2 X 2 THINKING IN ACTION: FUJITSU TACKLES LEVEL 2 DILEMMAS

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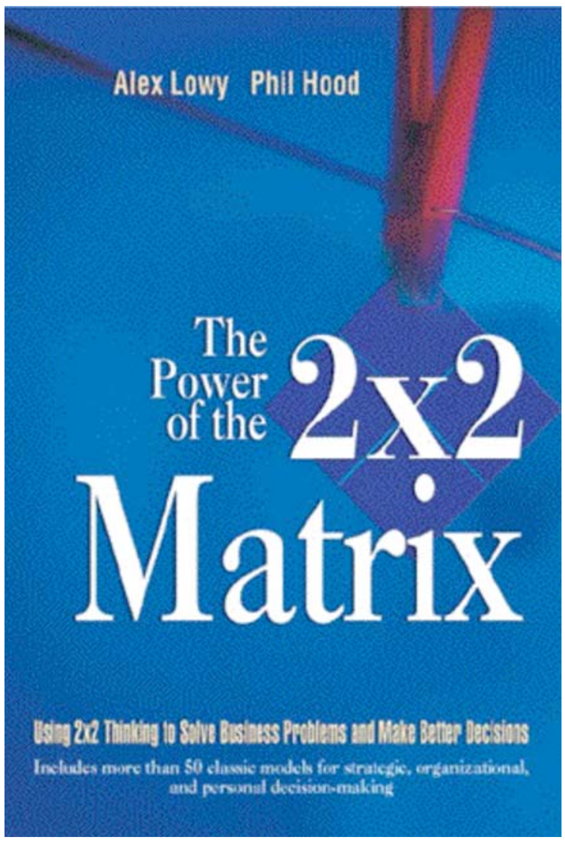

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2 x 2 Thinking in Action: Fujitsu FTXS Tackles Level 2 Dilemmas

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For the past few years we have been developing a dilemmas-based approach to strategic problem solving which we call 2 x 2 Thinking. The method recognizes that dilemmas are inherent in business and uses creative tension as fuel to drive innovative solutions and break the logjams that impede strategic decision-making.

Watching business teams apply 2 x 2 Thinking well is as inspiring as it is instructive. A recent engagement with a North American business unit of the electronics giant, Fujitsu, provided just such an opportunity. Working with them, we have seen not only how master strategists face dilemmas, but how the resolution of one strategic challenge leads to the next set of issues as the company, customers, and the competitive landscape evolve.

Fujitsu Transaction Solutions Inc. (FTXS)
FTXS is a division of Fujitsu North America. FTXS designs, builds, delivers and manages the hardware, software and services for solutions that enable customer transactions for retailers. Long term customers include retail brands such as Staples, TJ Maxx, Stop & Shop and Albertsons.

The 1990's were a tough period for FTXS. In spite of solid products and a globally recognized brand, the North American retail operations lost substantial amounts of money. Reporting to ICL, Fujitsu's UK based subsidiary, the North American business lacked coherence and direction. The disappointing performance was due to several strategic, structural and competitive factors. The group performed poorly under a Eurocentric reporting structure, faced a competitive landscape dominated by two major competitors, IBM and NCR, and lacked marketing clout to deliver a differentiated message to customers.

Facing the Level 1 Dilemma
The opportunity to address these issues head-on arrived in 2000, when Fujitsu appointed a new North American CEO, Austen Mulinder. Reporting to the board of Fujitsu in Tokyo, the mission was clear - stop the bleeding and build a top brand in retail technologies and service. Restructuring occurred in October, 2000, and by April of 2001, the brand was re-launched as Fujitsu Transaction Solutions (FTXS). Most of the former ICL service businesses in North America, including field services for automated teller machines and mobile applications were integrated into the retail group at that time.

Mulinder faced a challenging situation. At the time, the retail group had not won a major new account in three years. This meant the revenue situation was likely to get worse before it could get better, as businesses like FTXS depend on new clients to drive hardware installations and ongoing service fees. But his most important concern was the strategy: his new company lacked any sense of a clear mission and value proposition. The FTXS organization comprised a hardware business, a field service business with engineering, logistics and call management; and a retail application software business. Historically, computer companies viewed this combination of products and services as a liability, diluting focus and confusing customers. But from Mulinder's point of view, he needed to fit these jigsaw pieces together in order to survive.

He describes it this way, "There is a certain level of fixed costs in hardware and support people that you must have in order to be credible as a partner for national or global retailers. My dilemma was I needed it all, because we were about 50/50 in hardware and services revenue. If I chose to focus on just hardware or just software and services, I would be out of business."

The solution the FTXS team developed retained all the elements of the existing business, but creatively reframed their value to address customer needs. Choosing between hardware, software and services was the wrong way to frame things, because they were interdependent. The hardware business is profitable, and enables salespeople to gain entry to the early stages of a customer's purchasing cycle. Fujitsu also had a reputation for bulletproof products, indicating hardware is a core competency. Services were equally important, as they are the basis for establishing ongoing relationships. Here again, the company's skills and reputation were assets.

The group found the key to their new integrated services offering by looking outward to customers; "I believed then and I still believe, says Mulinder, "that a majority of CIO's in the retail space have one overriding challenge: Wal-mart is coming after almost every retail niche and anyone who doesn't aggressively take costs out is in trouble. At the same time, retailers have to find ways to differentiate their value from Wal-Mart because they won't win on cost. So the CIOs are in a real bind because the CFOs are telling them 'We have to reduce costs… a lot.' And their CEOs are telling them, 'I need you to invest more in IT to help us differentiate our value.'

Their new plan was called the Lifecycle Strategy. Leveraging the key existing strengths of Fujitsu quality and customer-focused culture, FTXS proposed to manage a client's investment in hardware, software and services over a multi-year Lifecycle period. They guaranteed clients that they would "Relentlessly Lower Costs" year after year, by eliminating unnecessary steps and improving work processes. At the same time, they promised to bring differentiated value to the customer (see Figure 1).

The strategy worked, and by September of 2003 more than ten major retailers including strong performing brands like Nordstrom, Marshall's, Ross Dress for Less, Payless ShoeSource, and ChevronTexaco had become Fujitsu customers. In 2003, the company pulled strongly into the black. Revenues were up in the first half of the year by 35%, and profits were even higher. The majority of revenue in 2003 was coming from accounts brought on board after the change in strategy, and the order book and sales pipeline were full, indicating success would continue.

FTXS's story, to this point, is interesting for two reasons. First, the team successfully identified the core dilemma facing retailers and created an innovative strategy to meet it based on their current capabilities, without any significant new investment. As Mulinder says, "We went from having no value proposition to having a highly successful strategy that was well differentiated, but the components didn't change." This trick, akin to turning a tired old car, into a supercharged racing machine, is at the core of good dilemmas-based design. Instead of defining a set of either/or choices, with extreme tradeoffs such as hardware versus services, the group focused on core issues.

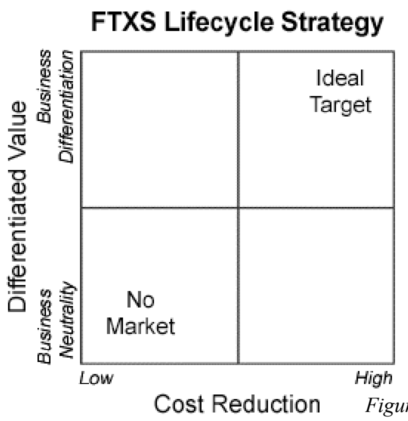


Figure 1

Second, their experience is a primer on how effective leaders reinvigorate organizations in crisis. When the needs of the business are most urgent, effective leaders will often step back and focus valuable attention on issues of long-term importance. Torn between the demands of Immediate Revenue and Long-Term Value, Mulinder chose to focus on what was most important. "I struggled with whether to invest my time in developing a value proposition that was differentiable and sustainable versus simply going out and selling what we had. We did the strategy work that needed to be done, and once I had something everyone could align on, I turned 180 degrees and went out selling it full-time."

Finding The Level 2 Dilemma

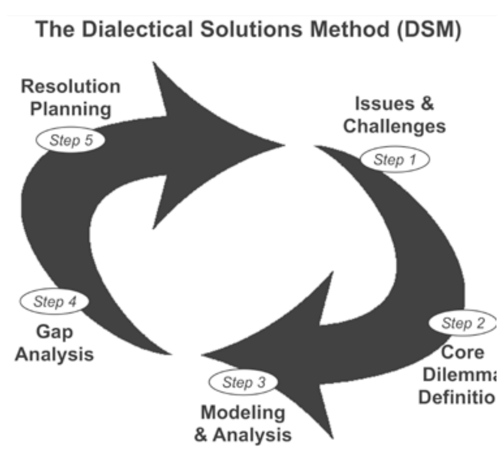
The FTXS Relentless Cost Reduction strategy was an effective response to the situation the company faced in 2001. But, like all strategies, it had its flaws. For one, it was theoretically unsustainable to fulfill both the promises of the strategy. As every MBA student who has read Michael Porter knows, low cost and differentiated, high value are inevitably options, not a matched set. Ron Brunt, one of the architects of the strategy echoed this thought when he told us, "We continually have to ask whether the customer is willing to see us as the right vehicle for both innovation and cost reduction".

The second problem was more fundamental. Even if they were fully successful in their venture, it was unclear that there was a long-term viable and profitable business in the narrow aspects of the retail market that they were chasing. Margins shrink as the basic functionality set becomes commoditized. Continuous innovation is required to capture new areas of value in retail.

A Method for Dilemmas-Based Planning

The notion of Level 1 and Level 2 strategies provides a dynamic framework for planners. Each new strategy, no matter how successful, carries within it the seeds of its own demise. Over time, its vulnerabilities bring it into conflict with opposing forces, requiring a fresh assessment of enabling and constraining forces. Strategic advantage lies in identifying the uniquely relevant Core Dilemma for that business and exploiting it to release the organization's full creative potential.

In our work with teams such as the FTXS group, we employ a five-step dialectical solutions method as a starting point for exploration and refinement of strategy. The advantage of this dilemmas-based approach is the speed with which core issues and problems are unearthed, and the way it aligns thinking and activity around crucial success factors.



The process starts and ends as a narrative. Step 1 consists primarily of gathering and organizing perspectives of the situation, using tools for identifying "symptoms" of the current challenge, competitive positioning maps and employing metaphors as a means of tapping the team's unconscious knowledge.

Analysis of the issues raised in Step 1 helps to identify the point of greatest tension affecting successful operation of the business—the core dilemma—in Step 2. With the Core Dilemma now identified, we explore other important aspects of the situation through a process of creative re-definition. A synthesis of best ideas forms the basis of a trial "solution", the implications of which are explored using archetypal business dilemmas and studying implications of various strategies – Step 3.

In Step 4 gaps and barriers that impede progress are identified in four categories: human, financial, technological, and market power. The final step of the process is to ensure there is real and sustained follow-through on plans – Step 5. Good ideas and intentions need to be cast in the shape of a plan with objectives, timelines, budget and responsibilities.

By succeeding with the current plan, they could be ensuring a limited time-horizon in which to grow and be profitable.

Just as Mulinder had chosen to focus on the important task of building a strategy rather than the urgent task of revenue when he took over the division, he now chose to create a sense of urgency and change while his team was on top. Sensitive to future threats to new-found profitability, he began to articulate what we call a Level 2 Dilemma. The Level 1 strategy had succeeded but all strategies have inherent vulnerabilities. These give birth to new challenges which set the stage for a new core dilemma.

The Team Goes To Work

The management team came together for a group planning workshop in September of 2003. At that session, we led them through a process for defining and resolving strategic dilemmas (See sidebar: "A Method for Dilemmas-Based Planning").
As we worked with the team to define their current situation, it was clear that the group was at a crossroads. On the one hand, team members were pleased with progress, confident about maintaining sales momentum, appreciative of executive and staff efforts, and optimistic about the potential opportunity to integrate offerings with other Fujitsu businesses. Concerns included insufficient investment in sustaining their differentiation, dependence on top executives to sell, and the continuing presence of IBM as the perceived "low- risk" choice for conservative retail CIOs. There was a deep concern that they were running hard to maintain the current level of performance, and lacked the resources to capture the opportunities before them.

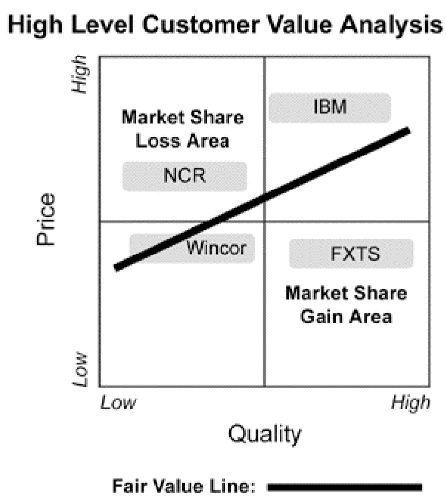


Figure 2

The first step in any process of this sort is to assess the current situation in order to deepen understanding of the strategic context. Objectively sharing data about the situation helps "unhook" participants from deeply held positions and provides needed distance for reflection. Using the 2 x 2 thinking approach, the group drafted several perceptual maps in order to gain a better understanding of their positioning vis-à-vis competitors in terms of capabilities, strategic directions, value proposition and other measures. The example map is called a Customer Value Analysis (Figure 2).

Based on the economic profiling work of Dr. Bradley Gale the team constructed a customer value analysis matrix which contrasted customer perceptions of FTXS and its competitors in retail services. Offerings were compared on the dimensions of Quality and Price. For price, the group substituted Total Cost of Ownership, a common measure in the computer industry. Two possible conclusions were reached. First, though their offering is strong, it is not widely known. They'll need some marketing communications investments to support field efforts in order to speed up the sales cycle. Second, they should either withdraw from customer opportunities and segments where their offer is viewed less positively, or, invest to improve the offer. Many similar exercises and maps created by the team produced a shared agreement about the current state that served as the platform for defining the Level 2 Dilemma.

Finding The Core Dilemma

Definition of the core dilemma lies at the heart of this work, and is usually the most difficult step. Fortunately, struggle and discomfort are beneficial to the process—they indicate you're getting to the heart of the matter. Agreement reached too easily is usually a sign that something is amiss.

The FTXS executive team approached the core dilemma by first generating a comprehensive set of symptoms that described the positive and negative aspects of the current situation. Next they developed sets of opposing forces, or issues, as seen in abbreviated form in Figure 3. These trial dilemmas became the raw material from which they would generate a single overriding core dilemma.

Opposing Forces and Trial Dilemmas

Marketing and Knowledge		
Demand creation	vs.	Capability
Solutions		Relationships
Long-Term Opportunity		
Build for Tomorrow	vs.	Sell Today
Shareholder value potential		Dominate markets
Focus and Targeting		
Retail Focus		Horizontal Focus
Understanding Evolving Needs		Innovation
Customer Driven		Market Driven
Business Model		
Lifecycle management	vs.	Point solutions
Value		Volume
Survival and Sustainability		
Staff survival	vs.	Business growth
Customer Focus		Managed Process
Greatness		Survival
Investment		
Parent Co. contribution	vs.	Business growth
Partnering		Parent investment
Right customers		Speed of growth

Figure 3

Each pair of issues generated intense discussions and in some instances, further modeling. The key issues resolved around ideal customers, the economics of the retail business, selling value versus being a volume producer, and the need for a new strategic offer. But the conflict between short and long-term business interests drew the most attention and emotion, and ultimately the group settled on a version of this. The Core Dilemma became the tension between Profitability and Growth. Profitability is necessary and certainly desirable. However, the timing and tradeoffs involved in attaining Profitability can seriously impact business viability. When the business was losing money as it had not so long ago, profitability became the key goal and measure of legitimacy. With this goal achieved, the leadership team needed to broaden their concerns to include investment and sustained profits.

Growth challenges the team to look beyond the existing set of offerings and customers. Where is the business headed? Is there long-term survival without growing? And, what core competencies are needed to sustain growth? In the technology field, growth rarely occurs without investment, as one generation of solution is quickly replaced by the next.

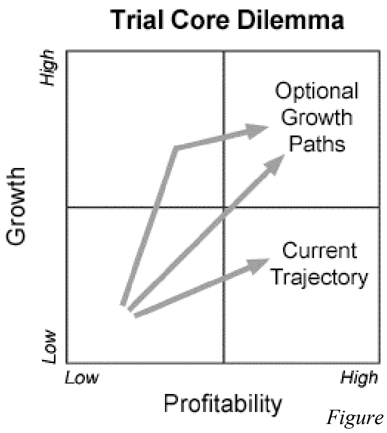


Figure 4

The tension between these two forces was recognized as significant for the FTXS business. Further, it appeared that if we could resolve this dilemma, the majority of other issues would be addressed.

Deepening The Dilemma

Once a core dilemma is recognized, we employ archetypal or "classic" dilemma models to intensify strategic insights and help the customer create new options. The FTXS team gained great value from working with these. Let's take a look at how they applied the venerable Product Vs. Market model.

Product Versus Market

The Product/Market dilemma states that you can alter your offering (existing and new), and you can alter the customer markets you sell into (existing and new). It proved useful to FTXS in addressing trial dilemmas such as Retail Customers vs. Horizontal Focus, Lifecycle Solutions vs. Point Solutions, and Partnering vs. Parent Investment. The use of an archetypal dilemma that has been proven itself many times provides a rapid shortcut to modeling options.

The Product Market matrix succinctly depicts the major strategic options and their logical sequence. The lower left quadrant represents the current opportunity to increase sales in the existing market. To accomplish this, the team felt FTXS would need to deliver on existing commitments and intensify marketing and sales efforts. FTXS has the opportunity to expand beyond this level of success (upper left) by improving and expanding on its current position. The lower right quadrant involves expanding into new customer markets; leveraging the competencies and track record they have developed in retail to handle transactions in new, emerging spaces. Here, the team felt that FTXS could extend its emerging Lifecycles model into more non-traditional retail businesses, where new types of transactions are emerging.

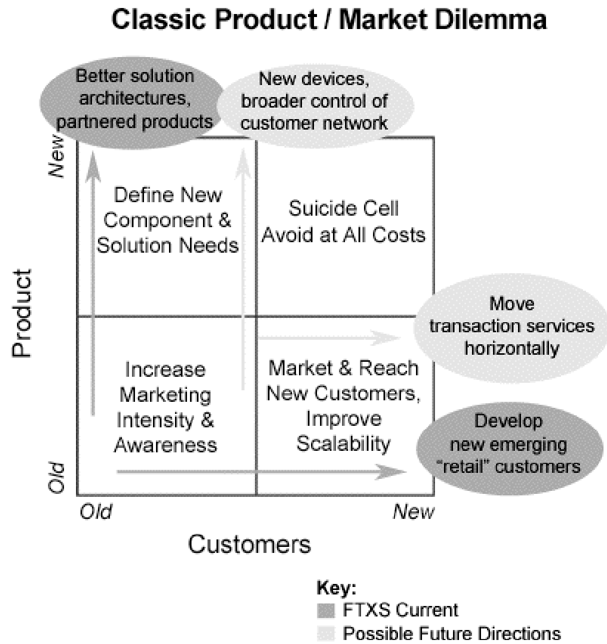


Figure 5

Core Dilemma Implications

After working through several archetypes the group returned to their core profitability versus growth dilemma, determined to begin serious design of the new strategy. The developed a 2 x 2 matrix that mapped the history and future options of the group. Take a look at Figure 6. Until fairly recently, profitability was the focal point for the FTXS business. Phase 0 is off the grid, indicative of the business unit's previous dismal performance. Growth was not even a consideration until Phase 1, when steady sales within the retail market became possible. This is the current reality.

The organization has developed an impressive set of competencies, and an operating platform that is highly competitive. The retail sector experience has allowed them to build a hard to replicate expertise in managing transactions. The team determined that expanding that capability with new offerings that leverage the next phase of technology development, coupled with the Lifecycle Cost Reduction orientation, will make their current value proposition even more appealing. Phase 2 then becomes a period of building a more stable business within their existing base of prospects and customers, improving growth and profitability.

Beyond mere stabilization of the current strategy, the strategy team developed a portfolio of options that aim to manage the tradeoffs and transcend the dilemma of growth versus profitability. FTXS could choose to advance quickly to the right side of the matrix, and squeeze the current franchise for short-term profits. The danger in choosing this path is the difficulty in remaining competitive as technology and practices shift. The opposite extreme is to postpone profitability to invest in the creation of a more robust and flexible set of future offerings.

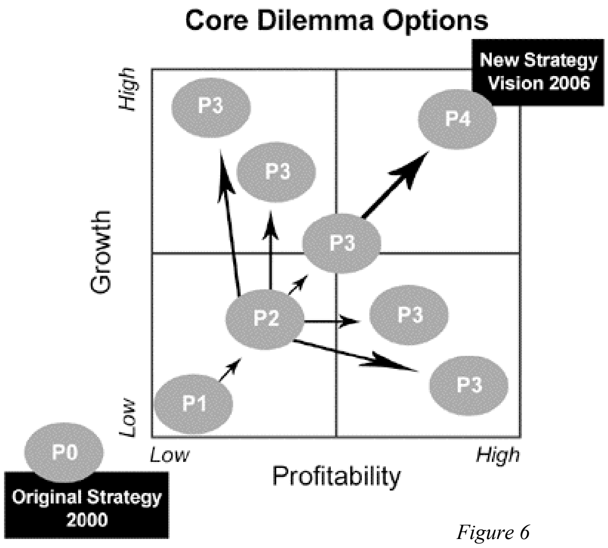


Figure 6

The group modeled several opportunities, labeled P3 in the diagram, in order to create a strategy and growth plan that would respond to the core dilemma and emerging competitive environment. With each option they modeled different value propositions and offerings. (For strategic reasons, these plans—currently under development—can only be discussed in general terms here).

The goal of any strategy at this point is to elegantly resolve the major issue areas that the group has identified as initial dilemmas. At a high level FTXS aims to manage the tension between offers and customers (marketing); the conflict of building for tomorrow while selling today (long-term opportunity); and, the structural dilemma of market focus. Doing so provides the platform for refining both the strategy and divisional business model.

One of the great strengths of the conscious application of a dilemmas-based approach is that it provides a check on ongoing activities, helping to align actions with the key success factors of the business. The FTXS team is currently moving forward, refining the strategy, filling gaps in human, technical and financial resources, and creating accountability for objectives, timelines and budget responsibilities.

Sometimes to succeed a company must be prepared to cannibalize its own recent victories…before others do it to them. 2 x 2 thinking suggests that all strategies carry within them the seeds of their own demise. Succeeding with the Level 1 dilemma creates the conditions for the Level 2 Dilemma. The willingness to challenge and build on their Level 1 Strategy has been critical to FTXS's ability to continue its evolution from an also-ran to a market leader.

Transcend Strategy was formed by Phil Hood and Alex Lowy to promote strategic decision-making methods as presented in the book, The Power of the 2 x 2 Matrix: Using 2 x 2 Thinking to Solve Dilemmas and Make Better Decisions.

Alex Lowy is co-founder and past president of Digital 4Sight. He has co-authored two best-selling business books, Digital Capital: Harnessing the Power of Business Webs (Harvard Business School Press, 2000), and Blueprint to the Digital Economy (McGraw Hill, 1998) with Don Tapscott and David Ticoll.

Phil Hood has been one of Silicon Valley's most thoughtful voices on the development and use of multimedia and pervasive computing technologies for the past 20 years. At Digital 4Sight, he directed a series of multi-year research studies that explored the links between emerging technologies and organizational strategy.

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