Notes

Chapter 1

1. For discussions on how market boundaries are defined and how competitive rules of the game are set, see Harrison C. White (1981) and Joseph Porac and José Antonio Rosa (1996).

2. Gary Hamel and C. K. Prahalad (1994) and James Moore (1996) observed that competition is intensifying and commoditization of business is accelerating, two trends that make market creation essential if firms are to grow.

3. Ever since the groundbreaking work of Michael Porter (1980, 1985), competition has occupied the center of strategic thinking. See also Paul Auerbach (1988) and George S. Day et al. (1997).

4. See, for example, Hamel and Prahalad (1994).

5. See *Standard Industrial Classification Manual* (1987) and *North American Industry Classification System* (1998).

6. Ibid.

7. For a classic on military strategy and its fundamental focus on competition over a limited territory, see Carl von Clausewitz (1993).

8. For discussions on this, see Richard A. D'Aveni and Robert Gunther (1995).

9. For more on globalization and its economic implications, see Kenichi Ohmae (1990, 1995a, 1995b).

10. United Nations Statistics Division (2002).

11. See, for example, Copernicus and Market Facts (2001).

12. Ibid.

13. Thomas J. Peters and Robert H. Waterman Jr. (1982) and Jim Collins and Jerry Porras (1994), respectively.

14. Richard T. Pascale (1990).

15. Richard Foster and Sarah Kaplan (2001).

16. Peter Drucker (1985) observes that companies tend to race against each other by looking at what competitors do.

17. Kim and Mauborgne (1997a, 1997b, 1997c) argue that a focus on benchmarking and beating the competition leads to imitative, not innovative, approaches to the market, often resulting in price pressure and further commodization. Instead, they argue, companies should strive to make the competition irrelevant by offering buyers a leap in value. Gary Hamel (1998) argues that success for both newcomers and industry incumbents hinges upon the capacity to avoid the competition and to reconceive the existing industry model. He further argues (2000) that the formula for success is not to position against the competition but rather to go around it.

18. Value creation as a concept of strategy is too broad, because no boundary condition specifies how value should be created. A company could create value, for example, simply by lowering costs by 2 percent. Although this is indeed value creation, it is hardly the value innovation that is needed to open new market space. Although you can create value by simply doing similar things in an improved way, you cannot create value innovation without stopping old things, doing new things, or doing similar things in a fundamentally new way. Our research shows that given the strategic objective of value creation, companies tend to focus on making incremental improvements at the margin. Although value creation on an incremental scale does create some value, it is not sufficient to make a company stand out in the crowd and achieve high performance.

19. For examples of market pioneering that shoots beyond what buyers are ready to accept and pay for, see Gerard J. Tellis and Peter N. Golder (2002). In their decade-long study they observe that fewer than 10 percent of market pioneers became business winners, with more than 90 percent turning out to be business losers.

20. For previous studies that challenged this dogma, see, for example, Charles W. L. Hill (1988) as well as R. E. White (1986).

21. For discussions on the necessity to choose between differentiation and low cost, see Porter (1980, 1985). Porter (1996) uses a productivity frontier curve to illustrate the value-cost trade-off.

22. Our studies revealed that value innovation is about redefining the problem an industry focuses on rather than finding solutions to existing problems.

23. For discussions on what strategy is and is not, see Porter (1996). He argues that although strategy should embrace the entire system of activities a firm performs, operational improvements can occur at the subsystem level.

24. Ibid. Hence, innovations that happen at the subsystem level are not strategy.

25. Joe S. Bain is a forerunner of the structuralist view. See Bain (1956, 1959).

26. Although in different contexts, venturing into the new has been observed to be a risky enterprise. Steven P. Schnaars (1994), for example, observes that market pioneers occupy a disadvantaged position vis-à-vis their imitators. Chris Zook (2004) argues that diversification away from a company's core business is risky and has low odds of success.

27. Inga S. Baird and Howard Thomas (1990) argue, for example, that any strategic decisions involve risk taking.

Chapter 2

1. Alternatives go beyond substitutes. A restaurant, for example, is an alternative to the cinema. It competes for potential buyers who want to enjoy a night out, even though it is neither a direct competitor nor a substitute for the cinema in its functional offering. There are three tiers of noncustomers a company can look to. For more detailed discussions on alternatives and noncustomers, see chapter 3 and chapter 5 of this book, respectively.

Chapter 3

1. NetJets (2004).
2. J. Balmer (2001).
3. Available online at http://www.marquisjet.com/vs/vscomm.html.
4. Kris Herbst (2002).
5. Ibid.

Chapter 4

1. For an overview of strategic planning, see Henry Mintzberg (1994).

2. Consider the difference in our perceptual bandwidth (bits/second) of the various senses: taste (1,000 bits/second); smell (100,000); hearing (100,000); touch (1,000,000); seeing (10,000,000). Source: T. Norretranders (1998). For further reading on the power of visual communication, see A. D. Baddely (1990), J. Larkin and H. Simon (1987), P. Lester (2000), and E. R.Tufte (1982).

3. For more on the power of experiential learning, see L. Borzak (1981) and D. A. Kolb (1983).

4. See chapter 3 for further discussion on how Bloomberg applied one of the six paths to blue ocean creation to break from the competition.

5. See chapter 5 for a discussion on noncustomers.

6. See chapter 3 for a thorough discussion of the six path framework applied here.

7. See *Korea Economic Daily* (2004).

Chapter 5

1. See Committee on Defense Manufacturing (1996), James Fallows (2002), and John Birkler et al. (2001).

2. Department of Defense (1993).

3. For more on the specifics of the JSF, see Bill Breen (2002), Fallows (2002), Federation of Atomic Scientists (2001), David H. Freedman (2002), *Nova* (2003), and United States Air Force (2002).

4. Given the almost ten-year time lag from the conception of the JSF F-35 strategy to its realization in 2010, we would argue that its success is in no way secured. As heads of the military and Pentagon change during this time, the challenge will be to hold tight to the JSF's value curve. It is essential not to slip into the "defense deal spiral" of behind-the-scenes bargaining for "just a little more" customization and, with it, ballooning costs and a resultant blurred value curve. To avoid this, the Pentagon, in conjunction with Lockheed Martin, will have to ensure that each branch of the military adheres to the strategic profile agreed to in the strategy canvas of JSF F-35. So far, it looks good, but the military cannot afford to relax. This is an ongoing mission.

Chapter 6

1. Rohlfs (1974) was the first to define and discuss network externalities. For a survey of recent work on this, see Katz and Shapiro (1994).

2. See Kenneth J. Arrow (1962) and Paul Romer (1990). It is worth noting that both Arrow and Romer limited their discussion of nonrival and nonexcludable goods to technological innovations, as is the tradition in economics. When the concept of innovation is redefined as value innovation, which is more relevant at the microeconomic firm level, the importance of the nonrival and nonexcludable notion is even more striking. This is because technological innovation often has a greater excludable component due to the possibility and relative ease of obtaining patent protection.

3. See Ford Motor Company (1924) and William J. Abernathy and Kenneth Wayne (1974).

Chapter 7

1. *New York Post* (1990).

2. The first application of the term *tipping points* to social behavior was in a 1957 study of racial segregation by Morton Grodzins (1957) and was more fully developed by University of Maryland economist Thomas

Schelling (1978). Most recently, Malcom Gladwell's book *The Tipping Point* (2000) popularized the notion and brought the term further into the common vernacular.

3. See Joseph Ledoux (1998) and J. S. Morris et al. (1998).

4. See Baddely (1990) and Kolb (1983).

5. See James Q. Wilson and George L. Kelling (1982) for a discussion on the theory of broken windows.

Chapter 8

1. Thibault and L. Walker (1975).

2. Subsequent researchers, such as Tom R. Tyler and E. Allan Lind, demonstrated the power of fair process across diverse cultures and social settings. See E. A. Lind and T. R. Tyler (1988) for their research and an overview of related work.

3. For a discussion on voluntary cooperation, see C. O'Reilly and J. Chatman (1986), D. Katz (1964), and P. M. Blau (1964).

4. See discussions in F. Herzberg (1966).

Appendix A

1. For a discussion of "creative destruction," see Joseph A. Schumpeter (1934; 1975).

2. *New York Times* (1906).

3. *Literary Digest* (1899).

4. Bruce McCalley (2002).

5. William J. Abernathy and Kenneth Wayne (1974).

6. Antique Automobile Club of America (2002).

7. Alfred P. Sloan (1965): 150.

8. Mariana Mazzucato and Willi Semmler (1998).

9. Lawrence J. White (1971).

10. *Economist* (1981).

11. Sanghoon Ahn (2002).

12. Walter Adams and James W. Brock (2001), Table 5.1, Figure 5-1: 116–117.

13. Andrew Hargadon (2003): 43.

14. International Business Machines (2002).

15. Regis McKenna (1989): 24.

16. *A+ Magazine* (1987): 48–49; *Fortune* (1982).

17. Otto Friedrich (1983).

18. Ibid.

19. The IBM was priced a little more than the Apple ($1,565 versus $1,200), but it included a monitor, and the Apple did not.

20. History of Computing Project (accessed 28 June 2002).

21. *Financial Times* (1999).
22. Hoovers Online (accessed 14 March 2003).
23. Digital History (2004).
24. Screen Source (2002).
25. Interestingly, a 1924 poll asked moviegoers what aspects of a cinema appealed to them most; 28 percent cited the music, 19 percent the courtesy of the staff, 19 percent the comfort of the interior, and 15 percent the attractiveness of the theater. Only 10 percent mentioned the films (R. Koszarski, 1990). And 24 percent of exhibitors surveyed in 1922 said that the quality of the feature film "made absolutely no difference" to success at the box office; what mattered, they said, was the surrounding program (ibid.). In fact, cinema advertisements at the time tended to give as much print to the music as they did to the films. With the introduction of sound technology in films in 1926, the importance of live music at the cinema (a band or orchestra and the associated costs) was dramatically reduced. Palace Theaters, with their elaborate décor, luxurious environment, and services such as valet parking, were well placed to take advantage of this shift for more than ten years, until Americans began heading to small-town suburbs in droves following World War II.
26. Screen Source (2002).

Appendix B

1. The structuralist school of IO economics finds its origin in Joe S. Bain's structure-conduct-performance paradigm. Using a cross-industry empirical framework, Bain focuses mainly on the impact of structure on performance. For more discussions on this, see Bain (1956, 1959).
2. F. M. Scherer builds on Bain's work and seeks to spell out the causal path between "structure" and "performance" by using "conduct" as an intervening variable. For more discussions, see Scherer (1970).
3. Ibid.
4. See Joseph A. Schumpeter (1975).
5. Ibid.
6. For more discussions on the new growth theory and endogenous growth, see Paul Romer (1990, 1994) and G. M. Grossman and E. Helpman (1995).
7. For detailed discussions on competitive strategy, see Porter (1980, 1985, 1996).
8. See Kim and Mauborgne (1997a, 1999a, 1999b).
9. See Joseph Schumpeter (1934) and Andrew Hargadon (2003).

Appendix C

1. For discussion on the potential of increasing returns, see Paul Romer (1986) and W. B. Arthur (1996).