

## T Building the *Verbs* of Strategy on the *Nouns* of a Business | By Mark L. Frigo

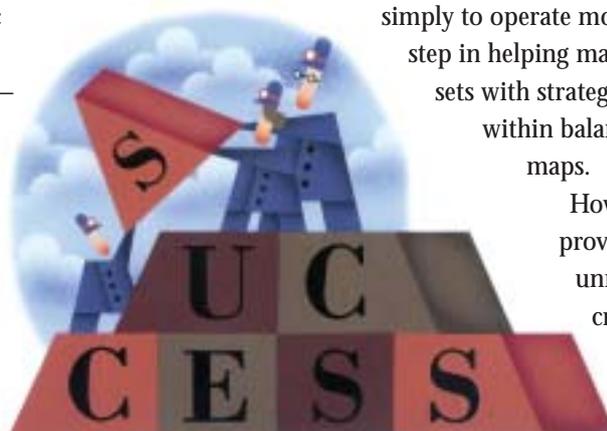
Time and again, this column has mentioned the power of Genuine Assets in your business strategy. Here's another perspective on this power, examined first-hand at recent executive retreats, and valuable insight for company management everywhere. It shows the thinking of why the activities of a company, its "verbs," must be defended by employing the strengths of the organization, its "nouns."

Competition is relentless, and real strategic advantages are short-lived. Competitors can copy any great tenet of business strategy. They will copy your activities as they target the same customers and attempt to dominate your markets in an all-out battle for shareholder returns. They will attempt to out-innovate, out-operate, and out-brand your best activities. If valuable, they will mimic your partnering activities and mirror your options strategies. If successful, no activity—no verb—will go without being copied by others.

So how are competitive advantages achieved? By securing your strategic activities with things that can't be copied—the nouns of the business—the Genuine Assets. In other words, a company can innovate, but they can't innovate the way you do without your patents—a true Genuine Asset. They may attempt to brand, but they can't occupy that valuable mental customer connection without your existing brand equity.

The concept of Genuine Assets was discussed in the November 2000 issue of *Strategic Finance* by Joel Litman ("Genuine Assets: Building Blocks of Strategy and Competitive Advantage") and has since been enhanced with significantly more research and application within the hierarchy of Return Driven Strategy. Genuine Assets are the tangible and intangible traits and resources of an organization that make it unique. They include unique relationships, intellectual capital, unique processes, management expertise, and financing. For companies using a balanced scorecard framework, I have seen cases where calling attention to Genuine Assets and considering how they could be leveraged to innovate offerings, or simply to operate more effectively, is a critical step in helping management connect these assets with strategic activities and objectives within balanced scorecard strategy maps.

How Genuine Assets can improve your ability to fulfill unmet customer need in increasing market segments is the key to understanding their value. When considering Genuine Assets in



the strategy development process, it's often necessary to impose a "reality check." How unique are they? In various management retreats, I've seen what management considers Genuine Assets turn out to be something every other competitor has or can easily obtain.

In a recent strategy development session at a corporate management retreat, we all realized the value of understanding Genuine Assets. We identified key assets that weren't currently being leveraged to create financial value. What's the value of those Genuine Assets? It can only be measured by the cash flow results that the competitive advantage allows the company to enjoy.

Management identified initiatives that had failed to produce desired returns. While the *activities* were in the right mind-set, there was no distinguishing feature of those activities that made them different from others. Products and services were commoditized as all competitors raced for the same goal without any competitive advantage to drive them ahead. In other words, *no* Genuine Assets were being employed in those activities. It's clear that unless new Genuine Assets can be found to energize a competitive advantage, those initiatives must be reconsidered, re-adjusted, redefined, or even eliminated.

- One initiative considered by management involved targeting a customer segment with "full service" based on the size and growth potential of the segment without considering what unique assets would give the company any competitive advantage.

- Another company had embarked on an initiative to sell financial services to a large, desirable customer niche. There were no discern-

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able relationships, employees, or other reasons, however, that this initiative could be any different from other companies' attack of this niche. Targeting a cash-rich customer in a growing market segment is the right activity, but it needs to include a way to build competitive advantage.

Where did this management have the highest internal rates of return? On projects where Genuine Assets had been built and leveraged. For instance:

- A real estate project with the right mix of financing expertise, key relationships, and the right property generated huge financial returns.

- Management realized that their strong customer relationships with XYZ company, a true Genuine Asset, had allowed them to learn more about the customer's needs so they could innovate offerings (a tenet of great strategy). The financial results were extraordinary.

Genuine Assets are clearly the way to "un-commoditize" a strategic initiative.

During another executive retreat, we identified Genuine Assets that weren't being leveraged but could be. They included:

- Customer relationships that were second-to-none but weren't being fully leveraged,

- Deep pockets and access to capital that remained untapped,
- Strong regional brand equity that wasn't growing, and
- Unexploited synergies between business units.

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The potential initiatives included new offerings to existing customers that targeted unmet needs and accessing lines of capital few competitors could muster in this economy. Information technology also spurred ideas for other ways to gain share of wallet. All this activity focused on maximizing financial value, in an ethical manner, and serving customers' unmet needs.

Strategy based on activities alone is folly. Genuine Assets not leveraged are worthless, and those underleveraged leave money on the table. Once you grasp the concept, the value becomes obvious. Energize your activities with your Genuine Assets and succeed. ■

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