

## Strategy Transformation Framework

### *Extracting Context to Invest in Core*

Everything begins with strategy. Strategy determines what is core to a company's competitive advantage. Sustainable differentiation is the basis of economic success. Differentiation creates the basis for customer preference and gives a company pricing power. Sustainability is based on a barrier to competition and increases the returns on investment. Core is defined as any process that contributes directly to sustainable differentiation. Context is all other processes required to fulfill a company's commitments to one or more of their stakeholders. Everything that gets done in a company is either core or context.

In optimizing resources, the goal in core is to create competitive advantage. Differentiation is critical here. This is the place to invest human and financial capital. On the other hand, with context activities, the goal is to meet market standards. Differentiating on context is a mistake and one that is costly. The key is to extract human and financial capital from context wherever possible and repurpose for core.



A company focuses on core by defining key metrics around market impact: market share, profit margins, and the like. Core is usually a small part of the overall activities that goes on in a company. Initiatives are built to introduce new core. These initiatives are driven by change agents who are usually pulled out of their current roles to focus on the



execution. Core teams are not permanent; they are on assignment, and their goal over time is for their work to be assimilated into the rest of the organization.

In the meantime, the rest of the operation continues to conduct their day-to-day activities to keep the company running. For context activities, a company relies on sustaining resources working existing processes managed within a corporate organization. The majority of the people and assets work on context. However, in order to free up resources to focus on new core, a company must continually improve the productivity of their existing processes. Part of creating new core is engineering the new context.

Companies should always be focusing on new core. Whatever a company's current core is today, it will be context tomorrow as competitors eventually catch up. The problem with most companies is that they just keep on creating new core while keeping old context resulting in huge inefficiencies and unproductive activities. The bulk of the people and the organization is then focused on context activities or even worse, trying to differentiate on context.

A clear understanding of a company's core is critical especially in a downturn economy. When companies try to improve their overall performance, they use a number of levers including layoffs. At this point, it is important for companies to understand what is core versus what is context. It is essential to keep core within the company since this is what will create value for the company. It is extremely important that when a company does layoff people, they are not eliminating core activities.

The consequences for companies that do not understand their core and context is a waste of human and financial capital and the creation of organizational inertia that blocks change. Not focusing on core will result in a company's offerings becoming commoditized with their overall market power weakened.