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# Strategy Development for Life Science Companies

A practical guide to minimum viable strategy

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# Content

|                                       |    |
|---------------------------------------|----|
| Introduction.....                     | 3  |
| What is strategy?.....                | 4  |
| Definition.....                       | 5  |
| Levels of Strategy.....               | 5  |
| Branches of Strategy.....             | 5  |
| Process.....                          | 6  |
| 1. Participants.....                  | 6  |
| 2. Sequencing.....                    | 7  |
| 3. Evidence.....                      | 7  |
| 4. Deciding .....                     | 7  |
| Frameworks.....                       | 8  |
| Direction Setting.....                | 8  |
| Strategy Thesis.....                  | 8  |
| Strategic Statements.....             | 9  |
| Markets and Environment.....          | 11 |
| Porter's Five Forces.....             | 11 |
| Industry Life Cycle Analysis.....     | 13 |
| Strategic Groups .....                | 15 |
| PESTLE .....                          | 17 |
| Internal Assessment.....              | 19 |
| Value Chain Analysis.....             | 19 |
| Value System.....                     | 21 |
| VRIO.....                             | 23 |
| Business Model .....                  | 25 |
| Value Proposition Canvas.....         | 25 |
| Business Model Canvas .....           | 27 |
| Competitive Positioning.....          | 29 |
| Segmentation.....                     | 29 |
| Targeting.....                        | 31 |
| Positioning .....                     | 33 |
| Value Proposition(s) per Segment..... | 35 |
| Account Portfolio Analysis.....       | 37 |

|                                                    |    |
|----------------------------------------------------|----|
| Pricing.....                                       | 39 |
| Cost-Based Pricing.....                            | 39 |
| Competition-Based Pricing.....                     | 41 |
| Value-Based Pricing.....                           | 43 |
| Growth and Innovation.....                         | 45 |
| Ansoff Matrix.....                                 | 45 |
| Strategy and Risk Assessment.....                  | 47 |
| Suitability, Feasibility, Acceptability (SFA)..... | 47 |
| Pre-Mortem Analysis.....                           | 49 |
| Risk Matrix.....                                   | 50 |
| Summary .....                                      | 52 |
| Need help developing your strategy?.....           | 54 |
| Glossary .....                                     | 55 |
| References.....                                    | 57 |

## Introduction

The healthcare industry splits roughly into two segments. On one side sit the companies that develop new diagnostics and therapeutics, the biotech and pharmaceutical firms. On the other sit the companies that supply the products and services those firms need to do the work, from contract development and manufacturing organizations (CDMOs) and contract research organizations (CROs) to suppliers of equipment and materials. This paper addresses the second group, and calls them life science service providers.

The life science service provider market is neither highly concentrated nor overly fragmented. Market concentration differs by segment: in life science tools and reagents the ten largest suppliers hold roughly two thirds of revenue, among CROs the ten largest hold around half, and among CDMOs the five largest hold only about a fifth to a quarter (Business Research Company, 2026; MarketsandMarkets, 2026; Global Market Insights, 2026). Estimates vary between sources, since each defines its market differently. The consistent finding, however, is that a substantial share of every one of these markets is served by small and medium-sized enterprises.

The European Commission defines that group by size and revenue. A medium-sized enterprise employs fewer than 250 people and reports turnover of no more than EUR 50 million or a balance sheet total of no more than EUR 43 million; a small enterprise employs fewer than 50 people and reports turnover or a balance sheet total of no more than EUR 10 million (European Commission, 2003). Size matters, because it limits how much a company can invest in developing new products or improving its commercial systems.

This whitepaper addresses established small companies with proven services and products, which have typically won their customers through word of mouth and the founder's network. In such firms the founder is still deeply involved in sales, and might even be the only person doing active business development. Marketing runs on a small team, a single full-time employee, or someone handling it part-time alongside another role. Commercial systems such as CRM, project management, and the website are rarely integrated, and parts of them still live in spreadsheets. In short, the company has a working business but potentially only a minimal commercial infrastructure underneath it.

When companies of this kind decide to grow, they usually take one of two approaches: selling more of their existing services into their existing markets, or taking those services to new markets. Both are sensible moves and warrant a thorough examination of the market and of how the product or service could be placed within it. This examination is what I will refer to as strategy development.

Strategy development is a demanding process, and small companies face several challenges in carrying it out. Since founders are involved in many aspects of the company's daily operations, their time becomes the limiting factor, with little to spare for formalizing strategy. Furthermore, as the company is small, there is no internal capacity

to run the analyses in the detail they require. And finally, often there is no deep in-house expertise in strategy development, since those companies are built on scientific and operational strength – rightly so. Taken together, these obstacles do not make strategy work impossible, but they make it necessary to be selective about which parts of it a small firm actually does.

This leads us to the aim of this paper. I want to set out the minimum of strategic work an established small life science company should complete before its next growth initiative, provide a guiding sequence for that work, and present the individual frameworks most useful to a company of this size. The frameworks that follow are not a complete survey of the strategy literature. They are a selection that has earned its place as the absolute foundation of strategy development and should be prioritized when time and capacity are the binding constraints.

I have written this paper for the founders and managing directors of established life science service companies who want to take their next growth step but have neither the time nor the internal capacity to run a full strategy process. After reading this paper, you will have a clear view of which analyses are worth your time, in what order to run them, and what a defensible answer to each looks like.

## **What is strategy?**

Up to this point, I have used the term “strategy” several times without defining what I mean by it. The word goes back to ancient Greece, where “stratos”, an army spread out in the field, and “agein”, to lead, combined into strategos, the general who led it (Cummings, 1993). For centuries the word remained largely in the military realm, until Alfred Chandler was among the first to introduce it formally into the business context (Chandler, 1962).

Nowadays, the word “strategy” is used so often and so loosely that its meaning has become blurred, so it is worth clarifying. First, a goal is not a strategy, as in “our strategy is to grow 20%”; a strategy is the way to reach a goal. Second, the adjective “strategic” is used as a synonym for “important”, or worse, as a polite word for “unprofitable”, as in “this is a strategic customer”. Finally, strategy is often reduced to a plan, a neat, sequenced list of to-dos. In my view, all of these can be part of a strategy, but strategy itself is something bigger.

So, let me propose a definition to be used for this paper.

## Definition

A useful definition comes from the Exploring Strategy tradition associated with Richard Whittington, who, with his co-authors, describes it as follows:

*“Strategy is the long-term direction of an organization, formed by choices and actions about its resources and scope in order to create advantageous positions relative to competitors and peers in changing environmental and stakeholder contexts.”*

I think this definition has three very important aspects:

- 1) It implies long-term thinking. We can argue about the specific time horizon, but it is certainly longer than the next quarter. In Asian markets, companies often work with five- or ten-year strategies.
- 2) It sets a direction, usually through objectives. This implies deliberate action, even if that means reacting appropriately to a changing environment.
- 3) It involves organizations – groups of people with many interdependent relationships – and how to structure and manage them in order to reach the long-term objectives.

## Levels of Strategy

We can see strategy operating at three levels. Corporate strategy decides which businesses a corporation holds, as in portfolio management. Business strategy decides how a single business competes in its particular market. And finally, functional strategy decides how each function, such as sales or marketing, supports that plan. This paper concerns itself with business and functional strategy, since a small life science service provider is usually one business rather than a portfolio of them.

## Branches of Strategy

When diving into the actual process of strategy development, it helps to see strategy as three connected branches. **Positioning** is the analysis of the market and the firm to find an advantageous place to stand. **Choice** is the decision about which position to take and which to refuse. **Action** is the building of the systems and processes that turn the choice into daily behavior.

For each of the branches the literature provides a set of guiding questions as shown in the list below. A small firm does not need to answer them all, so I want to narrow the list down to the essential questions.

| Position                                                                                                                                                                                                                             | Choices                                                                                                                                                                                                  | Action                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Basic purpose of the organization</li> <li>Macro drivers of change</li> <li>Competitive position</li> <li>Internal capabilities</li> <li>Stakeholder expectations</li> <li>Culture</li> </ul> | <ul style="list-style-type: none"> <li>Strategy and business model</li> <li>Portfolio</li> <li>International competition</li> <li>Innovation</li> <li>Organic, inorganic, or partnered growth</li> </ul> | <ul style="list-style-type: none"> <li>Strategy suitable, acceptable, and feasible</li> <li>Strategy making process</li> <li>Structures and systems</li> <li>Change management</li> <li>Who is involved in strategy</li> </ul> |

*Sixteen fundamental questions in strategy (Whittington et al., 2020). The questions highlighted in orange are the ones this paper addresses.*

I concentrate on **positioning and choice**, and on six questions that sit under those two headings:

1. What is the basic purpose of the organization?
2. Which macro forces are driving change in its environment?
3. What is its competitive position within the industry?
4. Which internal capabilities can it turn into an advantage?
5. How does the intended strategy fit its business model?
6. Is that strategy suitable, feasible, and acceptable?

Once positioning and choice are settled, the action phase raises two further questions: what structures and systems does the strategy require, and how does the company implement them? Although this paper does not cover the action phase extensively, it is prudent to take execution into consideration while developing strategy; some of the frameworks presented will do just that.

## Process

Before I turn to the frameworks themselves, I want to say a few words about how to run the work. In my experience, it is useful to consider the following four prescriptions.

### 1. Participants

The final strategy needs to be cascaded throughout the organization. It is therefore important to involve the key stakeholders who will be responsible for enacting it, since their buy-in prevents implementation from stalling. If the company lacks the internal bandwidth to conduct strategy development on its own, involve external support.

## 2. Sequencing

The frameworks appear in a deliberate order, and I would work through them top down, from the big picture to the details. That sequence suits most small companies, because each framework narrows the field for the next. In practice, however, the process is iterative rather than linear: a change in one framework will usually force a change in another, so some back-and-forth is unavoidable. If the top-down route does not suit your situation, any entry point is legitimate. What matters is that all important analyses have been conducted and decisions made, and that together they provide a comprehensive picture.

## 3. Evidence

It is tempting to execute the strategy frameworks only from your desk, using AI. While this is legitimate for some information, the best route to getting a sound strategy is to engage real players in the market. Therefore, when presenting the frameworks, I also provide suggestions on how to obtain the data needed. The goal here is not to achieve perfect information, but rather to become aware of which decisions are based on evidence.

## 4. Deciding

Every strategy framework can be executed quick and dirty or deep and comprehensive. Which route to take depends on the expected value one gains from each framework and the available time and resources. In the end, each framework is just a tool to come to a decision. So when to stop? Here, the END framework by Nir and Jasmine Eyal is very useful. It poses three questions: 1) Effort cost: of everything I could work on, is this most worth my time? 2) Name the improvement: can I state exactly what I would improve next, and why it matters? 3) Decreasing returns: is more work likely to improve the result materially? Each question answered with “no” earns one letter, and once all three letters are collected, the work is done (Eyal and Eyal, 2026).

Once a decision has been made, translate each choice into who does what by when, attach a small number of measures, and test the whole against Rumelt’s kernel: does it contain a diagnosis of the real obstacle, a guiding policy for dealing with it, and a set of coherent actions (Rumelt, 2011)?

# Frameworks

This section presents the frameworks most useful for a small life science firm to build a working strategy. I group them into eight stages, from setting direction to assessing risk, in the order a real project most often follows. I treat each framework the same way: I state its purpose, show how it is commonly depicted and how to run it, name the data it needs and how to read the result, weigh its strengths against its weaknesses, and close with a short note on its origin. Importantly, I only provide the core information about each framework – for execution, it is advisable to consult the original publications or involve a professional strategy consultant.

## Direction Setting

The frameworks in this group help a company set its long-term direction and put its basic business idea into words.

### Strategy Thesis

#### Purpose:

A firm uses a strategy thesis to set down its first, rough view of where it will compete and why customers will choose it. The thesis is the entry point to the strategy development process. A founder writes it as a few short paragraphs, before any detailed analysis. The later frameworks then test and sharpen it. In short, the thesis captures the basic business idea early, so the rest of the work can refine it.

#### Visualization:

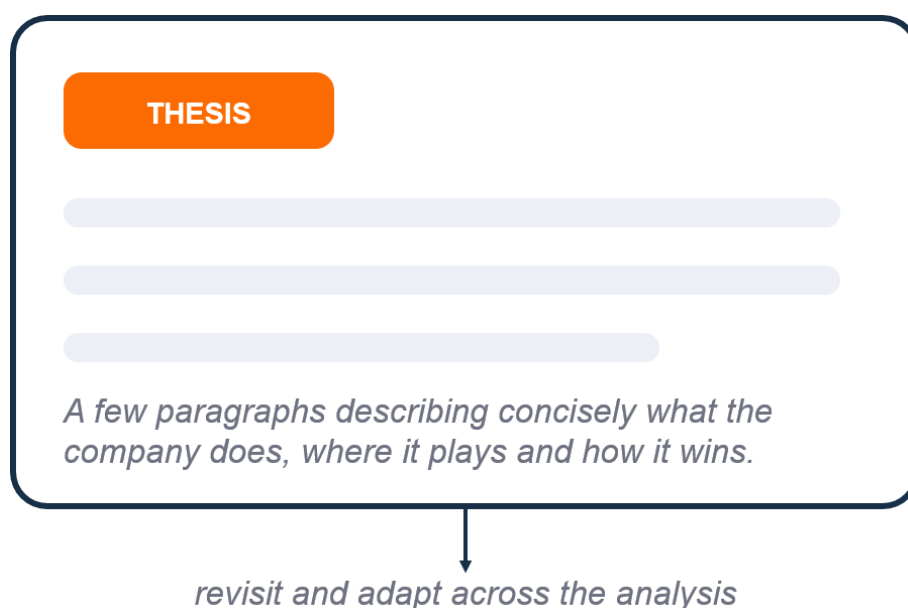


Figure 1. Strategy Thesis

## Execution:

Try to capture the essential information within a few paragraphs. Who are the potential customers? What pain do they have that they would pay to remedy? How is the company going to relieve the pain and why will customers choose it? At this stage, you do not have to – and probably cannot – go into the details. Lay down the rough concept and then proceed to the strategy frameworks below. Return to the thesis when new information surfaces and changes the business idea. Treat it like a scientific thesis and attempt to attack and falsify it.

## Inputs and data:

Whatever is in the heads of the founder and trusted colleagues.

## Strengths and weaknesses:

| Pro                                                                                                                                                         | Con                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Fast to produce</li> <li>Forces early focus</li> <li>Surfaces disagreement early</li> <li>Cheap to change</li> </ul> | <ul style="list-style-type: none"> <li>Risks false confidence</li> </ul> |

## Strategic Statements

### Purpose:

A firm uses strategic statements to put its strategy into language the organization can act on. They most commonly take the form of vision, mission, and objectives. Each one names part of the organization's purpose and carries it to stakeholders. Together, these statements turn the strategy into a few clear lines that guide the firm and communicate its direction.

### Visualization:

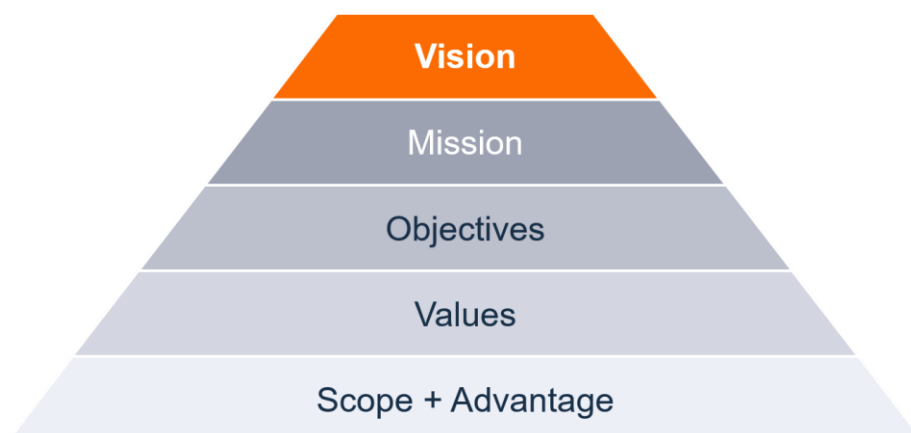


Figure 2. Strategic Statements

## Execution:

Although commonly presented at the beginning of every strategy presentation, the statements should be crafted last, once the full analysis is done, not first.

**Vision** names the future the firm wants to create. It should be aspirational, enthuse stakeholders, and stretch performance. You can get there by imagining what the company should have accomplished 20 years from now.

**Mission** answers what business the company is in. Start with a description of what the company does and then ask “why?” three to five times.

**Objectives** set measurable outcomes on a two- to three-year horizon. The KPIs follow from your business model, growth strategy, pricing logic, and similar decisions, and can be carried over directly.

**Values** state the behavioral principles that guide conduct as short statements that remain true even if the circumstances change. Many decisions during the strategy development process will influence the core values.

The **scope** statement names customers, geography, and the extent of internal activity, while the competitive **advantage** statement says why the firm wins. Both statements reflect the outcomes of your strategy work and can be carried over directly.

## Inputs and data:

The inputs come from the strategy work itself and from how the firm actually behaves.

## Strengths and weaknesses:

| Pro                                                                                                                                                                   | Con                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Creates alignment</li> <li>Guides daily decisions</li> <li>Consistent without the founder</li> <li>Shared direction</li> </ul> | <ul style="list-style-type: none"> <li>Only as good as the underlying strategy</li> <li>Easily generic</li> <li>Risks oversimplification</li> </ul> |

A small life science company does not need all of these. A vision and a set of objectives are sufficient to provide both long-term and near-term direction.

## Origin and citation:

The taxonomy follows Exploring Strategy (Whittington et al., 2020); the tighter objective, scope, and advantage form comes from Collis and Rukstad (2008).

## Markets and Environment

These frameworks help a company understand the arena it competes in, from the structure of its industry and the position of its rivals to the macro forces acting on all of them.

### Porter's Five Forces

#### Purpose:

Porter's Five Forces is a tool for understanding why some industries are structurally more profitable than others. With it, a firm maps the competitive pressure it faces and locates where the profit pools sit and which players hold the most power. The stronger the forces, the thinner the margins. This framework is very useful and extensive. A firm uses it to decide how to position within an industry, how to build bargaining power, and whether to enter an industry at all.

#### Visualization:



Figure 3. Porter's Five Forces

#### Execution:

Executing this framework well takes considerable time, as each of the following steps should contain proper research.

1. **Define the scope of the industry** by value-chain stage, by product or service, or by geography. It can be useful to split the industry into its distinct value chains and analyze each separately.
2. Rate **competitive rivalry** by looking at *competitor concentration and balance, industry growth rate, fixed costs, exit barriers, and differentiation*.
3. Rate the **threat of entry** by looking at *scale and experience, access to supply/distribution channels, capital requirements, legislation or government action, and expected retaliation*.

4. Rate the **threat of substitutes** by looking at *effects from outside the industry and the price-performance ratio*.
5. Rate **buyer power** by looking at *concentration, switching costs, buyer vertical integration threat, buyer profitability, and the product's impact on the buyer's quality*.
6. Rate **supplier power** by looking at *concentration, switching costs, supplier vertical integration threat, and product differentiation*.

### Inputs and data:

- Semi-structured interviews with market experts and industry professionals
- Interviews with buyers and suppliers
- Internal documents (contracts, pricing, etc.)
- Desk research – public sources and proprietary databases
- Structured quantitative surveys

### Interpretation:

1. **Entering or leaving an industry.** Where every force is high, the industry is structurally unattractive no matter how well the firm executes. In contrast, if the company can defend itself against strong forces, exploit weak players, or influence the forces in its favor, that is a sign to enter the industry.
2. **How to manage the five forces.** The analysis can unveil ways to exploit weak players and neutralize strong ones.
3. **How change affects players.** Not all players are affected equally by industry change, so anticipating the outcomes can inform competitive strategy.

### Strengths and weaknesses:

| Pro                                                                                                                                                                                                                                                     | Con                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Comprehensive</li> <li>▪ Structured and repeatable</li> <li>▪ Reveals industry profitability</li> <li>▪ Guides entry and exit</li> <li>▪ Externally focused</li> <li>▪ Pairs with PESTLE &amp; VRIO</li> </ul> | <ul style="list-style-type: none"> <li>▪ Research-intensive</li> <li>▪ Mostly qualitative</li> <li>▪ Static snapshot</li> <li>▪ Assumes fixed boundaries</li> <li>▪ Ignores complementors</li> <li>▪ Weak for fast-moving markets</li> </ul> |

## Origin and citation:

Introduced by Porter in Harvard Business Review (1979) and developed in Competitive Strategy (Porter, 1980).

## Industry Life Cycle Analysis

### Purpose:

A firm uses Industry Life Cycle Analysis to judge how an industry will change over time. It complements Porter's Five Forces, which is only a static snapshot. The framework rests on a simple idea: every industry moves through a life cycle, from introduction through growth, shake-out, and maturity to decline. The five forces shift with each stage, and rivalry intensifies as an industry matures. In essence, a firm reads the stage to choose moves that fit, since the moves that win in a young market differ from those that win in a mature one.

### Visualization:

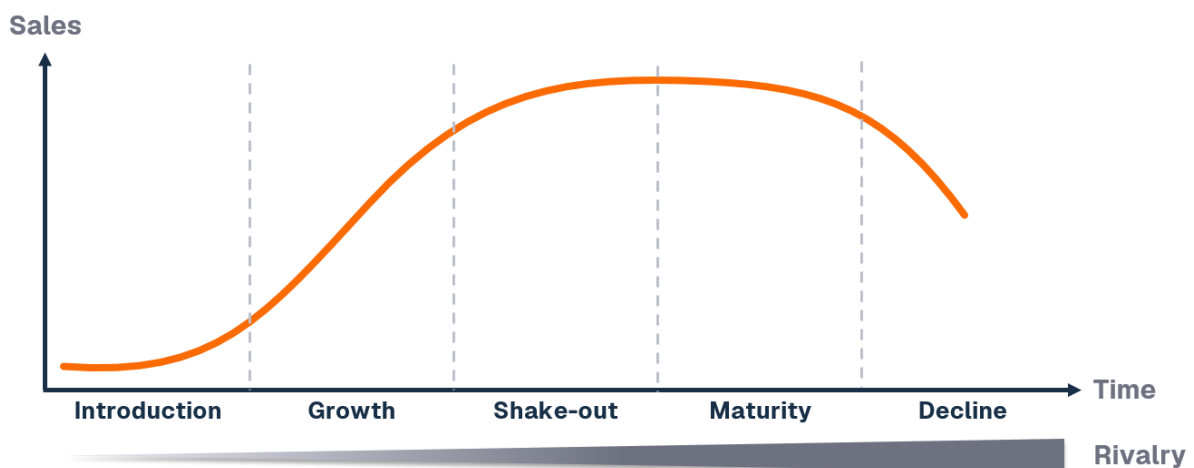


Figure 4. Industry Life Cycle Analysis

### Execution:

Placing the segment on the curve means triangulating a few independent signals.

1. **Gather the signals** of demand growth, competitor count, and the rate of technical change over recent years.
2. **Plot the curve** of sales or adoption against time for the specific segment, not the whole industry.
3. **Place the segment** in a stage: introduction, growth, shake-out, maturity, or decline.
4. **Read off the posture** the stage implies: invest for market share, differentiate, or harvest.
5. **Retest periodically**, since segments stall, regenerate, or skip stages.

### Inputs and data:

- Desk research – historical demand and adoption
- Proprietary databases – market size and growth
- Semi-structured interviews with customers and industry experts
- Internal sales and pipeline data

### Interpretation:

From the analysis, a firm learns which stage an industry is in and what that stage implies. Read the position as a hypothesis, not a fact. The curve is clear only in hindsight, and the length of each stage is hard to predict. Two complications matter. First, an industry can rejuvenate. It moves from decline back toward growth through new products and services, as happened in telecommunications. Second, industry boundaries shift over time. Contract manufacturing organizations (CMOs), for example, have increasingly become contract development and manufacturing organizations (CDMOs). In summary, leaders read the stage to decide whether to build capacity in a growing market or to differentiate and harvest in a mature one.

### Strengths and weaknesses:

| Pro                                                                                                                                                                              | Con                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Clarifies timing</li> <li>▪ Signals invest vs. harvest</li> <li>▪ Simple and intuitive</li> <li>▪ Frames growth expectations</li> </ul> | <ul style="list-style-type: none"> <li>▪ Stages not fixed</li> <li>▪ Segments regenerate</li> <li>▪ Clear only in hindsight</li> <li>▪ Industries evolve</li> </ul> |

### Origin and citation:

Builds on the product life cycle of Levitt (1965); formalized for industries by Gort and Klepper (1982).

## Strategic Groups

### Purpose:

A firm uses strategic grouping to find its true rivals and the white space around them. The idea is that an industry is usually too broad to treat as one arena: a global full-service CRO and a niche specialty lab share an industry yet rarely compete for the same work. So the firm sorts the industry into strategic groups, sets of firms that compete in similar ways, and plots them on the dimensions that matter to buyers. Put simply, the map shows where rivalry concentrates and where white space remains.

### Visualization:

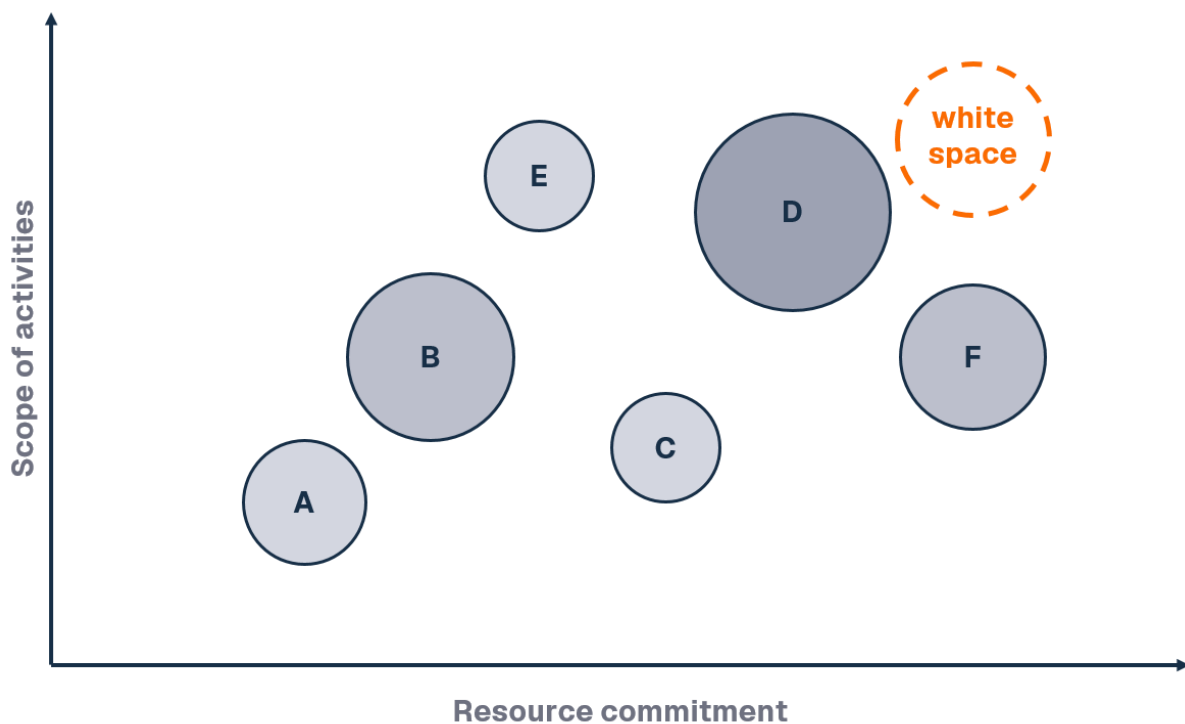


Figure 5. Strategic Groups

### Execution:

The map is only as good as its axes, so take them from the buyer's view.

1. Choose two axes that separate strong performers from weak ones, drawn from the scope of activities or the level of resource commitment.
2. Place each competitor based on evidence, sizing the bubbles by market share where useful.
3. Cluster the rivals into strategic groups that compete in similar ways.
4. Locate your own group, since rivalry is fiercest inside it.
5. Identify the white space that buyers value and rivals cannot easily reach.
6. Test the space and weigh the mobility barriers before committing to a move.

## Inputs and data:

- Semi-structured interviews with customers
- Competitor intelligence – public sources
- Proprietary databases – market share
- Sales team win/loss debriefs

## Interpretation:

From the map, a firm learns three things: who its real rivals are, where white space lies, and how hard it is to move. Its real rivals are the firms inside the same group, since competition is fiercest there rather than across the whole industry. Open regions mark white space, the gaps a firm might own. The gaps between groups mark mobility barriers, the within-industry equivalent of entry barriers. Read an empty region with care, though, because empty can mean unwanted or unservable as easily as unserved. Taken together, the map separates the space worth entering from the space best avoided.

Treat the barriers around a target group with the same care. A group can be both attractive and protected, such as integrated drug development sitting above simple testing services. It is worth reaching only if the firm can fund and staff the move the barriers demand.

## Strengths and weaknesses:

| Pro                                                                                                                                                                                                       | Con                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Externalizes the market</li> <li>▪ Reveals white space</li> <li>▪ Shows crowding at a glance</li> <li>▪ Simple visual</li> <li>▪ Locates real rivalry</li> </ul> | <ul style="list-style-type: none"> <li>▪ Only as good as its axes</li> <li>▪ Snapshot in time</li> <li>▪ Subjective placement</li> <li>▪ White space may be a black hole</li> </ul> |

## Origin and citation:

The strategic group concept comes from Hunt (1972), Porter (1980), and McGee and Thomas (1986); mobility barriers from Caves and Porter (1977).

## PESTLE

### Purpose:

A company uses PESTLE to build an overview of the macro environment, so a strategy is not blindsided by change from outside the industry. The tool covers six forces: Political, Economic, Social, Technological, Legal, and Environmental. These forces span two environments. In the market environment (suppliers, customers, and competitors), the company competes on price and value. In the nonmarket environment (regulators, payers, NGOs, and media), it competes on reputation, legitimacy, and influence. For a regulated field such as the life sciences, the nonmarket environment often matters most. At its core, PESTLE widens the field of view before a company commits to a direction.

### Visualization:

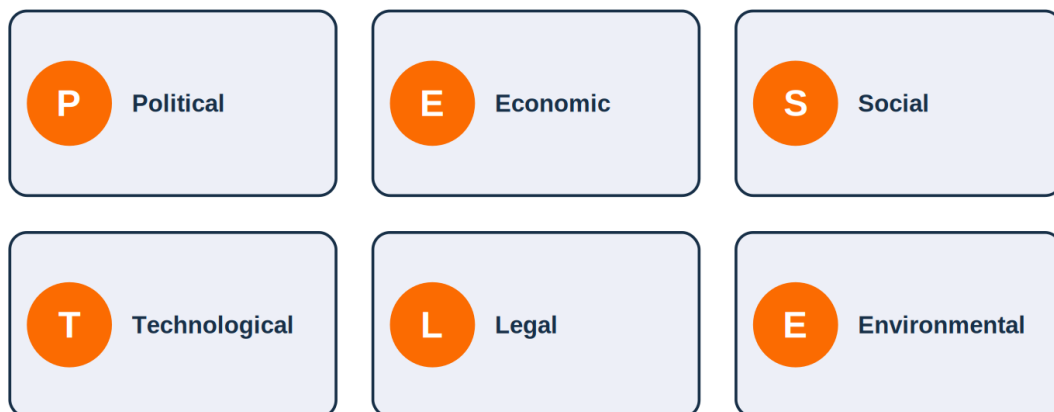


Figure 6. PESTLE

### Execution:

Work through the six forces in turn, keeping each read short and tied to the firm.

1. **Political**: weigh the role of the state as customer, owner, or regulator, and the firm's exposure to civil society, then rate political risk along the macro-to-micro and internal-to-external dimensions.
2. **Economic**: read exchange rates, interest rates and, above all, the economic cycle, and judge where the market sits before committing capital.
3. **Social**: track demographics, wealth distribution, geographic clusters, and culture, plus the organizational fields and networks the firm sits within.
4. **Technological**: scan the five innovation signals (R&D budgets, patenting, citations, product announcements, and media) and read the sector's technology roadmap.

5. **Legal**: map the formal and informal rules of the game, from regulation and taxation to the local variety of capitalism.
6. **Environmental**: weigh pollution control, product stewardship, and sustainability, since salience rises with an issue's certainty, visibility, and emotivity.

### Inputs and data:

- Desk research – regulatory and reimbursement sources
- Semi-structured interviews with regulatory and policy experts
- Proprietary databases – market and policy intelligence

### Interpretation:

From the six forces, a company learns which outside changes could reshape its industry. After collecting the data for each force, name the key drivers for change. These are the few macro forces likely to have a high impact on the industry and on the strategies within it. Rank the forces by impact and likelihood. In summary, a company builds the strategy around the top few and monitors the rest.

Read the result with caution: selecting which forces matter, ranking them, and labeling each as threat or opportunity are all judgment calls.

### Strengths and weaknesses:

| Pro                                                                                                                                                                                      | Con                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Broad macro scan</li> <li>▪ Catches regulation early</li> <li>▪ Guards against tunnel vision</li> <li>▪ Quantitative inputs possible</li> </ul> | <ul style="list-style-type: none"> <li>▪ Each force requires extensive research</li> <li>▪ Quickly dated</li> <li>▪ Requires judgment calls</li> </ul> |

### Origin and citation:

Traces to Aguilar's (1967) environmental scanning; the six-force structure and the idea of key drivers for change follow Whittington et al. (2020).

## Internal Assessment

These frameworks help a company judge what value it can actually provide. “Know thyself”, the maxim inscribed in the forecourt of the Temple of Apollo at Delphi, is what this section is about: how does the company create real advantage, and where is further investment warranted?

### Value Chain Analysis

#### Purpose:

A strategist uses value chain analysis to see the organization as a set of activities rather than a single block. The idea is that value builds up activity by activity: primary activities create and deliver the offering, while support activities make the primaries effective. By mapping them, the strategist sees where cost is incurred and where value is earned. It works alongside VRIO (see section VRIO), which a company uses to test which activities are genuinely rare and hard to copy. Ultimately, the map points to the activities worth investing in and those worth trimming.

#### Visualization:

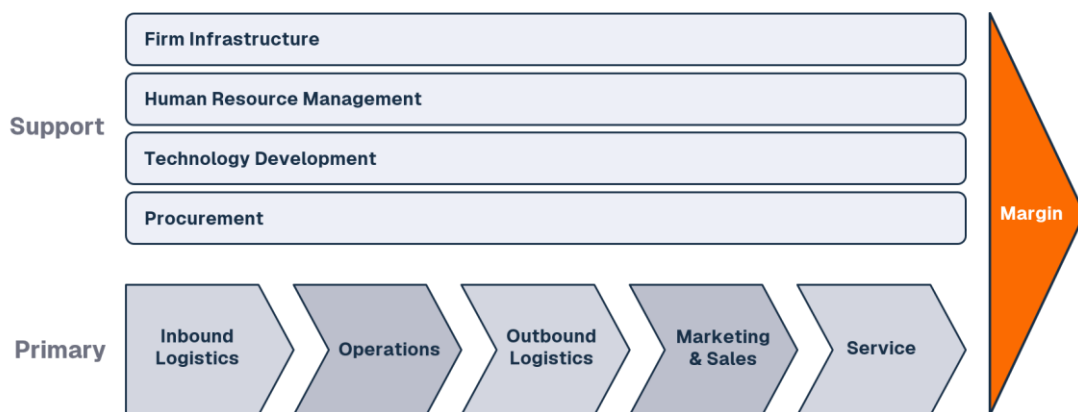


Figure 7. Value Chain Analysis

#### Execution:

Work through the activities in order, then judge each on the value it adds and the cost it carries.

1. **Map the primary activities** from inbound logistics through operations to service.
2. **Map the support activities** beneath them: procurement, technology, human resources, and infrastructure.
3. **Identify the value activities:** which add the most value for the customer, and which add little.
4. **Trace the linkages,** since advantage often sits in how activities connect, not in any one alone.

5. **Attack the cost side**, cutting where it will not harm the value customers reward and watching for support functions that have grown out of proportion.
6. **Benchmark the decisive activities** against rivals on cost and differentiation, and concentrate investment there.

### Inputs and data:

- Internal cost and activity data
- Process walkthrough and observation
- Semi-structured interviews with activity owners
- Competitor benchmarking – public sources

### Interpretation:

A company can read the results in three ways:

- 1) As a description: which clusters of activities actually deliver customer benefit.
- 2) As an input to VRIO: which specific activities might be rare and hard to copy.
- 3) As a value and cost tool: which activities are worth investing in, and where costs can be trimmed.

Throughout, read the margin as the gap between the value created and the cost of creating it.

Porter developed this framework for manufacturing organizations, so it suits a CDMO directly. A CRO needs an adaptation, because its product is data and evidence rather than a physical good. Reinterpret the goods-flow labels accordingly. Inbound logistics becomes the intake of protocols, samples, and regulatory inputs. Operations becomes study conduct, data generation, and analysis. Outbound logistics becomes the delivery of validated datasets, reports, and submissions.

### Strengths and weaknesses:

| Pro                                                                                                                                                                                         | Con                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Granular view</li> <li>▪ Ties advantage to activities</li> <li>▪ Separates cost and differentiation</li> <li>▪ Finds improvement points</li> </ul> | <ul style="list-style-type: none"> <li>▪ Needs adaptation for services</li> <li>▪ Assumes a linear chain</li> <li>▪ Time-consuming</li> </ul> |

### Origin and citation:

Set out by Porter in Competitive Advantage (1985); the analytical uses follow Whittington et al. (2020).

## Value System

### Purpose:

A firm uses value system analysis to see where it sits in the wider chain that delivers a product or service to the final customer. It draws on the results to decide what to own, where to compete, and where to partner. The idea behind it is simple. No organization performs every activity in-house, from design to delivery. Each firm is therefore one link in a longer chain, running from supplier value chains, through its own value chain, to distribution and customer value chains. Value chain analysis looks inside the firm; value system analysis looks outward, at the firm's place among the organizations around it. In short, a firm uses the value system to locate its position in the chain and the links worth owning.

### Visualization:

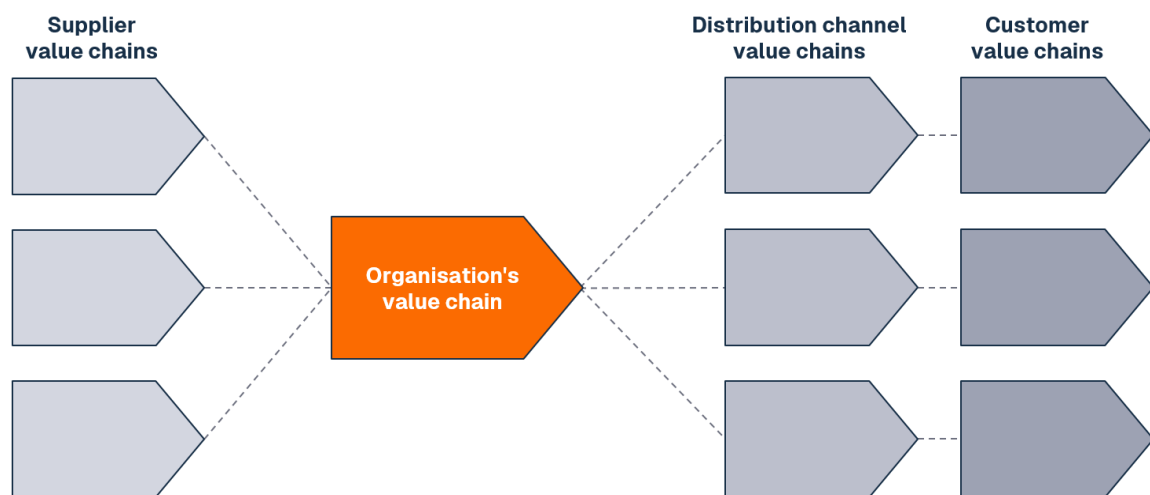


Figure 8. Value System

### Execution:

Map the chain first, then work through the questions it raises.

1. **Map the system**, from supplier value chains through the firm to distribution channels and customers.
2. **Decide whether to make or buy**, keeping in-house the activities central to advantage or needed to control the rest.
3. **Locate the profit pools**, since competitive intensity, and therefore profit, differs from link to link.
4. **Choose the partners** for each part of the chain, and decide whether they are suppliers or alliance partners.
5. **Build the ability to influence** partners upstream and downstream, since final quality depends on them as much as on the firm.

## Inputs and data:

- Supplier and partner cost and performance data
- Semi-structured interviews across the chain – sponsors, partners, distributors
- Proprietary databases – industry margins and profit pools
- Internal outsourcing and make-or-buy records

## Interpretation:

From the value system analysis, a firm learns two things the internal chain cannot show: what it must own, and where the profit sits. A link under heavy competitive intensity provides low margins, so the goal is to occupy or control the profitable links (see section Strategic Groups). As a firm outsources more, its ability to evaluate and steer partners becomes an advantage in its own right, because the final product depends on suppliers and distributors as much as on the firm. The main limitation is data, since costs and margins across other organizations are hard to obtain, and the boundaries between links blur over time. In short, a firm reads the value system to decide which links to own and which partners to strengthen.

## Strengths and weaknesses:

| Pro                                                                                                                                                                       | Con                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Outside-in view</li> <li>▪ Exposes profit pools</li> <li>▪ Informs make-or-buy decisions</li> <li>▪ Frames partnering</li> </ul> | <ul style="list-style-type: none"> <li>▪ Data rarely available for other firms</li> <li>▪ Boundaries blur</li> <li>▪ Needs the internal chain first</li> <li>▪ Static snapshot</li> </ul> |

## Origin and citation:

Set out by Porter in Competitive Advantage (1985); profit pools from Gadish and Gilbert (1998); the value system framing follows Whittington et al. (2020).

## VRIO

### Purpose:

A business uses VRIO to test whether an internal resource or capability can be a source of lasting advantage. The idea is that not everything a business owns qualifies.

Threshold resources are the qualifiers needed merely to compete and reach parity with rivals, while distinctive resources are the winners that carry advantage. To separate the two, a business asks four questions in turn: is the resource Valuable, is it Rare, is it costly to Imitate, and is the organization Organized to exploit it. In essence, only a resource that clears all four is distinctive enough to yield sustained advantage.

### Visualization:

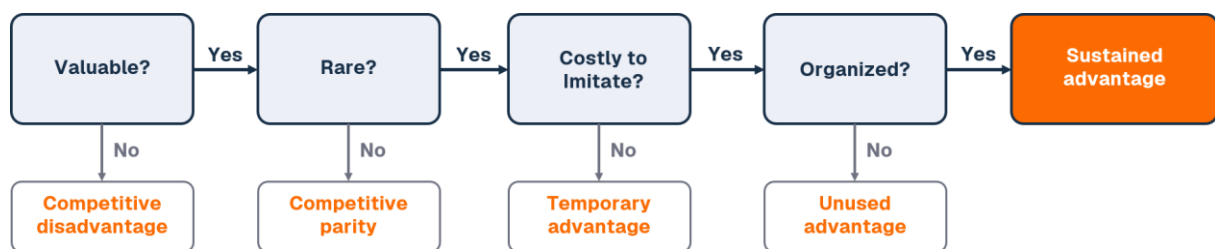


Figure 9. VRIO

### Execution:

Take each candidate resource through the four questions in order, then read off where it lands on the ladder below.

1. **Test for value**, asking whether it creates something customers value, lets the firm seize an opportunity or neutralize a threat, and can be delivered at a cost that still returns a profit.
2. **Test for rarity**, asking whether few or no competitors hold it; valuable but common buys only parity.
3. **Test for inimitability**, asking whether it is costly to imitate, obtain, or substitute; the strongest barriers are complexity, causal ambiguity, and culture and history, not tangible assets.
4. **Test for organization**, asking whether the firm is actually structured, resourced, and run to exploit it, since without this even a valuable, rare, inimitable resource stays unused.

The result is a table. From it, the company can see where it delivers value and which activities or assets it could shed.

### Inputs and data:

- Facilitated internal workshop with management and staff
- Competitor benchmarking – public sources
- Semi-structured interviews with customers

### Interpretation:

From the VRIO analysis, a business learns how durable each resource really is. A resource that fails the value test sits at the bottom, as a competitive disadvantage. A resource that is valuable but common gives only parity. A resource that is valuable and rare, yet easy to copy, gives a temporary edge until rivals catch up. Only a resource that is also hard to imitate and backed by the organization gives a durable position.

Inimitability is usually the decisive test. It rests less on assets than on causal ambiguity and path dependency, which is why a rival can read the whole playbook and still not reproduce the result. The last test often matters most for a founder-led business. Deep, rare, hard-to-copy expertise creates value only once the organization is set up to exploit it, with the structure, systems, and commercial processes in place. In summary, a business builds lasting advantage only on resources that clear all four tests.

### Strengths and weaknesses:

| Pro                                                                                                                                                                           | Con                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Disciplined test</li> <li>▪ Separates real advantage</li> <li>▪ Focuses on the durable</li> <li>▪ Complements Five Forces</li> </ul> | <ul style="list-style-type: none"> <li>▪ Hindsight-biased</li> <li>▪ No guidance on building</li> <li>▪ Subjective judgment</li> <li>▪ Static view</li> </ul> |

### Origin and citation:

Rests on the resource-based view of Barney (1991) and was formalized as VRIO by Barney (1995); the distinction between threshold and distinctive resources follows Whittington et al. (2020).

## Business Model

The frameworks in this group help a company describe how it creates, delivers, and captures value.

### Value Proposition Canvas

#### Purpose:

A company uses the Value Proposition Canvas to check that what it offers matches what one customer segment actually needs. The canvas has two halves. The customer profile lists the segment's jobs, pains, and gains. The value map lists the company's products and services, pain relievers, and gain creators. Fit is the match between the two. In essence, the canvas turns a vague "customers will love this" into a testable claim about one segment.

#### Visualization:

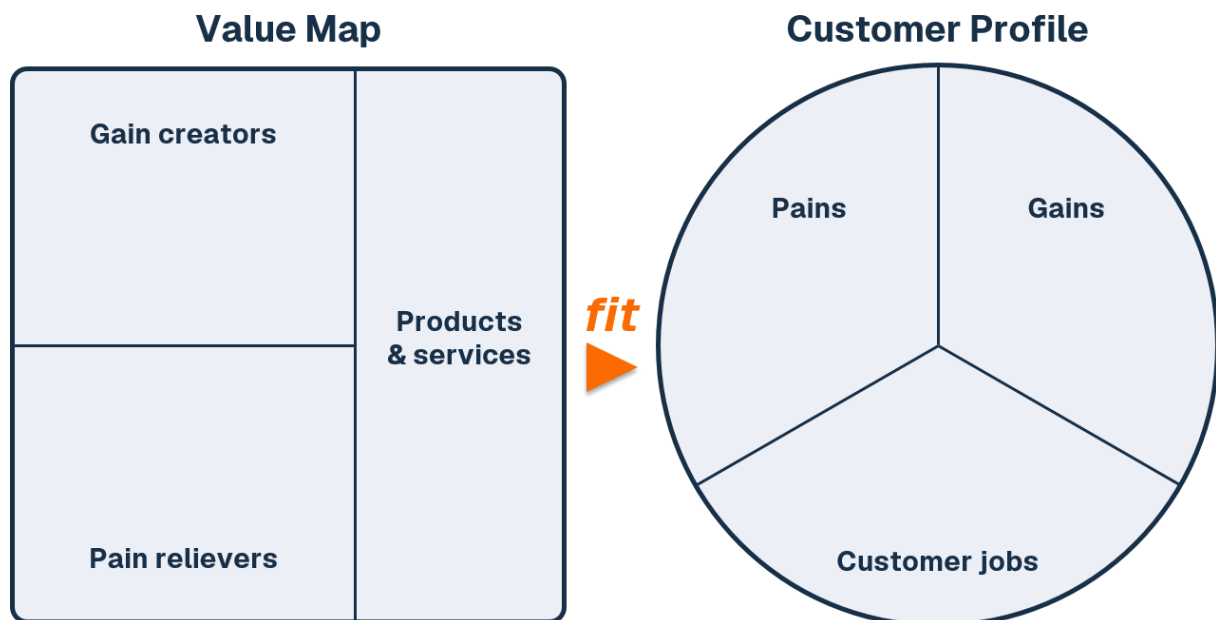


Figure 10. Value Proposition Canvas

#### Execution:

Build the customer profile first, for one segment, as if the offer did not yet exist.

1. **Profile one segment:** list its jobs (functional, social, and emotional), pains, and gains.
2. **Rank each list** by importance and severity, so the vital few stand out.
3. **Map the offer:** products and services, pain relievers, and gain creators.
4. **Connect each reliever and creator** to a specific pain or gain.

5. **Read the fit:** the offer should address the most important jobs, the most severe pains, and the essential gains.
6. **Test the fit** against real customer evidence.

#### Inputs and data:

- Semi-structured interviews with target customers
- Jobs-to-be-done observation
- Quantitative customer surveys

#### Interpretation:

From the canvas, a company learns how well its offer fits one segment, and where the gaps sit. A strong value proposition usually covers most of a segment's important pains and gains, not all of them. Read a good fit as relievers and creators that address the most severe pains and the most desired gains, and treat features that do not map to a specific pain or gain as superfluous. The results represent a theoretical problem-solution fit, which has to be confirmed in the market.

#### Strengths and weaknesses:

| Pro                                                                                                                                                                                      | Con                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Forces customer fit</li> <li>▪ Exposes unwanted features</li> <li>▪ Segment-specific</li> <li>▪ Pairs with the Business Model Canvas</li> </ul> | <ul style="list-style-type: none"> <li>▪ Needs real evidence</li> <li>▪ Static</li> <li>▪ Can flatter the offer</li> </ul> |

#### Origin and citation:

Set out by Osterwalder, Pigneur, Bernarda, and Smith in Value Proposition Design (2014).

## Business Model Canvas

### Purpose:

A company uses the Business Model Canvas to see, on one page, how it creates, delivers, and captures value. The canvas has nine blocks. The right side describes the market: customer segments, value propositions, channels, customer relationships, and revenue. The left side describes the infrastructure that serves it: key resources, key activities, key partners, and cost structure. The layout mirrors how companies work: costs sit below the activities that create value, and revenue sits below the customer segments willing to pay for that value. Put simply, the canvas shows the whole model at once, so a company can see where the parts do not fit.

### Visualization:

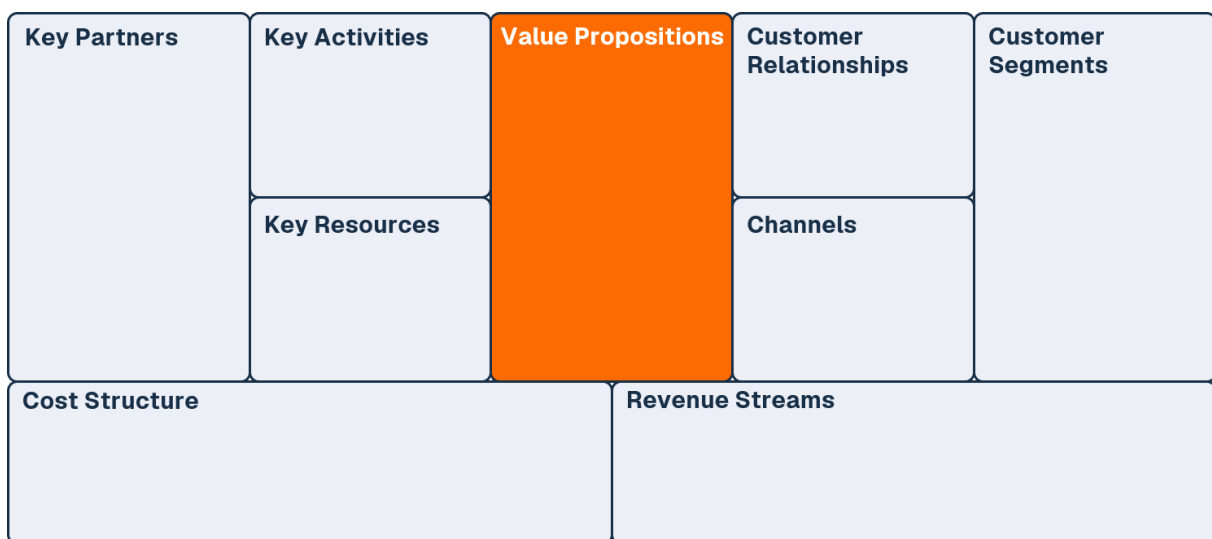


Figure 11. Business Model Canvas

### Execution:

Fill the nine blocks in a sensible order, then test the model as a whole.

1. **Start with the customer:** segments first, then the value proposition each segment buys.
2. **Work across the front stage:** channels, customer relationships, and revenue streams.
3. **Then the back stage:** key resources, key activities, and key partners.
4. **Add the cost structure,** placing costs under the activities and resources that drive them.
5. **Answer three questions:** is the model desirable (customers want it), feasible (the company can deliver it), and viable (revenue exceeds cost)?

6. **Flag any block** that contradicts another, such as a premium promise on a low-cost base.

#### Inputs and data:

- Internal financial and cost data
- Semi-structured interviews with customers on willingness to pay
- Desk research – comparable business models
- Cross-functional internal workshop

#### Interpretation:

From the canvas, a company learns whether its business model holds together as one story. Read the model through three lenses. Desirability asks whether customers want the value proposition. Feasibility asks whether the resources, activities, and partners can deliver it. Viability asks whether revenue exceeds cost. A good model reinforces itself across all three; a weak one shows a block that undercuts another, such as a premium proposition on a low-cost base. The canvas is not a business plan and not a checklist: filling all nine blocks does not prove the model works. Ultimately, the canvas is a one-page hypothesis to test and revise in the market.

#### Strengths and weaknesses:

| Pro                                                                                                                                                                                                   | Con                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Whole-model overview</li> <li>▪ Shared language</li> <li>▪ Exposes incoherence</li> <li>▪ Fast to draft</li> <li>▪ Communicates the model clearly</li> </ul> | <ul style="list-style-type: none"> <li>▪ Ignores competition</li> <li>▪ Snapshot only</li> <li>▪ No advantage lens</li> </ul> |

#### Origin and citation:

Presented by Osterwalder and Pigneur in Business Model Generation (2010).

## Competitive Positioning

These frameworks help a company decide who it serves and how it wants to be seen, narrowing a broad market down to the segments, accounts, and position it will commit to.

### Segmentation

#### Purpose:

A company uses segmentation to divide a broad market into groups it can serve well, rather than serve everyone poorly. It is the first step in choosing where to compete. Segmentation works on two levels: macrosegmentation groups buyers by traits of the organization itself, such as size, industry, and geography. Microsegmentation then divides each group further by how it actually buys, such as its choice criteria, decision-making unit, and buying process. Overall, segmentation turns one broad market into a small number of groups a company can target and serve deliberately.

#### Visualization:

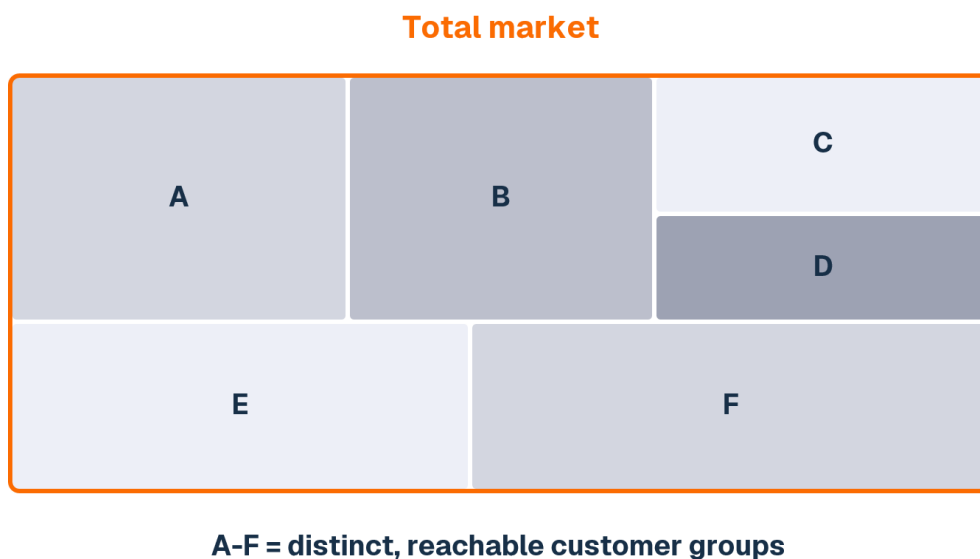


*Figure 12. Segmentation*

#### Execution:

Divide the market by who the buyers are and how they buy, then test the result in the field.

1. **Segment by macro variables** (traits of the organization itself, such as size, industry, and geography) to draw the broad groups.
2. **Segment within each group by micro variables** (how it actually buys, such as choice criteria, decision-making unit, buying process, buy class, purchasing organization, and innovativeness).

3. **Size and describe** each segment.
4. **Test each segment** for being distinct, reachable, and large enough to matter.
5. **Keep the number small** enough to serve each segment well.

#### Inputs and data:

- Semi-structured interviews with customers
- Quantitative surveys for cluster analysis
- Internal CRM and customer data
- Proprietary databases – firmographics

#### Interpretation:

From the segmentation analysis, a company learns which groups are worth serving separately and which are not. Read a good segment as one that is distinct, reachable, and large enough to matter; segments that fail any of these three tests are not worth separating. Macro-level segments are easier to define and reach, since they follow firmographic data, while micro-level segments predict buying behavior more precisely but demand more data to build. On the whole, a company balances the two: broad enough to act on, precise enough to guide it.

#### Strengths and weaknesses:

| Pro                                                                                                                                                                  | Con                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Creates focus</li> <li>▪ Enables prioritization</li> <li>▪ Fits limited resources</li> <li>▪ Basis for targeting</li> </ul> | <ul style="list-style-type: none"> <li>▪ Wrong variables mislead</li> <li>▪ Needs real data</li> <li>▪ Can fragment effort</li> </ul> |

#### Origin and citation:

Introduced by Smith (1956); the segmentation-targeting-positioning (STP) sequence is codified in Kotler and Keller (2016); the macro and micro structure follows Jobber and Ellis-Chadwick (2019).

## Targeting

### Purpose:

Targeting is the logical next step after segmentation in finding a competitive position. During targeting, the company selects the segments it will pursue, and in what order. To do so, the strategist uses a two-sided evaluation: how attractive a segment is, and how well the company can serve it. Fundamentally, targeting narrows many possible segments down to the few worth the company's effort.

### Visualization:

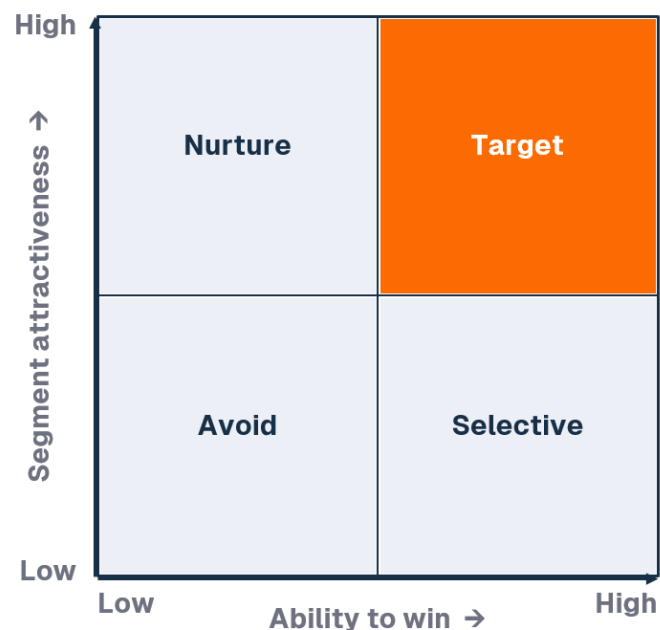


Figure 13. Targeting

### Execution:

Score, plot, then choose where to spend.

1. **Score attractiveness** for each segment: size, growth, profitability, price sensitivity, and the barriers and competition around it.
2. **Score the company's capability to win** each segment: its marketing assets, cost position, technology, and management commitment.
3. **Plot the segments** on the attractiveness and capability grid.
4. **Select the few** where both are high.
5. **Sequence the rest** rather than pursuing all at once.

## Inputs and data:

- Proprietary databases – segment size and growth
- Semi-structured interviews with customers and competitors
- Internal capability assessment workshop

## Interpretation:

Based on targeting, a company decides which segments to pursue now, which to hold, and which to leave. The best targets combine a market worth winning with a fight the company can actually win. A segment with a high attractiveness score but a low capability score is a candidate for the future, once the company's capabilities have improved. It is important to acknowledge that the most attractive segments will also invite the fiercest competition. Smaller, less obvious segments can actually be more profitable for a specific company. Once the company has chosen a target segment, it faces the strategic decision of how to serve it:

| Strategy         | When to use                                                                                   |
|------------------|-----------------------------------------------------------------------------------------------|
| Undifferentiated | One mix for the whole market.                                                                 |
| Differentiated   | A distinct mix per chosen segment; exploits real differences but costs more to run.           |
| Focused          | One mix for a single segment; fits limited resources or a market too small for larger rivals. |
| Customized       | A distinct offer per account; common in B2B for large, complex buyers.                        |

In the end, a company pairs the segments it selects with the strategy that fits its resources and the segment's size.

## Strengths and weaknesses:

| Pro                                                                                                                                                         | Con                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Forces prioritization</li> <li>▪ Prevents scatter</li> <li>▪ Clear criteria</li> <li>▪ Sequences effort</li> </ul> | <ul style="list-style-type: none"> <li>▪ False precision</li> <li>▪ Subjective scoring</li> <li>▪ Snapshot</li> </ul> |

## Origin and citation:

The second stage of the segmentation-targeting-positioning (STP) framework in Kotler and Keller (2016); the attractiveness and capability model and the four strategies follow Jobber and Ellis-Chadwick (2019).

## Positioning

### Purpose:

Based on the results from segmentation and targeting, a company now positions its offering in the target segment's perception, relative to competitors. The idea is to choose one clear basis of advantage, differentiation or cost leadership, and communicate it consistently until the target segment associates the company with something distinct and believable. At heart, positioning turns a chosen segment into a specific, defensible claim on that segment's attention.

### Visualization:

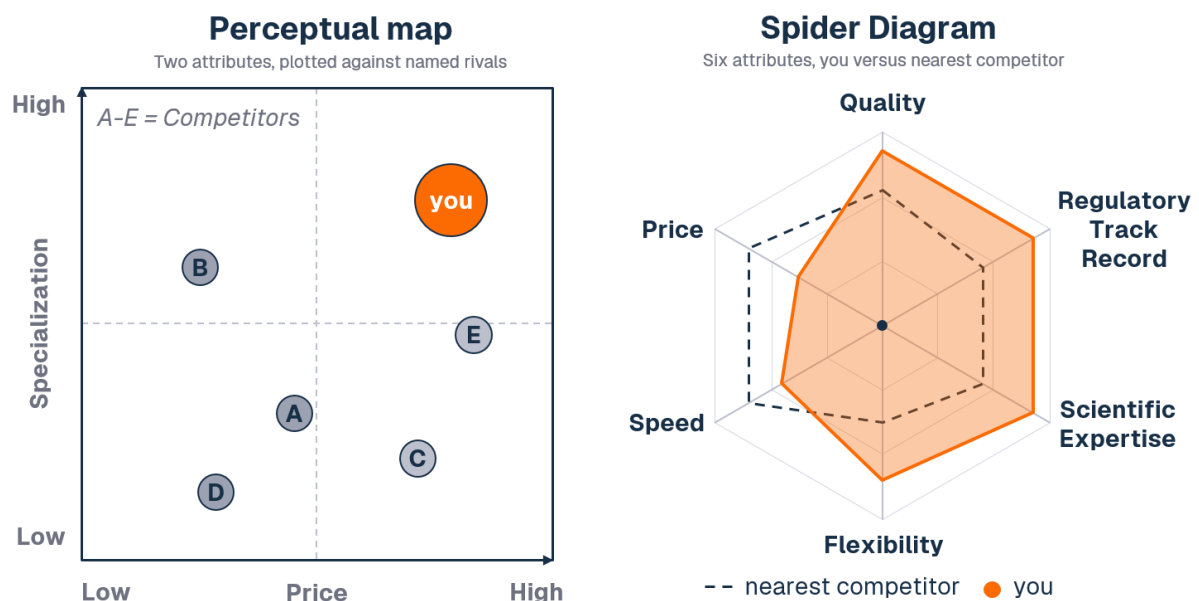


Figure 14. Positioning

### Execution:

Map the field first, then commit to one position and defend it.

1. **Choose one basis of advantage:** differentiation or cost leadership, ideally not both at once.
2. **Select the attributes** that matter most to the target segment's buying decision.
3. **Map the field:** a perceptual map for two attributes, or a spidergram where more attributes matter, plotting the company against named competitors.
4. **Hold the position** consistently across message, price, and delivery.

### Inputs and data:

- Buyer perception interviews and surveys
- Competitor intelligence – public sources
- Internal capability review

### Interpretation:

A company defines its position by choosing one basis of advantage: cost leadership, winning on the lowest cost base in the category, or differentiation, winning on something rivals cannot easily copy at a price premium the buyer accepts. The analysis then tests whether that choice holds. A company caught between the two often struggles against both: too expensive for the cost buyer, not distinct enough for the value buyer, though some firms do combine both bases successfully. In short, a defensible position usually commits mainly to one basis, even where it also borrows a little from the other. The company writes this position up as the value proposition for that segment (see section Value Proposition(s) per Segment).

### Strengths and weaknesses:

| Pro                                                                                                                                                                                               | Con                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Unifies message and price</li> <li>▪ Simple to communicate</li> <li>▪ Tested against real perception</li> <li>▪ Guides where to differentiate</li> </ul> | <ul style="list-style-type: none"> <li>▪ Collapses if undelivered</li> <li>▪ A middle position can leave a company stuck</li> <li>▪ Needs honest self-assessment</li> <li>▪ Perceptual data can go stale</li> </ul> |

### Origin and citation:

The segmentation-targeting-positioning (STP) sequence follows Kotler and Keller (2016); the generic bases of advantage, cost leadership and differentiation, follow Porter (1980); the mapping methods, perceptual maps and spidergrams, follow Jobber and Ellis-Chadwick (2019).

## Value Proposition(s) per Segment

### Purpose:

A business writes a value proposition for each chosen segment to condense its prior strategic choices into one believable promise. It turns segmentation, targeting, positioning, and the earlier canvases into a single sentence, specific enough for a salesperson to say and a buyer to believe. In practice, a business needs one such statement per segment, not one proposition stretched across all of them.

### Visualization:

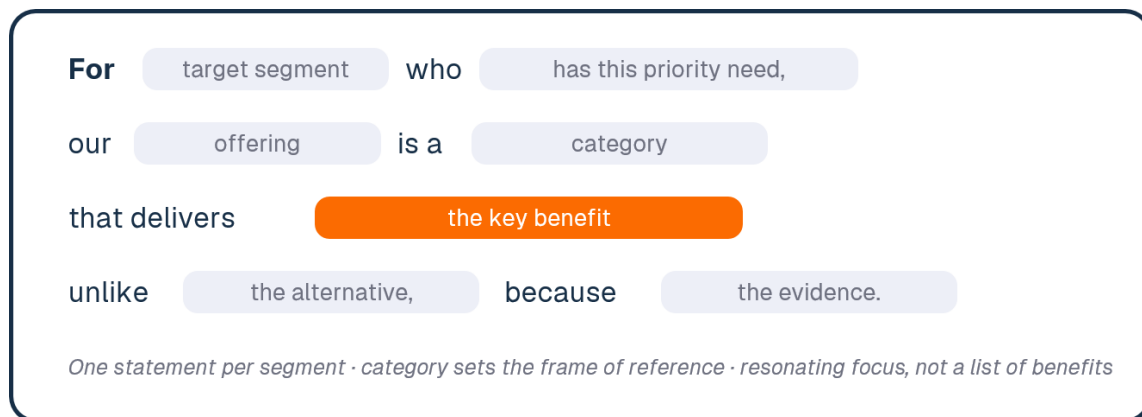


Figure 15. Value Proposition(s) per Segment

### Execution:

Write one proposition per segment, grounded in evidence.

1. **Take one segment** at a time.
2. **Name the category** the offering competes in, since it sets the frame of reference the comparison relies on.
3. **State the point of difference** against the next best alternative.
4. **Attach the evidence**, quantified wherever possible.
5. **Write the statement** in one sentence the customer would repeat.
6. **Repeat per segment** rather than stretching one proposition across all.

### Inputs and data:

- Results of previous frameworks

**Interpretation:**

The value propositions are a condensed reflection of the previous strategic work.

**Strengths and weaknesses:**

| Pro                                                                                                                                                         | Con                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>▪ Makes value explicit</li><li>▪ Anchors price and message</li><li>▪ Segment-specific</li><li>▪ Sales-ready</li></ul> | <ul style="list-style-type: none"><li>▪ Needs evidence</li><li>▪ Not nuanced</li><li>▪ Effort per segment</li></ul> |

**Origin and citation:**

The discipline of a specific, evidenced, comparative proposition is set out by Anderson, Narus, and van Rossum (2006).

## Account Portfolio Analysis

### Purpose:

A company uses account portfolio analysis to select which named companies to pursue within a targeted segment. It picks up where targeting leaves off, since a segment is a category, not a list of prospects. The idea mirrors targeting itself, one level down: the company scores each account on its attractiveness and on the strength of its own position with it, then plots the accounts on a grid, so effort concentrates on those most worth winning. In sum, account portfolio analysis turns a targeted segment into a short, named list of companies to approach first.

### Visualization:

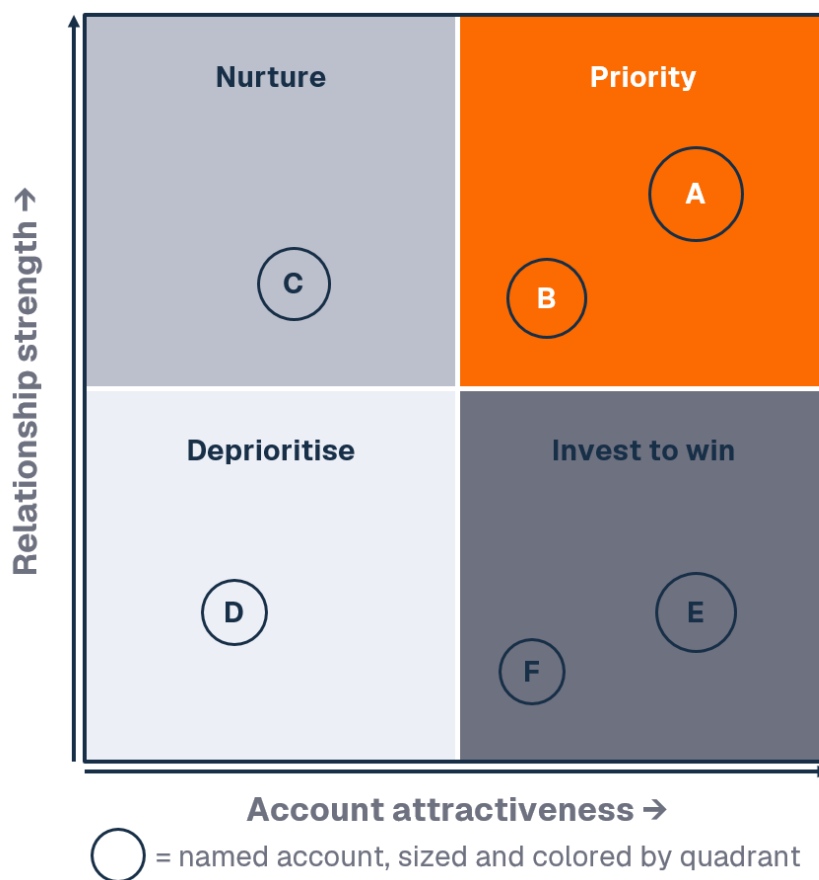


Figure 16. Account Portfolio Analysis

### Execution:

Score each account, plot it, then commit resources to the strongest cells.

1. **List candidate accounts** within the chosen segment, drawn from real companies, not a generic description.
2. **Score each account's attractiveness**: its size, growth, strategic fit, and the value it could realistically bring.

3. **Score the company's relationship strength** with each account: existing contacts, reputation, and competitive position there.
4. **Plot every account** on the attractiveness and strength grid.
5. **Commit the most resources** to accounts strong on both; monitor or walk away from the rest.

#### Inputs and data:

- Internal CRM and account history
- Semi-structured interviews with the sales and business development team
- Proprietary databases – company financials and activity
- Win/loss records from prior approaches to similar accounts

#### Interpretation:

From the account portfolio analysis, a company learns exactly which named accounts deserve the next call, and which do not. A high-attractiveness, low-strength account is a signal to invest in the relationship before selling, through a warm introduction or a pilot project. A high-strength, low-attractiveness account may still merit a light-touch relationship if it protects existing revenue or opens referrals. The resulting list is also the natural input to account-based marketing, since ABM begins by selecting the same kind of named, prioritized accounts this analysis produces.

#### Strengths and weaknesses:

| Pro                         | Con                             |
|-----------------------------|---------------------------------|
| ▪ Names specific accounts   | ▪ Needs real account-level data |
| ▪ Extends targeting logic   | ▪ Subjective scoring            |
| ▪ Focuses sales effort      | ▪ Can miss emerging accounts    |
| ▪ Reveals relationship gaps | ▪ Static snapshot               |

#### Origin and citation:

Set out by Fiocca (1982), applying the portfolio-matrix logic used for products and business units to individual customer accounts.

## Pricing

These frameworks help a company decide what to charge and on what basis. Pricing is always a balancing act: set the price too low and the company gives away value while gaining market share; set it too high and it loses customers while earning high margins on the few that remain.

### Cost-Based Pricing

#### Purpose:

A company uses cost-based pricing to set a price that covers its full cost and adds a target margin on top. The idea is simple: sum the direct material, direct labor, and allocated overhead for one unit, then apply a markup that yields the return the company wants. In short, cost-based pricing guarantees a margin on every unit sold, and asks nothing about what the buyer would pay.

#### Visualization:

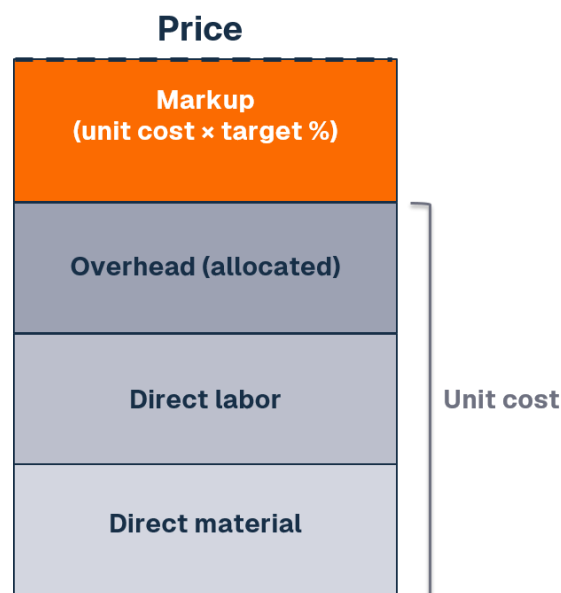


Figure 17. Cost-Based Pricing

#### Execution:

Build the price up from cost, and then check it against the market before committing.

1. **Compute the total cost** of one unit: direct material, direct labor, and allocated overhead.
2. **Fix the overhead allocation** method first, and keep it consistent across products.
3. **Set the markup** as the percentage that delivers the target return.
4. **Derive the price**: unit cost multiplied by one plus the markup.

5. **Check the result** against competitor prices and against what the buyer would pay, since the formula ignores both.

#### Inputs and data:

- Internal cost accounting – material, labor, overhead
- Overhead allocation rules
- Target return set by management
- Competitor price benchmarking – as a check only

#### Interpretation:

Cost-based pricing is a simple method to derive a price and ensure an appropriate margin. However, on a unique offer, a cost-based price often sits below what the buyer would pay, so the company gives away value. On a commodity offer, the same price can sit above a leaner rival, so the company loses volume. Taken together, cost-based pricing protects margin per unit but ignores market signals, which is why it suits transparent contracts and stable costs rather than differentiated offers.

#### Strengths and weaknesses:

| Pro                                                                                                                                                                             | Con                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Simple to compute</li> <li>▪ Guarantees a margin</li> <li>▪ Easy to justify to buyers</li> <li>▪ Fits transparent contracts</li> </ul> | <ul style="list-style-type: none"> <li>▪ Ignores the buyer's value</li> <li>▪ Ignores competitors</li> <li>▪ Leaves value on the table</li> <li>▪ Rewards cost overruns</li> </ul> |

#### Origin and citation:

Markup pricing as set out in Kotler and Keller (2016); its limits are documented by Hinterhuber (2008).

## Competition-Based Pricing

### Purpose:

A firm uses competition-based pricing to set its price relative to the prices rivals already charge. The idea is to read the market's going rate, then choose a position against it: match it, sit above it to signal quality, or sit below it to win share.

### Visualization:



Figure 18. Competition-Based Pricing

### Execution:

Map the rivals' prices first, then choose a position and hold it.

1. **Identify the reference set:** the direct competitors and close substitutes the buyer actually compares.
2. **Map what buyers compare:** the features, service levels, and contract terms behind each price.
3. **Collect the price data** from rate cards, public prices, and win/loss intelligence.
4. **Choose a relative position:** match the going rate, price above it, or price below it.
5. **Translate the position** into list prices and tiers, then adjust periodically rather than reacting to every move.

### Inputs and data:

- Competitor price benchmarking – public sources and rate cards
- Win/loss records with price reasons
- Semi-structured interviews with buyers on comparison criteria
- Internal cost data – to confirm the position is affordable

### Interpretation:

From the research preceding the mapping, a firm learns how the market prices a particular product or service and where its own offering might sit in the buyer's comparison set. The company can undercut the going rate to gain market share, price above it to capture more value, or match it. This decision itself follows from the company's positioning: whether to be a cost leader or to offer a premium product.

### Strengths and weaknesses:

| Pro                                                                                                          | Con                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Fast to implement</li> <li>▪ Acknowledges market signals</li> </ul> | <ul style="list-style-type: none"> <li>▪ Assumes rivals priced well</li> <li>▪ Ignores own cost structure</li> </ul> |

### Origin and citation:

Going-rate pricing as set out in Kotler and Keller (2016); the approach and its limits are documented by Hinterhuber (2008).

## Value-Based Pricing

### Purpose:

A business uses value-based pricing to set its price on the economic value the offer creates for a segment, rather than on cost or on rivals. The idea is to estimate that value in the customer's own economics, treat it as the ceiling and cost as the floor, and set the price as a share of the value between them. In essence, value-based pricing lets a business capture a share of the value it creates, decoupled from a fixed profit margin.

### Visualization:

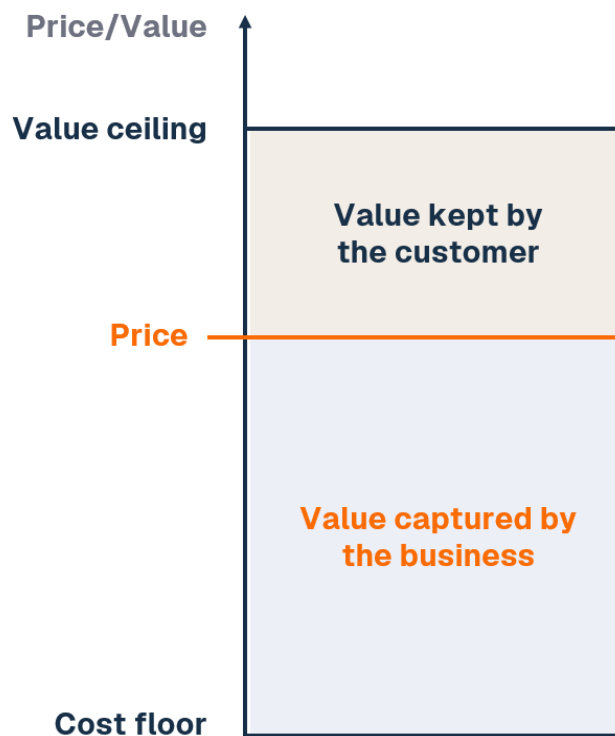


Figure 19. Value-Based Pricing

### Execution:

Anchor the price to value, not to cost.

1. **Estimate the value** the offer creates for the customer, in their economics.
2. **Set the floor and ceiling:** cost below, value above, and locate the competitor price between them.
3. **Set the price** as a share of value, anchored to the ceiling.
4. **Design the structure** of tiers and models around that logic.
5. **Prepare the proof** the buyer will ask for, since a value price stands only on evidence.

### Inputs and data:

- Willingness-to-pay research – Van Westendorp or conjoint
- Semi-structured interviews with customers on value drivers
- Competitor price benchmarking – public sources
- Internal cost data

### Interpretation:

From the research, a business learns what a customer is actually willing to pay, and how far that sits above its cost floor and the competitor reference. That gap is the value available to capture, so read a price set far below the ceiling as margin the business chooses to give away. The research is worth running even on an offer the business assumes is undifferentiated, since it often reveals value it did not know it delivered; where the offer truly matches the alternatives, the ceiling simply settles at the going rate. Ultimately, a business captures that value only if it prices near the ceiling and keeps checking that the ceiling still holds, since willingness to pay moves as rivals respond.

### Strengths and weaknesses:

| Pro                                                                                                                                                                                                                   | Con                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Captures value created</li> <li>▪ Allows a price per segment</li> <li>▪ Arms the sales conversation with proof</li> <li>▪ Raises margins on differentiated offers</li> </ul> | <ul style="list-style-type: none"> <li>▪ Needs value quantified and proven</li> <li>▪ Adds little over the going rate on true commodities</li> <li>▪ Buyers resist prices detached from cost</li> <li>▪ Value shifts over time</li> </ul> |

### Origin and citation:

The case for value-based pricing is made most fully by Nagle, Hogan, and Zale (2011); Hinterhuber (2008) shows why most companies still fail to adopt it.

## Growth and Innovation

This group helps a company decide where its next growth will come from and how much risk that direction carries. There are many useful frameworks for growth and innovation, but I assume that small CDMOs, CROs, and suppliers will most often choose market penetration or market development, so this section is deliberately short. The Ansoff Matrix is a good starting point should a small life science company entertain growth through product development or diversification.

### Ansoff Matrix

#### Purpose:

A firm uses the Ansoff Matrix to decide where its next growth will come from, and how much risk that direction carries. The matrix sets products against markets, each either existing or new, giving four routes: market penetration, market development, product development, and diversification. The routes rise in risk with the number of unknowns: penetration asks the firm to be right about nothing new, while diversification asks it to be right about both a product and a market at once. In essence, the matrix makes the growth choice explicit and prices each option in risk before the firm commits.

#### Visualization:

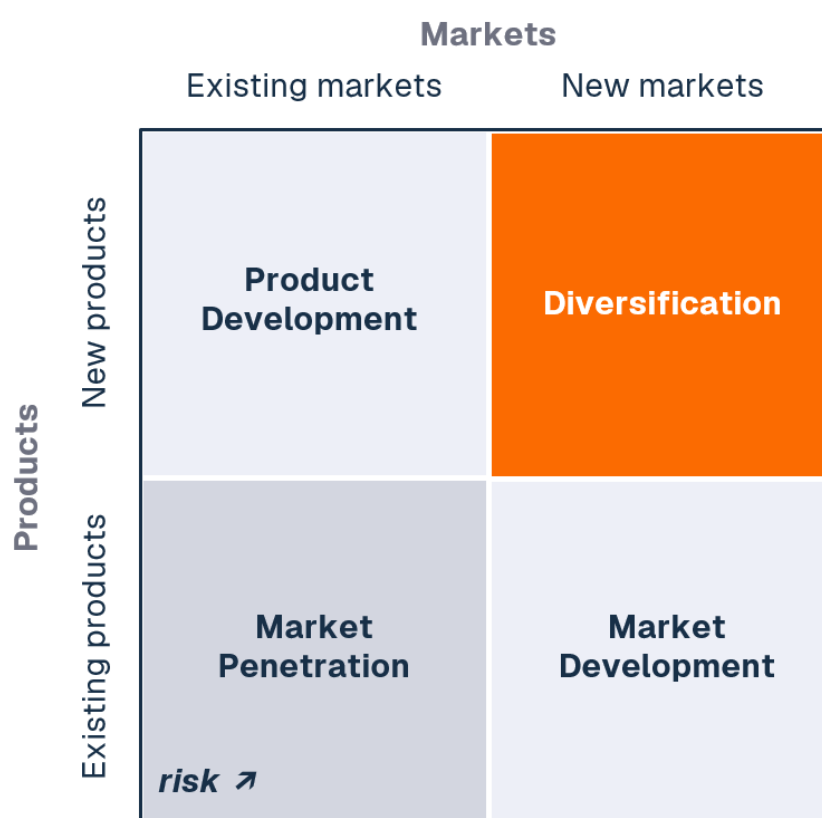


Figure 20. Ansoff Matrix

#### Execution:

Sort the growth ideas by risk, then dig into the chosen route.

1. **List the growth ideas** on the table.
2. **Place each in its cell**: penetration, market development, product development, or diversification.
3. **Name the unknown** each route introduces: a new buyer, a new offering, or both.
4. **Weigh that unknown** against the firm's capacity to absorb it, since the question is which unknown the firm is better equipped to carry.
5. **Split any diversification** into related or unrelated, since related moves reuse existing competence and unrelated ones do not.
6. **Do the deep analysis** inside the chosen cell.

### Inputs and data:

- Semi-structured interviews with prospects
- Proprietary databases – market sizing
- Internal sales and penetration data

### Interpretation:

From the matrix, a firm learns which growth routes are open to it and what each one would cost in risk. Read the cell as a risk label, not a recommendation, since the box sets the odds while execution decides the outcome. Diversification deserves a second look before it is chosen: related diversification, where the firm reuses competence it already has, consistently outperforms unrelated diversification into unfamiliar ground. Ultimately, the matrix is a sorting device, and the hard work begins once a cell is chosen.

### Strengths and weaknesses:

| Pro                                                                                                                                                                                   | Con                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Names the risk gradient</li> <li>▪ Structures growth options</li> <li>▪ Simple and intuitive</li> <li>▪ Forces an explicit choice</li> </ul> | <ul style="list-style-type: none"> <li>▪ Hides execution work</li> <li>▪ Says nothing about capability</li> <li>▪ Ignores competitor response</li> <li>▪ Treats the four routes as equal in effort</li> </ul> |

### Origin and citation:

Introduced by Ansoff in Harvard Business Review (1957) and expanded in Corporate Strategy (1965).

## Strategy and Risk Assessment

The frameworks in this final group help a company test the strategy it has built, by checking whether the chosen options are defensible and by surfacing the risks that could undo them.

### Suitability, Feasibility, Acceptability (SFA)

#### Purpose:

A firm uses the SFA framework as a final filter to choose between strategic options based on evidence. It puts each option through three tests. Suitability assesses whether the option fits the strategic position and addresses the opportunities and threats the earlier analyses surfaced. Feasibility asks whether the firm has the money, people, capacity, and time to carry it out. Acceptability asks whether the expected return, the risk, and the reaction of stakeholders are tolerable. In essence, the framework screens out the options a firm cannot justify, so the remaining choice has a better chance of successful execution.

#### Visualization:



Figure 21. Suitability, Feasibility, Acceptability (SFA)

#### Execution:

Screen on suitability first, then test what survives.

1. **List the options** under consideration and prepare a scoring matrix for each test.
2. **Screen for suitability** against the market and internal analyses already completed.
3. **Test feasibility** against money, people, capacity, and time.
4. **Test acceptability** using expected return, the risk carried, and the reaction of the stakeholders.
5. **Compare the remaining options** if more than one clears all three tests.

#### Inputs and data:

- Synthesis of prior framework outputs
- Internal financial modeling
- Semi-structured interviews with stakeholders

- Internal capability audit workshop

**Interpretation:**

From the SFA tests, a firm learns which strategic options it can defend and which it should drop. The tests rely mostly on previously performed analyses, so conducting those with care is crucial for this final assessment.

**Strengths and weaknesses:**

| Pro                                                                                                                                                                           | Con                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>▪ Structured comparison</li><li>▪ Tests fit, risk, and feasibility</li><li>▪ Makes rejection explicit</li><li>▪ Balanced view</li></ul> | <ul style="list-style-type: none"><li>▪ All qualitative</li><li>▪ Needs prior analysis</li><li>▪ Subjective</li></ul> |

**Origin and citation:**

Set out by Johnson and Scholes in Exploring Corporate Strategy (1997) and carried into the current edition by Whittington et al. (2020).

## Pre-Mortem Analysis

### Purpose:

Pre-mortem analysis is rooted in project management and counters groupthink and optimism bias. A team uses it to surface the risks of one specific strategy before implementation. The method assumes the strategy has already failed and works backward to explain why.

### Visualization:

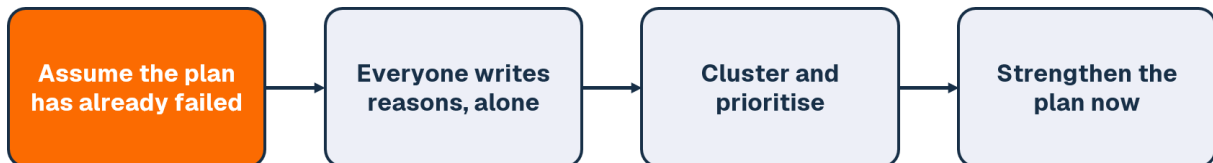


Figure 22. Pre-Mortem Analysis

### Execution:

Run this once a plan exists but before commitment; it takes about half an hour.

1. **Gather the team** around the plan, so everyone shares the same picture of it.
2. **Assume failure** by stating that the plan has failed completely a year from now.
3. **Write reasons independently** before any discussion, so the first voice does not anchor the rest.
4. **Collect and cluster** the reasons, then keep the ones that are show-stoppers, plausible, and within the firm's control.
5. **Strengthen the plan** against those, and assign an owner to each.

### Inputs and data:

- Facilitated internal workshop
- Independent written input from the team
- External facilitator (optional)

### Interpretation:

From the session, a team learns which failure modes it can still do something about. Read the recurring themes as the risks to mitigate first, since a reason raised by several people independently is a stronger signal than one raised by a single person. Focus only on reasons within the firm's control. The method rests on prospective hindsight, which improves the ability to identify reasons for a future outcome by around thirty percent. All told, the value lies in strengthening the strategy against the pitfalls identified.

## Strengths and weaknesses:

| Pro                                                                                                                                                              | Con                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Unlocks candid doubt</li> <li>▪ Surfaces hidden risks</li> <li>▪ Cheap and fast</li> <li>▪ Counters optimism</li> </ul> | <ul style="list-style-type: none"> <li>▪ Depends on candor</li> <li>▪ Misses unknown unknowns</li> <li>▪ Needs facilitation</li> </ul> |

## Origin and citation:

Described by Klein (2007), drawing on the prospective hindsight studied by Mitchell, Russo, and Pennington (1989).

## Risk Matrix

### Purpose:

A firm uses a risk matrix to prioritize a limited mitigation budget. It plots each identified risk by likelihood and impact, so the firm can decide which risks to mitigate, which to accept, and which to watch. The grid carries the following logic: the risks that are both likely and damaging sit in the top right corner and need to be addressed first. Put simply, the matrix condenses a long, unweighted list of potential threats into a short, prioritized list to act on.

### Visualization:

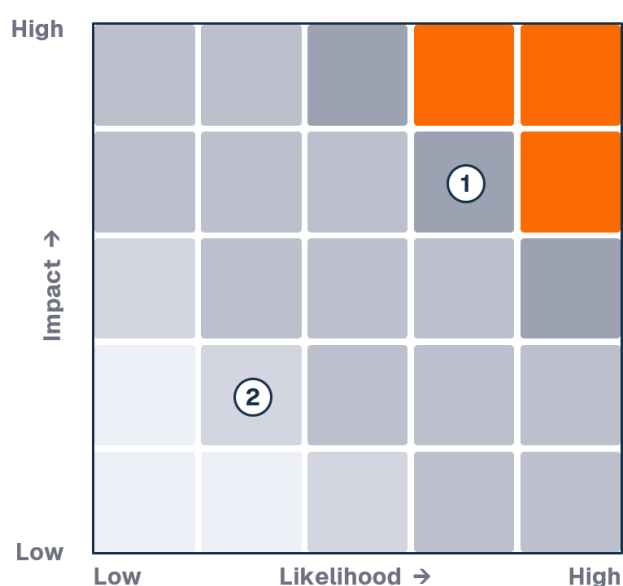


Figure 23. Risk Matrix

## Execution:

Rate, place, and triage the risks, using scales the team agrees on beforehand.

1. **Identify the risks** worth tracking.
2. **Agree the scales** for likelihood and impact before rating anything, so the ratings mean the same thing to everyone.
3. **Rate each risk** on both dimensions.
4. **Place each on the grid** and look at the top-right corner first.
5. **Assign mitigation owners** and review the grid periodically, since likelihood and impact both move.

## Inputs and data:

- Facilitated internal workshop for expert elicitation
- Semi-structured interviews with experienced practitioners
- Desk research – base rates where available

## Interpretation:

From the grid, a firm learns which risks deserve its attention first. This analysis is meant as a conversation starter, not a final verdict. Two quite different risks can land in the same cell, so treat the color as a prompt to look closer rather than as a ranking (Cox, 2008). In summary, the matrix is useful for communicating priorities and forcing triage, provided the judgments behind each rating stay visible.

## Strengths and weaknesses:

| Pro                                                                                                                                                       | Con                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Communicates clearly</li> <li>▪ Forces triage</li> <li>▪ Legible to non-specialists</li> <li>▪ Simple</li> </ul> | <ul style="list-style-type: none"> <li>▪ False precision</li> <li>▪ Compresses distinct risks</li> <li>▪ Coarse categories mislead</li> <li>▪ Subjective ratings</li> </ul> |

## Origin and citation:

A practitioner tool reflected in guidance such as ISO 31000; its limits are documented by Cox (2008).

## Summary

Small life science service providers, the CDMOs, CROs, and suppliers that serve biotech and pharma, hold a substantial share of their markets. They have built proven services, won their customers through the founder's expertise and network, and grown on scientific and operational strength. When they decide to take the next growth step, the constraints are often practical: the founder's time is already committed to running the business, the team has little spare capacity for extended analysis, and strategy development is rarely a function the company has hired staff for. Furthermore, a small company does not need to consider the same strategic avenues a large corporation does. Given those constraints, the sensible approach is to be selective about which parts of strategy work a small firm takes on.

For a company that runs a single business, this means focusing on business and functional strategy while keeping execution in view. Put simply, this paper covers the decisions that shape everything a company builds afterwards.

From that focus follow eight steps, which in my view form the foundation an established small life science service provider should cover before its next growth initiative. They mirror the eight groups of frameworks presented in this paper:

1. Set the long-term direction.
2. Know the market: the buyers, the competitors, and the macro forces acting on both.
3. Know yourself, meaning the capabilities the company has right now.
4. Redesign the business model so the first three fit together in a profitable way.
5. Position the company advantageously against its competitors.
6. Price the offering on a basis the company can defend.
7. Decide how to grow, which for most firms of this size means market penetration or market development.
8. Know the risks that could affect the plan before committing to it.

How the work is run matters as much as which frameworks are used. Involving the people who will enact the strategy secures their buy-in and eases implementation, and external support can add bandwidth where the team's capacity is already committed. Working through the frameworks top down gives the work a clear structure, while leaving room for the iteration that naturally occurs when one decision informs another. Evidence from customers, prospects, and partners in the market complements what the company already knows, and makes it clear which decisions rest on data and which on experience. Together, these practices help the frameworks translate into decisions the company can act on.

Each framework can be run briefly or in depth, and the right level depends on the value it adds and the resources available. The END questions help judge when enough is enough: whether further effort is worth its cost, whether the next improvement can be clearly named, and whether more work would still improve the result materially. Once a decision

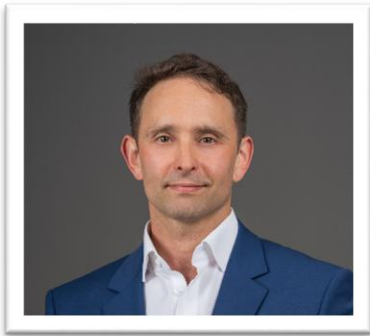
is made, each choice can be translated into who does what by when, supported by a small number of measures, and checked against Rumelt's kernel: a diagnosis of the central challenge, a guiding policy for addressing it, and a set of coherent actions. A strategy that meets those three criteria gives the whole organization a shared direction to work towards.

One principle is worth carrying into the work: the quality of the outcome follows the quality of the inputs. Conversations with customers, real contracts, and actual figures add a depth that desk research alone cannot provide, and they make the resulting strategy easier to defend. In short, the frameworks give structure to the expertise a company already has, and field evidence gives that structure its footing.

I have set out to write a whitepaper that provides guidance on strategy development for founders and managing directors of small life science service providers. My goal was to inform and to give an overview of which analyses are available for strategy development. I hope that you will find this paper useful and wish you great success in your next growth initiative.

## Need help developing your strategy?

The knowledge for strategy development is more available than it used to be, but getting the sequence right for your specific situation requires experience. It also helps to know which parts must be done well because they matter down the line, and where the pitfalls sit in each framework. I know these connections, I know what to get right early, and I know what to take care of now so you avoid problems and delays later.



This is what I do at CPTRQ Consulting. I design and build your commercial growth system as one integrated whole, from strategy development to system design and implementation. If you feel that external support could add the bandwidth you need to get your next growth initiative moving faster, then do not hesitate to reach out. You will find my email and LinkedIn below.

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## Glossary

Terms are listed alphabetically and explained in the sense in which this paper uses them.

| Term                                             | Explanation                                                                                                                                                                                   |
|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ABM (account-based marketing)</b>             | A B2B approach that treats a short list of named, high-value accounts as individual markets, each with tailored messaging and sales effort.                                                   |
| <b>Business model</b>                            | The logic by which a company creates, delivers, and captures value; described in this paper through the nine blocks of the Business Model Canvas.                                             |
| <b>Causal ambiguity</b>                          | The difficulty rivals face in understanding why a company succeeds, which makes its advantage hard to copy.                                                                                   |
| <b>CDMO</b>                                      | Contract development and manufacturing organization; develops and produces drugs or drug components on behalf of pharmaceutical and biotech clients.                                          |
| <b>Competitive advantage</b>                     | A lasting ability to create more value than rivals, through lower costs, a differentiated offering, or both.                                                                                  |
| <b>Cost floor and value ceiling</b>              | The lower and upper bounds of value-based pricing: the full cost of delivering an offering, and the economic value it creates for the customer.                                               |
| <b>Cost leadership</b>                           | A basis of advantage built on the lowest cost in the category, allowing a company to win on price or earn higher margins.                                                                     |
| <b>CRM</b>                                       | Customer relationship management; the system and practice of recording and managing all interactions with customers and prospects.                                                            |
| <b>CRO</b>                                       | Contract research organization; runs research and clinical studies on behalf of pharmaceutical, biotech, and medical device companies.                                                        |
| <b>Decision-making unit (DMU)</b>                | The group of people inside a customer organization who influence or make a purchasing decision; also called the buying center.                                                                |
| <b>Differentiation</b>                           | A basis of advantage built on something buyers value and rivals cannot easily copy, supporting a price premium.                                                                               |
| <b>Diversification</b>                           | Growth through new products in new markets. Related diversification builds on existing competence; unrelated diversification does not.                                                        |
| <b>END questions</b>                             | Three questions for deciding when to stop improving a piece of work: whether further effort is worth its cost, whether the next improvement can be named, and whether returns are decreasing. |
| <b>Going rate</b>                                | The price level buyers currently expect for a comparable offering; the reference point in competition-based pricing.                                                                          |
| <b>Key drivers for change</b>                    | The few macro forces likely to have the greatest impact on an industry and on the strategies within it.                                                                                       |
| <b>Macro- and microsegmentation</b>              | Two-stage B2B segmentation: first by organizational traits such as size, industry, and location, then by how buyers actually buy.                                                             |
| <b>Market penetration and market development</b> | Growth by selling more of existing offerings to existing markets, or by taking existing offerings into new markets.                                                                           |
| <b>Markup</b>                                    | The percentage added to unit cost in cost-based pricing to reach a target margin.                                                                                                             |

| Term                                       | Explanation                                                                                                                                                                            |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Mobility barrier</b>                    | An obstacle that makes it costly to move from one strategic group to another; the within-industry counterpart of an entry barrier.                                                     |
| <b>Nonmarket environment</b>               | The arena of regulators, payers, NGOs, and media, in which companies compete on reputation, legitimacy, and influence rather than on price.                                            |
| <b>Perceptual map</b>                      | A chart plotting competing offerings on two attributes buyers care about, showing how each is perceived relative to the others.                                                        |
| <b>Positioning</b>                         | Used in two senses in this paper: the analytical branch of strategy that looks for an advantageous place to stand, and the choice of how a company wants its target segment to see it. |
| <b>Pre-mortem</b>                          | A risk exercise in which a team assumes a plan has already failed and works backward to identify why.                                                                                  |
| <b>Product development</b>                 | Growth through new products or services for existing markets.                                                                                                                          |
| <b>Profit pool</b>                         | The profit earned at each stage of a value system; some stages earn considerably more than others.                                                                                     |
| <b>Prospective hindsight</b>               | Imagining that an event has already happened; it improves the ability to identify reasons for an outcome by around 30 percent.                                                         |
| <b>Rumelt's kernel</b>                     | The three elements of a sound strategy: a diagnosis of the central challenge, a guiding policy, and a set of coherent actions.                                                         |
| <b>Segment</b>                             | A group of buyers with similar needs or buying behavior that can be served with a common offering.                                                                                     |
| <b>SME</b>                                 | Small and medium-sized enterprise; in the EU, fewer than 250 employees and turnover up to EUR 50 million or a balance sheet total up to EUR 43 million.                                |
| <b>Spidergram</b>                          | A radar chart comparing offerings on several attributes at once, with each spoke scaled by the attribute's importance to buyers.                                                       |
| <b>Strategic group</b>                     | A set of companies within an industry that compete in similar ways; competition is usually most intense within a group.                                                                |
| <b>Threshold and distinctive resources</b> | Threshold resources are needed simply to compete; distinctive resources create an advantage over rivals.                                                                               |
| <b>Value chain</b>                         | The activities inside a company that together create and deliver its offering, divided into primary and support activities.                                                            |
| <b>Value proposition</b>                   | The concrete promise a company makes to a segment, and the reason it is better than the next best alternative.                                                                         |
| <b>Value system</b>                        | The chain of organizations, from suppliers to end customers, of which a company's own value chain is one link.                                                                         |
| <b>Willingness to pay</b>                  | The highest price a customer would accept for an offering, typically measured through research such as Van Westendorp or conjoint analysis.                                            |

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