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Strategy

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Lessons from Microsoft, NVIDIA, Netflix, Tesla, and others.

by Kaihan Krippendorff

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At the close of 2023, the California-based chip company Nvidia announced yet another quarter of record sales — an achievement that came hot on the heels of its entry to the elite club of U.S. enterprises with a $1 trillion market valuation earlier in the year. The company, whose success has been fueled by the AI boom, now holds approximately 80% of the global market share for GPU semiconductor chips.

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Competitor semiconductor manufacturer Intel, however, fared less well. Although it has experienced an unexpected rise in quarterly earnings as of this writing, the company struggled for years. It attempted a turn around with a new CEO in 2021, and in the first three months of 2023, reported the largest quarterly loss in its history. Industry commentators pointed to a variety of factors, including stiff competition from other large semiconductor players, as contributing to its decline.

Until relatively recently, Intel was way ahead of rivals like Nvidia in the semiconductor stakes. Five years ago, the company's enterprise value (EV), at $226 billion, dwarfed Nvidia's $76 billion, according to my team's analysis based on Value Line data. Since then, Nvidia has quadrupled its value to $315 billion, while Intel's EV has shrunk to $218 billion. That means Nvidia has clocked up over a 20% average annual revenue growth, while Intel's revenue has remained flat.

So how has Nvidia engineered such a definitive overtake of its peer? There are, of course, a combination of factors at play, but research suggests that Nvidia's use of one of six emerging strategic concepts — which together are radically changing the way companies across industries secure competitive edge — could be a significant factor in its success.

A New Strategic Playbook

Strategic concepts come in and out of fashion as the needs and dynamics of the marketplace change. From the 1920s, as the U.S. economy experiencing roaring growth followed by the great depression, the dominant strategic concepts focused on predicting and controlling industry cycles, popularized further by Joseph Shumpeter's work on the subject and his introduction of the concept of "creative destruction." In the 1950s, business strategists shifted their attention inward as they developed and formalized the practice of corporate strategy which led,

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in the 1960s, to the popularization of the SWOT analysis, as strategists shifted focus to mapping internal factors (strengths and weaknesses) with external (opportunities and threats). Enter the 1980s, with Harvard Business School professor Michael Porter popularizing "competitive advantage." A decade later, another HBS professor, Clayton Christensen, shifted strategists' collective focus to the concept of "disruption."

We may be on the precipice of another major strategic shift, where ecosystems and ecosystem partners are increasingly becoming central to the way organizations compete. We know this is in the air because chief strategy officers in our network are telling us they are experimenting with a new bundle of strategic approaches. This evolution of the strategy playbook is also evidenced by the plethora of books, articles, and research projects focusing on how organizations are adopting ecosystem mindsets and new organizational structures to help them succeed in today's volatile, fast-moving environment.

Myself and my team at Outthinker Networks wanted to move beyond this intuitive feeling that the strategy parameters are changing, and try to quantify exactly how the contours of the new strategic playbook are evolving. So, we examined what the most successful strategists are experimenting with right now. From a population of 3,000 enterprises, we identified 15 pairs of companies, where one significantly out-performed the other across at least three of four measures: current operating margin, revenue growth (over the last five years), improvement of operating income margin (over five years), and growth in enterprise value (over five years). The list included major players such as Nvidia vs. Intel, Microsoft vs. Oracle, Netflix vs. Paramount, Tesla vs. Ford, and Hibbett vs. Foot Locker.

We wanted to measure how these organizations' strategic choices might be contributing to their success. We started out by analyzing their

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public statements, using narrative analysis to code which strategic concepts they cited. In all, we analyzed over 7,000 pages, and 29 annual reports, supplementing this desk research with interviews with about 100 chief strategy officers from our network of heads of strategy at large enterprises across a range of industries from financial services and technology to media and professional services.

From this wealth of quantitative and qualitative data, it became clear that the following six strategic concepts were mentioned significantly more by outperformers than by underperformers:

- Borrow someone's road
- Partner with a third party
- Reveal your strategy
- Be good
- Let the competition go
- Adopt small scale attacks

Borrow Someone's Road

Outperformers were 60% more likely to cite the concept of reaching markets through channel partners versus going direct. Thanks to digital connectivity and a proliferation of digital services, it is easier than ever before for companies to plug seamlessly into partner channels. Channel partnerships are far from a new tactic but the nature of channels has evolved significantly.

In the past, customers could distinguish relatively easily between product providers and third-party channels; it is clear that the Harman Kardon speakers in your BMW are not manufactured by the car company, for example. Today, however, products and services can be so seamlessly intertwined that the provenance of the various components experienced by the customer is opaque. Apple Pay, for example, is to

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a large extent a gateway for customers to access the payment rails of Mastercard or Visa, but few customers are aware of this.

The ability to access partners' digital channels easily is crucial for businesses looking to expand their reach and tap into new markets efficiently. It's a cost-effective way of overcoming traditional geographic and logistical barriers, and allows organizations to respond quickly to customer demand, adjusting their strategies when needed so they can remain competitive in fast moving markets.

Nvidia's partnership with British software design company ARM Holdings is a great example of this "borrow someone's road" strategy, and a factor that has no doubt contributed to the success we highlighted earlier. The partnership is a symbiotic relationship which focuses on integrating Nvidia's deep learning and AI capabilities with ARM's energy efficient processor designs. It allows Nvidia to tap into ARM's extensive reach across diverse tech sectors, such as mobile computing and autonomous vehicles, where power efficiency and mobility are key.

Organizations can also create value by *becoming* the borrowed road. Amazon, for example, built its Alexa offering to be a channel for other providers. As strategy professor Mohan Subramanium says in his article "How Smart Products Create Connected Customers," the value of being the borrowed road expands as the value of data from digital customer interactions multiplies.

Partner with a Third Party

In addition to using channel partnerships heavily ("Borrow a road"), outperformers were 110% more likely to cite partnerships with complements as core to their strategies, even when such complements represented significant competitive overlap. This makes sense, as the same technologies that enable companies to integrate their products

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and services with channel partners also make it easier for them to coordinate with complementary products and services. Embracing such approaches can require changing how a company thinks of their competition.

For example, Microsoft's decision to make Office available on Apple's iOS devices in 2014 was the most public early sign that such a shift in thinking was underway at the company. By integrating Office with iOS, Microsoft not only expanded its user base, but also delivered a more complete solution for these users.

This partnership with Apple, once a rival, signified more than just a new product offering; it represented the culmination of a paradigm shift in Microsoft's strategic approach, echoing the emerging trends highlighted in our analysis. Bob Muglia, the former president of Microsoft's Servers and Tools division and one of four presidents that reported directly to then CEO, Steve Balmer, characterized the change to me as being a shift from a "device-centric" to a "services-centric" mind-set. Satya represented the latter.

"This shift towards being services-centric really began around 2000," Muglia said. "People started talking about services. But there was a battle going on inside. And some decisions were made following the device-centric mindset." For example, launch of the Apple iOS version of Office was being held back until all of its functionality was also available on PC-based devices.

Satya Nadella, who eventually took Muglia's role when he left and subsequently became CEO, symbolized the new mind-set. Nadella wrote, "Partnering is too often seen as a zero-sum game — whatever is gained by one participant is lost by another. I don't see it that way." He continues, "In today's era of digital transformation, every

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organization and every industry are potential partners." And when the board eventually appointed Nadella CEO, it indicated the tides had turned.

Microsoft now embraces the opportunities of collaborating with partners with competitive overlap with greater zeal, for example, with Adobe, Salesforce, and Google. The company's multi-billion-dollar investment in Open-AI is perhaps the most significant recent example of this mind-set.

The seeds planted by such moves have spawned significant value for Microsoft. Office today is the most widely used business iCloud application, the company is ahead of rivals in the AI race, and there is substantial growth in operating income and enterprise value, with a five year average revenue growth of 17.13% and an increase in enterprise value from $726.36 billion to $2,253.45 billion over the same period, according to my team's analysis of Value Line data.

Reveal Your Strategy

Outperformers were twice as likely to openly share their strategic intents and plans rather than keeping them close to their chest as companies have historically done for fear of competitors copying or counter-attacking. Organizations have come to realize that the salutary effects of broadcasting their strategic vision into the market, even with the competition, can outweigh the risks.

This is because in today's market, success more often hinges on activating and coordinating dynamic ecosystems. Demonstrating a clear strategic direction attracts these partners, enabling powerful alliances to be built. A policy of transparency also fosters trust with not only collaborators, but customers, investors, and other stakeholders, who value open communication and transparent business practices.

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And thanks to advances in technology, it's easier than ever before to share mutually beneficial information securely and in real time.

In a decisive move to shape the future of farming, Deere & Co strategically embraced this concept of "reveal your strategy" by openly investing in precision agriculture technologies. Amidst a technological revolution in the agricultural sector, characterized by emerging trends like IoT devices, data analytics, APIs, and automation, Deere & Co didn't just adapt, they led the charge. It made significant investments not only in building and acquiring precision-agriculture technology, but also in building a movement. Whether publicly announcing partnership with agri-tech start-ups or with Space-X to provide satellite communication services to farmers, launching start-up collaborations in ag-tech, keynotes at agriculture and tech conferences (like CES), publishing continual streams of news on its ag-tech dedicated webpage and through media platforms from CNBC to Barrons, the company is far more active in messaging its smart-farm vision than its competitors.

This strategic transparency isn't merely about innovation; it was a calculated play by Deere & Co to influence market trends, guide customer expectations, and maintain a leading edge in the evolving landscape of agricultural technology.

Other industry players have begun to follow suit, exploring the transformative potential of technology in farming, but Deere has emerged as a platform on which many of these innovators now build and as a standout performer, showcasing remarkable growth and financial strength. The company's fiscal 2023 earnings are estimated at $33.89 per share, representing a one-year growth rate of 46%, according to my team's analysis of Value Line data. This makes the company a compelling choice for investors seeking strong returns in the agriculture equipment sector.

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Revealing your strategy is more valuable when more stakeholders see benefit in joining, which is why the next strategic concept makes sense.

Be Good

Outperformers are 85% more likely to cite this strategic concept. The "be good" approach centers around pursuing a strategy whereby your growth benefits multiple stakeholders from suppliers and employees to communities, NGOs, governments, and social interest groups. This could mean engaging in practices that are environmentally sustainable, socially responsible, or contribute positively to the society.

When stakeholders see that your success supports theirs, they are more motivated to support you by, for example, aligning their strategic investments with yours, buying your products, advocating for the company, or in the case of employees, showing higher engagement and improved productivity.

This approach can also attract investors, who are increasingly focused on environmental, social and governance (ESG) criteria when considering prospects. Research by McKinsey & Company suggests that companies with a high rating for ESG factors enjoy "faster growth and higher valuations than other players in their sector by a margin of 10-20% in each case."

Mastercard's "Beyond Cash" initiative, launched around 2012, exemplifies the "be good" concept, marking a significant strategic shift towards promoting socioeconomic advancement. The initiative was seeded when Mastercard came to realize their biggest market opportunity was not to steal share from other payment companies but, instead, from cash. Their CEO at the time, Ajay Banga initially adopted a strategic rallying cry he dubbed "kill cash," which he later rebranded to

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"a world beyond cash," pointing out broader social benefits of reducing the world's reliance on cash.

The campaign set the foundation for a transformation that has gone beyond mere service diversification, showing a commitment to creating a world in which anyone can transact digitally, reducing cash dependency and the social costs that cash-based economies can propagate.

This approach is particularly impactful for underbanked and unbanked populations and reflects Mastercard's understanding of the influential role it can play by leveraging its global network and technology to foster a sustainable and inclusive economic landscape. By embracing the "be good" strategy, the company is demonstrating that corporate success is increasingly linked to the ability to drive positive social impact.

When I interviewed Banga, who now serves as president of the World Bank, he pointed to this strategy as being central to a global activation of NGOs, governments, and other stakeholders to pursue the shared mission of digitally connecting the unbanked with financial services. He also witnessed greater engagement and pride among employees. This surely contributed to Mastercard's stock price rise from $25 to approximately $350 per share during his tenure.

Let the Competition Go

Outperformers are 80% more likely to cite this strategic concept, which is also known as the "fast follower" strategy. Historically, companies sought "first-mover advantage" for the benefits it offered such as building a technological lead, establishing early brand recognition and loyalty, securing control of resources and channels, and raising switching costs or entry barriers. But the calculus is shifting. Thanks to more accessible customer adoption data, diminishing brand loyalty,

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lower switching costs, and shortening product launch times, being first creates less significant advantages. Instead, letting others test the market and technology, and being ready to leapfrog them if and when they prove the opportunity, can be a better approach.

Letting others dip their toe in the water provides an opportunity to learn from their mistakes, allowing later entrants to benefit from these lessons and avoid similar pitfalls. Being a fast follower also allows companies to adopt newer technologies which are advancing more rapidly than in the past, leading to better and more cost-effective solutions.

As Columbia Business School professor Rita McGrath points out, it's about identifying "the strategic inflection points" at which the cost of waiting exceeds to cost acting — in other words, identifying the most strategic point to enter a market or adopt a technology, balancing the risks and opportunities based on market readiness, technological maturity and organizational capacity.

Ferrari's strategic entry into the luxury SUV market is an example of this. For a significant amount of time, Ferrari remained resolute in its declaration that it would not produce an SUV. This stance seemed unwavering, even as the automotive industry witnessed a significant shift in consumer preferences towards luxury SUVs.

Ferrari's traditional rivals, on the other hand, took a different path. Mercedes-Benz initiated production of its M-Class SUV as early as 1997, venturing into the luxury SUV market when it was still in its infancy. Porsche, even though facing financial challenges at the time, made a daring move in 2002 by introducing the Cayenne, a model that would ultimately rescue the German brand from potential financial ruin.

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However, market dynamics evolved, prompting Ferrari to reassess its position. The Italian automaker recognized that the luxury SUV market presented a unique opportunity for growth and diversification. Moreover, they observed the experiences of their competitors, who had already ventured into the segment, and learned valuable lessons.

In 2022, Ferrari finally broke with its strategic resolve and unveiled the Purosangue, its foray into the luxury SUV market. Its late entry to the segment meant it could learn from the best practices and innovations of others — from understanding buyer preference, segments, and pricing levels to developing advanced performance and safety technologies — and take advantage of more mature technologies. It also benefitted from a more mature luxury SUV market, with established demand and consumer preferences.

The initiative has been an outstanding success. Before even delivering a single Purosangue, Ferrari had to stop taking orders for it in 2022, due to the massive backlog. Its $400K SUV is sold out until 2026.

Adopt Small-Scale Attacks

Outperformers are 70% more likely to explicitly cite the use of running business experiments in which the goal is to learn. This speaks to the growing adoption of agile, “act, learn, build” approaches over traditional “prove-plan-execute” orientations. The popularity of techniques like discovery-driven planning, the lean startup, and other agile approaches and propagated this philosophy in which, rather than building bullet-proof business cases, one makes small steps, learning from them, and deciding whether to invest further.

Several factors are influencing the growing adoption of this strategic concept. Advances in technology have enabled businesses to generate and analyze more data more efficiently. This real-time feedback

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loop allows for better learning from small scale actions and faster adjustments.

Markets are also becoming more unpredictable, and customer preferences are evolving rapidly, making long-term planning less accurate. The "act, learn, build" approach gives companies the agility to respond quickly to market changes and adapt their offering in response to customer feedback. Experimenting on a smaller scale also helps companies manage risk effectively, allowing them to test hypotheses and identify potential pitfalls before committing significant resources.

Tesla's approach to battery manufacturing is an exemplary real-world example. The company adopted a modular approach to building its $5 billion lithium-ion battery factory in Nevada. Rather than waiting for the entire facility to be operational, Tesla constructed the gigafactory in discrete, functional units or "blocks." Each block could start production as soon as it was completed, significantly reducing the time to generate revenue. This modular approach not only accelerated the production timeline, but also allowed Tesla to learn and improve with each successive block, leading to faster and more efficient production cycles. In 2020, the Tesla gigafactory in the U.S. was the largest lithium-ion battery factory in the world and, according to the company, will eventually make 100 gigawatt-hours of 4680 cells annually, enough to power two million EVs.

Implications for Strategists

Strategic practitioners and researchers alike sense change is in the air. It's broadly accepted that companies are increasingly competing within ecosystems and adopting approaches more appropriate for rapid change. But these six emerging strategic concepts outline a strategic playbook that successful companies have adopted to compete in today's

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market dynamics, a playbook that others are naturally starting to emulate.

Companies that have the flexibility to sense and embrace strategic concepts that are more appropriate for today's realities will gain advantage over those who maintain the status quo. As Boston Consulting Group's Martin Reeves points out, in a business environment that is changing faster and becoming more uncertain and complex almost by the day, it's never been more important — or more difficult — to choose the right approach to strategy.

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Kaihan Krippendorff is the co-author, with Robert C. Wolcott, of *Proximity: How Coming Breakthroughs in Just-in-Time Transform Business, Society, and Daily Life* and founder of Outthinker Networks.

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