviet republics are manifestations of pressures to deregulate.

With the help of deregulation, telecommunications technology has already collapsed the price of long distance calls in the United States. In 1997, the national telcos signed a pact to open markets and reduce inter-company charges. Such deregulation has spurred competition and the development of more technology. The net effect is that consumers will save more in international calls over the next ten years and beyond.

The Principles of Digital Strategy

The twelve principles of digital strategy that guide the process of finding and creating killer apps can be organized into three main groups of four principles each (Downes & Mui 1998):

1) Reshaping the landscape, which consists of the principles of outsourcing to the customer; cannibalizing ones markets; treating each customer as a market segment of one; and creating communities of value.

2) Building new connections, which comprises of the principles to replace rude interfaces with learning interfaces; ensuring continuity for the customer, not oneself; giving away as much information as one can; and structuring every transaction as a joint venture.
3) Redefining the interior, which includes the principles of treating ones assets as liabilities; destroying ones value chain; managing innovation as a portfolio of options; and hiring the children.

The principles of reshaping the landscape can be used to create killer apps that develop new markets, form new relationships with customers and other business partners and apply digital technology to change the nature of the goods and services offered by an organization (Downes & Mui 1998). The concept of outsourcing is not new to most organizations, but outsourcing directly to the customer may be. But data collection and customer service functions can be outsourced directly to the customer, a sort of collaborative marketing. The business organization builds an interface into its information sources such as purchase order systems, order entry systems, etc. and gives the customers the tools to customize and navigate them. The customers already know exactly what they want and can do it better. The cost to the organization is very minimal since the customer uses his or her own equipment, phone lines, office space and even electricity.

In traditional planning, managers are afraid of launching new products or services that gain market at the expense of existing offerings. Digital strategy on the other hand, calls for
cyberspace cannibalism. Many companies have already tried it and are very successful. Companies like Charles Schwab who offer 20 percent commission discount to its Internet customers. The New York Times and others publish their entire daily newspapers online, and give away most of the content. The Wall Street Journal charges its online customers one-third of the full year subscription. The reason that these companies do it, and they should, is because if they don’t, someone else will.

It is possible today, thanks to technology, for businesses to create cheaply and consistently, customer offerings that are unique, not just one-time, but all the time. The model is already being used in news services, travel, retail, and entertainment industries. It has arrived in education where schools like the Capella University are creating tools for virtual institutions that are unique every time.

The principle of creating communities of value by valuing the community as exemplified by America On-Line (AOL), creates the best opportunities to extract new margin. As AOL discovered, the value of AOL is the value of the network, not the content. By lowering the fee it charges its members to access that network, more members would join thereby increasing the value of the product, which AOL can leverage to sell other goods and services or advertisements. Recognizing this, AOL switched from hourly
billing to a monthly fee for unlimited access, only to discover that it underestimated the appeal of its own product.

The principles of building new connections are used to build interfaces between the organization and its business partners, including customers, suppliers, and competitors (Downes & Mui 1998). Since functions are now moved to places where they are best performed, interfaces are made to be transparent and adaptable to their users. When creating these windows to the organization, one must make sure to create designs that are appropriate for the users no matter how traumatic a change it might cause internally within the organization. This means that instead of characterizing all of the organization’s information as secret and proprietary, a balance should be made of the true value of this information against the potential for business partners to increase their value by using them. The more open the system, the more refined the skills of forming, executing, and completing joint ventures, the better position the organization will be in to exploit new opportunities and launch new products and services that can dominate markets.

The principles of redefining the interior focus on the creation of a new internal corporate self, one that is flexible enough to squeeze through the barrier between physical space and cyberspace (Downes & Mui 1998). For many organizations, this
reinvention and rehabilitation of the corporate self will be as traumatic to the movement in the nineteenth century from an agrarian economy to an industrial one. Information providers, service firms, educational institutions and other industries are struggling to become digital as quickly as possible as they discover that the true value of their company is its information. It is not that the value of today’s organizations is disappearing so much as its form is changing. It is critically important that organizations shift their investment to bits, because the new competitors that have no fixed assets (i.e., no real estate or so called “brick and mortar”, no manufacturing equipment, no distribution network) will suddenly appear competitive in the new market environment. Their assets simply become liabilities.

Applying these principles will help identify killer apps that can take an organization out of the past into the future. In order to succeed with digital strategy and be able to unleash killer apps continually, one has to go further by living in the future, and not merely visiting it. This implies making digital strategy the operating model of the organization such that it becomes well integrated into the culture of the organization such that it becomes indistinguishable from manufacturing, distribution, marketing, sales, and administration. A brief examination of how strategic thinking can be transformed into digital strategies will help clarify this point.
Transforming Strategic thinking into Digital Strategy

In order to succeed at digital strategy, “an organization must be a learning organization with more focus on ideas and experiments than detailed plans and forecasts” (Downes & Mui 1998, p.167). As information is a major asset for any organization, to identify ones own information assets, the organization should start with activities that already contain components of public goods, such as marketing and advertising. The goal is to publicize the company’s goods and services to as wide an audience as possible. Once the product is universally recognized by a critical mass of people, they become a source of credibility, which translates into a brand or product name. The more functions an organization can express as information and translate into bits, the more it can take advantage of the critical mass effect.

One approach to transforming strategic thinking into digital strategy is by taking advantage of the open system concept – a system that gladly gives all of its secrets away. That’s exactly what Marc Andreessen did when he was still an undergraduate student at the University of Illinois in the early 1990s, when the World Wide Web, a new set of open standards for sending and receiving multimedia communications over the Internet was still
in its infancy. To exploit these standards, Andreessen created the NCSA Mosaic™ research prototype, a program that allows users to browse through the various web sites that were being created. For maximum exposure, Andreessen gave the software away free. Later, when Dr. James H. Clark, founder of Silicon Graphics, Inc. stole Andreessen and his team to form Netscape Communications Corporation, the operating model never changed. Their new browser which was called Netscape Navigator was still being given away free (Netscape 1994).

The result was that Netscape captured 80 percent of the browser market within months of its product release in 1995 because it gave away millions of copies of its software. Giving away the software did not cost Netscape much in real dollars. With the help of the Internet itself, users simply downloaded the browser, using their own phone connections, their own machines, and their own electricity. The actual marginal cost of each copy of Navigator that Netscape gave away was zero.

Capturing eighty percent of a market for a free product may not sound like a big accomplishment to some people. But look at what happened when Netscape made its initial public offering in 1995. Its stock went from an initial asking price of $14 a share to $150 in a matter of days, giving the company a market valuation of more than $3 billion dollars. The Netscape Navigator proliferated rapidly encouraging faster development of web sites,
which in turn led to greater demand for Navigator. The company, which was later acquired by AOL, now derives revenues from subsidiary goods and services including advertisements on its website, information broadcasting services and software for building corporate Intranets (Downes & Mui 1998).

The Navigator hit critical mass of users at warp speed and the predictable explosion occurred not in years but in months. For instance, in 1994 when NCSA Mosaic™ was first demonstrated, the World Wide Web was still an experiment. By 1997, nearly every network television advertisement included a Web address, and the Navigator had become the de-facto standard for Web browsers.

**Conclusion**

As the preceding discussion has shown, to survive and thrive in the new economy, companies must make the transition to digital strategies, which alters the very core of how companies manage growth and plan the future. The competitive and complex nature of the new market environment is enabling companies to continuously evaluate strategy and adapt quickly to changing circumstances.

In this fast-moving new market environment, planning becomes a continuous, adaptive process with an immediate feedback loop linking strategy to execution. This is what digital strategy is all about. One could argue that it is not really a planning methodology but a new operating model. It does not negate
strategic thinking and planning, rather, it remodels the way strategies are planned and executed.

For creative entrepreneurs and executives with entrepreneurial spirit, the new forces unleashed by digital technology can release the potential for radical improvement in their organization’s ability to survive and thrive in the new competitive environment. However, to take advantage of the new potentials, they must start by jettisoning much of what they know about planning and strategy, and adopt the new digital strategy model.

It is possible that strategic planning is still done by everyone, but strategic management tactics in today’s swiftly changing economy bear little resemblance to the planning strategies of even a year ago. The Internet has changed everything. As companies inevitably turn to digital technology, the new scope and depth of business intelligence will become corporate imperative. Entrepreneurs, managers and business executives who embrace the digital strategy model for a real-time understanding of both internal processes and external dynamics of both the marketplace and the competition will emerge as leaders. Those companies that remain locked in traditional methods of planning will forfeit their ability to survive and thrive.
References


