

# Three Types Of Strategies You Need To Succeed



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Leadership Strategy



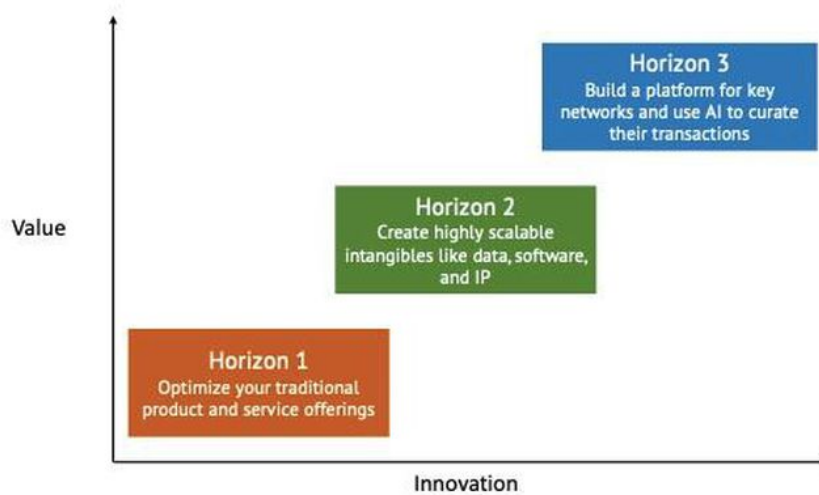
Which horizon is your firm headed towards? GETTY

The industrial age tricked us. It taught us that the path to success was to take a business, run its operations with absolute efficiency, and grow it to take advantage of scale effects. This plan worked well... until the advent of digital technologies – cloud, machines and data – which enabled companies to operate and grow in vastly different and more efficient ways. Suddenly, companies could produce intangible goods, like software, which could be sold infinitely, and

networks which could reinforce growth and value or zero or near zero marginal cost. With this change, companies that offered goods and services were at an extreme disadvantage as investor dollars, customers, and employees started streaming to digital unicorns and trillion-dollar tech giants. Unfortunately, in the face of this challenge most leaders of product and service legacy firms are doubling down on their current business models by trying to improve operations, cutting costs and updating products. But it's not working. They need a new path forward, one that addresses three distinct horizons of innovation.

Since the dawn of the industrial age, companies have competed on a level playing field, everyone either made physical goods or offered services. What differentiated the good from the great companies was their execution. In this world of physicality, operating efficiently was the key differentiator. However, with the advent of the software, high speed communications, AI and the internet, there are new horizons of innovation, which bring new competitive advantages to those that embrace them.

- **Innovation Horizon 1 (H1):** Identify ways to do what you are already doing, but faster, better, and cheaper. For most companies, that means improving the way they make and sell physical products and human services but continuing to offer products through one-time transactions.
- **Innovation Horizon 2 (H2):** Create products and services that leverage scalable digital assets like data, patents, and software. Companies that are looking to Horizon 2 are exploring how to monetize data and capitalize on unique knowledge and create recurring revenue with subscription business models.
- **Innovation Horizon 3 (H3):** Build a new business model that is best defined as a multi-sided platform. Companies that are looking to Horizon 3 tap into networks that complement their core services and use machine learning and data to facilitate transactions among that network and the network bears the cost of growth and ownership.



Leaders must think about strategy in three horizons AIMATTERS

Today, the savviest leaders are figuring out not just the H1 plays for their organizations, but also the H2 and H3 opportunities that will enable their organization to grow and compete. Obviously operations and execution in Horizon 1 cannot be ignored, but leaders need to push themselves out of historical industry and operating patterns to protect their firms from innovators who will gobble up the most valuable pieces of each industry—the highly scalable Intellectual capital, software and networks—and leave the dregs: slow growth, low margins, and eroding market values, for firms that remain stuck in a legacy mindset.

Now it is not to say that only companies “born” into digital and network products can compete. Plenty of legacy companies have begun to create their three-horizon strategies with a combination of build, buy, and partner.

1. General Motors has [invested in Cruise](#), its autonomous car unit, and partnered with Softbank and Honda in order to shift from offering only physical cars, to software and platform-based mobility services that will compete with Uber and Lyft. In the retail space, Walmart is working hard on its Horizon 2 strategy with leveraging capability from Jet.com to build out its digital sales.
2. Many software companies are seeing the benefit of Horizon 3 platforms. For example, Salesforce has opened up market places that include their

products and services as well as those of third-party providers to increase the value of their products. Microsoft, Apple, and Google have all seen the benefits of creating openness in their platforms for external providers as well.

3. Amazon has gone the opposite direction, creating a Horizon 1 business in the manufacture and sale of its own hardware – Alexa. However, this strategy complements its digital and platform strategies well, because Alexa will create data that it can use in the sale of more products and services in its Horizon 3 marketplace.

You may be looking at your own physical product or services company and wondering how well you're doing with a three-horizon strategy. Like many in the market, you may have only a Horizon 1 plan that will leave you operating an uncompetitive business, just a little bit better. Luckily there are some common paths forward that we can recommend.

- **To build a Horizon 1 strategy:** Continue improving operations as you have always done but take care that you are also building in the internal infrastructure, capabilities and leadership skills to support more ambitious innovations. This means paying attention to the data created by customers, suppliers and even employees' interactions and ensuring that it is captured and usable. Data is the lifeblood of machine learning and every company has proprietary data that it needs to store, mine and use for its future.
- **To build a Horizon 2 strategy:** Identify ways to create more scalable digital offerings and subscription offerings This may include expanding effectively to digital channels, selling or leasing data, or developing software. The key is to home in on the knowledge that your firm has, rather than the products you can produce or the services you can offer. For example, Stitch Fix and Rent the Runway have shifted a traditional product (clothing) to an online channel and a subscription basis.
- **To build a Horizon 3 strategy:** Tap into your networks and find ways to bring them together in an online platform. Social media and forums are a

simple way to kick off these efforts. Find ways to facilitate value creation by the network—whether they offer products and services, information, reviews, or new product ideas. Amazon is an obvious example, as they opened their online store to other retailers through their Marketplace, but networks are popping up in companies of all size and in all industries.

The bottom line, every company needs to have a strategy for all three horizons: continue to optimize the core business, but also create subscription-based digital offerings and build a digital platform with network effect. Failing to do so will mean yielding market value, customers, and employees to companies who do.

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