# CASE 1

# Tough Mudder Inc.: The Business of Mud Runs

## TEACHING NOTE

### ■ SYNOPSIS ■

Established in 2010 by Harvard MBA graduate, Will Dean, Tough Mudder was market leader in organizing endurance obstacle races ("mud runs"). Dean's challenge is to extend the popularity of mud runs among a growing range of endurance sports and to reinforce for Tough Mudder initial competitive advantage over its many rivals.

The case explores the formulation and implementation of an entrepreneurial strategy in an emerging industry where there are few barriers to entry. The key issues this case addresses are:

- Where to position a new firm in an emerging industry;
- How to build a sustainable competitive advantage over rivals through exploiting early-mover advantages;
- How to attract and deploy the resources and capabilities needed for the strategy to be effective.

### ■ TEACHING OBJECTIVES ■

The case is intended as an introductory case in the analysis of firm strategy. The learning outcomes are the development of expertise in:

- The identification and articulation of a company's strategy

- Understanding the role of strategy in a competitive market

- Positioning a new company's product in relation both to established substitutes and direct competitors

- Developing strategies to exploit early mover advantages in an industry with few entry barriers

- Choices over acquiring and deploying resources and capabilities in order to implement an entrepreneurial strategy

- Identifying and addressing future competitive threats.

### ■ POSITION IN THE COURSE ■

Tough Mudder is a small, start-up company with an easily understood product offering. The case is short, and most business students are likely to fall into Tough Mudder's target customer demographic. Hence, this case is a suitable launch pad for a strategy course.

© 2019 Robert M. Grant

## ■ ASSIGNMENT QUESTIONS ■

1. What is Tough Mudder's strategy? In particular, how has Tough Mudder positioned its product in relation to other endurance sports and direct competitors?

2. Assess Tough Mudder's strategy in terms of its fit with its business environment—particularly in relation to its customers' needs and preferences and its competitors' offerings and internal resources/capabilities).

3. If Tough Mudder is to reinforce its leadership in the mud runs industry, what are the key priorities that Will Dean should attend to?


## ■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (10th edn.), Wiley, 2019, Chapter 1.


## ■ CASE DISCUSSION AND ANALYSIS ■

### What is Tough Mudder's strategy?

This question typically elicits the story of Tough Mudder's foundation and development. This provides useful background, but at some point I intervene to ask: "But what is Tough Mudder's strategy at the time of the case?" (i.e. mid-2018).  Here, I encourage the students to describe some of the key attributes of Tough Mudder's product and the functions which support it (operations, marketing, R&D, etc.). This should elicit some of the following points:

Product Attributes:
- Toughness—endurance run with multiple challenging and fear-inducing obstacles
- Non-competitive: team event; untimed
- Option to by-pass individual obstacles
- Community—pledge, values

Marketing:
-  Intensive use of social media
- Emphasis on warrior imagery and military associations (e.g. partnership with Wounded Warrior)
- Customer engagement/market research

Operations:
- Meticulous event planning and operations management to ensure a quality experience
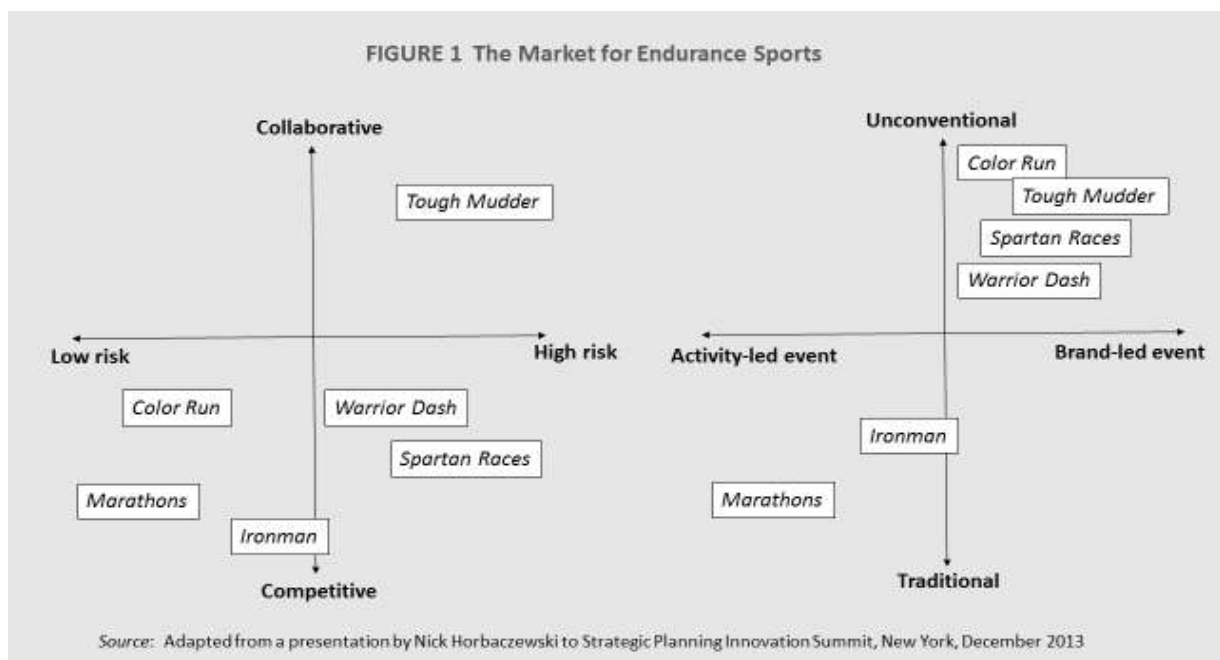
R&D:

- Continual development of new obstacles

Finance:

- Reliance on internal cash flows to fund growth. No venture capital finance. No plans for stock market floatation

Growth strategy

- Rapid domestic and international expansion to pre-empt imitators and establish a standard. Diversification to access additional sources of revenue: franchising its "Boot Camp" fitness centers, seeking a wider TV audience for its events.

Some of the key elements of Tough Mudder's strategy are evident in the company's own depiction of its positioning in the market for endurance sports (see Figure 1 of the case reproduced below).



FIGURE 1 The Market for Endurance Sports

Source: Adapted from a presentation by Nick Horbaczewski to Strategic Planning Innovation Summit, New York, December 2013
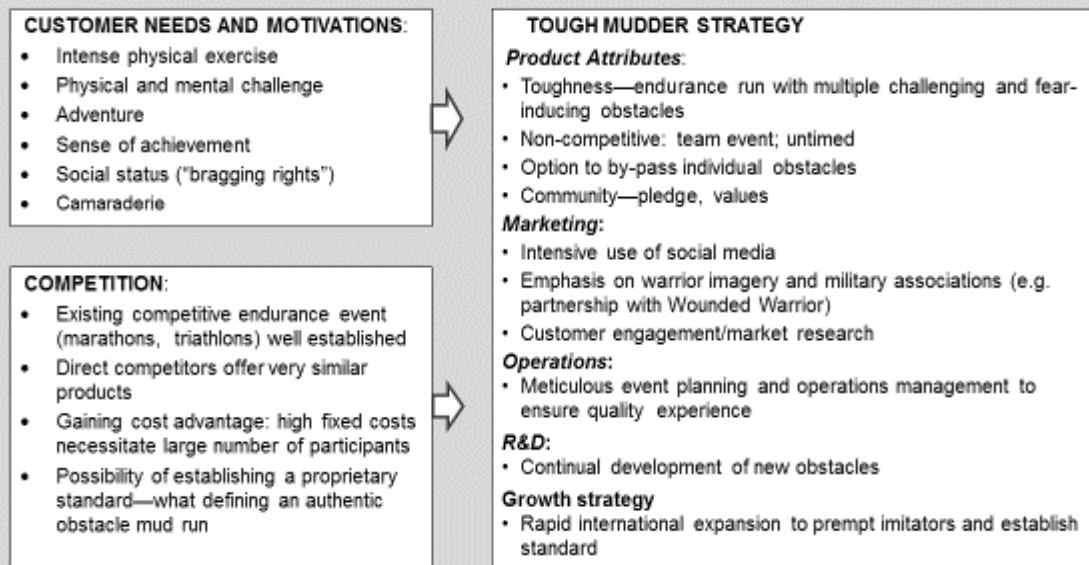
However, the above is only a description of the elements of Tough Mudder's strategy. The challenge in describing the strategy of any organization is to synthesize the individual components into a coherent statement of the organization's positioning and direction—what Dick Rumelt calls "a guiding policy."

At the core of Tough Mudder's overall strategy is the experience it creates for its participants: its emphasis on challenge, the overcoming of personal limitations, and its values of camaraderie. In positioning itself as the antithesis of modern-day obsessions with comfort, safety, and passive entertainment, it aims to create a social movement based upon tribal notions of social identity.

## Assessing Tough Mudder's Strategy

To explore the logic of Tough Mudder's strategy, it is important to look at the two key players in Tough Mudder's external environment: customers and competitors. Inquiring into customer needs and motivation and competition should elicit the factors shown in Figure 2 below.

## Figure 2. Linking Strategy to the External Business Environment

**CUSTOMER NEEDS AND MOTIVATIONS:**
- Intense physical exercise
- Physical and mental challenge
- Adventure
- Sense of achievement
- Social status ("bragging rights")
- Camaraderie

**COMPETITION:**
- Existing competitive endurance event (marathons, triathlons) well established
- Direct competitors offer very similar products
- Gaining cost advantage: high fixed costs necessitate large number of participants
- Possibility of establishing a proprietary standard—what defining an authentic obstacle mud run

**TOUGH MUDDER STRATEGY**

*Product Attributes*:
- Toughness—endurance run with multiple challenging and fear-inducing obstacles
- Non-competitive: team event; untimed
- Option to by-pass individual obstacles
- Community—pledge, values

*Marketing*:
- Intensive use of social media
- Emphasis on warrior imagery and military associations (e.g. partnership with Wounded Warrior)
- Customer engagement/market research

*Operations*:
- Meticulous event planning and operations management to ensure quality experience

*R&D*:
- Continual development of new obstacles

**Growth strategy**
- Rapid international expansion to prempt imitators and establish standard

I encourage my students to pay particular attention to the interactions between these different factors and how they have forced Tough Mudder to reconcile conflicting forces.

For example, the critical appeal is the immensity of the challenge and the sense of achievement from overcoming a test of physical and mental stamina—yet, the economics of the business means that Tough Mudder cannot limit its appeal to elite athletes: it must draw several thousand participants to each of its events. By making the event team-based and non-competitive, while permitting the by-passing of obstacles, and encouraging mutual assistance ("No Mudder left behind!"), the events attract a diversity of participants.

The presence of low barriers to entry is a major problem for any company wishing to establish leadership in a new industry. In Tough Mudder's case, the competition is not just from other commercial enterprises offering events in multiple locations throughout the year, but also from clubs and communities that offer one-off events at low cost. The implications of this mean that Tough Mudder needs to:

- Exploit early-mover advantage by expanding quickly, including entering into foreign markets before local competitors become established

- Place strong emphasis on brand development—ultimately this is aimed at establishing a *de facto* standard: Tough Mudder defines the few features of an authentic obstacle mud run

- Emphasize quality: in terms of participant experience, Tough Mudder offers the best combination of challenge, engagement, safety, and overall user satisfaction. This requires meticulous attention to course selection and design, operational management, and the gathering of customer feedback for continuous learning and improvement.

## Current Challenges and Strategic Priorities

There is no data available on financial performance; however, in terms of revenue growth and market share, it is clear that Tough Mudder has been very successful in the five years since its founding. Sustaining that success requires addressing some key challenges:

- Are mud runs a passing fad? Tough Mudder has done an excellent job of tailoring its product to the needs and desires of its target demographic group and in distinguishing its product from more traditional endurance sports. The ability of mud runs to establish themselves as an endurance sport depends upon participants' interest in repeating the experience on a regular basis—in the same way that marathon and triathlon participants do. In addition to continually improving the quality of the participant experience, therefore, Tough Mudder also needs to regularly add novelty: launching new and improved obstacles that inspire the imagination of participants.

- Sustaining and reinforcing market leadership. Market leadership is critical to success in this industry because of (a) economies of scale and the preponderance of fixed costs and (b) the importance of brand recognition and standard setting: Tough Mudder as the recognized, authentic mud run.

  Ensuring leadership requires that Tough Mudder is an aggressive competitor. This necessitates:

  - maintaining a strong marketing presence with continuing brand advertising and establishing continuing media presence
  - increasing the number of events offered in the US to put pressure on Spartan Races and Warrior Dash
  - being an early mover into new overseas markets to prevent the development of local competitors
  - new product introductions—Tough Mudder can also pressure competitors by imitating their successful new products (e.g. Urban Mudder was a response to Warrior Dash's Urban Warrior Dash)
  - continual development of obstacles, course planning and overall customer experience in order to maintain a quality differentiation relative to rivals' offerings.

- Financial sustainability. Sustaining market leadership will require continuing heavy investment. Mud runs are a strong cash-flow business (participants pay in advance) but investing in advertising, obstacle development, customer feedback, and operational improvements is likely to make overall cash flows negative. Important sources of funds are likely to be:

  - Revenue growth through product extensions that broaden participation and offer accessories—race and casual apparel, shoes, phone cases, kids' clothing, etc.

  - Partnership deals—as Tough Mudder expands its market presence, it has the opportunity to establish new, more lucrative sponsorship deals

- o Equity—given Tough Mudder's track record of growth, raising additional sums of private equity should not be a problem.

## ■ KEY TAKE-AWAYS FROM THE CASE DISCUSSION ■

### 1. *Identifying strategy*

A firm's strategy is not a list of all the things a firm is doing, nor is it the story of how it has developed. The key to describing strategy is to synthesize these components into a generalized statement of a company's relationship with its business environment. The approach outlined in Chapter 1 of *Contemporary Strategy Analysis* offers a systematic approach to identifying a firm's strategy (see Figure 3 below). Figure 4 applies the framework of Figure 3 to Tough Mudder—reorganizing and synthesizing the strategy elements described above. This approach suggests that a firm's strategic positioning can be described by where it is competing and how it is competing. However, the other distinction that Figure 3 makes is between strategy as current positioning and strategy as future direction. Although this distinction is very important for established firms, in the case of a start-up company such as Tough Mudder, the distinction between current and future is less marked —the company is work-in-progress and its current strategy is strongly oriented towards building its competitive position in the future. Hence Figure 4 focuses just on Tough Mudder's positioning.

### 2. *Assessing the strategy: strategic fit*

Chapter 1 of *Contemporary Strategy Analysis* presents strategy as a link between the firm and its industry environment (see Figure 1.2). The success of a firm's strategy depends critically upon its fit with the external industry environment and with the internal resources and capabilities of the firm. In the case of a start-up, there are few internal resources and capabilities, hence the focus of the strategy is its *external fit* in relation to the three primary groups of actors: customers, competitors and suppliers. The Tough Mudder case offers penetrating insights into the challenges of designing strategy to meet the needs and preferences of customers and the threat of competition.

In relation to resources and capabilities, the key issue for a start-up is to quickly acquire and develop the resources and capabilities required by the strategy. Tough Mudder appears to have done an effective job in acquiring the marketing, technical and logistical expertise necessary for the development of its business and creating systems, organizational structure, and corporate culture – through which the people concerned can deploy their expertise.

## Figure 3. Describing Strategy: Current Positioning, Future Direction
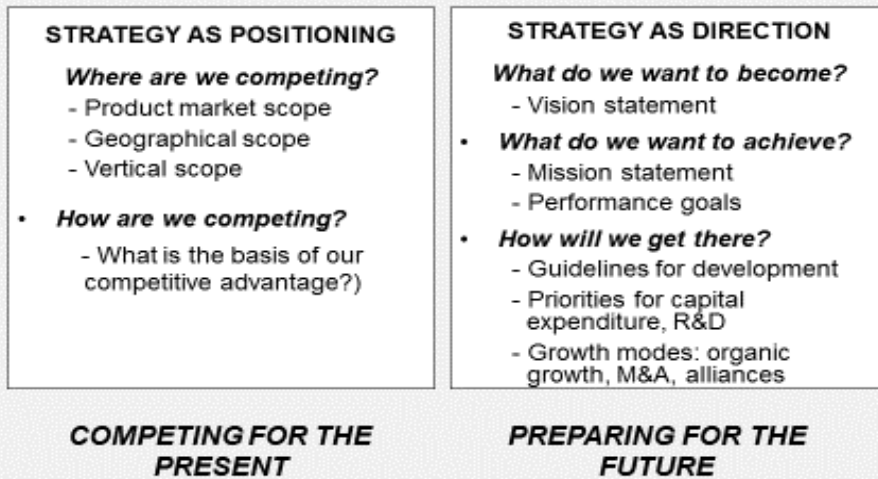### (Figure 1.6 in *Contemporary Strategy Analysis* 9th edition)

**STRATEGY AS POSITIONING**

*Where are we competing?*
- Product market scope
- Geographical scope
- Vertical scope

- *How are we competing?*
    - What is the basis of our competitive advantage?)

**STRATEGY AS DIRECTION**

*What do we want to become?*
- Vision statement
- *What do we want to achieve?*
    - Mission statement
    - Performance goals
- *How will we get there?*
    - Guidelines for development
    - Priorities for capital expenditure, R&D
    - Growth modes: organic growth, M&A, alliances

**COMPETING FOR THE PRESENT**

**PREPARING FOR THE FUTURE**

---

Figure 4. Tough Mudder: Describing the Strategy

**Where is it competing?**
- Obstacle endurance races
- Widening product range to target multiple demographic segments (women; children)
- Multiple countries of the world.

**How is it competing?**
- Quest for market leadership: moving early to pre-empt the market
- Maximizing breadth of participation
- Creating customer value—multiple sources of emotional experience (achievement, pride, status, community, novelty)
- Innovation
- Brand building
- Standard setting: defining the business

# Contemporary Strategy Analysis (10th edition)
## SUGGESTED ANSWERS TO SELF-STUDY QUESTIONS
## Chapter 1
## *The Concept of Strategy*

1. *In relation to the four characteristics of successful strategies in Figure 1.1, assess the US government's Middle East strategy since the invasion of Iraq in 2003.*

   The Middle East policy of the United States government under the past three presidents (Donald Trump, Barak Obama, and George W. Bush) is widely viewed as a failure. The US has had little influence on events in the Middle East and its policies appear to have yielded few positive outcomes for US interests. Applying the "four common elements in successful strategies" outlined in Figure 1.1. and pages 4 to 9 of Chapter 1, the US Middle East strategy seems to have failed all four criteria.

   - Clear, consistent, long-term objectives. US Middle East objectives were multiple and conflicting. They include:
       i. Supporting Israel
       ii. Supporting the House of Saud (and US oil imports from Saudi Arabia)
       iii. Containing Iran and preventing Iran from obtaining nuclear weapons
       iv. Finding a solution to the Palestinian problem
       v. Combatting terrorism
       vi. Encouraging democracy, individual liberty, and constitutional government.

       These goals are conflicting, e.g. support for democracy and individual liberty is inconsistent with support for the Saudi regime, support for an independent Palestine conflicts with supporting Israel, actions against terrorist groups such as the Islamic State conflict with the desire to overthrow President Assad of Syria. While multiple conflicting goals are inevitable the key problem has been the US governments reactivity to events and the failure to achieve any prioritization of long-term goals. Also, little consistency over time—e.g. the Trump administration has largely abandoned objectives (iv) and (vi)

   - Profound understanding of the environment. Ever since the erroneous belief that Iraq possess weapons of mass destruction, it has been clear that the US government has lacked good intelligence and understanding of the historical, cultural, and religious forces that have shaped conflict within the region, including the deep schism between Sunni and Shia Muslims. The US has shown a limited understanding of the implications of the "Arab Spring"—particularly of the chaotic forces released by the overthrow of autocratic leaders such as Gaddafi (Libya), Mubarak (Egypt), and Assad (Syria).

   - Objective appraisal of resources. Since experiencing the post-invasion chaos of Iraq, the US has become more realistic about the limits of its military power to influence events in the Middle East.  Indeed, the cautiousness of the Obama administration undertaking major Middle East initiatives may reflect the pendulum swinging too far in the other direction— an underestimation by the US of its military, economic, and political influence in Middle East affairs.

   -  Implementation. Weaknesses of implementation included:
       o The failure to secure cooperation with Congress (resulting in Congress pursuing initiatives that conflicted with those of the White House and State Dept. (e.g. invitation to Israeli leader Netanyahu to address Congress)
       o Failure to cooperate with European countries and Russia over Syria

- Vacillation in US policy towards Egypt after the fall of Mubarak.

2. *What is your career strategy for the next five years? To what extent does your strategy fit with your long-term goals, the characteristics of the external environment, and your own strengths and weaknesses?*

This question offers an opportunity for personal reflection. I do not wish to impose any of my own preferences or priorities on your own thinking about your strategies. However, in pondering your own futures, the book offers some useful guidance:

a) The process of engaging in strategic thinking—or, to be more formal, strategic planning—can be very helpful in providing guidance your own life. The lessons from the section "Why Do Firms Need Strategy?" (pp. 15-16) can be applied to individuals as well as to organizations. Thus, formulating a strategy can assist you "first, by enhancing the quality of decision-making, second, by facilitating coordination, and, third, by focusing [you] on the pursuit of long-term goals."

b) Gaining experience in applying the "Common Elements in Successful Strategies" shown in Figure 1.1.

In relation to (b), the exercise offers you an opportunity to consider your career goals—preferably in relationship to the goals for your life as a whole. These life goals may take the form of an overall mission. or the linkages between your work and the other aspects of your life. It is difficult to consider your career strategy without looking at what you hope to achieve with your life.

Understanding the external environment requires knowledge of different occupations, the kinds of opportunities they provide, the key success factors within them, and how they will be impacted by economic and technological changes.

Understanding one's own resources and capabilities is a critical requirement in formulating a career strategy. What is your profile of skills in terms of strengths and weaknesses? What are your psychological traits? What resources do you possess in terms of educational and professional qualifications and relationships with people and institutions?

In terms of the content, what do we mean by *a career strategy*? The basic questions set out in the section "Describing Strategy" (pp. 19-20): Where are we competing? and (b) How are we competing? Offer a template for describing (the type of job, the sector in which you will work and in which location, and the basis on which you will become a superior performer within that job.

Finally, you can explore implementation: What actions to you need to take to get this strategy off the ground?

Given all the uncertainties concerning our own personal development and a changing external world it cannot be formulated in specific terms. As with companies operating in turbulent industries it is likely to be a set of guidelines underpinned by a recognition of identity. In addition, such a strategy will be continually evolving. In the words of General Eisenhower: "Plans are nothing; planning is everything."

3. *The discussion of the evolution of business strategy (see the section "From Corporate Planning to Strategic Management") established that the characteristics of a firm's strategic plans and its strategic planning process are strongly influenced by the volatility and unpredictability of its external environment. On this basis, what differences would you expect in the strategic plans and strategic planning processes of Coca-Cola Company and Spotify SA, the Swedish-based music streaming service?*

Coca-Cola Company was established in 1892 and for over 80 years has been the world's largest soft drinks company (it first joined the DJIA in 1932). Its strategy has also been highly stable: its

franchised distribution system dates back to the 1890s. Of course, Coca-Cola's strategy is subject to unforeseen changes: the emergence of new competitors and changes in market conditions (e.g. reaction against sugared drinks), however, over the medium term its environment is much more stable than that of most firms. As a result, Coca-Cola should be able to plan its investments, its new product launches, and its marketing campaigns into the medium term in some detail. At the same time, Coca-Cola needs to retain the flexibility to respond quickly to emerging threats and opportunities. For example, the threat that public concern over sugar and artificial sweeteners poses for the soft drink market as a whole. Coca Cola's recent acquisition of Costa Coffee chain in 2018 is a response to this threat.

By contrast, Spotify operates in a highly uncertain, unpredictable environment. The most fundamental uncertainty relates to its business model. Initially it followed an advertising-supported model, it now offers a dual approach—free subscription plus advertising, and premium, a subscription service. As it seeks to migrate users to its paid subscription service, so it may need to adapt its business model. In particular, should it continue to license from the main recorded music publishers, or should follow strategies of video streaming companies (Netflix, Amazon, and Apple) in producing its own content?

Further sources of uncertainty include:

- Competition. Music streaming features competition from Apple, Google (YouTube), Amazon, Deezer, Pandora, and several others. Spotify needs to be alert to different revenue models, technological innovations, and rivals' quest for preferential licensing arrangements form content owners.

- New technologies relate to streaming technologies, the use of music in social networks, and the use of artificial intelligence to guide users' listening choices.

Because Spotify's capital investments are small—its dominant expense is licensing fees paid to the major recorded music companies, Sony, Warner, and Universal—it has limited need for long-term strategic planning: its critical need is for speed of response to emerging market and technological developments.

Despite all these differences, there are some similarities: both companies depend on making their offerings known to consumers and readily available anywhere within their marketing areas. Both are also highly sensitive to the regulatory environment in which they operate.


4. *I have noted that a firm's strategy can be described in terms of the answers to two questions: "Where are we competing?" and "How are we competing?" Applying these two questions, provide a concise description of Lady Gaga's career strategy (see Strategy Capsule 1.2).*

In terms of <u>positioning</u> we can describe Lady Gaga's strategy as follows:

- <u>Where is she competing?</u>  Supplying pop/dance music, music videos, and concerts to a worldwide group of young people mostly aged from 12 to 25. Her business model comprised the following revenue streams: live (concert) and TV performances, royalties from recorded music (both as a performer and songwriter), product endorsements and other licensing income from the use of the "Lady Gaga" trademark.

- <u>How is she competing?</u>  Lady Gaga builds competitive advantage through distinctive differentiation. The Lady Gaga persona is heavily based upon striking visual impact through innovative, outrageous, and often shocking combinations of dress, makeup and hair styles.  Her visual impact is also evident in her videos which use sophisticated cinematography to convey themes of lust, aggression, loneliness, religious iconography, birth and death, and traditional myths.  Her music, by contrast, is mainstream: listenable, danceable and catchy.  The loyalty of her fan base is reinforced through intensive efforts as building a community around themes

that link with her own emotions and upbringing with those of her fans.  The "Mother Monster" "Little Monsters" relationship involves communicating vulnerability, inclusiveness and emotional support and makes intensive use of social networking technology (Facebook and Twitter).

- In terms of <u>future direction</u>, Lady Gaga's strategy seems to n primarily one of maintaining her current positioning through continual innovation and reinforcing her relationships with her fan base.

5. *Using the framework of Figure 1.6, describe the strategy of the university or school you attend.*

<u>Positioning</u>

*Where?*
Bocconi University is a commercial university that offers educational programs and conducts research within the areas of Economics, Law, Accounting, Economics, Finance, Management, Marketing, Decision Sciences, Legal Studies, and Policy Analysis and Public Management. It offers degree programs at the Bachelors, Masters and Doctoral levels as well as a variety of shorter, post-experience, non-degree courses.  Its degree programs are offered in Italian and English. Most of Bocconi's educational activities are conducted on its Milan campus. In addition, it offers at its Indian affiliate, the Mumbai International school of Business, and has double degree and exchange programs with universities in China, India, Australia, Canada, USA, and several European countries.

*How?*
Bocconi seeks to build its competitive advantage through a commitment to excellence in both teaching and research; through emphasizing relevance to real world problems in its knowledge development and knowledge transmission activities; through close relationships with the corporate and government sectors; and to sustain its pre-eminence within Italy with growing recognition within the wider world.

<u>Direction</u>
Bocconi's strategic development is in three main directions:
   a) Building excellence and reputation as a world class center of both basic and applied research within its field of activity in order extend the frontiers of knowledge within this domain.
   b) To offer educational programs at undergraduate, graduate and postgraduate levels of the highest quality that will prepare Bocconi's graduates for successful careers and allow them to become valuable members of society.
   c) To contribute to the economy and social community of both Italy and beyond.
These development goals are to be achieved through internationalization of both faculty and the student body; investment in faculty, buildings and research; and by providing incentives and development opportunities that allow the members of the university to realize their potential.

6. *Your business school is considering appointing as dean someone whose entire career has been spent in business management. What challenges might the new dean face in applying her strategic management skills to a business school?*

This question draws upon the differences in strategic management between for-profit and not-for-profit organizations—see "Strategic Management of Not-For-Profit Organizations" (pp. 24-26).

Because business schools operate in a highly-competitive, global marketplace, many of the skills of business leader are relevant to a business school leader. For example, forging a compelling vision, understanding the importance of competitive positioning, recognizing and exploiting relative strengths in resources and capabilities (see Table 1.2).

Probably the greatest challenge is in adapting to the more complex goals of a not-for-profit such as a business school.  While most universities and their constituent schools have mission statements—

articulating mission in terms of actionable goals is difficult. I the purpose of a business school to serve business, to serve the interests of its students, to build reputation, to create and disseminate knowledge, to serve its country and its local community, or what? To the extent that all these are probably worthy goals, how are trade-offs among them established?

The process of strategy implementation is also likely to be very different in an academic institution as compared to a business enterprise. Academic institutions—especially universities—have complex governance structures reflecting multiple stakeholder groups: students, faculty, non-academic employees, alumni donors, and—in the case of public universities—government. As a result. Implementing strategy is likely to be far more complex in a business school and will require extensive negotiation and persuasion.

The implication is that the skills and personality traits of the effective business school dean tend to be different from those of an effective business leader.