



RULE BREAKING STRATEGY

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Rule Breaking Strategy

Break the Rules of the Industry

Same Game – New Rules

Success need not be a question of fighting the competition in the usual way or inventing a new market. For by far the greatest number of businesses, it pays more to develop new rules within the industry where they already operate. Rule-Breaking Strategy is about how your business can win a new, better position in the industry by challenging – perhaps even breaking – the unwritten rules.

Learn from Others

For businesses like Zipcar, Skype, Triumph, Ryanair and Louis Nielsen, this method has succeeded. They could see the virtue of turning things upside down and doing something completely unexpected. Each one, with their own winning strategy, rebelled against the unwritten rules characteristic of their sector and turned the market to their advantage.

Good reading!
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Introduction

Firms today are finding that their business models are under pressure; more now than just a few years back. No relief seems to be at hand. On the contrary, top leaders expect technological development and increasing demands from customers to place completely different demands on most present firms' business models. This tendency indicates that in the future there will be less space available to those businesses that have 'lent' their business models from the competition. In other words, the path will narrow for those who stick to a strategy which keeps to the 'beaten track'.

Rule breaking means defying the rules in force, choosing new paths; shaking up habits. Among business enterprises, the rule-breakers are those who create a new business concept by flouting the rules pertaining to the market. Obviously, we are not here referring to breaching the laws of the land but to the more undefined, unwritten 'rules of the game' based on which business concerns act. We will return to the way in which these rules can be expressed, for example through descriptions of particular firms and the business conditions against which they rebelled. The firms taken up in this volume are Zipcar, Skype, Triumph, Ryanair and Louis Nielsen. They could see the virtue of turning things upside down and doing something completely unexpected; thus, they may be able to inspire others to look at strategy and business development in a different way and – if only for a moment – to forget the daily struggle and find new motivation.

Rule-Breaking Enterprises

In a number of lines of business, one or more business concerns appear that are perceived by their competitors as special, as different. This may be due to a firm's strategic behavior, which openly breaks with the usual thinking in the sector. Perhaps it is a newly-formed concern that has edged its way into the market and created new customer needs. Perhaps it is an existing actor in the field that, under pressure from the competition, has broken with the conventional rules of the sector and surprised everyone with new initiatives that cannot directly be imitated by the others. A special actor such as this has often taken the rules of the game and changed them, thus attracting customers on a new set of premises of its own.

The study of diverse businesses that have created success on hard-pressed markets have shown us that it can be a positive thing to take up residence in a very competitive sector. The usual understanding is that if a market is generally not especially attractive and a particular firm simultaneously stands in a weak position, then they ought to leave the battleground. But this is not necessarily true. As a matter of fact; many of the rule breakers we present in this volume have created great degrees of profit in lines of business that others have judged to be quite unattractive.

Precisely the fact that even in hyper-competitive markets there are firms that manage to create growth and profits by breaking the accepted rules is the underlying point of this book. This ought to bring both hope and a call to action for those firms that find themselves under pressure right now. In these cases, the rule-breaking strategies in this book can be used for inspiration.

How Does One Break the Rules?

It is one thing to tell leaders that the viability of their businesses will increase if they manage to find ideas that break with the norms of the sector, but quite another to find precisely those ideas that have the potential to accomplish this.

Throughout this book, a systematic, methodical process uses examples and concrete tools to show how rule breaking is done. Step one: make an effective diagnosis of the sector and its most important characteristics. Step two: look for goal-oriented inspiration and gather fresh ideas. Finally, step three: choose and construct a holistic rule-breaking business method.

The idea behind this process is to get concerns to break with habitual thinking, but to do so in such a structured and simple way that it truly becomes possible to arrive at viable strategies that have not been seen in the field before and that will thus allow the particular firm to distinguish itself within the market.

Isn't It Far Too Dangerous To Break the Rules?

Firms that are sitting comfortably at the top of the growth curve may be nervous about experimenting with their business concepts. They fear that they may ruin their present course and position. That is, of course, understandable – or is it? That assessment is worth making. It is not just a question of willingness to take a risk, but also of defining the stakes. Very few business methods are built on such a unique foundation that they can be employed on a long-term basis and still give equally good returns. Sooner or later, a business will go off the track if it holds onto that belief.

Therefore, continual assessments should be made in relation to questions such as:

- Is the firm continuing with its determined strategy, and is it

- being true to its business concept?
- Does the firm need to change the present concept and set a new course?
 - Should the firm implement a strategy-glide – a gradual conversion from the present strategy to a new one?

For those firms in which the curve has already stagnated or broken, the bottom line in itself answers the question of why there is a need to experiment with the business concept. For these businesses, the saying is: no rule-breaking, no gain! In the midst of threats to their existence, a number of rule breakers in this volume found their way to a new course of action.

Whether your business is at the top of the growth curve, about to enter into an established line of business and in need of inspiration, or in possession of a worn-out business method and in need of input towards a new business logic, do enjoy this book!

Break the rules of the sector

One evening at the negotiating table, everything changed for optician Louis Nielsen. Hard-pressed and ready to try almost anything, he sat down at the table with his competitors. The bank was breathing down his neck. His shop was under observation due to economic difficulties. Customers were staying away, and his big dream of an exclusive fashion shop for eyeglasses had turned into a complete nightmare. Louis was brought to his knees.

His competitors chatted. For them, it was business as usual. The municipality had sent the same request to them all for an offer on a large order of eyeglasses, and was indirectly trying to play them off against each other. This maneuver was not to succeed, no matter what. Their countermove was ready. The optician's union had called a meeting to arrange a common strategy and common prices for their offers, so that everyone could get their piece of the municipal cake. Louis Nielsen listened in – for awhile.

There was nothing really new about the situation. Louis had sat here numerous times before, surrounded by his competitors in the provincial town with their conversations about the market and their active pocket calculators. The circumstances were, however, different this time, and he could sense the sharpened competitiveness of the situation. An agreement with the others was meaningless for him, for it would get him nowhere. At best, it would lead him directly into bankruptcy. Thus, Louis Nielsen got up and politely excused himself. His goodbye has held until today, because a few days later, Louis Nielsen sent his own offer to the municipal offices – an offer with prices so low that they sent a shock wave through the entire opticians' sector. He got the order – alone.

This story of a turning point in 1994 is controversial, not least because it was played out on meters of column space in the Danish newspapers, where his competitors attempted to destroy Louis Nielsen's reputation by painting him as a cowardly bastard who turns on his own. But also because the shift turned into a colossal success for the little optician's shop that dared to go against the tide. Customers soon streamed into the shop, which resolutely went from dealing in the town's most expensive and exclusive glasses to the sale of designer frames and glasses at fixed

unit prices. Louis's hesitation was a thing of the past. During the following years, one shop after the other opened all over Denmark. The strategy was expanded with the addition of further optimizing, norm-breaking initiatives. Louis Nielsen's role as a breakaway business congealed while his competitors experienced the destruction of the profit structure in their tradition-bound line of business. A new winner had been found. Louis Nielsen had smashed and reconstructed the normal business method on many levels, at the same time making his success almost impossible to copy – and how he did that will be taken up later.

What Are the Characteristics of a Rule Breaker?

Rule-breaking businesses stand apart. They have recognized the value of acting differently, and they consciously go in the opposite direction of that taken by their competitors on at least one strategic parameter. While the competition fights it out intensively in the middle of the competitive zone, the rule breaker sets himself up at the edge of the ring and conquers a more customer-visible, untouchable space. Do not, however, forget that they are still working within the same market, with the same customers and the same parameters for competition. As the smart new kids in class, however, they do it differently and, therefore, often with success. They do not expend their resources on attempts to create a new market, but remain in the space that they know best and within which they want to continue to exist.

Rule Breaking is More than Business Development

There is business development, and there is business development with a rule-breaking dimension – the latter can also be understood as radical business development. Let us look at a

couple of examples that point up the difference. The Swedish discount clothing giant, H&M (Hennes & Mauritz) expanded its assortment of goods in 2009 to include furnishing textiles such as pillows, bedclothes and tea towels. These products are primarily sold online and follow the sector norms which already exist for these types of sales and interior design. H&M is thus perceived as a new alternative to other discount producers of fashionable furnishing textiles along the lines of IKEA.com and ZARA HOME and in direct competition with them. H&M's path into a new sector is the result of business development. There is nothing rule-breaking about the expansion, since sector gliding has meant that the new furnishing textile concern has adopted the existing methods in the sector for these products and made them its own.

When one works with rule-breaking business development, one breaks free of the rules and explores new territory in order to create new, distinctive characteristics. An example that clearly illustrates this contrary way of thinking is that of the Dunkel restaurants in Berlin. Here, many of the usual rules for dining out are challenged. Unlike an ordinary restaurant, where every corner has been coordinated with regard to color and style and is lit up in the just the right way so as to create ambience, here it is pitch dark. Not the least ray of light and nothing to catch the eye. This creates no problems for the waiters and waitresses, however, who all are blind and easily find their way around the dining room with orders. Here, one does not come expecting to be served beautiful French delicacies. One comes, instead, for an experience beyond normal boundaries which is afforded by the lack of one's visual sense. The result is sought after. By creating a different emotional experience, they have managed to create fame that has spread far beyond the borders of the

German nation, and even to achieve having the Dunkel concept described as an exciting experience in tourist brochures.

Recognize the Type?

As a general rule, it is always regarded as rule breaking when a firm influences a sector by changing the rules of the game. However, the degree of differentiation depends on a number of parameters and can range from a minimal to a revolutionizing degree. Some initiatives break all known frameworks and leave the competition bleeding in a new market that has been torn apart at the seams. Others assure the rule breaker a business success without changing the power relationships in the sector to any great degree. In both cases, the initiative works because the other actors in the sector are blind to opportunities and latent possibilities. Typically, established firms have forgotten to look at how they themselves could expand the sector's potential markedly and have learned to satisfy themselves with small, gradual increases in turnover.

A Paradoxical and important lesson, we have learned is that many established businesses have a tendency to look for new customer needs in other sectors rather than fulfilling the existing demands in their own sectors in a new way – even though the latter can definitely be just as attractive. In hunting new business in other sectors, they simply fail to see how attractive their own market is, thus leaving an open invitation to new competitors. But who says that other sectors are more attractive than ones own; that the grass is greener on the other side? Why should it be more difficult to do something really different in the sector one already knows? It ought not to be so. There are great possibilities in both directions, as we will see in the following. First, we will look at a number of rule-breaking firms that have had

success in pinpointing opportunities in another sector. Then, we will examine businesses that have managed to grow in their own sectors by making convincing changes in their business concepts.

An Introduction to Archetypes

In an effort to simplify thoughts on Rule Breaking, we have set up four different archetypes. Each one characterizes businesses' behavior in working with rule-breaking business concepts. This classification has been made for a number of reasons. Partly to establish that rule-breaking actors can be found both among established players and among new ones, and partly to show that the degree to which the rules of the game are changed depends on how the firm affects the landscape of the sector.

The four different archetypes are presented here:



Figure 1. The Matrix is reserved for rule-breaking businesses, while the four archetypes illustrate different degrees of influence on the sector.

The matrix shows to what degree rule-breaking players break up and influence the markets on which they operate. As can be seen from the figure, they cover a broad range. First, there are established businesses that have changed their own business models and executed a turnabout without exerting any notable effect

on the rules of the market, but thus securing their own survival in the sector. This archetype is called the *rebuilder*. Then, there are the established businesses that have used radical business development to challenge and affect the rules and conditions of competition in the sector. Here, they take the name of *destroyer*. Then there are the completely new actors on the market that either elbow their way in and effect minor changes – the *challengers* – or who have had a marked influence on the rules of the game and who therefore are given the label *revolutionary*.

In this way, the matrix shows a number of dimensions in rule-breaking strategy. On the following pages, we shall take the individual archetypes and their characteristic behaviors. Integrated into these descriptions are examples of these archetypes in the real world – the strategically triumphant businesses.

Challenger **– challenges the boundaries of the market** **[New player with a minor effect on a established sector]**

The challenger is the type of business that squeezes through the fence into an established sector and wins market shares from existing actors. These can be new firms that have not yet revolutionized the sector because they are still in an embryonic state, or well-established firms that have decided to move into new lines of business.

Firms already present in the market ought to be wary of a challenger, even though infiltration takes place slowly. The challenger often uses new technology that, over time, can threaten the competitive platform, or, they may have a central, different behavior that fills customer needs in an alternative way – for example through a sales and distribution method that has never been seen before. Within the matrix, however, it is worth noting

that the challenger type has not yet revolutionized the sector and thus falls outside of the category of the purest archetypes. Nonetheless, this type of business is important, because it is a potential candidate for making a great leap forward and really challenging the rules of the sector.

Let us now further clarify the two different approaches to a challenger's strategic profile. For some, the challenger approach is a conscious strategy chosen in order to test the waters in a new sector without running too great a risk. Despite our naming them 'new players', they can be established firms that simply are new to the particular sector. Here, we are thinking of enterprises that alongside their main initiatives are trying new business units in an attempt to grow outside of their existing business area through developing new product types or by aiming at a new group of buyers by reusing the firm's core capability in another manner. For new businesses, it is just the opposite. For new initiative-takers, challenger behavior is not implicitly a consciously chosen strategy, but a natural phase in the process the firm goes through before it reaches its goal – the revolutionizing of the sector.

If a challenger company is successful over time in winning market shares and gaining success for its product, then it will – all according to the customers' degree of familiarity with the company and their willingness to buy – also change the rules of the game and its strategic profile towards one with a more revolutionary character.

A very current example of a challenger is Prosper, a new American online people-to-people auction house for lenders and borrowers. Here, customers searching for capital and in need of a loan can make a bid with a loan amount and an interest rate that they find acceptable and potential lenders can offer them a loan, also specifying the terms. Prosper itself does not mix itself

up in the deal.

The customer base has a broad foundation. The loans range from small, private consumer loans to notable business owners in need of capital for the realization of large ambitions for growth. The rules of the game are lent from eBay and brought into the bank sector. And incidentally, who says it has to be a bank? Customers want to borrow or lend money, and it is up to them to determine whether a bank is at all necessary between borrower and lender.

“What we’re really trying to do is to create an eBay for money and credit,” says chief executive Chris Larsen, who started Prosper and whose basis for earnings is a fee paid by both lenders and borrowers. Thus, the business can best be described as a form of finance dating bureau. If you like what you see, Prosper helps you make contact.

This business concept is non-traditional in every way in relationship to the traditional bank sector. It also breaks with existing business understandings of how ordinary consumers borrow money. Prosper’s business concept is unorthodox in every way in comparison with the traditional bank sector. It also breaks with the existing business logic for how ordinary consumers borrow money. Prosper offers an anonymous borrowing market. Consider how different that experience must be, especially if one is somewhat hard-pressed economically. Here, no one has to come in with hat in hand, sit up straight in front of a desk, smile in all the right places and sell oneself in the newest suit one owns while some banker assesses whether one is worth the risk. Here, borrower and lender can sit thousands of kilometers from each other, never meet and still negotiate interest rates up and down.

Prosper has operated for two years and financed 120 mil-

lion dollars. For now, it only exists in the USA. But plans for an entry into the Japanese market make it probable that the concern will be a candidate for global challenger, and even though Prosper has not yet taken a firm grip on the market, it is already important for established competitors to make an assessment of how great a threat the challenger is or can become. Perhaps there is a *revolutionary* in the making here?

Perhaps it is not the daily competitors, but other, new players who fight with hitherto unseen weapons that present the greatest threat.

There are numerous examples which show how dangerous sector gliding can be for existing actors. The threat can simply be difficult to discover before it is too late. The reason is that the attack does not come from within the sector, from those we already are used to watching closely, but from strangers outside – strangers who often first get attention when they begin eating away at the turnover on the market.

A good example is the Danish bicycle business. No one in the two-wheeled industry foresaw 15 years ago that retail sales would show such an impressive turnover in bicycles with cheap, private-label models exhibited in great numbers in large supermarkets. As a consequence of this development, the customer's experience of buying a bicycle went from a luxury-oriented one to a need that could suddenly be fulfilled on an impulse if the right offer turned up here and now. As a result, the prestige in buying a new bike fell dramatically, along with the will to pay very much for one. The question could be put to leaders in the bicycle sector as to whether this development happened as a direct consequence of bicycle dealers defining only other bicycle dealers as competitors while forgetting to watch out for threats

from potentially overlapping sectors. Perhaps a quicker reaction to the threat could have changed the outcome.

Criteria for success and recommendations in connection with the *challenger* role:

- Testing the waters in other lines of business.
- Trying to break the rules of the game and enter into a new sector.
- Offering customers in the sector a product which hasn't been seen before, a new technology, sales or delivery form.

As soon as the challenger succeeds in taking over its share of the market, it changes its position in the matrix and gains new status as a *revolutionary*, one that completely changes the course of events.

How to Rule Break

At the start of this volume we opened the rule-breaking train of thought by showing how Louis Nielsen, the optician, found new rules of the game at the outer edge of the sector landscape and made these into his future competition parameters. This was a radical change in the norms of the market that came into being when he was inspired to create a new, package solution. The price of eyeglasses was reduced. The combination of personnel changed. Instead of buying his glasses through wholesalers, he had to begin to trade directly with manufacturers broad. All of these primary rules of the game that distanced his firm from the competition were mainly inspired by other lines of business.

The Louis Nielsen example is far from unique. When con-

cerns seek new strategic opportunities, there is a definite tendency to find inspiration in other sector landscapes. There is nothing new in that. The progressive part is to make a goal-oriented search for inspiration there, so that new ways to success do not just arise due to chance, but because the firm is constantly on an active search for that which has relevance.

It seems obvious to look out over the fence of ones own sector to find meaningful inspiration. Thus, it is thought-provoking that the existing literature on strategy primarily has focused on looking inward at the sector landscape with the goal of mapping out the competition and fighting it, or seeking to change the parameters that already exist. There has been no systematic method for finding out from whence the new inspiration should come. Thus, many firms have been unable to see in front of their own noses when trying to point out the right points for differentiation which will allow them to distance themselves from the pack. Here, the rule-breaking process would be useful to help them look into other sectors in a goal-oriented way. It teaches businesses to sharpen their eye and be knowledgeable about precisely what sort of inspiration it is that one is seeking.

The potential for finding a unique solution is increased. Thus, the ability to ‘look outwards’ has become an essential element in the rule-breaking process.

Figure 1. Rule-breaking strategies are created, among other things, by bringing inspiration in from other sectors.

