

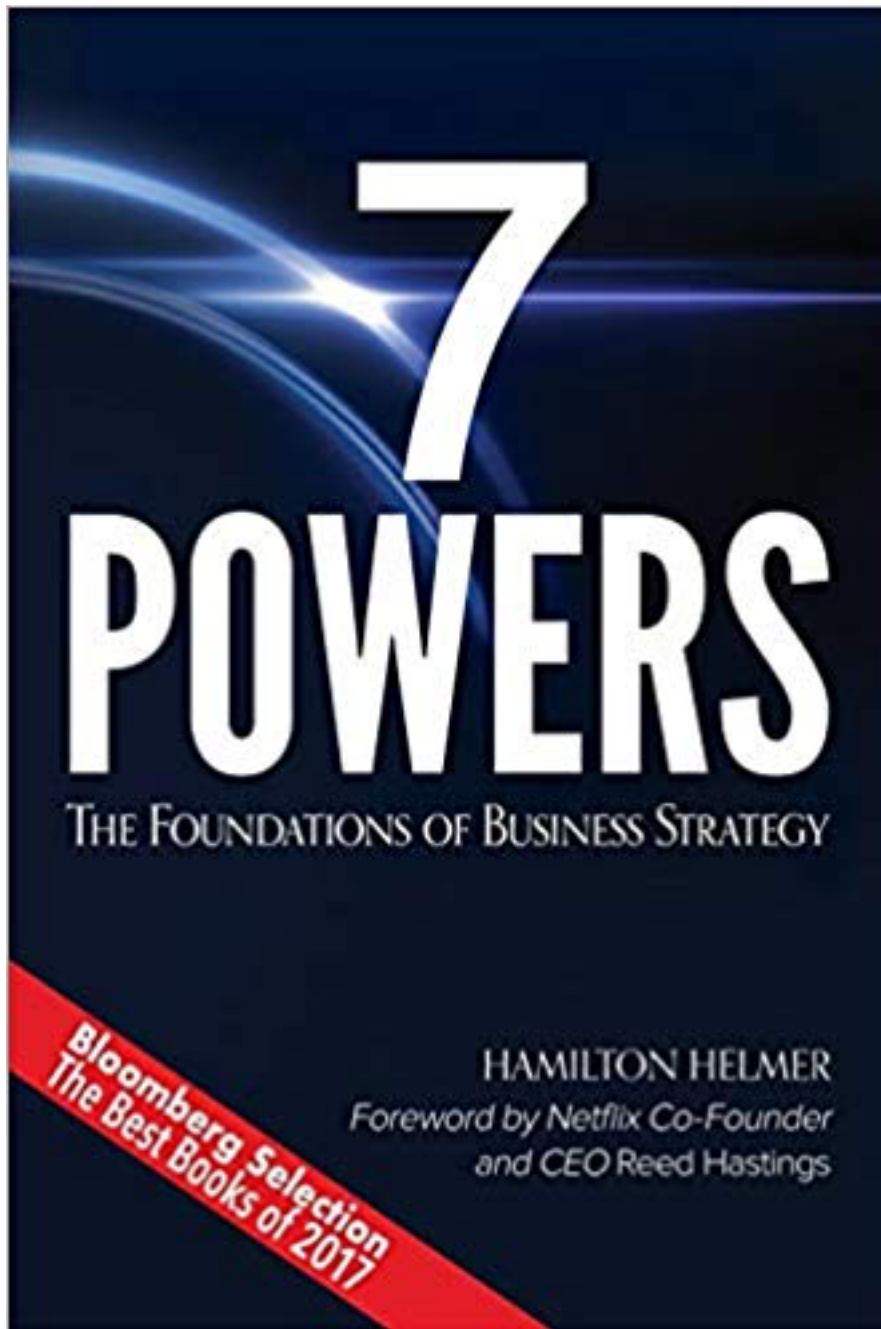
#90: 7 Powers

#books

#books/rating/★★★★

#books/type/non-fiction

#books/date/2019/04



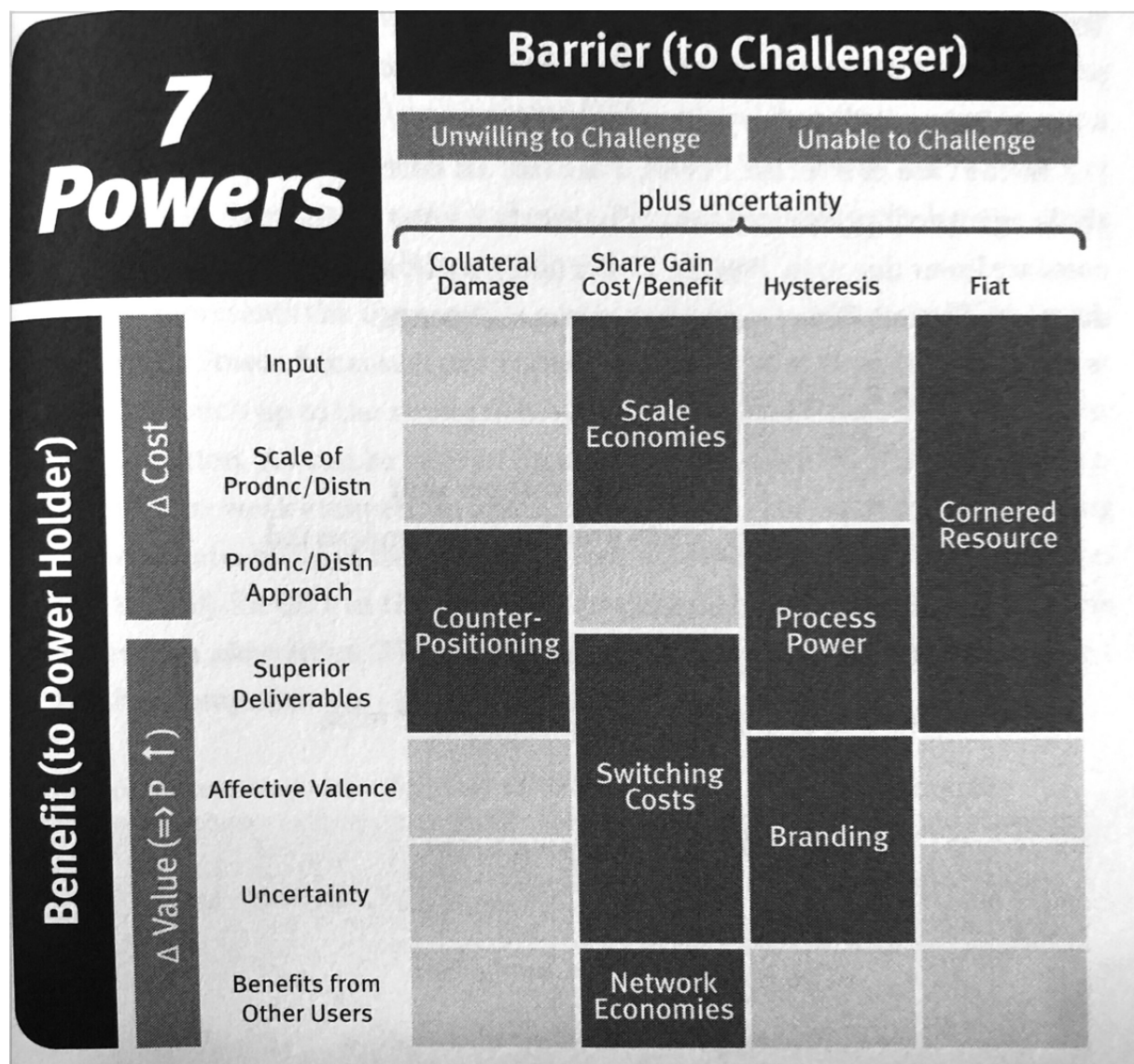
Overview

A good reference manual for assessing the strategic position and capabilities of a firm. The 7 Powers framework is a nice tool to add to one's toolbox in that it aims to be "simple but

not simplistic". It's a model that you can fit into your head and apply to a variety of contexts.

At its core, strategy, "is a route to continuing Power in significant markets," where Power is "the set of conditions creating the potential for persistent differential returns." By using the framework, you can evaluate whether a firm has a "route to continuing Power," and if not, what can be done to put it on such a path.

Worth another read to firm up some of the concepts and definitions.



Book Notes

Foreword

- "Execution alone will not ensure success...IBM's execution was flawless." (pg. VIII)
- "Managing through context, not control" - a pillar of Netflix culture

Introduction

- "Chance only favors the prepared mind" - Louis Pasteur
- "A Strategy framework must be '**simple but not simplistic**'." (pg. 1)
- Strategy - the study of fundamental determinants of potential business value
 - *Statics* - Being there
 - *Dynamics* - Getting there
- Power - the set of conditions creating the potential for persistent differential returns
- "**Power is the core concept of Strategy and of this book, too.**" (pg. 5)
- The mantra: **strategy** is a route to continuing Power in significant markets.
- "By adopting a heterodox, narrower view of Strategy and strategy, we gain considerable conceptual clarity and substantially enhance the usefulness of the concepts. In this instance, less is more." (pg. 6)
- "If we hold the ultimate normative benchmark in business to be value creation, then Game Theory alone is not sufficiently constrained to provide a normative framework for Strategy." (pg. 6)
- $\text{Potential Value} = [\text{Market Scale}] * [\text{Power}]$
- "As a strategist, my advise is Always look to the Barrier first"; these are more common than Benefits, which are relatively more plentiful (pg. 10)
- "If you combine a poor business with a good manager, it is not the business that loses its reputation." – Warren Buffett (pg. 11)

PART 1 - STRATEGY STATICS

CHAPTER 1 - SCALE ECONOMICS

- On Netflix and streaming...

"Streaming is strategically separate business from DVDs by mail. By that I mean that the drivers of Power in each are largely orthogonal: different industry economics and different potential competitors." (pg. 20)
- Scale Economies - A business in which per unit cost declines as production volume increases. (pg. 26)

- Drivers of scale economies:
 1. Volume/area relationships (e.g. warehouses)
 2. Distribution network density (e.g. UPS)
 3. Learning economies (e.g. Google search, etc.)
 4. Purchasing economies (Wal-Mart)

CHAPTER 2 - NETWORK ECONOMIES

- *Network Economies* - "A business in which the value realized by a customer increases as the installed base increases." (pg. 38)
- "When a manager with a reputation for brilliance tackles a business with a reputation for bad economics, the reputation of the business remains intact." – Warren Buffett (pg. 41)

CHAPTER 3 - COUNTER-POSITIONING

- Counter-Positioning - "A newcomer adopts a new, superior business model which the incumbent does not mimic due to anticipated damage to their existing business." (pg. 49)
- "The only bet worthwhile for a challenger is one in which even if the incumbent plays its best game, it can be taken off the board." (pg. 61)

CHAPTER 4 - SWITCHING COSTS

- Switching Costs - "The value loss expected by a customer that would be incurred from switching to an alternate supplier for additional purchases." (pg. 71)

CHAPTER 5 - BRANDING

CHAPTER 6 - CORNERED RESOURCE

- Cornered Resource - "Preferential access at attractive terms to a coveted asset that can independently enhance value." (pg. 100)

CHAPTER 7 - PROCESS POWER

- Process Power - "Embedded company organization and activity sets which enable lower costs and/or superior product, and which can be matched only by an extended commitment." (pg. 116)
- "Operational excellence—while important, hard to achieve and worthy of management

mind share—is not sufficient to gain competitive advantage.” (pg. 117)

PART 2 - STRATEGY DYNAMICS

CHAPTER 8 - THE PATH TO POWER

- *Stalking horse* - a figure that tests a concept with someone or mounts a challenge against someone on behalf of an anonymous third party.([wikipedia](#))
- “Does Strategy matter to strategy? Yes, it can matter, but only if it works to guide you toward Power in these decisive formative moments.” (pg. 140)
- “Power arrives only on the heels of invention. If you want your business to create value, then action and creativity must come foremost.” (pg. 140)

CHAPTER 9 - POWER PROGRESSION

- Operation Crush - Andy Grove’s “audacious frontal assault in sales and marketing” to combat competition (pg. 157)
- “The one sentence story of Intel is a single design win, then a decade and a half of very high Switching Costs, then Scale Economies.” (pg. 159)
- “Often in the explosive growth stage, companies will exhibit quite attractive financials... Unfortunately, if a company has not established Power, competitive arbitrage will catch up as soon as growth slows; fundamentals will assert themselves, and the favorable early returns will prove fleeting.” (pg. 162)

Appendix 9.2: A graphical representation of the tools of Power Dynamics and their relationship.

