Refresh your strategy at speed

Fred Pelard takes you on a whistle stop tour of the best business strategy theories

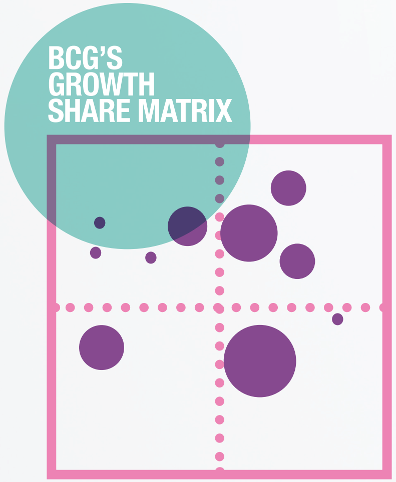
Leading up to the US Civil War, Abraham Lincoln had to choose between different rivals to join his government. Torn, he decided to bring them all in, creating his famously successful Team of Rivals. I'd like to invite you to do the same with business strategy theories. Most people plough through a list of frameworks, alight on one way to see the world they like, and then stick with it for a very long time. Don't be most people. Put together a Team of Rivals. Scan the whole shelf of strategy theories and pick several you like. Work out what each one does really well. Find new ones that add complementary insight. Rinse and repeat.

My own Team of Rivals now contains BCG's Growth Share Matrix, Porter's Five Forces, Index's Value Disciplines, Kim's Blue Ocean, SICC and Ries' Lean Startup. Each of these six models has unique strengths, and together they are unbeatable at formulating strategy. When faced with a strategic issue, simply ask each one of these advisers quickly in turn: "What should I do?" As the CEO of any problem you face, it is up to you to construct a best answer with the nuggets of insights from each advising theory.

BCG'S Growth Share Matrix

The Growth Share Matrix will always answer your question with the same message: "Think of your business as a portfolio, optimise cash circulation through it, and success will ensue." The data needed to analyse this portfolio is also very simple: gather and plot sales, market share and future market growth, and clarity will emerge. The great strength of this model is its unyielding emphasis on the cash position of various businesses across the corporation.

It's always a popular theme – especially in times of stress, whether the stress is due to tough external ›



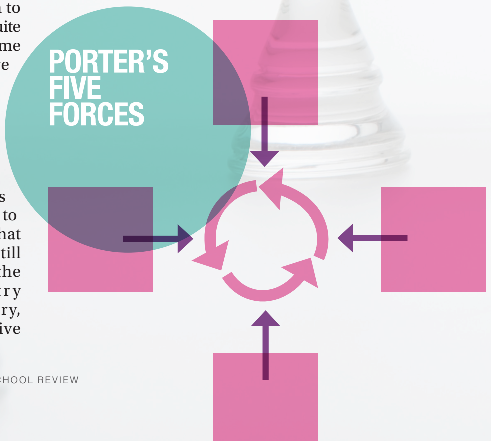
conditions (recession, hyper-inflation, etc) or many internal conflicts (diversified conglomerate, family-owned business, etc).

Spending five minutes drawing a simple matrix of your own portfolio in times of stress will give you a great first set of solutions on how to optimise your strategy. The Growth Share Matrix vocabulary of cash cows, stars, question marks and dogs has completely entered the lexicon of business and is widely understood by many. It's a great quality if you're working with colleagues less experienced in strategy formulation or strategic thinking.

Porter's Five Forces

Still the default operating software installed in many senior executives' minds today, Porter's approach to strategy has many qualities and quite a few flaws. The latter only become clear when you know the more recent models we'll see shortly.

The great strength of Porter's Five Forces is the simplicity of its answer to the questions of where to play and how to win. Porter will always reply: "Pick an attractive industry, and beat your competitors on costs. Failing that, find a way to differentiate." The vocabulary that Porter's approach gave rise to is still the dominant vocabulary in the boardroom today: industry attractiveness, barriers to entry, economies of scale, competitive advantage, etc. Carrying out a full Porterian analysis is quite a time-consuming exercise, so most people just focus on Porters' most salient message: beat the competition via cost leadership.

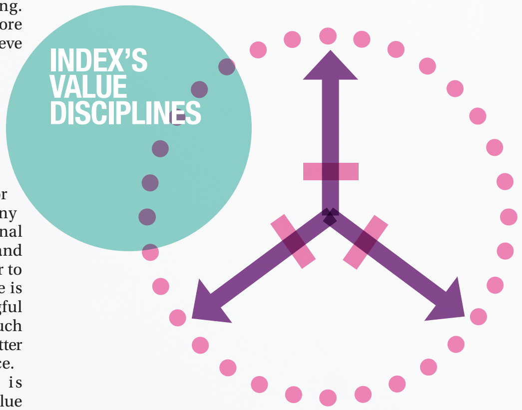


The pinnacle of the Porterian world is monopoly, where all the company's firepower has been concentrated on taking out the competition, through either acquisition, lowest cost production and/or heavy price discounting. But Porter recognises that "if every company goes for cost leadership, this will be disastrous". Still, the temptation is too strong for many, and the horrible results are there for all to see across scores of industries – car manufacturing, steel, airlines, grocery retailing. Differentiation might appear more appealing, but how does one achieve this in practice?

Index's Value Disciplines

The Value Disciplines model contends that all industries can be attractive, and many competitors can succeed, because there are in effect three races for success going on at once in any industry: the races for operational excellence, product leadership and customer intimacy. The answer to the Porter differentiation issue is that there are only two meaningful ways to differentiate from a much cheaper offering: either a much better product, or a much better service.

Each of the three races is exceedingly difficult to win. Value Disciplines' key message is therefore always: pick the race you want to run, and build a unique, consistent operating model, with the same culture across all the company's functions and capabilities. Their mantra might be "culture eats strategy for lunch". In practice this can sometimes mean preventing the finance department from doing its usual penny-pinching if the company as a whole is going for customer intimacy. Alternatively, sales rep budgets have to be tightly managed if the company goes for operational excellence. The tensions between functions across the organisation, are not dysfunctions. They are illustrations of the typical lack of clarity on which race the company is trying to win. Success starts from within. Get the culture right, and consistent throughout, and success will ensue. It has to be the same culture across all functions in the organisation.

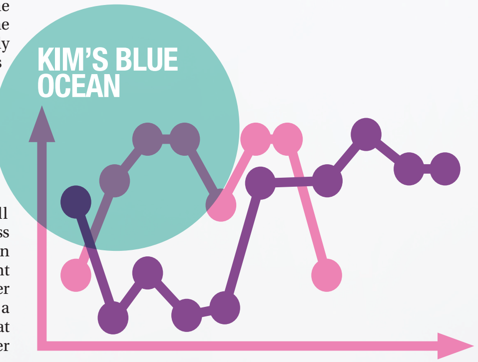


Strategic Intent and Core Competencies (SICC)

Hamel and Prahalad's mantra goes even further inwards. According to them, long-term success comes down to having a loose strategic intent and managing a bunch of core competencies cutting across the organisational boundaries. Don't worry so much about where to play, or how to win. Just ensure you have a couple of world-class skills up your sleeve. You'll eventually discover unexpected new territories where these skills are valued. This approach to business strikes many as somewhat esoteric. It is, however, a strikingly obvious one in biology: all of life boils down to the same four letters, DNA (A, C, G, T). The SICC model invites you to first go on a journey of self-discovery, identifying your own sources of life. Only then should you combine several skills or core competencies into lots of different products or services with a loose sense of shared strategic intent.

Kim's Blue Ocean

Kim and Mauborgne introduce a brand-new answer to our regular question, namely: "It's the customers, obviously!" Put it another way, the criteria that customers use to define satisfaction in their eyes is the only thing that should guide a company's strategy. It is a radical departure from all that has preceded it. Kim would argue that business success is not about cash, costs, competitive advantage, capabilities, competencies or culture. It's all about what customers want. Discover their preferences, fulfill these to their satisfaction and success will take care of itself. In a Porterian world, business is not that different from sport or warfare. Beat the other guy and the world is yours. In a Kimian world, business is not that different from love. Make the other party happy, and who cares if someone else could have done so too. The dominant vocabulary of a Kimian world view is so different and so friendly: customer satisfaction, customer loyalty, net promoter score and reputation. All quite important in the social media fuelled world of customers in the 21st century. Make love not war.

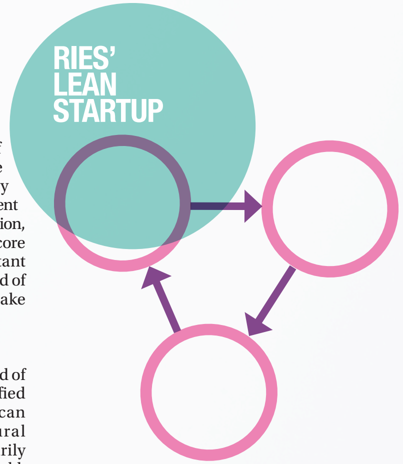


Ries' Lean Startup

Eric Ries sits atop the priesthood of Silicon Valley, and he has codified an approach to business that can best be summarised as natural selection in action: not necessarily a bad thing in the ruthless tech world. His answer to your strategy question is always: "Think of your business as a portfolio of tests, identify the most critical challenges you face at any given time and quickly construct a minimum viable product (MVP) to test your intended solution(s)".

Build, measure, learn. In a Riesian world, you don't use Excel to work out what customers might want, nor do you ask them what they want during focus groups. You observe what they do with your MVP. Words lie, actions don't. Real actions from real customers are the only things that will keep your company alive over time.

Therefore, the best way to thrive long term is to build a culture obsessed in the short term with quickly and systematically testing anything that moves. Even if it fails. Especially if it fails. Fail fast, fail often. Failure of a test is a cheap way to discover that you're on the wrong track. Success of a test is a clear indication that you are ready to roll it out and scale it up. Tests are a more reliable and safer way to predict the future than any strategy theory.



Your strategy stockpile

A great theory is a gift that keeps on giving. Whether it's Darwinism in social sciences or capitalism in economics, a great theory allows us to see more clearly through the fog of war and make sense of life. No wonder everyone approaches theories carefully and sticks for a long time with the one they've painstakingly selected. Please don't do that when it comes to business strategy. You'll get better results from using many theories quickly than from using one theory slowly and deliberately. ■

Fred Pelard (fred@instigategroup.com) is a strategy trainer and facilitator, who has conducted 350+ training sessions on 'Strategy at Speed' in the last ten years

Resources
Bruce Henderson, *The Product Portfolio* (1970); Michael E. Porter, *Competitive Advantage* (1980); Michael Treacy and Fred Wiersema, *The Discipline of Market Leaders* (1995); Gary Hamel and CK Prahalad, *Competing for the Future* (1996); W Chan Kim and Renée Mauborgne, *Blue Ocean Strategy* (2005); Eric Ries, *The Lean Startup* (2011)