

IT'S STRATEGY TIME AGAIN (2)

Welcome

Welcome to my *Critical Updates* – a series of short briefings focusing upon the world of business strategy.

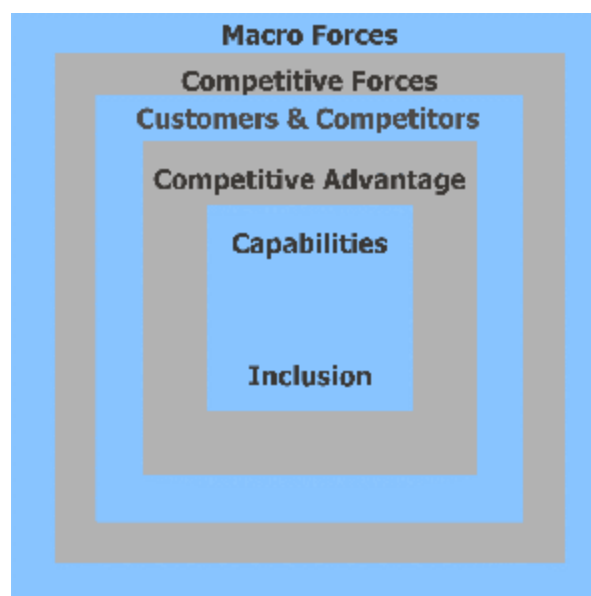
My last *Critical Update* focused on answering the question – “*What is strategy?*” In this update I would like to answer another question – “*What is the strategy process?*” This is a topical question as it's the time of year when practically all organisations go through the process of revisiting their business plans to build plans and budgets for the three years or so. In this update I will focus on the steps that you should go through to build a business plan. Treat this as a refresher – we all know the steps – but sometimes one or two get forgotten with the pressure of work and deadlines.

What is the strategy process?

I think that it's worth bearing in mind that strategies develop in organisations in two distinct ways. Researchers call these *intended* and *emergent* strategies. By intended strategies we're talking about strategies that appear out of a formal process – like the annual planning cycle referred to above. Emergent strategies are different – they really appear as a day-to-day product of the organisation's learning process. It might be through an unexpected development in the marketplace, the experience of developing a new product or just simple customer inter-action. More and more organisations are realising that they can't predict everything during the annual planning process – they are relying more on organising a series of planned experiments – ways of doing things differently with processes and customers - to guide the shape of their strategies.

Tip #1: Try to incorporate emergent strategy experience into your planning process. This can be done by (1) getting “slice groups” – teams with representatives from different organisational levels - to prepare plans for you and (2) regularly reviewing basic plan assumptions against the findings of your planned experiments.

So, let's turn to have a look at the steps in developing a strategy – the steps that we should take during the annual planning process. As I mentioned in the last *Critical Update*, there are seven steps in all. *Step one* is a review of the high-level macro forces that shape the broad business environment. *Step two* focuses upon the future forces that will shape the competitive characteristics of your chosen markets. *Step three* examines the needs of your target customers. To complement step three, *step four* looks at the offerings of your key competitors. *Step five* defines your future sources of competitive advantage. Next, we have an audit of your business's capability to deliver competitive advantage. What about *step seven* – well, that's all about inclusion – making sure that all parts of the business have made a contribution and own the output. We will now look at each in a bit more detail, but remember it's a bit like peeling away the layers from an onion:



Step 1: The Macro Forces This is sometimes called a PESTEL analysis meaning that we look at **political**, **economic**, **socio-demographic**, **technological**, **environmental** and **legal** influences. These are forces that can change a wide range of markets. Note that I use the word “markets” and not “industries”. Too many organisations adopt an industry-based mindset when conceiving new strategies. The truth is that an astute competitor can redefine traditional industry boundaries overnight.

Tip #2: Try to think in terms of customer need clusters not industries.

Step 2: Competitive forces. This is thinking about the future competitive conditions that we might face in any customer need cluster. Michael Porter’s “5 Forces” model is good, but use it in a customer need setting not an industry setting. This approach looks at customer power, supplier power, threat of substitutes and threat of new entrants. These factors determine the degree of competitive rivalry you could face. If you combine steps one and two you will get a good feel for the future – good enough to build a picture or scenario. Build one on the most likely trends. Then pick out the factors that could really have a major impact – an unexpected economic downturn for example – and then think what you would do. This will help improve your response time if the unexpected happens. It’s a good idea to build two alternative scenarios and consider your strategic reactions.

Tip #3: Build a business scenario and make sure its well communicated across your organisation.

Steps 3 and 4: Competitor and Customer analysis. This is all about analysing the needs of your current and potential customers and segmenting them into different clusters. Established segmentation factors – age, geographic location – may not be good indicators. Try to think about “need” groups instead. The next exercise is looking at how your competitors will meet these needs.

Step 5: Competitive Advantage. This is where we define how we will compete in the each customer need segments. I’ve criticised before purely “low cost” based strategies, so what framework do you use? Think about positioning your offering against competitors along two dimensions (1) the core product and (2) the supporting services provided. This is a powerful approach. Looking at traditional industries from the perspective of customer need groups like this you can see how framebreakers like Stelios Haji-Ioannou spotted a gap in the mature airlines market and launched easyJet.

Step 6: Internal Audit. There are two tasks here. Firstly, analyse your capability to deliver competitive advantage. The McKinsey 7S framework is a helpful starting point (look at **structure**, **systems**, **skills**, management **style**, **staff**, and **shared values**). Then consider how you are going to optimise the profitability of your portfolio of offerings. Techniques like the “Boston Box” have fallen out of favour, as they are market growth rate and share driven. You *must* however use a technique that at least contrasts the future attractiveness of customer segments with the organisation’s capability to meet the demands of those segments.

And the final step is communicate and involve – don’t stick the plan in a draw until next year!

Each step really needs its own briefing and I’ll cover this in future months. So just use this as a checklist to make sure that you’ve covered each major task.

Finally

I hope that you have enjoyed this short read. You can find more on the website or alternatively, please e-mail me using the link below. I enjoy personally helping businesses develop and implement their strategies. Some of the work I undertake includes:

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| § Market research to identify the product performance and service needs of B2B customers | § Competency definition, development and assessment |
| § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow’s competitive environment | § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance |
| § Design and implementation of Balanced Scorecard performance tracking systems | § Communication programmes |
| § Research to help identify what potential capital providers will look for in your business plan | § Organisational audits – assessing the innovative capability of your organisation |

Best regards,

Robert Davies