



Strategic Frontiers:

The starting point for innovative growth

by J. Douglas Bate and Robert E. Johnston, Jr.

*J. Douglas Bate and Robert E. Johnston, Jr. are consultants with the Strategy Innovation Group, LLC, and the authors of *The Power of Strategy Innovation*, published by the American Management Association.*



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The starting point for innovative growth

When CEOs recognize the need for adding new value to their organizations and commit to the creation of new internal capabilities for growth, they are ready for strategy innovation and the exploration of their company's strategic frontier. Innovative new business opportunities found on the strategic frontier can provide them with the entrepreneurial growth they need. Apple, with their iPod technology, discovered an innovative new business on their frontier of portable music. Progressive Insurance used strategy innovation when they started sending their claims adjusters in mobile offices to accident scenes and watched their business quadruple in size. These new businesses did not require decades of dedicated R&D expenditures to develop, just an understanding of customer needs on their strategic frontier and the willingness to create a new business model to address those needs.

The essence of such strategy innovation is the creation of new value for customers, which in turn creates new value and non-incremental growth opportunities for the corporation. Strategy innovation can take the form of new products and services, as in the classic examples of Federal Express, Starbucks, and Canon personal copiers. Or it can be the reconfiguration of traditional business models, the way Amazon, IKEA, and Wal-Mart grew their businesses.

The capacity for strategy innovation is within the capabilities of any organization. It does not require a resident genius or a wild-eyed creative maverick. It is not something that needs to be farmed out to expensive strategy consulting firms. Great new business opportunities can be created by willing middle managers working together in a creative environment, focused on the future and supported by top management.

Exploring strategic frontiers can be done with an ad hoc team or an ongoing department, but it all begins with the commitment of the CEO to create a new future.

Between vision and products – strategic frontiers

Not many companies have a corporate vision that clearly communicates a future goal or end-state that can effectively drive new business creation beyond the current business model. So most CEOs drive their commitment to growth by informing the new product development, marketing, or R&D departments that the goal is the creation of "innovative" new products. However, if these functions are given free rein to pursue innovative products without any strategic guidance, the products they develop are unlikely to fit in with the strategic direction of the company.

But outside the current business model of each company is a space that CEOs can use to provide future strategic direction for their companies -- a "strategic frontier" where the new growth potential for the organization is likely to be found.

A strategic frontier might be a new market. For example, John Deere made farm tractors, so for them, entering the homeowners' market for lawn mowers was a strategic frontier. A strategic frontier can be a new technology, which is why so many companies are currently pursuing future opportunities in genomics, nanotechnology, or smart materials. A strategic frontier can also be a new business model, such as franchising, strategic partnerships, or mass customization.

Rethinking the future

As a first step, the CEO should commit to the identification and exploration of the company's strategic frontiers. By defining a company's strategic frontier, the CEO and the senior management team clearly communicate their commitment to finding a corporate business model that can be distinctly different. This "difference from today" provides the power of strategic frontiers. It holds the promise of non-incremental growth and opportunities that help motivate and drive the organization forward. And it threatens laggards with the prospect of being left behind.

The identification of a strategic frontier gives a company an opportunity to reconsider what business it wants to be in. Often, this will broaden the definition of the company business; soft drink companies become beverage companies, game companies become entertainment companies, and railroad companies become transportation companies. Other times, a strategic frontier will tend to focus a business. For example, a specialty products company shifted its emphasis from selling primarily through retail stores to a focus on Internet sales. Once the company's definition of itself changes, new opportunities become more visible.

Most organizations resist discontinuous change, but in our experience, people support change that they help to create. Naming a strategic frontier changes the experience of change within a company because it invites the managers to participate in renewal. Asking them to help explore the new frontier gives them a greater sense of control over the company's destiny. They can help to mold and shape the new business opportunities that exist on the frontier. Therefore, the eventual implementation of the frontier opportunity will flow much more smoothly and rapidly when managers help design it.

Finally, strategic frontiers can improve corporate focus and efficiency. With a corporate-wide, central focus on a specific strategic frontier, the entire organization can align its operations and spend organizational resources efficiently on programs with a clear strategic intent.

Creativity and strategic frontiers

The pursuit of strategy innovation requires a different working environment and set of tools than a strategy of incremental improvement. Where quantitative analysis is usually the driving force in incremental strategic decisions, creativity is the driving force in strategy innovation. It is creativity that discovers a new way to deliver the value that customers want. Creativity is required to design a business model that will change the basis of competition in an industry (and also turn a profit). It even takes creativity just to determine how to explore a new strategic frontier – who to talk to and what questions to ask.

Identifying strategic frontiers

In presenting the concept of strategic frontiers recently to a gathering of 30 CEOs, we first invited each to speculate and write down what an attractive frontier for their business might be. Most were able to identify several different strategic frontiers that could help grow their businesses in very meaningful ways.

However, when the best strategic frontier for a company is not obvious, the CEO can select a team and initiate a project to identify frontier options. The team should first explore all areas of future growth potential in, and adjacent to, their industry, creating a long list of potential options. Identifying a breadth of strategic frontier options is more important than a depth of information in any one option. A team that is cross-functional, cross-hierarchical, and demographically diverse will provide the breadth of knowledge needed in the strategic frontier identification process.

Sources of strategic frontiers

Where does this new team find options for strategic frontiers for their company? We recommend a mix of both internal and external sources.

The search for strategic frontier options begins inside the company. Listed below are some internal sources to explore:

Management interviews – Talk to senior managers about their perspectives on growth potential for the company. What are the trends that they see taking place? What is their experience with the strengths of the company that could be leveraged in new ways?

Company vision – If your company has a vision that describes its ultimate success, then it may be useful in suggesting potential strategic frontiers that will lead there.

Corporate drawing boards – Ask around to find new or future projects currently on the drawing boards. R&D, Product Development, or Marketing may have early stage projects that could form the basis of a new strategic frontier.

Intranet survey – Employees may have good ideas to contribute. Those who work with customers, vendors, or suppliers are in a position to see changes, trends, and opportunities at very early stages. Create a website to collect these frontier suggestions.

The richest sources of strategic frontier opportunities exist outside the company. The team must spend time off-campus exploring the following external sources:

Trends search – Trends signify changes in dynamic markets and changes create opportunities. The early detection of a significant trend could make an ideal strategic frontier. Team members should immerse themselves in external data sources of trends – publications, Internet, and research companies.

Technology search – We live in a world where advances in technologies are constantly driving new market opportunities. Learning of the new technologies after they are commercialized is too late. The team should spend time exploring laboratories to learn what will be the next "leading edge" developments in materials, sciences, and electronics.

Business model search – Entrepreneurs and proactive corporate leaders are constantly experimenting with new business model components to help them meet customer needs in a better way. Search business publications and corporate profiles to learn what these innovative companies are doing. It could suggest a strategic frontier for your company to consider.

Outside experts – Consult people who make a living by studying or researching markets. Their different perspectives and in-depth views could suggest new strategic frontiers.

A strategic frontier success story

In the early 1990's the large format printer division of Hewlett-Packard was moved from San Diego to Barcelona, Spain. Rather than laying off those left behind, H-P leadership challenged them to identify a growth opportunity. A diverse team identified a small but growing frontier in the establishment of "home offices" where commuters were spending more time telecommuting to work. An exploration of that frontier found that these new home offices would need printers, but not the bulky ones found in most office complexes. The H-P San Diego group responded with the development of OfficeJet, the first multi- function, computer peripheral designed uniquely for the home office. The OfficeJet was a big success in the marketplace and it won *Business Week's* Product-of-the-Year.

Exploring strategic frontiers

Many experienced managers assume they know what it takes to be successful in a new strategic frontier. They make judgments about its potential before even exploring it, usually by viewing the frontier from their perspective of past experiences or through commonly held "conventional wisdom." However, such conventional wisdom tends to yield incremental thinking and incremental results, whether it is in current businesses or on a strategic frontier.

Strategy innovation requires creative wisdom, not conventional wisdom. Southwest Airlines used creative wisdom to develop a different business model from the rest of the industry, one that gained the majority of the profits in the industry over the past few years. Once a strategic frontier has been identified, exploring it with an open mind will yield insights for creative wisdom and strategy innovation.

To explore your strategic frontier, first establish a corporate team. Think of this team as your corporate reconnaissance team that you are sending on an exploratory adventure.

This team of eight to twelve members, usually middle-level to upper-level managers, can be either an ad hoc/part-time team or permanent/full-time team. It must be cross-functional and diverse, representing all of the major functional areas of the company. The most effective team members for this assignment are those who are open-minded, curious, and eager to collaborate with other team members. Their working environment during the frontier exploration should be creative, future-oriented, and marketplace-focused.

Most of the work of this team takes place outside the organization. The catalysts for innovative ideas come from new perspectives, new information, and new operating models – all of which must be found outside the company. It is our experience that adopting an external perspective can be a significant challenge for many teams when the current corporate paradigm and working assumptions are very strong and ingrained. We refer to this ingrained thinking as "corporate gravity."

It can be a force so strong that team members cannot overcome it to explore new ways of thinking about customers, products, markets, and business models. In addition to getting outside perspectives, another way to overcome the force of corporate gravity is to populate the frontier team with people who are relatively new to the company (especially managers from other industries) or even include several people who are not employees.

The goal of this frontier team is to identify a portfolio of innovative new business opportunities that exist on the strategic frontier. The opportunities will include both shorter-term and longer-term opportunities, smaller opportunities and larger ones, as well as lower-risk opportunities and riskier ones. The opportunities will be in conceptual form with no quantitative information provided at this point. It will be the responsibility of another, more qualified group with quantitative skills (strategic planners, business development) to develop a detailed business plan and determine its profitability and attractiveness to the company.

Moen successfully explores a frontier

Ten years ago, we helped a team from Moen identify the strategic frontier that helped drive the growth and transformation of that company. Moen entered the kitchen and bath faucet market in the 1950s with the introduction of the world's first single-handled faucet. Selling quality faucets to plumbing supply houses was the core of their successful business model for over forty years. However, when homeowners began to make their faucet decisions at Home Depot in the early 1990s, Moen's business model began to lose its momentum. Moen needed new growth through strategy innovation.

Without a specific strategic frontier to pursue, a diverse Moen team was formed to first search for frontier options. They hired a cultural anthropologist to visit homeowners and understand the role that water played in their lives. They then conducted a thought leader panel, consisting of six experts in a variety of different disciplines (retail sales, demography, government water regulation, etc.). Over the course of two days, the experts worked with the Moen team to help understand trends in their areas of expertise and a future scenario that Moen could use to help chart their future. Through these two exploratory efforts, the Moen team identified "water filtration" as their strategic frontier. The company later explored that strategic frontier and decided to enter it with the introduction of the world's first filtering faucet, called PureTouch. The PureTouch faucet won awards for innovation but, more importantly, it gave Moen the focus and momentum it needed to significantly grow their business.

The Discovery Process



Strategic frontiers are a starting point for pursuing new business opportunities that can lead to strategy innovation and corporate growth. We suggest a five-phase process for a corporate team to use in identifying these new business opportunities:

1. **Staging** – In this phase, the Discovery Team is selected, key roles are identified, the objectives of the initiative are established, and the team is prepared for the process.
2. **Aligning** – The Discovery Team and senior management align themselves on the focus and scope of the initiative, agreeing on the “strategic frontier(s)” to be explored.
3. **Exploring** – The goal of this phase is the collection of new insights on the strategic frontier that can form the basis of new, value-producing business opportunities in the future. Depending on the strategic frontier and the scope of the initiative, teams will explore insights related to different exploration “vectors,” including Customer Value, Market Dynamics, and/or Business Model Innovation.
4. **Creating** – Using the new insights gained, the Discovery Team will create, refine, and develop a portfolio of new business opportunities for the future.
5. **Mapping** – In this final phase, the team will create a strategic roadmap outlining key events, trends, market discontinuities, and milestones to move the company into its new strategic future.

Discovering value on the strategic frontier

Nearly all strategic frontier teams hope that customers will tell them what products they always wanted to have or that marketplace experts will define the winning products for the future. However, most customers are not able to articulate what innovative products will meet their needs and many market experts focus only on larger trends, not specific products.

The focus of the frontier team must be the pursuit and understanding of value. In order to be able to define innovative new business opportunities, the frontier team must understand what has value on the strategic frontier. What is it that customers or potential customers really value? What technologies are emerging that can deliver new value? What are the market conditions that can create value? How will the definition or perception of value change over time? What forces or factors could have an unexpected impact on value on this frontier?

Three exploration paths on the strategic frontier

Strategic frontiers, because they are previously-unexplored areas, can challenge a frontier team on where to start exploring. The team will begin by examining what it already knows in these areas, what it does not know, and who it wants to talk to in order to further understand value on the strategic frontier. We recommend that this exploration of value take place on three different paths on the strategic frontier – customer value, market dynamics, and business model innovation.

Customer value. In the customer value path, the team will focus on customers and potential customers on that strategic frontier.

While questions can center on their opinions about products and services, take time to understand who the customers are and what they really value. What is important to them? To what do they aspire? What drives their decisions? What forces do they perceive? What trade-offs do they frequently address?

What obstacles do they encounter? How do they describe success? What excites them? What frustrates them?

The conventional practice is to conduct interviews or focus group discussions with customers. Instead, try gathering this information in a way that is different from what you have ever done before. Skip the focus group and visit customers in their homes, noting the environment in which they use products and services. Or consider having a professional with a different perspective -- such as a psychologist or cultural anthropologist -- do the interviewing. Such professionals may interpret the customers' needs in a way that will provide valuable new insights to you.

Market dynamics. The second exploration path on a strategic frontier is market dynamics. This is a study in foresight, attempting to better understand the forces and factors that will change a market over time. What are the trends on the strategic frontier and how might they change in the future? What new technologies are likely to emerge from the laboratory in the near future and what impact might they have on current markets? What events or conditions could cause a major discontinuity in the steady evolution of markets? How will the strategies of the current competitors in a market make them more or less of a factor in the future?

These are questions that must be answered by people who spend a lot of time studying or researching markets. We use a process we call Thought Leader Panels. We invite five or six experts that represent different aspects of a strategic frontier. For two days, this group would interact with each other and with team members to help forge a proprietary understanding of an emerging future on that frontier.

Business model innovation. The third path for exploration is business model innovation. Besides addressing customer needs or market changes, companies can create value on a strategic frontier by creating a new, more efficient business model. How can your corporate structure or value chain be reconfigured to dramatically streamline it and significantly lower your overhead allocation? How can the company leverage the Internet to increase value for your customers? Can customers play more of a role in the transaction in exchange for a lower cost?

Researching published information and benchmarking innovative companies are the two primary ways to better understand business model innovations. The frontier team can also consider working with venture capitalists, strategy consultants, or business professors to determine how your company could adjust or reconfigure elements of your current business model to create new value.

Armed with new insights on value across all three paths, the team then uses this information to create concepts of new business opportunities on that strategic frontier. The goal is to first create a large quantity and a large variety of new opportunities that are to be found on the frontier, without taking time to evaluate the ideas.

Following this initial development, the team will screen and refine the 10-15 best opportunities that they will present back to senior management, along with a strategic roadmap that captures the key insights gained about the future of that frontier. Senior management will review the resulting portfolio of new business opportunities and determine which will be advanced to business design and evaluation.

Getting to the entrepreneurial growth opportunities for an organization requires strategy innovation, which starts with the identification of strategic frontiers.

Learn more: [What is a Strategic Frontier?](#)

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Contact Doug and Bob at growth@strategyinnovationgroup.com or by phone at 781.784.7841

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