



The five golden rules of strategic thinking

In most industries, business leaders must continuously reevaluate the validity of their strategic choices in light of unanticipated shifts in the environment. A study of 140 business strategists cited in the *Harvard Business Review* article *Scanning the Periphery*, reveals that two-thirds of those interviewed had been surprised by events with a significant impact on their competitive strategy, more than three times on average over a five-year period! And these unexpected surprises are just the tip of the iceberg, because discerning which of the many shifts in the environment will have a major impact on the future of a company is difficult, for a number of reasons:

The scope of options is wider.

Company leaders must increasingly take unexpected competitors into account. When Sony started developing the Librié, its digital book reader, it expected fierce competition from the consumer electronics sector, but never imagined that the threat could come from another direction entirely—the book distribution industry. Yet, it was Amazon that ended up taking the lead with the Kindle! Industry boundaries are becoming increasingly blurred in a world where access to technologies has become much easier than access to cus-

tomers. Many competitive fields traditionally defined by an offering are thus seeing their boundaries become less clear-cut—Apple distributes music; car dealers offer financing; banks sell insurance and mobile phones; Darty, a French consumer appliance distributor, provides internet service; etc. Leaders must thus expand their vision of the strategic perimeter while remaining sufficiently focused.

The future is ever more unpredictable.

With the accelerating pace of technological innovation, the expansion of the competitive playing field, and economic upheaval, how can companies project their medium- and long-term future when everything might change tomorrow? In just ten years, what industry has not experienced an earth-shaking shock wave? Telecommunications suffered the bursting of the Internet bubble, transportation struggles with wildly fluctuating energy prices, the press and the music industry are seeking a new economic model, the pharmaceutical industry is under pressure due to rising healthcare costs, etc. At the same time, business leaders must cope with shorter strategic cycles and shifting market realities without losing their bearings.

Business leaders have no choice other than to reevaluate their strategic options continuously.

In this context, the **art of strategic planning requires the agility to juggle a shifting and unpredictable reality**. Businesses must avoid falling into one or more of three major pitfalls, namely making an irreversible move in a particular direction that turns out to be wrong because the world has changed, devoting huge efforts to paint a complete and accurate picture of the environment to be certain of a winning strategy, and scattering resources as priorities are reallocated to deal with each emerging threat or opportunity.

Five basic rules help companies make strategic choices in turbulent contexts:

- 1 Be ready to redefine your **playing field**
- 2 Rigorously set your **priorities**
- 3 Don't let your **assets** become obsolete
- 4 Closely monitor your **strategic assumptions**
- 5 Give **priority to action**

1st golden rule

Be ready to redefine your playing field

Monitor your environment

To avoid relying too heavily on a static snapshot of your environment, regularly ask yourself:

- Is my market homogeneous? Do some emerging offerings address a sub-segment of the market?
- Are any historically marginal competitors or segments gaining in importance?
- Are any businesses outside our normal competitive set beginning to forge or reinforce relationships with our customers?
- Are any competitors sending out feelers in new segments?
- What surprising competitive moves have occurred in industries similar to ours? What trends could we extrapolate from these shifts?

More than ever before, the **choice of target market segments has a decisive impact on company performance**, according to the results of a McKinsey study recounted in *The Granularity of Growth*. This analysis of more than 200 major corporations shows that 65 percent of organic revenue growth is attributable to the choice of the segments in which a business operates, and only 35 percent by the quality of the strategy in these segments!

To target the right markets, companies are advised to **reason on an extremely granular level**.

The McKinsey study points out the wide variance in growth across different segments of the same industry. The authors thus encourage businesses to define their strategy for segments with a market value between \$50 and 200 million, rather than from the vaster perspective of the markets generally served by a business unit. A retail bank using this approach avoided making a very bad investment decision. This bank had credited its growth to the higher rate of satisfaction amongst its customers. However, a more detailed analysis revealed that the actual reason

was that the bank's portfolio of businesses was focused on high-growth segments! This knowledge enabled the bank to reallocate its resources intelligently.

Positioning a business in the right markets is all the more important given the fact that competitive battlefields are constantly shifting. Indeed, companies must now **regularly challenge how their markets are defined**. For example, are you still a public works company or do you now manage infrastructure for the state? Are you a gas distributor or an

energy supply consultant? Depending on the answer, you will analyze the market differently and your resulting decisions will be more or less pertinent. You can

As competitive boundaries shift and become blurred, the playing field must be reviewed regularly.

also try to set your own game rules. Zipcar, for instance, rents out a fleet of cars on an hourly basis for occasional use. This approach addresses a very distinct car rental segment. Direct Line took a similar approach when it decided to distribute insurance by phone in 1985. The specific organization and cost structure of this virtual network created a whole new market, in which Direct Line is currently the leader with 10,000 employees.

Observe the environment from three angles

How can you identify the weak signals likely to herald major transformations within your market?

1

Learn from the past

- What took us by surprise?
- What could we learn from what has happened in other industries?
- Who in our industry is particularly good at identifying and capitalizing first on the weak signals?

2

Observe the present

- Are any trends at work that our industry is purposely ignoring?
- What are the doomsayers saying? The naysayers?
- What thoughts and opinions of customers and competitors are we purposely discounting?

3

Project into the future

- What surprises might the future hold for us?
- What technologies could change the game?
- What highly improbable scenarios should we keep in mind?

Based on *Scanning the Periphery*, George S. Day, Paul J. H. Schoemaker Harvard Business Review, November 2005.

2nd golden rule

Rigorously set your priorities

Strategy must be adapted to changes in the environment. At the same time, when the environment shifts continuously, resources must not be spread too thin. But how can you define a clear framework that still allows a business to be sufficiently adaptive?

An effective safeguard is to **assert clearly what you do not want to do**.

Google promotes disjointed innovation in its organization, in which engineers can allocate 20 percent of their time to projects outside their scope of responsibility.

But there are also clear criteria governing what types of projects are accepted. For example, if a project fails to attract candidates internally, it is abandoned. The experts also encourage companies to specify on **what type of customer efforts should be focused**. At Home Depot, the home equipment

Establishing a few powerful points of reference will keep you on course despite turbulence.

distributor, performance dropped noticeably when it extended its offering to professional contractors, as this move negatively affected the quality of service to its traditional household customer base. At the other end of the spectrum, McDonald's made a clear choice.

In the eighties and nineties, the goal was to expand its presence, and priority was thus placed on franchisees. Resources were allocated to procurement functions and support for the installation of new restaurants, etc. When

store profits began to decline in 2003, the CEO declared, *"The new boss at McDonald's is the consumer."* The company then began devoting efforts to adapting menus to local tastes, for example. By clearly prioritizing its target customer, McDonald's avoided the resource dilution trap.

Establish stable points of reference

In addition to quantifiable objectives likely to change with the market, asserting a few fundamental points of reference ensures consistency of effort over time.

- **What values constitute our core identity?** E.g.: *When push comes to shove, do we prefer to focus on customer service, innovation or profit margins?*
- **What skills set us apart?** E.g.: *What do we want to do better than everyone else on a lasting basis?*
- **What are our basic aspirations?** E.g.: *Dannon's guiding principle is to promote good health by providing healthy, affordable food products.*

"The greatest danger in turbulent times is not the turbulence; it's acting on yesterday's logic."

Peter Drucker

3rd golden rule

Don't let your assets become obsolete

In shifting environments, the experts encourage businesses to **reevaluate their competitive assets regularly**. When technology becomes a commodity, for example, a "high end" positioning may easily be recast as "ridiculously expensive." The authors of *Which Strategy When*, published in Sloan Management Review, recommend **distinguishing between two types of assets**. Some assets are based on a well-identified distinctive resource, such as a

In a dynamic environment, lasting competitive advantage must be monitored closely.

strong brand image, proprietary technology, etc. Others are derived from a distinctive arrangement of a commoditized resource. This is true, for example, in the case of Wal-Mart's cost advantage, which depends upon a unique combination of logistics, store network and information system. With the first type

of asset, businesses must **keep a close eye on the risk of imitation**. The best defense is generally attack, that is, to utilize a given asset dynamically by seizing opportunities before the rest of the market. Google and Apple, for example, capitalize upon their ability to develop new products; and Tata Group uses

its financial capacity to realize an aggressive acquisition strategy. With the second type of asset, the risk of imitation is lower, because it is very complicated

to reproduce the intricacies of an entire system. The danger lies, on the other hand, in the **risk of failing to react to a changing market**. Companies in this position are thus advised to be particularly attentive to trends that could challenge their *business model* and dare to anticipate often radical restructuring!

Remain vigilant

A few practices can help companies avoid becoming overconfident in their traditional assets:

- **Quantify your assets.** *Performance indicators can be used to analyze the real impact of an asset objectively.*
- **Benchmark your performance against the competition.** *Any advantage is relative. For example, your asset could become obsolete if a new competitor moves up-market.*
- **Describe the downsides of your assets.** *An asset can be a weakness in some circumstances, e.g., Wal-Mart's logistics system is not adapted to organic food distribution.*
- **Analyze your perceived customer value,** e.g.: *Your reputation is built on quality. But is that what customers still want?*

4th golden rule

Closely monitor your **strategic assumptions**

What to track?

Tracking the thinking process is a good way to ensure that the organization is able to respond to changes that may challenge the initial strategy:

- On what vision of the market, the competition and our assets are we basing our decisions?
- What are the key assumptions? What questions are raised by these assumptions?
- What is the impact of the selected hypotheses? How would the strategy change if we made different assumptions?
- What indicators or weak signals could be used to track the validity of our assumptions over time?

Any strategy depends on assumptions, explicitly or not. When telecommunications equipment manufacturers invested in production capacity in the late nineties, they were making an implicit assumption that market growth would continue into the next decade.

But did they explicitly identify this critical assumption? The authors of the article *The Quest for Resilience* are skeptical. Many objective studies showed that a market downturn was highly probable. Why then were manufacturers so badly prepared to cope with this eventuality?

Business leaders are thus strongly advised to clarify the assumptions on which their strategy is based, starting with **the most critical hypotheses**.

A strategy remains valid only as long as its underlying assumptions are too.

This is done by explicitly describing the strategic rationale, then putting the underlying factors into perspective. What would be the strategic impact, for example, if the elderly population were to stop growing? What is the probability of that occurring? If

the uncertainty surrounding this factor could have major repercussions, a **system must be established to monitor** relevant

trends closely. It is also a good idea to **keep track of the discussions on the choice of hypotheses and their impact**. Recording the underlying reasoning and the possible alternatives will help the company react more rapidly when changes occur that challenge the initial strategy.

5th golden rule

Give **priority to action**

Taking action in uncertain situations

A few principles for taking action in complex environments:

- Organize yourself to stay focused on the big picture. Keep your fundamental goals in mind and delegate partial or intermediary objectives.
- Establish criteria to test the validity of the initiatives in your action plan regularly.
- Avoid planning too rigidly, as you may easily become bogged down in the details and excessive analyses.

The more turbulent the environment, the greater the need to be aware of the limits of strategic planning. Businesses should naturally try to understand the situation as well as they can and develop probable future scenarios. At the same time, they must be aware that it is impossible to grasp all of the parameters at play or to anticipate their interactions with perfect accuracy. To illustrate this complexity, the *Harvard Business Review* article *Strategy as a Wicked Problem* cites

Taking action despite uncertainty is sometimes the best way to control this uncertainty.

the dilemmas encountered by Wal-Mart in its growth strategy. Wal-Mart has a lot of options—raise prices, distribute high-end products, develop in U.S. urban centers, develop in emerging countries, etc. These various options have many potential repercussions in terms of the brand, competitive response, employment policy, relations with unions and the authorities, etc. It would be illusory to try to anticipate

the outcome of any particular option with total certainty.

In such contexts, the analysis of complex systems can teach some valuable lessons. The need to take **action in the absence of certainty** must be recognized above all. Otherwise, endless analyses may well prevent all action.

Taking action is the best way to learn, because people understand a system better when they directly observe the impact of their decisions. Companies must consequently be willing to **take ac-**

tion simply to learn, rather than just to attain the objective. To develop the best strategy, they must do more than just conduct analyses, but also experiment concretely and capitalize on the results of these experiments. Google and Whirlpool, for example, go as far as to organize the **regular generation of experimental projects**, as much to learn as to invent the successes of tomorrow!

“He who will act and speak only with certitude ends up doing nothing at all.”

Friedrich Nietzsche