Stanford eCorner

Hierarchy of Powers Framework

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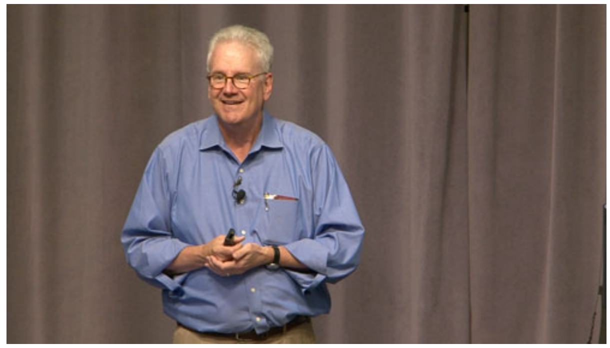
MDV Venture Partner Geoffrey Moore lays out a framework for companies to use in analyzing their current power. This "hierarchy of powers" lets organizations examine their position and strength in relation to growth categories, other companies, desirable markets, offers, and the ability to execute. Moore says this process requires companies to be completely honest with their current situation.



Transcript

You kind of need a better vocabulary to talk about power. And so what the -- we created a model called the hierarchy of powers. It's kind of a framework of frameworks. And the intention of this hierarchy is to let people sort out the power equation in a set of levels that make sense. So the hierarchy of power is just five powers but you talk about each power separately from the other four and you talk about them in sequence from top to bottom. The reason why that sequence exists from top to bottom is actually a lesson we learned from the investment community. When investors allocate assets the first thing they do is they allocate it by category. Actually, you mean by category, they'll say bonds versus equities versus cash in hand or whatever. But within equity itself say you want to be in retail, do you want to be in natural resources, do you want to be in tech, do you want to be in whatever. And so category power has to do with how fast are the categories that you are in growing? Because if you're in a category that's growing 100%, even if you're kind of a doofus, you're probably going to do pretty well this year.

And investors aren't stupid. By the way, vice versa, if you're in a category that's growing at 4%, you have enormous pressure on you to make sure you make every penny of your earnings. And it's very, very hard for you to do much better than that because the category is giving you no lift whatsoever. You can take share in a category that's not growing but not forever. Eventually, you run into a wall. So investors at the margin would prefer your company to be in high-growth categories, not low growth. So a company like General Electric would routinely sell off low-growth businesses in order to get capital to buy high-growth businesses and they would kind of migrate the footprint of the corporation going forward. That's in order to have more category or power. You can hold your company accountable to what category is you're in. The board of directors can hold the management team accountable to that.

The next one is company power. So in the categories you're in, how powerful? Do you control your own destiny or somebody else is calling the tune and you're just trying to keep step and keep pace with them? This is market share. This is Jack Welch saying, you want to be number one or number two or you don't want to play because you wouldn't have enough company power to get the return on being in that category. You ought to get out of that category and get into some categories where you can be number one or number two. So it's about power. The third one is market power that has to do with, are you in the markets that are the fastest growing segments or the more strategic segments? Now, category and market sometimes get confused but category is defined by a group of competitors and markets are defined by a group of customers. And as long as you kind of keep that sort of simple quote in your head, you will not confuse the two of them. So a market is about getting a group of customers and the idea here is a little bit like winning primaries for a presidential nomination. You want to win in New Hampshire primary. There are not very many delegates in New Hampshire but is a very strategic primary to win.

And in markets, there are always segments that are early bellwether segments that are different for different markets, different technology, different categories, well, there's always some. And so winning those early or maybe there's a segment that's in transition where the segment like this particular part of the economy is completely being disrupted by the Internet this year so whatever they're going to buy, they're going to buy this year. So get in there and be successful if it's the kind of stuff that you sell. That's what market power is about; winning segment shares in the critical segments. Offer power is based on how compelling is your offer compared to the rest. We're talking about differentiation. How different is it, but then also how comparable is it to the -- are you living up to the norms of your category? That's quote of table stakes and then how different is it. I'm going to come back to offer power so I won't say more about it right now. And then execution power is, when you guys set yourself out to do something, when you're going to enter a new category, when you're going to do one of these transformational initiatives, can you actually get it done or do you find yourself kind of redoing it? So if you look at this thing, we often sit down with our clients and we'll say, let's just ask you a couple of questions kind of among us kids and the door is closed and there's no recording devices going. So the questions go like, are we in the high-growth categories or do we have category envy? HP right now must have Tablet envy, right? It has to, right? Everybody looks at Apple going, like that, OK.

Category envy. OK. Company power. Do customers and competitors see us as the team to beat or is that somebody else? Let's just be honest with each other, where are we and think about your company or the company you may have been in before you came here or the company you're in now, the company you intend to go to. Market power. Are we winning the key primaries definitively or -- and are we winning them fast enough? I'll tell you, "Yeah, we're going in the right market," but it's like one year, two years, three years, nothing is happening. It's dying. That's not what we meant. Winning meant, you know, moving on. So do your flagship offers, you know, set the bar or are you always playing catch up and not doing it fast enough, and we'll come back to that again as I said with Arthur.

Can you make stuff happen and make it stick or are you continually pushing the reset button? There is nothing more discouraging than being in a large corporation which does a massive reorg once or twice a decade because the last team couldn't get it done. And it feels like you're watching this very large sort of drain, this water is just going like this. This could take you a long time but it only appears to be one way that this thing is going to go. And so it's important when you sit here and to say, the questions you want to ask are where are we strong and where do we need help. And no matter how good or how bad you are, you probably have places that you're better than others, and so what are we going to build on and where do we need to go forward?