

Phew, that's strategy over for another year; now let's get back to real work!



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Posted: 10/01/2013

A simple working model for strategy development

There's no magic formula for strategy, writes contributor Arnab Banerjee. All too often, companies get hung up on the minutiae and lose sight of the picture. Here's why it's time to go back to basics.

'Strategy' is one of those organisational words – like 'culture' and 'vision' – that sound great but can be ephemeral and all the above three are used and confused interchangeably. I have seen management teams agonise over every word but, as Hawkins and Steele (HBR, July-August 2005) reported, 'companies typically realise only about 60% of their strategies' potential value' and 'less than 15% of companies make it a regular practice to go back and compare the business results with the performance forecast in its prior year's strategic plan.'

Why is this?

Management is Art, not Science

My view is that 'management science' is an oxymoron because 'management' is surely an 'art'. By looking backwards at what has been successful, academics have tried to lay down recipes for success and confused people with conflicting theories and huge processes which become an end in themselves. Have you ever heard this phrase: 'phew, that's strategy over for another year, let's get back to work'?

The fact is, no formula exists.

Consider, for example, the huge world-wide success of the musical Mamma Mia – based on a well known pop group (ABBA) with a huge fan-base and catchy songs. The same team created Viva Forever, a show based on the Spice Girls. No doubt the producers did the same amount of homework, employed talented people and, moreover, had the experience of Mamma Mia. But the musical closed in six months – same formula, different result.

Creative art is different from business, you cry. That's absolutely not true. Any business is dependent on people, market forces, competitors, suppliers and customers. The variables are the same. The art of management is to control those

variables and de-risk to the extent possible and this requires constant vigilance not a once-a-year review.

Strategy for the 'ordinary' company

So, how to cut through the ever thickening forest and get to what you need? What I present below is a (i) culling of research and (ii) what worked for me as a 'picture of strategy.'

Furthermore, so much of management literature is focused on large organisations; I have grown tired of reading about Southwest Airlines and IKEA. Not all of us work in cutting edge companies where we can go for cost leadership or be unique!

Schools of Strategy – a little bit of Theory

Ten years ago, while beginning my research for my MBA dissertation on this thing called 'strategy', I was firmly of the opinion that I would be able to pick up a book which would tell me 'how to do strategy.' What I found was that there were two broad schools of strategy.

A well known writer, Leavy, described the two as the 'Spock' and 'Kirk' and perspectives. The former is all about rational planning systems and explicit plans, traditional, top-down. The latter is about accepting that the environment is complex and that the role of leadership is not to pre-conceive deliberate strategies but to manage the process of 'strategic learning.'

	Classical (Spock)	Learning (Kirk)
Major Writers	Alfred Chandler, Igor Ansoff, Alfred Sloan, Michael Porter	Richard Cyert, James March, Herbert Simon, Henry Mintzberg
Characteristic	Strategy formation as detailed top-down plans; implementation is a distinct phase in the strategy process	All about 'crafting' strategy; cannot think through everything in advance; formation and implementation inextricably linked

Table 1: The two schools of strategy (click to enlarge)

As Mintzberg put it, though, 'in practice, of course, all strategy making walks on two feet, one deliberate, the other emergent. For just as purely deliberate strategy precludes learning, so purely emergent strategy making precludes control.'

A Giant of Industry

Ok, those are the academics? What about someone who has straddled the world? Jack Welch, the former CEO of General Electric, USA (Winning, Harper Collins, 2005) saw strategy as falling on the side of "Learning" (i.e. Kirk).

‘I know that strategy is a living, breathing, totally dynamic game. Forget the arduous, intellectual number crunching and data grinding that gurus say you have to go through to get strategy right. Forget the scenario planning, year-long studies and hundred pages plus reports. They’re time consuming and expensive and you just don’t need them.

‘In real life strategy is actually very straightforward. You pick a general direction and implement like hell. Most managers I know see strategy as I do – an approximate course of action that you frequently revisit and redefine according to shifting market conditions. It is an iterative process.’

The Arnab Strategy Desktop

The base of all strategy is Knowledge – the more you know about your business, your customers, and your competitors the more you are likely to come up with a strategy that meets your objectives. You must get as much as you can - and that is the sense of the rather deliberately ‘messy’ desktop picture below.

The elements are not exhaustive – what would be your suggestions?

It is not possible to have too much knowledge but the imperative is action.

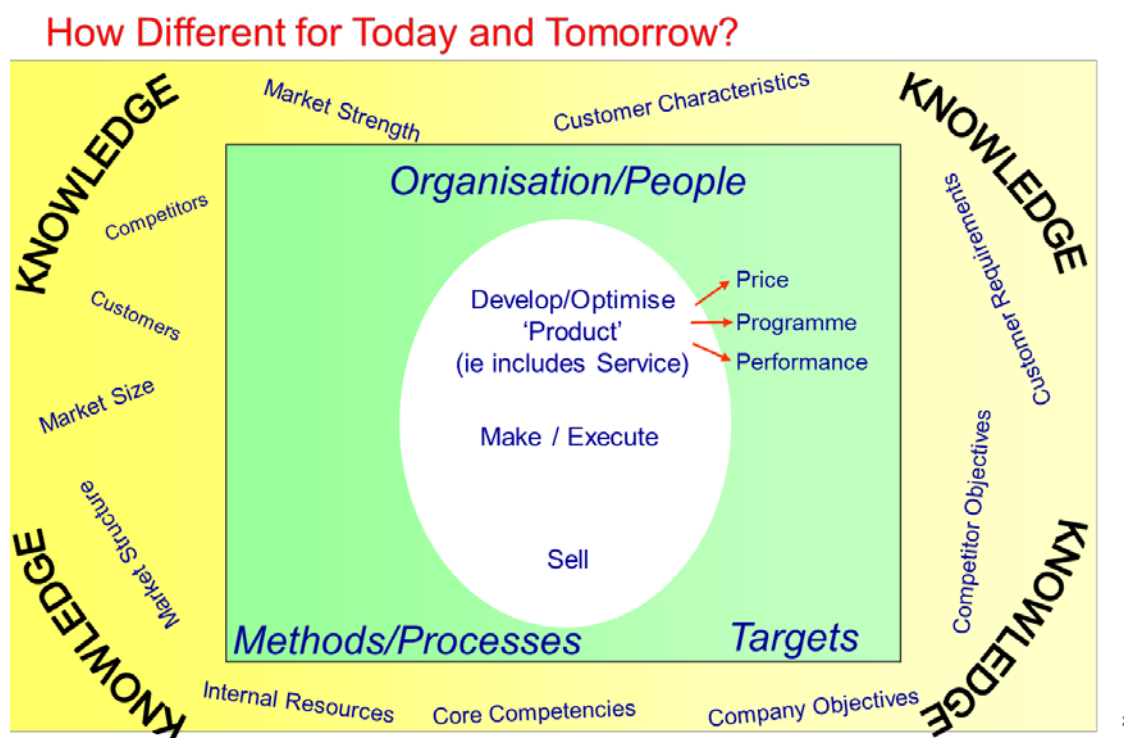


Fig 1: Some of the key elements for developing strategy

- Every business (supplying an external customer) or department (serving an internal customer) designs and develops the ‘product’ which may be physical and/or a service.
- It must have the correct mechanisms to sell the product
- It must have the correct resources and abilities to make the product

Each of those key elements needs:

- a suitable organisation with the right people,
- efficient methods and processes and
- logical targets

Try to answer the following questions from Hambrick and Stevenson:

Classical (Spock)	
Arenas	Where will be active?
Vehicles	How will we get there?
Differentiators	How will we win in the market place?
Staging	What will be our speed and sequence of moves?
Economic logic	How will we obtain our returns?

Table 2: Key Questions

And let's go back to our friend Jack Welch to expand on knowledge:

Questions	Further Detail
What the playing field looks like now?	<p>Who are the competitors? Who has what share, where do we fit? What are the characteristics – commodity, high value, in between? What drives profitability?</p> <p>What are the strengths and weaknesses of each competitor? How good are their products? How big is their sales force?</p> <p>Who are the main customers and how do they buy?</p>
What the competition has been up to?	<p>What has each competitor done in the past year to change the playing field?</p> <p>Has anyone introduced game-changing new products, technologies or distribution channel?</p> <p>Are there new entrants and what have then been up to? Be granular, know what each competitor has for breakfast.</p>
What you've been up to?	<p>What have you done in the past year to change the competitive playing field?</p> <p>Have you bought a new company, introduced a new product, stolen a key salesperson, licensed a new technology?</p> <p>Have you lost any competitive advantages that you once had – a great salesperson, a special product, a proprietary</p>

	technology?
What's around the corner?	What scares you most in the year ahead – what one or two things could a competitor do to nail you?
What's your winning move?	What can you do to change the playing field? What can you do to make customers stick to you more than ever before and more than to anyone else?

Table 3: Jack Welch's 5 Questions

Put all that together and you have two tables which allow you to lay out your organisation and then come to conclusions?

Market and Environment
<i>Market size and strength; market structure; market environment; organisation numbers and division</i>
Customers
<i>Customer profiles – how do they buy; customer strengths and spreads; critical requirements; customer segmentation</i>
Competitors
<i>Number of competitors; differentiation; latest moves; market shares; relative cost positions ...</i>

Table 4: Understand your world – external

	Organisation/People	Methods/Process	Targets
<i>Design/Develop</i>	Outsource/in-source; skills; development...	Technology; processes; interfaces	Which KPIs indicate good performance? Re-work; designs on time....
<i>Sell</i>	Direct/indirect; centralised/localised; license; account management; aligned with customers....	Technology; processes; interfaces	Which KPIs indicate good performance? Bid costs; spread; customer accounts....
<i>Deliver/Make</i>	People/factories/offices;	Technology;	Which KPIs

aligned with customers; vertical or horizontal integration; outsource/in- source...	processes; interfaces	indicate good performance? Revenue per person; utilisation rates.....
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Table 5: Understand your world – internal

- The market is growing – how do we capture our fair share?
- We are more expensive than others – what do we need to do?
- We want to go international – license, partnership, acquisition?
- How is the customer behaviour changing – contracting models, scope of services being demanded, risk allocation, geographical spread?
- Are competitors offering something – product attribute, contracting strategy – that we cannot?

These questions and many more are not just for large companies. I met a plant pot manufacturer who supplies to garden centres. He had moved production from the UK to China and then Malaysia in order to cut cost, improve quality and expand his customer base. Strategy is for everyone.

Lay out your Knowledge, be realistic about your objectives and a strategy will emerge.

Then comes the more difficult bit – execution!

Conclusions

It is a given that, first, you need to have strong fundamental knowledge of the market, customers, competitors and yourself. I have been to too many presentations where the organisation preaches for hours on all its products and how wonderful it is but then fails to express its competitors' capabilities and customers' needs.

After that, use the model of strategy that works for you and your environment. Use Porter's Five Forces, Welch's Five Questions, the tables that I have shared above – what matters is that the words make sense to you and that you are able to incorporate them into your philosophy to achieve the goal of strategy – sustainable success.

Like life, strategy is a combination of science and art – don't get hung up on the minutiae. Draw the broad picture, get information, start to deliver, check, review, adjust and go again.

<https://www.processexcellencenetwork.com/innovation/articles/phew-that-s-strategy-over-for-another-year-now-let>



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