

Brand and Business strategy development to create net value

Application of a structured dynamic scenario methodology to
develop robust strategy

VANGUARD BRAND MANAGEMENT

London, July 2000

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Introduction

Vast resources are being invested in establishing new b2b and b2c businesses in both the e- and m-commerce areas. There are indications of a large value-creation potential for the right concept at the right time. However, difficult births and failures are increasingly common.

Vanguard is a professional strategy consultancy providing services to new and young companies at the vanguard of the new economy.

We assist with the development of brand-driven business strategy to maximise value. In particular, we develop sophisticated computerised dynamic¹ business models to facilitate strategy simulation and the development of robust business and brand strategies.

The application of this approach leads to several real and valuable results for company and business development. Notably, these are reduced risk, optimised revenue generation, and managerial insights on the exact dynamics of the business and its environment.

What follows is, first, an examination of the particular challenges facing new-economy businesses, and then, how Vanguard can assist management in the development of robust strategies under these circumstances.

¹ based on the application of the System Dynamics methodology

The particular 'new economy' challenges

Firstly, unlike with the old economy, there is a manifest lack of basic facts and experience:

1. Business projections are to a high degree fact-free and based on implicit assumptions
 - few useful facts are available or sufficiently up to date
 - the underlying assumptions about the market and the business are neither rigorously formulated nor explicitly articulated
2. Managers, with few exceptions, have limited experience either in the new-economy environment or in the actual area of business (as this is a new economy) – the implications of which are:
 - lack of clarity in identifying the key drivers of value for the business – in the short-term and in the long-term
 - management decisions are therefore made intuitively, with little factual support for anticipated outcomes
 - business models and mental models from the old economy do not necessarily work in the new economy. For example, the old-economy 'enticing' proposition is entirely different from the new-economy 'problem-solving' proposition.

Secondly, there are several additional complications associated with operating in the new economy, which management must be able to tackle:

1. The market and business environments in the new economy are highly dynamic:
 - business and market behaviour are characterised by rapid fluctuations and higher amplitudes (higher rates and higher variations). This may work in favour of or against the company – for example, rapid growth or decline in demand, generated by 'viral' word-of-mouth (driven by the combination of high speed and wide reach of communication and transactions through e-mail, the net, and WAP)
 - calibration of the business system and delivery model to handle these dynamics will be critical for success.

2. The degree of complexity of the new-economy business is often underestimated. For example:
 - new, un-proven or, at best, very complex technological solutions, which are frequently handled by external parties
 - new ways of developing and integrating complementary skills and competencies
 - global operations across a range of cultures, in a way that is meaningful to customers
 - building competitive advantages when competition may emerge from unexpected sources
3. Success will come from the right integration of a winning concept and robust execution – an innovative business concept alone does not suffice;
 - the management team must have detailed plans for how the concept will satisfy real and latent demand, and how the proposed execution will focus efforts on issues critical to a satisfactory revenue stream – even under various market assumptions. They must demonstrate an understanding of trade-offs between incremental improvements in, for example, technological capabilities, versus the real benefits which such improvements will bring to the business
 - the company must 'earn' preferential choice of customers and stakeholders through proper execution of a solid strategy – choice and business do not come automatically or just through advertising.

Evidence of profitability

Sentiment is changing. Investors are increasingly demanding evidence demonstrating how and when the businesses will produce profits. However, with few facts and little experience, most 'classic' approaches cannot be used to articulate such plans in a meaningful way to the financial community.

In the networked economy, managers of Internet companies (whether start-ups or extensions of offline businesses) are forced to make informed decisions without any real capacity to understand what is going on in the markets (c.f. Exhibit 1).

According to the UK's leading expert on the subject, Professor Kim Warren, a teaching fellow at London Business School, this is where the real strength of dynamic-based strategy lies: "By modelling brand dynamics, we can understand the process that governs what happens to players like Boo.com and Cisco Systems. As such, we can predict what's going to happen, and so, by understanding the process, we draw closer to controlling it, rather than being controlled by it".

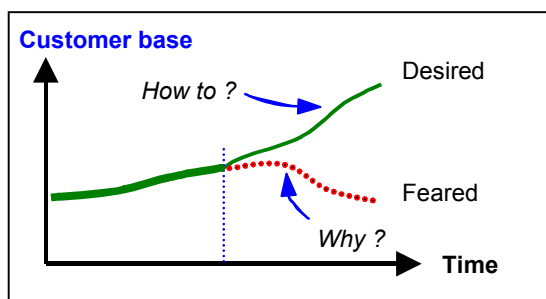


Exhibit 1 – Dynamic strategy can generate insights on feared decline and drivers of growth

Developing brand and business strategy

As in any situation, assessing the risks and evaluating the successful sustainability of initiatives requires rigorous managerial analysis of critical strategic issues.

Accordingly, for new-economy companies, strategy development must necessarily incorporate the following core components:

1. Applying a holistic and clear branding perspective to the entire business. Vanguard Brand Management defines the brand as the total set of resources inside and outside the business that may influence choice of the proposition by all stakeholders, not just customers (Resources are business components, such as skills, people, number of customers, money, infrastructure, etc.)
 - choice is, or will be, vast, and having a strong brand is essential for securing a disproportionate share of choice
 - the brand is what binds together the many intangible components present in new-economy companies
 - the brand is likely to become eventually the most valuable component of any successful company in the new economy.

When choices become vast, the only things that will matter are brand names”, Michael Eisner, CEO, Disney)

“Amazon.com will sell its fixed assets to focus on managing its brand, becoming ‘the Coca-Cola of the web.’” (Jeff Bezos, CEO, Amazon. FT, 4 April, 2000)

2. Ensuring that the business and market dynamics are captured and incorporated from a time-based perspective – i.e. developing dynamically-informed brand and business strategy:
 - applying a resource-based view of the business and its environment, to assess the relative health of the business system and to identify what drives increases or depletion of resources

- analysing strategic scenarios using sophisticated dynamic simulation models to identify key drivers of value – static spreadsheet analyses and business plans are not appropriate in this environment
- testing a broad range of outcomes of strategies before making decisions and committing resources and investments

3. Establishing appropriate managerial practices. For example:

- capturing critical intelligence on all performance levels, and ensuring that it is decoded for learning and used proactively to respond to demand and thus build a sustainable business
- developing shared mental models (by debating assumptions and proposed actions through scenario testing), to develop consensus within the management team and understanding by investors (e.g. see Exhibit 2).

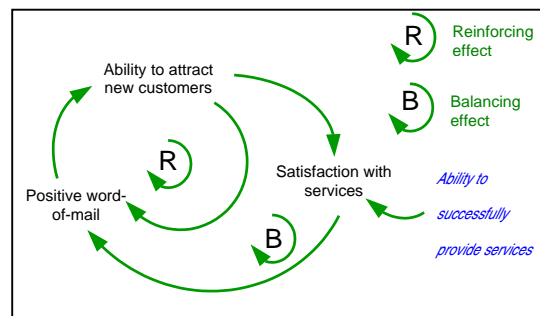


Exhibit 2 – The ability to attract new customers drives positive word of mouth (via e-mail in this case) that in turn builds the ability to attract new customers. This is a virtuous, reinforcing loop. However, unless the ability to deliver services is managed, satisfaction levels will fall as the new customer flow increases. This results in less favourable word of mouth, cutting the ability to attract further customers. This balancing loop represents a limit to growth. Managers must recognise these limits to growth if they are to avoid potentially damaging growth – and overshoot behaviour witnessed by many companies in the past.

Taking the right steps

Those players who take early steps to apply these practices should stand a better chance of overcoming the difficulties presented by the lack of facts and experience in a highly dynamic market.

However, doing so may also produce a picture of the future less rosy than what was perhaps hoped for.

Jeremy Holland, Managing Director at DCFor.com² (a Vanguard client) breaks down the benefits of Vanguard's approach into three main areas.

Firstly, the team identified where the greatest value to DCfor.com business would come from. By breaking down different kinds of dotcoms to level of development, funding, type of finance and corresponding service requirements, DCfor.com was able to focus on the most viable and practical business propositions.

Secondly, analysis revealed the need to balance the recruitment of business partners with the size and culture of the dotcoms. Both sides needed to fit, but by working through different kinds of scenarios, the Vanguard team was able to identify both the benefits and disadvantages of particular kinds of matches.

Finally, Vanguard Brand Management pinpointed the level of business needed to grow DCfor.com at a rate appropriate to its own expansion plans. This meant targeting the right size and scale of both the dotcom business and the supplier partner, in order to meet expectations of growth. Vanguard also identified where cash-flow constraints could undermine the efficacy of the business, and then what Holland needed to do to find a way around the problems. However, according to Holland, the most valuable contribution was the attitude taken by Vanguard: *"This is not just about a system. It's about the people behind the system. They force you to stop and think about what you're doing, which cuts right across the rapid-roll-out mentality of dotcoms and forces you to think about what's really going to work".*

² DCFor.com is a marketplace matching the needs of dotcoms with professional service providers

What Vanguard does

How Vanguard Brand Management can help to create value

Farsighted business managers and a new breed of analysts are currently beginning to use what is called dynamic modelling to test strategic scenarios. What is more, by mapping out the risks and dangers and then by breaking them down and thinking them through, managers have found they are making better, more informed decisions. Vanguard provides professional services tailored to each client. Our approach is well-suited to either b2b and b2c businesses at any development stage, from start-ups to existing operations.

Vanguard Brand Management acts as a partner in strategy and business development and assists management with the development of robust strategies by integrating and leveraging three key areas of expertise:

1. Branding and brand intelligence
2. Dynamic business simulation model development and analysis
3. Strategy development.

"I was quite surprised by what difference Vanguard was able to make to us. I thought we were very focused on our product, on our clients and how we could meet their needs. But through the application of the Vanguard approach, we then discovered multiple marketing streams as opposed to just the one or two we had been thinking about. This effectively meant uncovering an entirely new segment of customers, which we hadn't even thought about. That's a valuable discovery prior to going to market."

Jeremy Holland, Managing Director, DCFor.com

Branding and brand intelligence include elements such as:

1. Earning preferential choice by all stakeholders (customers, employees, partners, and investors).
This means:
 - providing a relevant and distinctive value proposition
 - managing core resources in the business system
 - developing and managing genuinely two-way customer relationships
2. Quantifying and managing the three axes of brand management
 - generating sustainable choice
 - justifying a price premium
 - developing extension options
3. Establishing appropriate intelligence
 - identifying and quantifying early lead indicators in the business
 - developing leading-edge customised intelligence systems to understand the market and identify valuable customer segments
 - establishing appropriate intelligence and research sources
4. Integrating all of the above points for brand strategy development to articulate the brand:
 - essence
 - objectives
 - positioning
 - differentiation

Dynamic business simulation model development and analysis include elements such as:

1. Articulating the whole business model in detail
2. Explicitly articulating assumptions about:
 - the market and the business (stocks or resource variables)
 - the influencing factors (management levers) within the control of the management
 - the relative performance of the businessThese assumptions are articulated in one of three ways:
 - fixed point estimates
 - as a time-based evolution
 - relationships between variables
3. Articulating and quantifying causalities and feedback loops within the business system
4. Developing a dynamic simulation model of the business
 - calibration
 - sensitivity analysis
5. Testing scenarios and analysing results based on the underlying dynamics and causalities
6. Extracting insights on the dynamics of the business and the environment, and respective requirements for success.

Strategy development include elements such as:

1. Identifying and assessing drivers of synergy and dis-synergy in the business
 - optimal sequencing of resource-building, e.g. delivery capabilities first and then advertising or vice versa
 - potency of management levers available, relative to cost of implementation
2. Identifying and assessing options available in the business
 - evaluating options for building stakeholder choice, notably customer or consumer choice, using the Vanguard choice model
 - assessing the relative health of resources versus speed of change in the business environment
3. Exploring growth options
 - identifying and analysing limits to growth and how to address them
 - outlining how to build relevant growth resources

4. Assessing strategic strengths of the current business model, revenue model and branding model
5. Conducting management workshops on system dynamics and on the results from the simulation model
 - clear view on shared managerial objectives
 - effective communication.

Vanguard engagement terms

Our work can be structured to suit any particular client demands or issues.

Vanguard is equally well suited to b2b and b2c businesses.

For example, we can propose a Dynamic Strategy Review covering the main aspects outlined above, which takes approximately 4-5 weeks to complete. For this we deliver:

1. A strategy summary presentation pack of approximately 50 pages, outlining critical issues and key insights from the simulation analysis. It also contains extensive articulation of the underlying assumptions
2. The developed strategy simulation model
3. A classic Excel financial spreadsheet, with direct links to the results of the simulation model, represented in an easy-to-understand format. This may be customised to the current business planning systems for the business.

1. Kick-off, launch of initiative
2. Business description and articulation
3. Simulation model development
4. Strategy development and scenario analysis
5. Hand-over management workshop.

Vanguard can work on either, or a combination of, fees and equity.

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The work process typically consists of five phases (see Exhibit 3):