

**“Nobody really knows
what strategy is.”**

Dr. John W. Lang

The Economist

What is Strategy?

A (very) brief introduction.

Why do we need a strategy?

- Without a strategy, we fill our time with...
 - ... what we want, or
 - ... what we think the boss wants, or
 - ... by reacting.
- Without a strategy, time and resources are easily wasted on piecemeal, disparate activities.

Five Definitions

Strategy as...

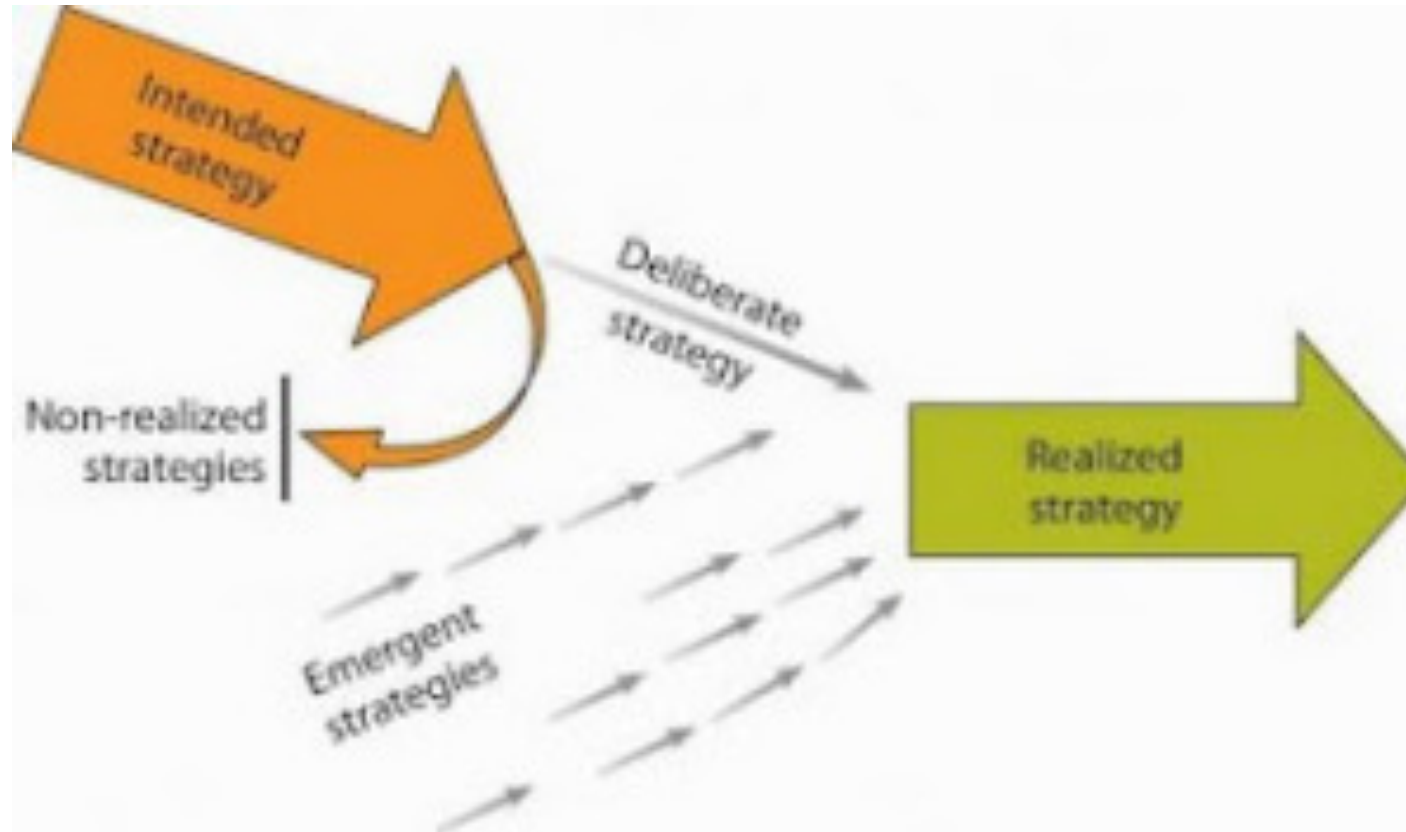
- a consciously and purposefully developed **plan**;
- a **ploy** to outmaneuver a competitor;
- a **pattern** in a stream of actions, whether intended or not;
- a **position** defined either with respect to a competitor, in the context of a number of competitors, or with respect to markets; and as
- a **perspective**, i.e. a certain mindset of how to perceive the world.

Mintzberg's 10 Schools

- Being unsatisfied with the strategy discussion, Henry Mintzberg, professor at McGill University Canada, set out to structure the literature and thinking on strategy. He discovered 10 different schools of thought on strategy, arguing that every one of them describes a specific part of strategy.
- Just like the blind men describe the elephant....



Mintzberg – Strategy making



Mintzberg's 10 Schools

Prescriptive

- Design
- Planning
- Positioning

Descriptive

- Configuration
- Cognitive
- Cultural
- Entrepreneurial
- Environmental
- Learning
- Power

STRATEGY SCHOOL	ATTRIBUTES	USED
PRESCRIPTIVE		
Design	Strategy as process SWOT – resources & Competences	Rounds 1 - 4
Planning	Formalized checklists Process oriented Incremental	Rounds 1 - 4
Positioning	Analytical processes Porter's five forces & value chain	Rounds 1 - 8
EMERGENT		
Configuration	Strategy as transformation	Rounds 4 - 6
Cognitive	Strategy as creative interpretations Creative process	Rounds 1 - 8
Cultural	Company's culture to the fore McKinsey 7S	Rounds 0
Entrepreneurial	Visioning Leadership Insight	Round 1, 3, 7
Learning	Learning Orgs Senge Personal mastery Mental models Shared vision Team building Systems thinking	Rounds 1 - 8
Power	Political negotiated processes Thesis – antithesis = synthesis	Rounds 3 – 5, 7,8
Environmental	Reactive process to external factors	Rounds 1 - 8

1.The design school, which sees strategic management as a process of attaining a fit between the internal capabilities and external possibilities of an organisation.

2.The planning school, which extols the virtues of formal strategic planning and arms itself with SWOT analyses and checklists.

3.The positioning school, heavily influenced by the ideas of Michael Porter, which stresses that strategy depends on the positioning of the firm in the market and within its industry.

4.The entrepreneurial school, which emphasises the central role played by the leader.

5.The cognitive school, which looks inwards into the minds of strategists.

6.The learning school, which sees strategy as an emergent process — strategies emerge as people come to learn about a situation as well as their organisation's capability of dealing with it.

7.The power school, which views strategy emerging out of power games within the organisation and outside it.

8.The cultural school, which views strategy formation as a process rooted in the social force of culture.

9.The environmental school, which believes that a firm's strategy depends on events in the environment and the company's reaction to them

10.The configuration school, which views strategy as a process of transforming the organisation — it describes the relative stability of strategy, interrupted by occasional and dramatic leaps to new ones.

Mintzberg's 10 Schools : The 3 Prescriptive ones

Design School

- Strategy as a process of conception
- Goal = Achieving the essential fit between
 - internal strengths & weaknesses and
 - external opportunities & threats
- '70s

Mintzberg's 10 Schools : The 3 Prescriptive ones

Planning School

- Strategy as a formal process
- Takes on most of the design schools assumptions
- Process: Formal, Decomposable, Steps
- Supported by checklists and formal techniques
- Igor Ansoff
- mid '70s



Mintzberg's 10 Schools : The 3 Prescriptive ones

PositioningSchool

- Strategy as an analytical process
- Generic positions selected through formalized analyses of industry situations
- Michael Porter
- '80s



Mintzberg's 10 Schools : The 7 Descriptives ones

Configuration School

- Strategy as a process of transformation
- Process varies according to company configuration



Mintzberg's 10 Schools : The 7 Descriptives ones

Cognitive School

- Strategy as a mental process and creative interpretations



Mintzberg's 10 Schools : The 7 Descriptives ones

Cultural School

- Strategy as a social process rooted in the company's culture
- Focuses on common interest & integration

Mintzberg's 10 Schools : The 7 Descriptives ones

Entrepreneurial School

- Strategy as a visionary process
- Intuition
- The leader is central

Mintzberg's 10 Schools : The 7 Descriptives ones

Environmental School

- Strategy as a reactive process
- Influenced by the demands of the environment

Mintzberg's 10 Schools : The 7 Descriptives ones

Learning School

- Strategy as an emergent process
- Organisational Learning
- Formulation & implementation interwine

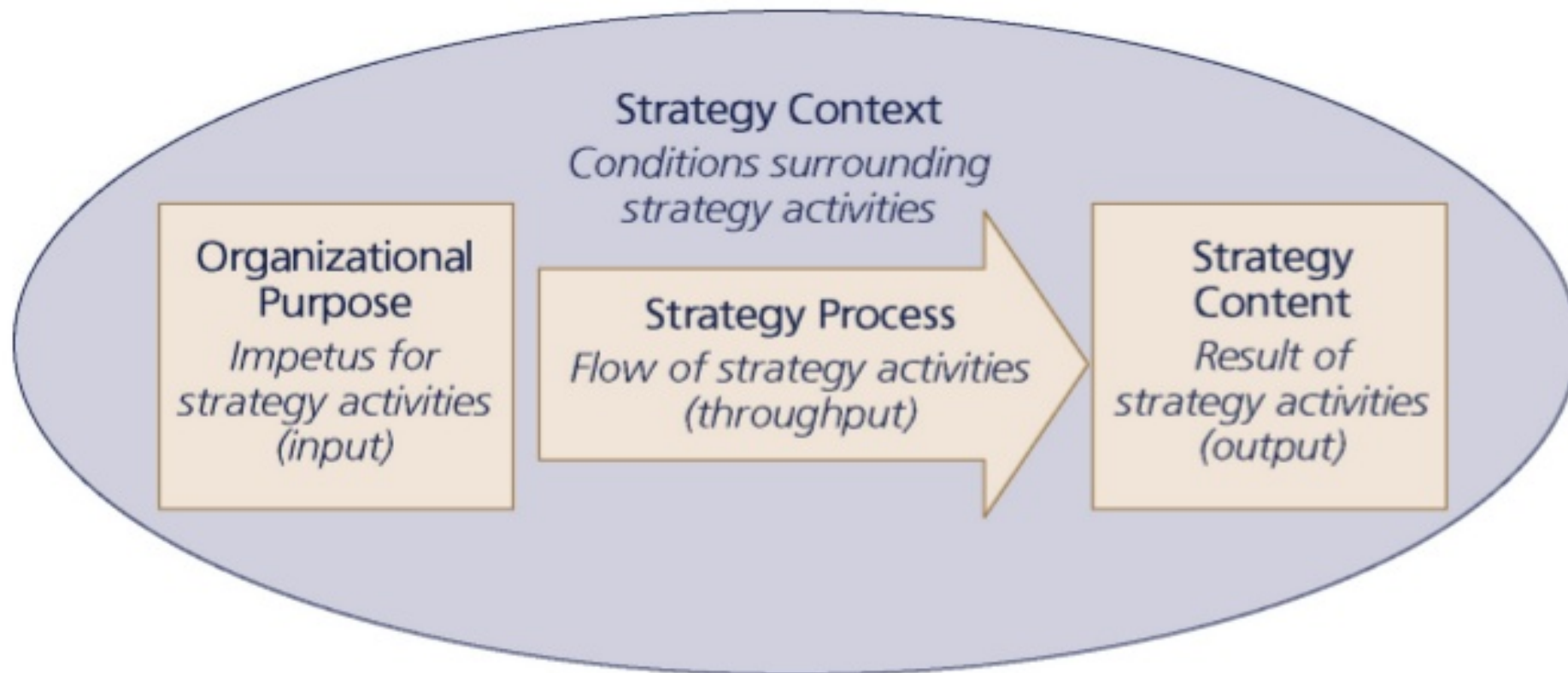
Mintzberg's 10 Schools : The 7 Descriptives ones

Power School

- Strategy as a process of negotiation
- Micro vs Macro, i.e. company vs individual interests
- Political
- Focuses on personal interest

Dimensions of Strategy

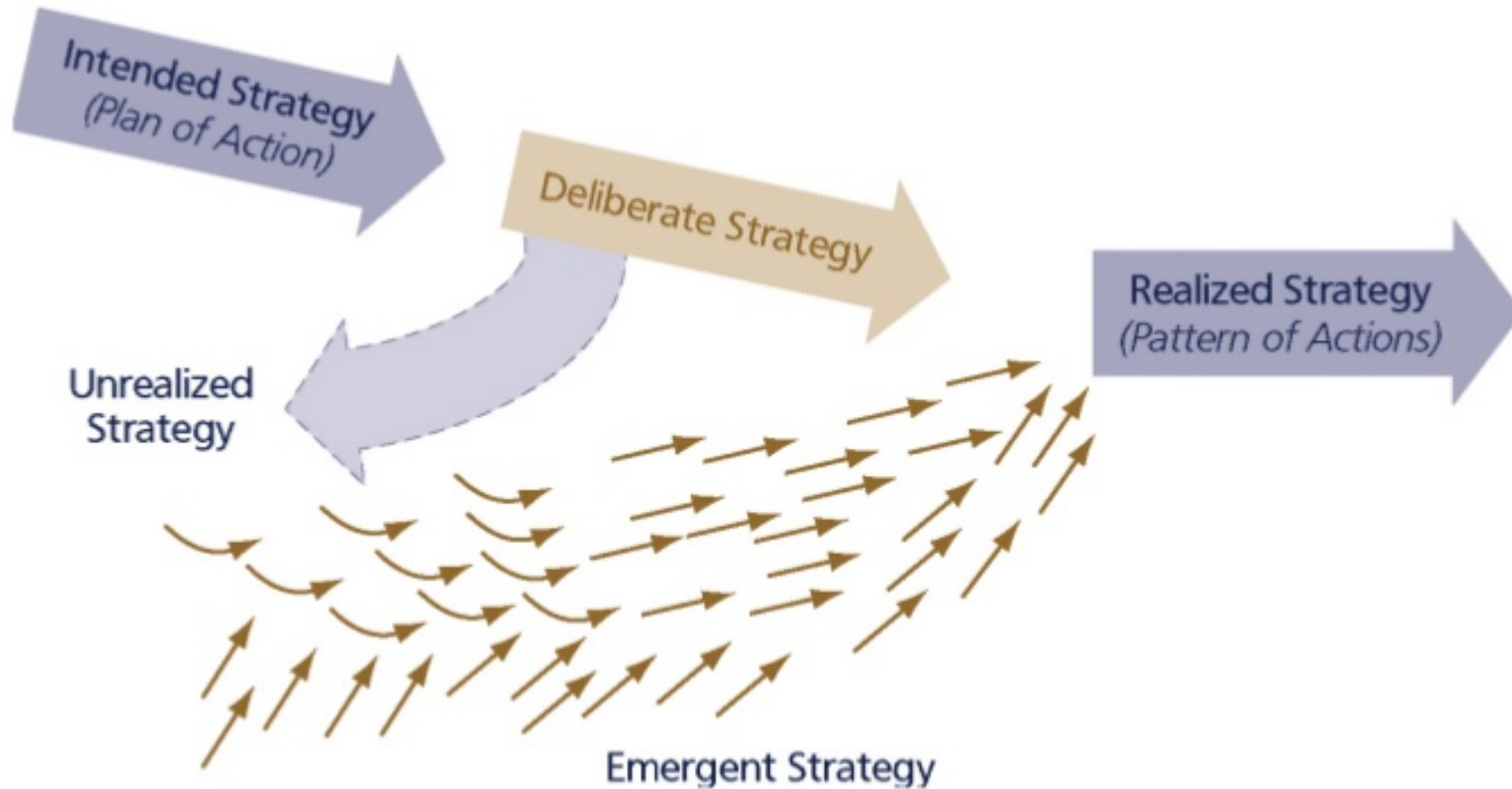
Process, Content, Context



Strategy Process

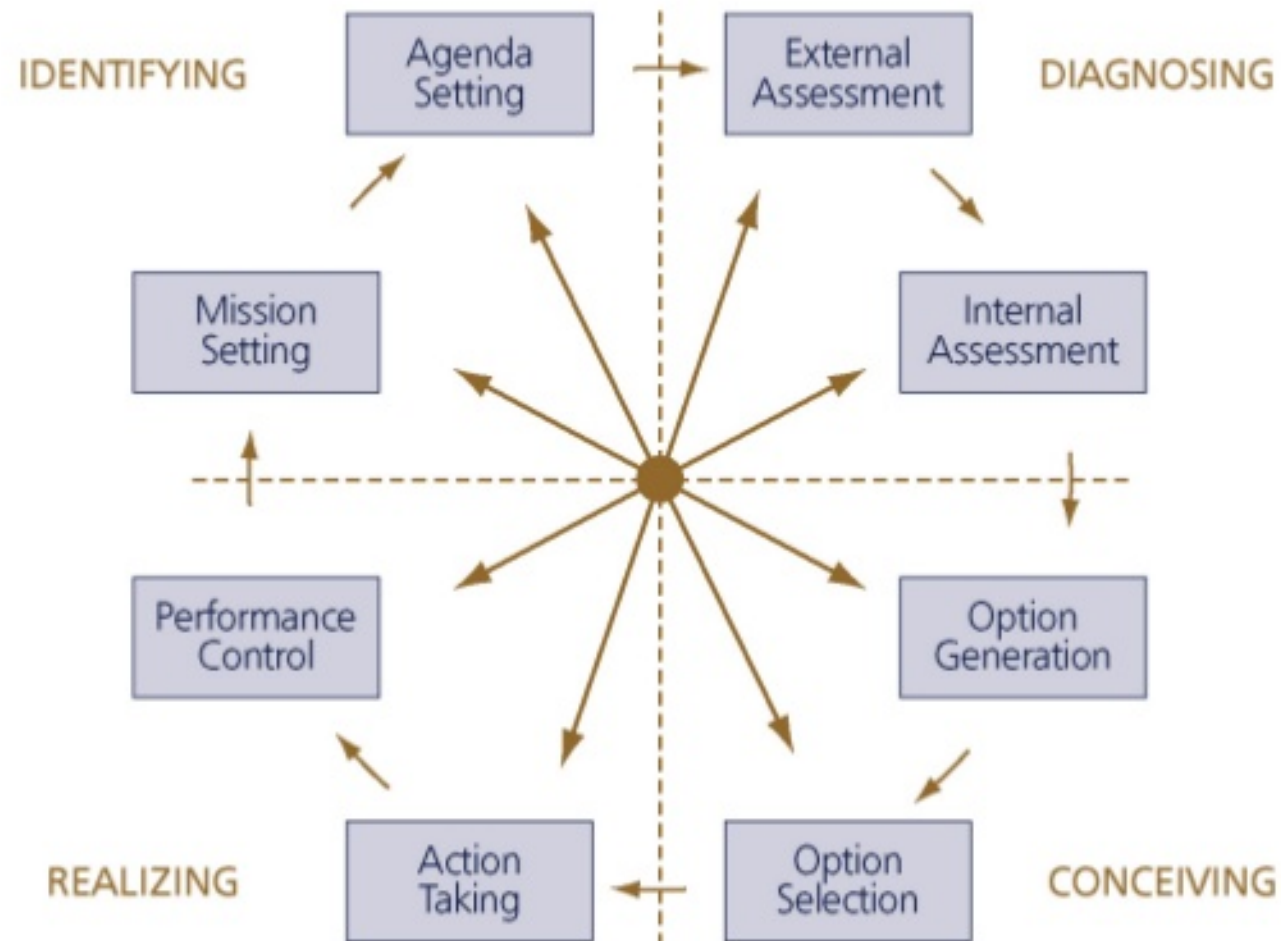


Strategy Formation

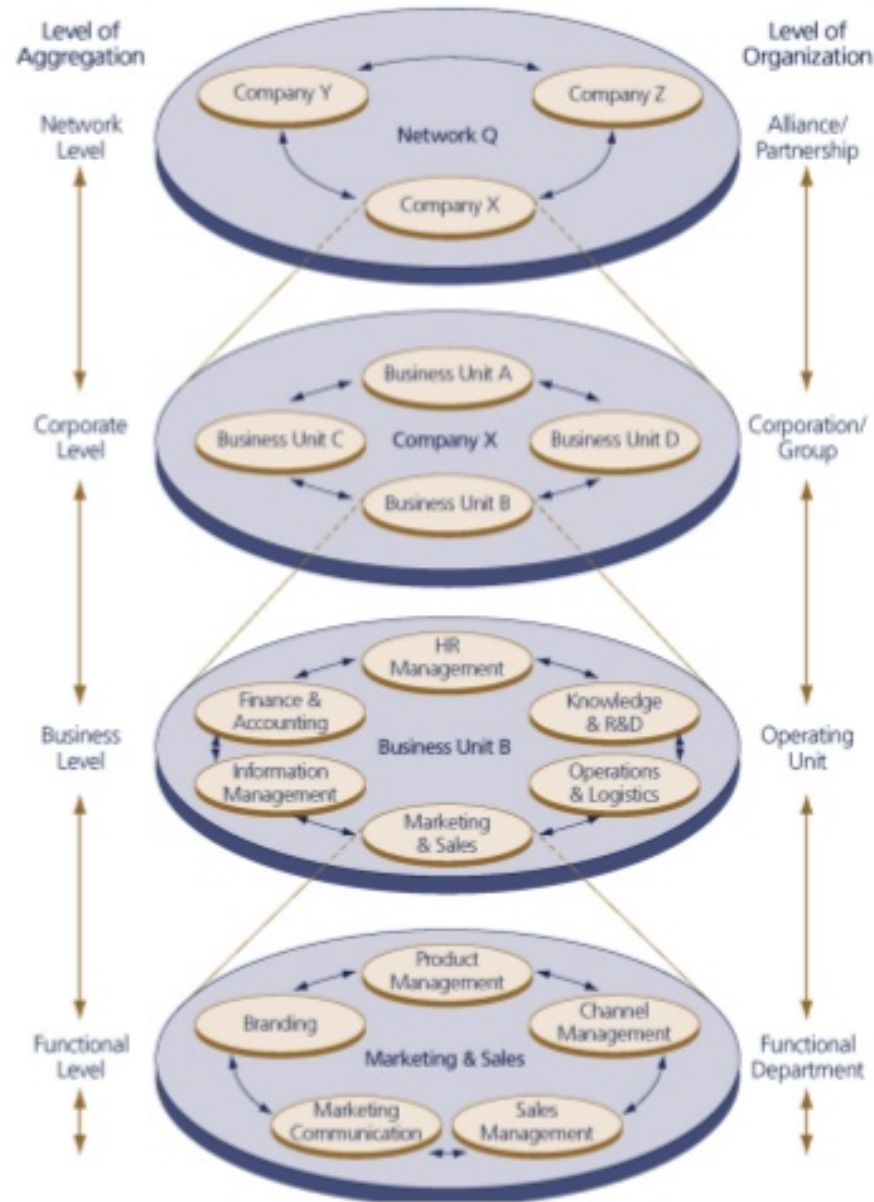


Realized Strategy

Strategy Formation Activities



Strategy Content



Strategy Context



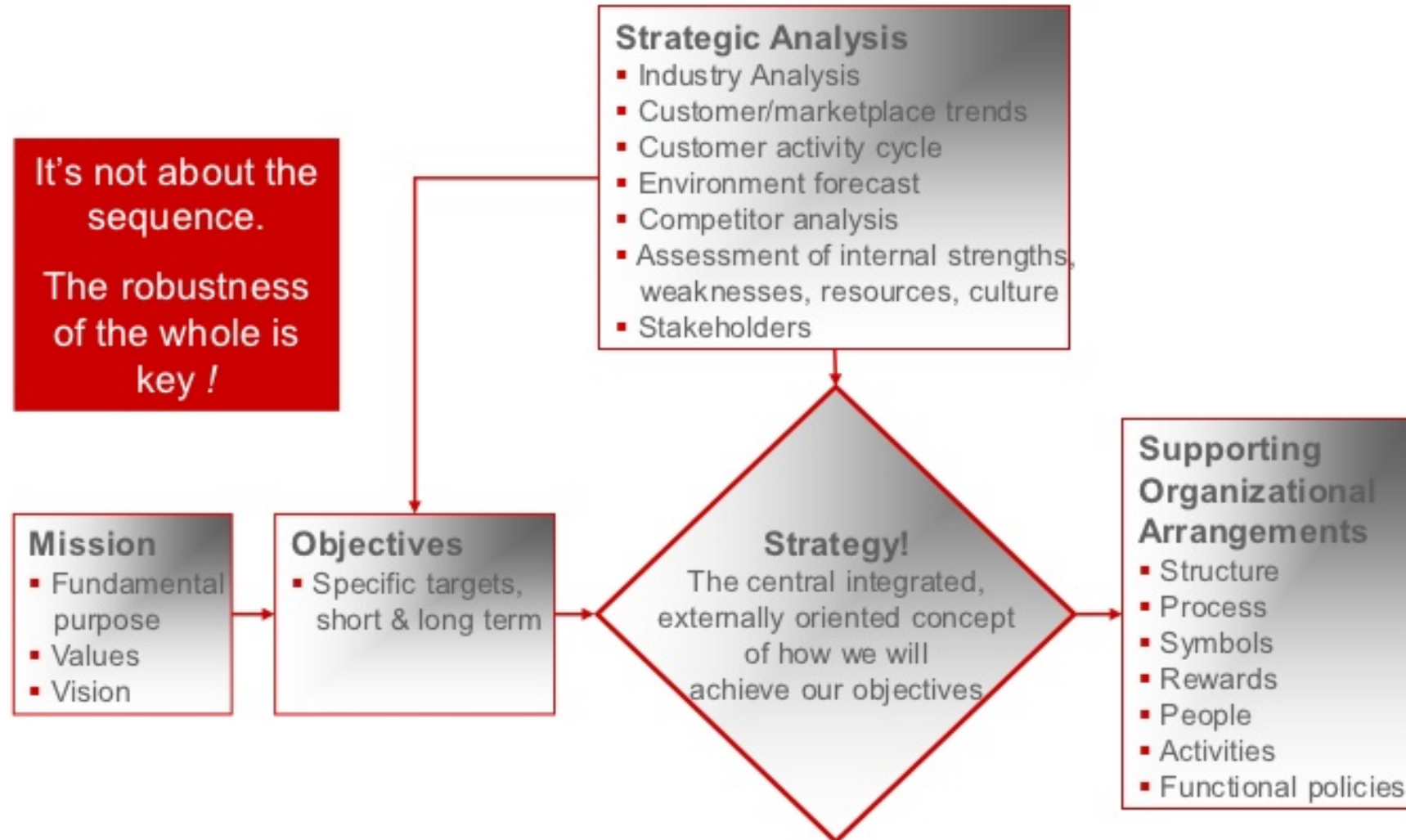
Strategic Tensions

Dimension	Topic	Tension
Strategy Process	Strategic Thinking	Logic ↔ Creativity
	Strategy Formation	Deliberateness ↔ Emergence
	Strategic Change	Revolution ↔ Evolution
Strategy Content	Business Level Strategy	Markets ↔ Resources
	Corporate Level Strategy	Responsiveness ↔ Synergy
	Network Level Strategy	Competition ↔ Cooperation
Strategy Context	Industry Context	Compliance ↔ Choice
	Organizational Context	Control ↔ Chaos
	International Context	Globalization ↔ Localization
Purpose	Organizational Purpose	Profitability ↔ Responsibility

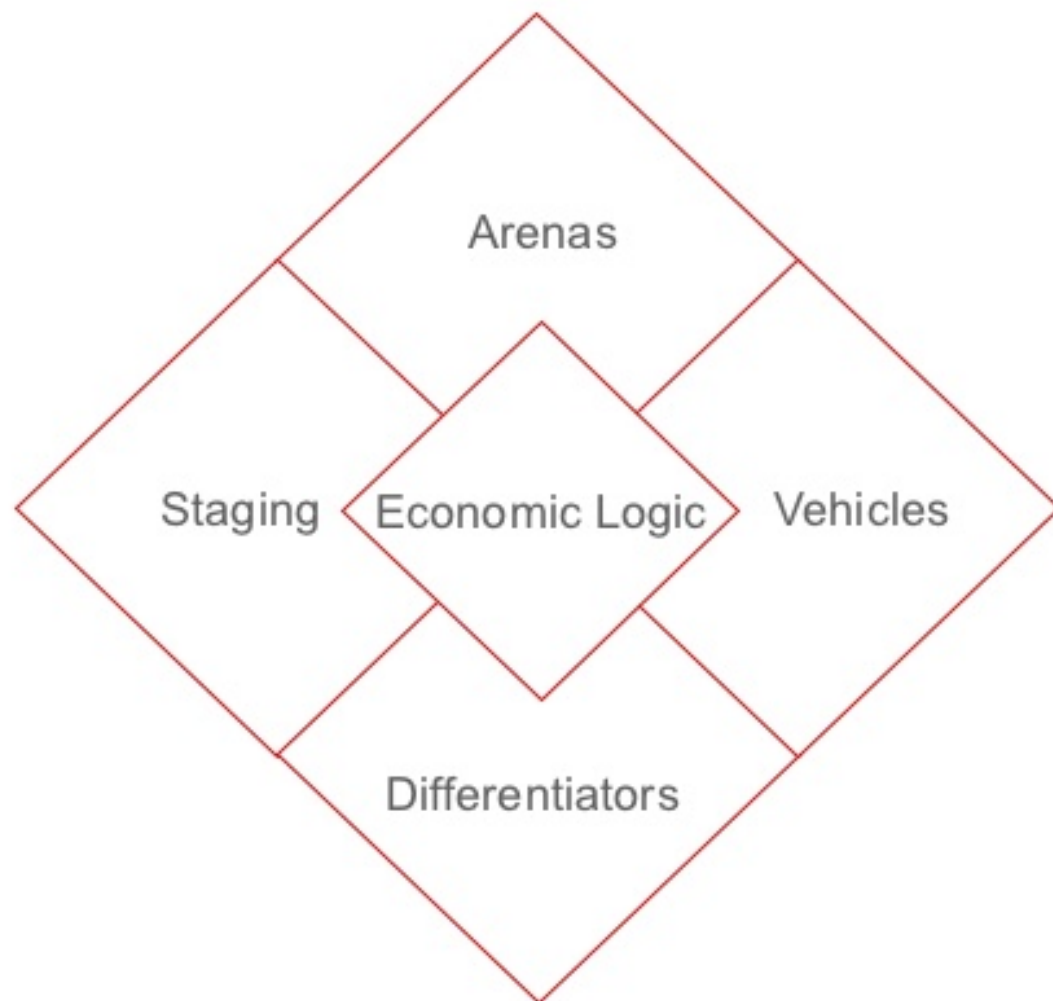
Setting Strategy

**A great strategy has pieces,
...but they form a coherent
whole!**

Putting strategy in its place



The five major elements of strategy



The five major elements of strategy



The five major elements of strategy

Strategy is an integrated set of choices.

- **Arenas** Where will we 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?

The five major elements of strategy



Arenas: Where will we be active?

- With how much emphasis ?
- Which product categories ?
- Which market segments ?
- Which geographic areas ?
- Which core technologies ?
- Which value-creating stages ?

The five major elements of strategy



Vehicles: How will we get there?

- The means for attaining the needed presence in the identified arenas
- Internal development ?
- Joint ventures / alliances ?
- Licensing / franchising ?
- Acquisitions ?
- Which channels ?

The five major elements of strategy



Differentiators: How will we win?

- The reasons that customers will choose us
- Image ?
- Customization ?
- Price ?
- Styling ?
- Product reliability ?
- Anything else ?

The five major elements of strategy



Staging: What will be our speed & sequence of moves?

- Driven by availability of resources, urgency, need for credibility and need for early wins
- Speed of expansion ?
- Sequence of initiatives ?

The five major elements of strategy



Economic Logic: How will we obtain our returns?

- How profits will be generated, above the firm's cost of capital.
- Lowest costs through scale advantages ?
- Lowest costs through scope and replication advantages ?
- Premium prices due to unmatched service ?
- Premium prices due to proprietary features ?

The five major elements of strategy



Economic Logic: How will we obtain our returns?

- What generates cash ?
- What decides your margins ?
- What generates market share growth ?
- How fast do sales turn into cash ?
- What numbers / ratios tell us we're successful ?
- What are our underlying core capabilities ?

Testing the Quality of Your Strategy

Some key evaluation criteria

Will your envisioned differentiation be sustainable?

Are the elements of your strategy internally consistent?

Is your strategy implementable?

Do you have enough resources to pursue this strategy?

Does your strategy exploit your key resources & capabilities?

Does your strategy fit within what's going on in the environment?



Some key evaluation criteria

- **Does your strategy exploit your key resources & capabilities?**

With your particular mix of resources, does this strategy give you a good head start on competitors? Can you pursue this strategy more economically than competitors?

- **Do you have enough resources to pursue this strategy?**

Do you have the money, managerial time & talent, & other capabilities to do all you envision? Are you sure you're not spreading your resources too thinly, only to be left with a collection of feeble positions?

- **Will your envisioned differentiation be sustainable?**

Will competitors have difficulty matching you? If not, does your strategy explicitly include a ceaseless regimen of innovation & opportunity creation?

- **Are the elements of your strategy internally consistent?**

Have you made choices of arenas, vehicles, differentiators, and staging, and economic logic? Do they all fit and mutually reinforce each other?

- **Is your strategy implementable?**

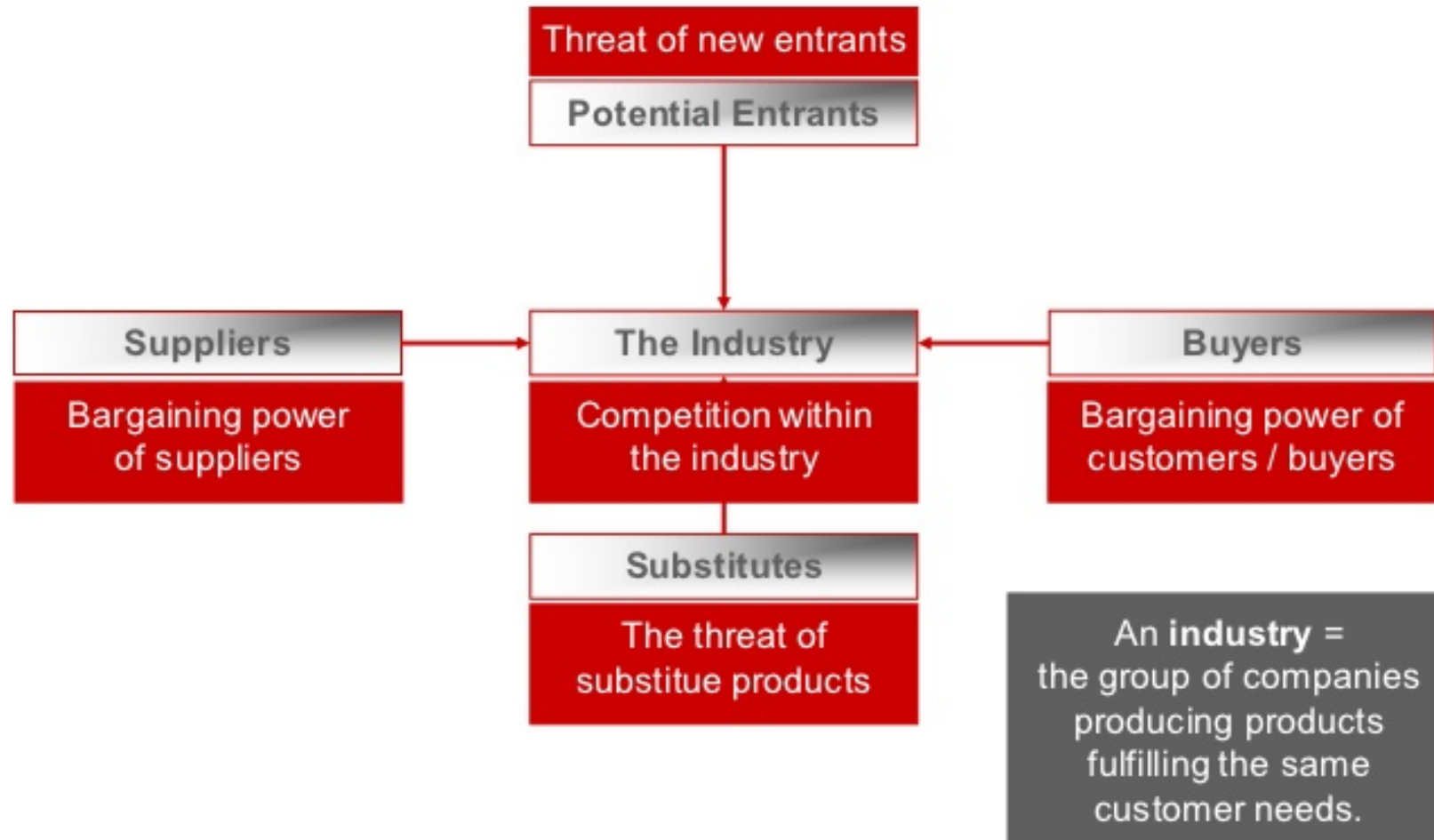
Will your key constituencies allow you to pursue this strategy? Can your organization make it through the transition? Are you & your management team able & willing to lead the changes?

Putting strategy in its place



What drives competition in the industry?

Porter's Five Forces



What drives competition in the industry?

Porter's Five Forces

Entry Barriers

Economies of scale
Proprietary product differences
Brand identity
Switching costs
Capital requirements
Access to distribution
Absolute cost advantages

- Proprietary learning curve
- Access to necessary inputs
- Proprietary low-cost product design

Government policy
Expected retaliation

Rivalry Determinants

Industry growth
Fixed (or storage) costs/value added
Intermittent overcapacity
Product differences
Brand identity
Switching costs
Concentration and balance
Informational complexity
Diversity of competitors
Corporate stakes
Exit barriers

Determinants of Supply Power

Differentiation of inputs
Switching costs of suppliers and firms in the industry
Presence of substitute inputs
Supplier concentration
Importance of volume to supplier
Cost relative to total purchases in the industry
Impact of inputs on cost or differentiation
Threat of forward integration relative to threat of backward integration by firms in the industry

Determinants of Buyer Power

Bargaining Leverage

Buyer concentration versus firm concentration
Buyer volume
Buyer switching costs relative to firm switching costs
Buyer information
Ability to backward integrate
Substitute products
Pull-through

Price Sensitivity

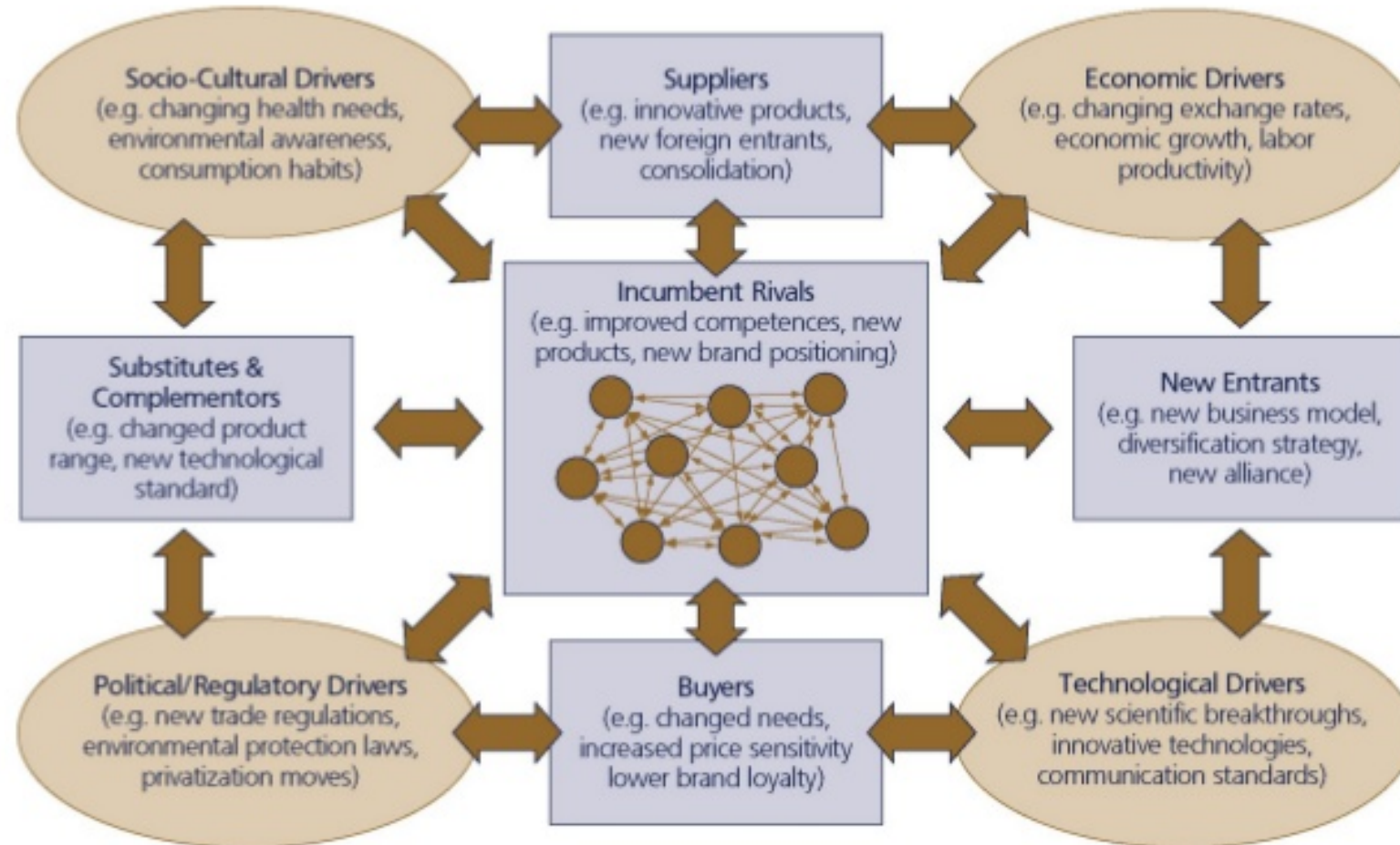
Price/total purchases
Product differences
Brand identity
Impact on quality/performance
Buyer profits
Decision makers' incentives

Determinants of Substitution Threat

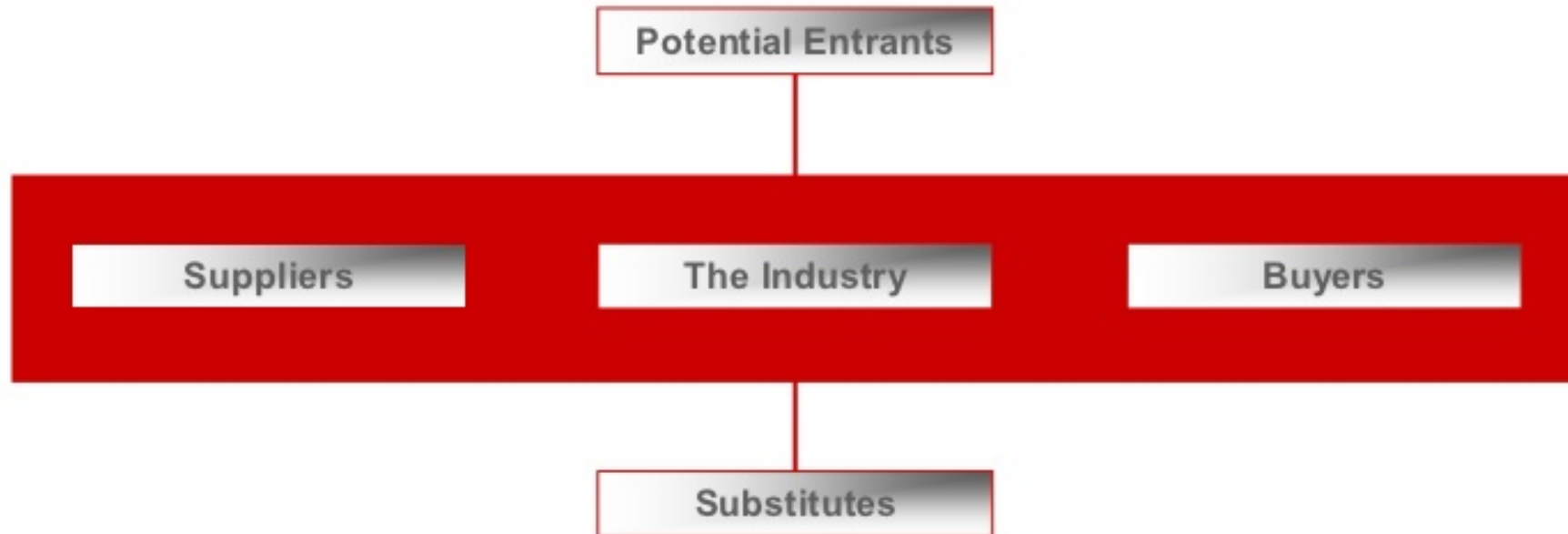
Relative price performance of substitutes
Switching costs
Buyer propensity to substitute



Anything else?



Let's move from the industry to the business!



Industries, Markets and Businesses

Markets (Demand side)

		London– Paris Transport	London– Jamaica Transport	London– Barcelona Transport
<i>Industries (Supply side)</i>	Airlines		Charter Business	
	Railways			
	Shipping	Ferry Business		

Business System, Model & the value chain

- A **business system** is the chain of activities through which a product is developed, produced and delivered to its end-customers.
- A **business model** describes the way a company has selected to exploit its capabilities, relative to the industry characteristics.
- The **value chain** is the chain of activities through which a product is developed, produced and delivered to its end-customers, when *done by one company*.

What's your business model?

The Business Model: 9 Building Blocks

- What's your **value proposition**?
- Who are your **customers**? Which customer segments do you serve?
- What's your **relationship** to your customers?
- How do you reach your customers? Which **channels** do you use?
- What key **resources** does your company possess?
- What key **activities** does your company perform?
- How are your key **partners**?
- Where does the money come from? **Revenue streams**?
- What does it cost? **Cost** structure?



Analyzing your company's value chain

The Activity System

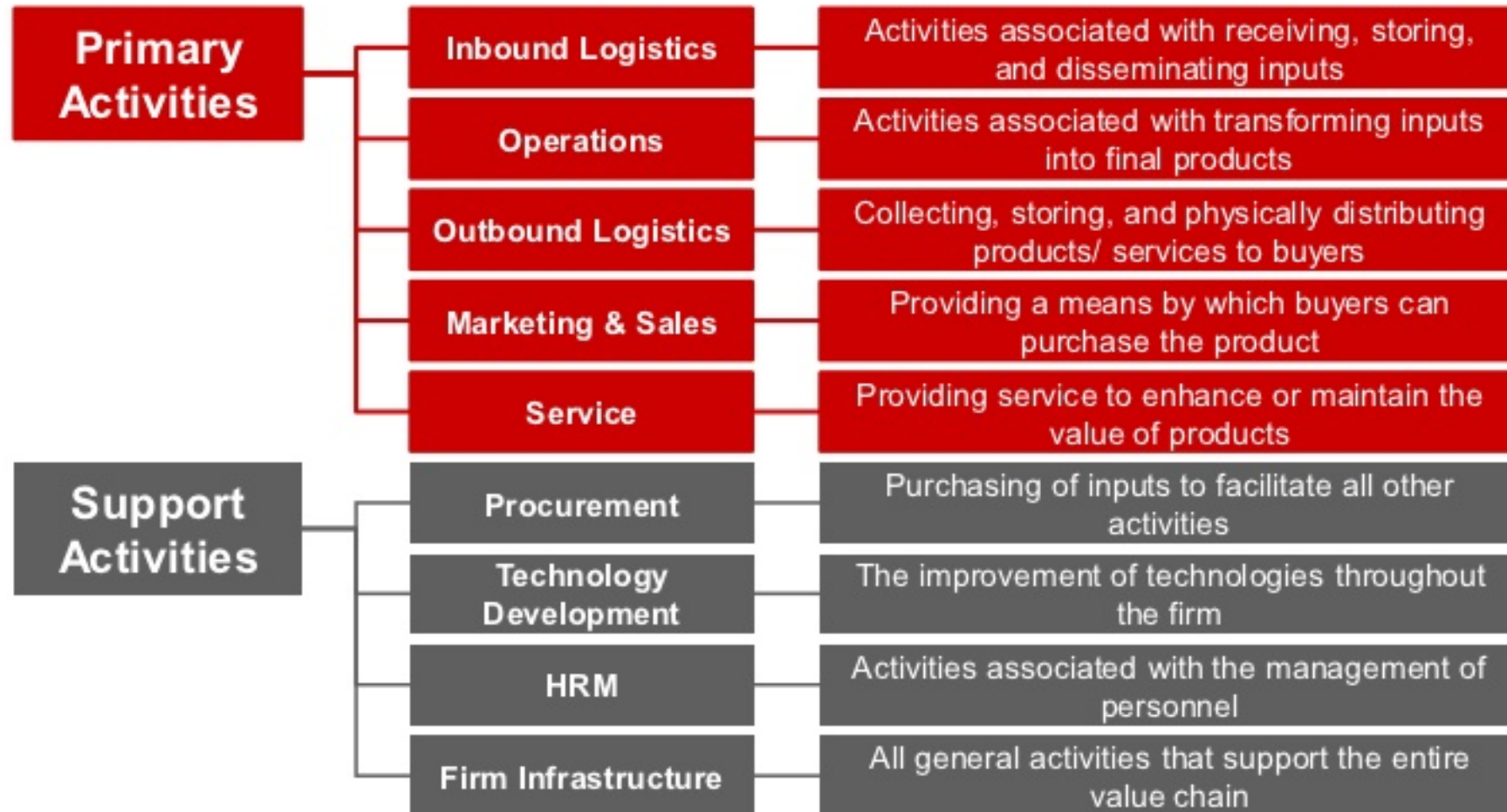
Value Chain

- An activity system is an integrated set of value creation processes leading to the supply of product and/ or service offerings. This activity system is frequently referred to as the **value chain**. (Porter, 1985)



The Activity System

Primary and Support Activities



Implementing Strategies

What matters most to Strategy Execution

Building a Strategy-Focused-Organization

The Balanced Scorecard

Strategy Maps

Putting strategy in its place



What matters most to Strategy Execution?

Information

Decision Rights

Motivators

Structure

What matters most to Strategy Execution? Ranking

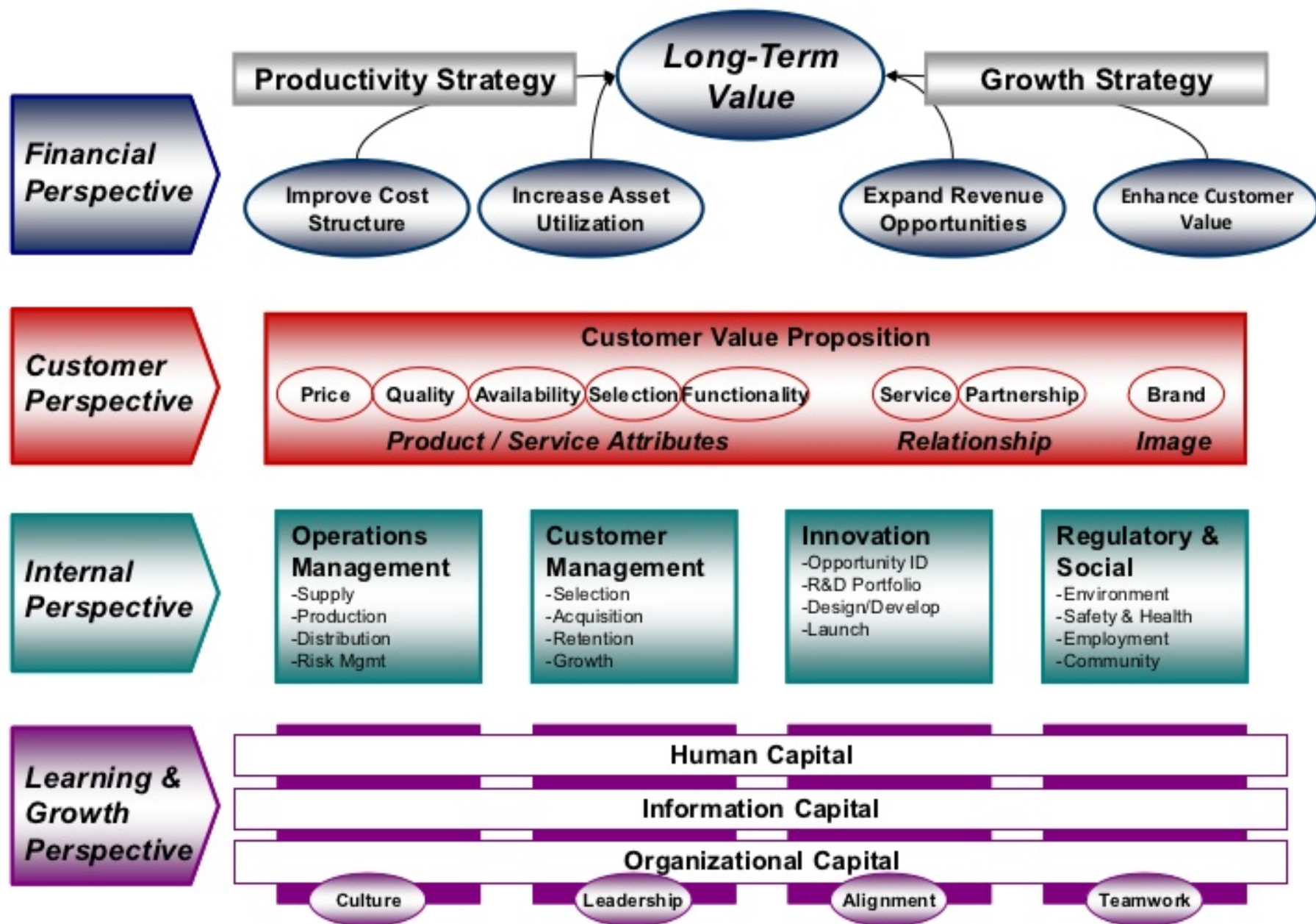
1. Everyone has a good idea of the decisions and actions for which he or she is responsible.
2. Important information about the competitive environment gets to headquarters quickly.
3. Once made, decisions are rarely second-guessed.
4. Information flows freely across organizational boundaries.
5. Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices.
6. Line managers have access to the metrics they need to measure the key drivers of their business.
7. Managers up the line get involved in operating decisions.
8. Conflicting messages are rarely sent to the market.
9. The individual performance-appraisal process differentiates among high, adequate, and low performers.
10. The ability to deliver on performance commitments strongly influences career advancement and compensation.
11. It is more accurate to describe the culture of this organization as "persuade and cajole" than "command and control."
12. The primary role of corporate staff here is to support the business units rather than to audit them.
13. Promotions can be lateral moves (from one position to another on the same level in the hierarchy).
14. Fast-track employees here can expect promotions more frequently than every three years.
15. On average, middle managers here have five or more direct reports.
16. If the firm has a bad year, but a particular division has a good year, the division head would still get a bonus.
17. Besides pay, many other things motivate individuals to do a good job.

Aligning & Focusing Resources on Strategy



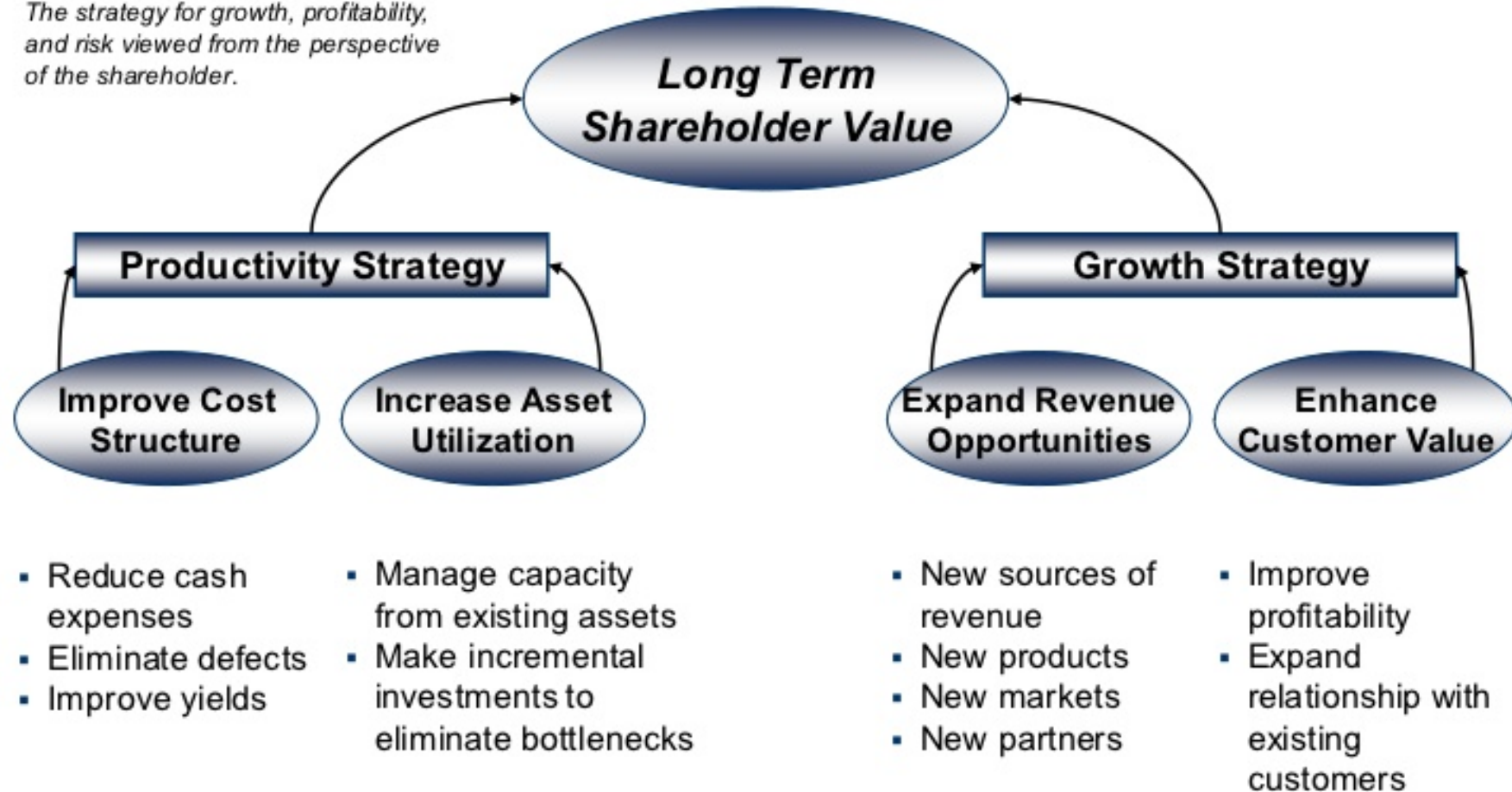
The Principles of a Strategy-Focused-Organization





Financial Perspective

The strategy for growth, profitability, and risk viewed from the perspective of the shareholder.



Customer Perspective

The strategy for creating value and differentiation from the perspective of the customer.

Customer Value Proposition



Customer Perspective

Operational Excellence Strategy



Product / Service Attributes

*Quality & selection in key categories
with unbeatable prices.*

Differentiator

General
Requirement



Relationship

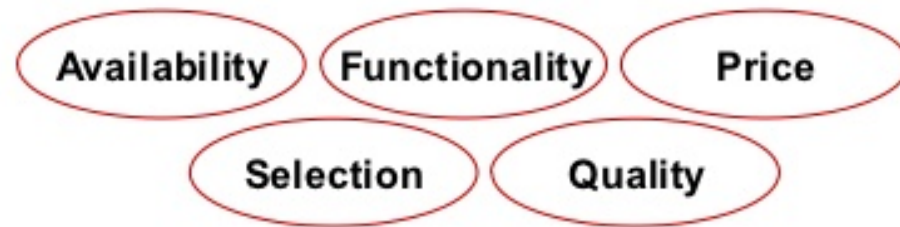


Image

*„Smart
Shopper“*

Customer Perspective

Customer Intimacy Strategy



Product / Service Attributes

Differentiator

General
Requirement

Service

Partnership

Relationship

*Personal service
tailored to produce
results for customers
and build long-term
relationship.*

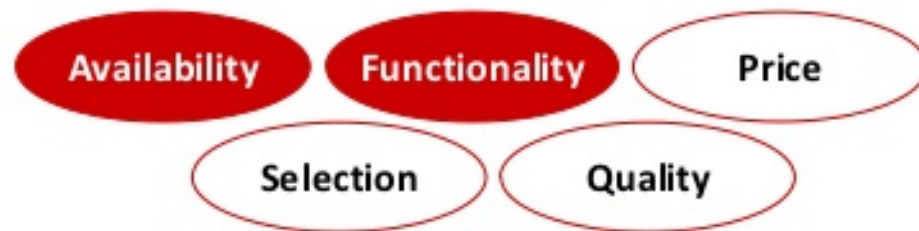
Brand

Image

*„Trusted
Brand“*

Customer Perspective

Product Leadership Strategy



Product / Service Attributes

Unique products and services that „push the envelope“.



Relationship



Image

„The Best Product“

Internal Perspective

The strategic priorities for various business processes, which create customer and shareholder satisfaction.

Operations Management Processes	Customer Management Processes	Innovation Processes	Regulatory & Social Processes
Processes that produce & deliver products & services. • Supply Chain Mgmt • Operations Efficiency cost reduction, quality & cycle time improvements • Capacity Mgmt • Production • Distribution • Risk Mgmt	Processes that enhance customer value. • Selection • Acquisition • Retention • Growth • Solution Development • Customer Service • Relationship Mgmt • Advisory Services	Processes that create new products & services. • Invention • Product Development / Design • Speed to Market / Launch • Joint Ventures / Partnerships • Opportunity ID • R&D Portfolio	Processes that improve communities & the environment. • Environment • Safety & Health • Employment practices • Community • Social
„Achieve Operational Excellence“	„Increase Customer Value“	„Build the Franchise“	„Be a Good Corporate Citizen“



Strategic Internal Processes

Internal Process	Operations Management Processes	Customer Management Processes	Innovation Processes
Strategy			
Operational Excellence	▪ Supply Chain Mgmt ▪ Operations Efficiency ▪ Capacity Mgmt	Meet basic requirements	Meet basic requirements
Customer Intimacy	Meet basic requirements	▪ Solution Development ▪ Customer Service ▪ Relationship Mgmt ▪ Advisory Services	Meet basic requirements
Product Leadership	Meet basic requirements	Meet basic requirements	▪ Invention ▪ Product Development ▪ Exploitation



Operations Management

Strategies for Achieving Operational Excellence

<i>Supply</i>	<i>Production</i>	<i>Distribution</i>	<i>Risk Mgmt</i>
▪ Develop supplier relations ▪ Lower cost of ownership ▪ Just-in-Time delivery ▪ High-quality supply ▪ New ideas from suppliers ▪ Supplier partnerships ▪ Outsource mature nonstrategic services ▪ Improve inventory management	▪ Lower cost of production ▪ Continuous process & quality improvements ▪ Process cycle time ▪ Fixed asset utilization ▪ Improve hardware performance ▪ Working capital efficiency ▪ Reduction of asset downtime ▪ Create flexible infrastructure ▪ Simplify where possible	▪ Lower cost to serve ▪ Responsive delivery time ▪ On spec; on Time ▪ Enhance quality ▪ Improve inventory management	▪ Financial risk / high credit rating ▪ Operating risk ▪ Technology risk ▪ Elimination of environmental, safety, & health-threatening incidents
Improve Cash Flow			

Customer Management

Strategies for Increasing Customer Value

Selection

- Understand segments & needs
- Capture knowledge about customers
- Screen unprofitable customers
- Target high-value customers
- Strategic accounts
- Manage the brand

Acquisition

- Communicate value proposition
- Customize mass marketing
- Acquire/convert leads
- Develop dealer network

Retention

- Premium customer service
- „sole source“ partnerships
- Service excellence
- Lifetime customers
- Expand, deepen, or redefine relationships with existing customers
- Become trusted advisor & consultant

Growth

- Cross-selling
- Solution selling
- Partnering/ integrated management
- Customer education
- Integrate with the customer's value chain to deliver solutions

Customer Management

Strategies for Increasing Customer Value

- Empower front-line employees with information they need
- Ensure that everyone knows the customer
- Make company knowledge available to customers
- Strategic Account Management
- Increase customer loyalty
- Optimize packaging
- Redesign order fulfillment
- Streamline customer interactions
- CRM / integrated mgmt system
- Identify, upgrade, or exit unprofitable accounts
- Grow & retain high-value customers (HVCs)
- Provide premium services to retain HVCs
- Broaden the relationship with HVCs
- Excel at customer interaction
- Best-in-class franchise / distribution teams

Innovation Management

Strategies for Building the Franchise

<i>Identify Opportunities</i>	<i>R&D portfolio mgmt</i>	<i>Design & Development</i>	<i>Launch</i>
▪ Anticipate customer needs ▪ Identify new opportunities ▪ Ensure that ideas flow	▪ Choose & manage mix of projects ▪ Extend products to new applications ▪ collaborate	▪ Manage products through development stages ▪ Reduce development cycle time ▪ Reduce development costs ▪ Reuse what other parts of the company have already learned	▪ Ramp-up time ▪ Production cost, quality, cycle time ▪ Achieve initial sales goals ▪ Reduce time to market

Regulatory & Social Strategies for Being a Good Corporate Citizen

Environment

- Energy & resource consumption
- Water & air emissions
- Solid waste disposal
- Product environmental impact
- Environmental incidents

Safety & Health

- Safety incidents
- Health

Employment

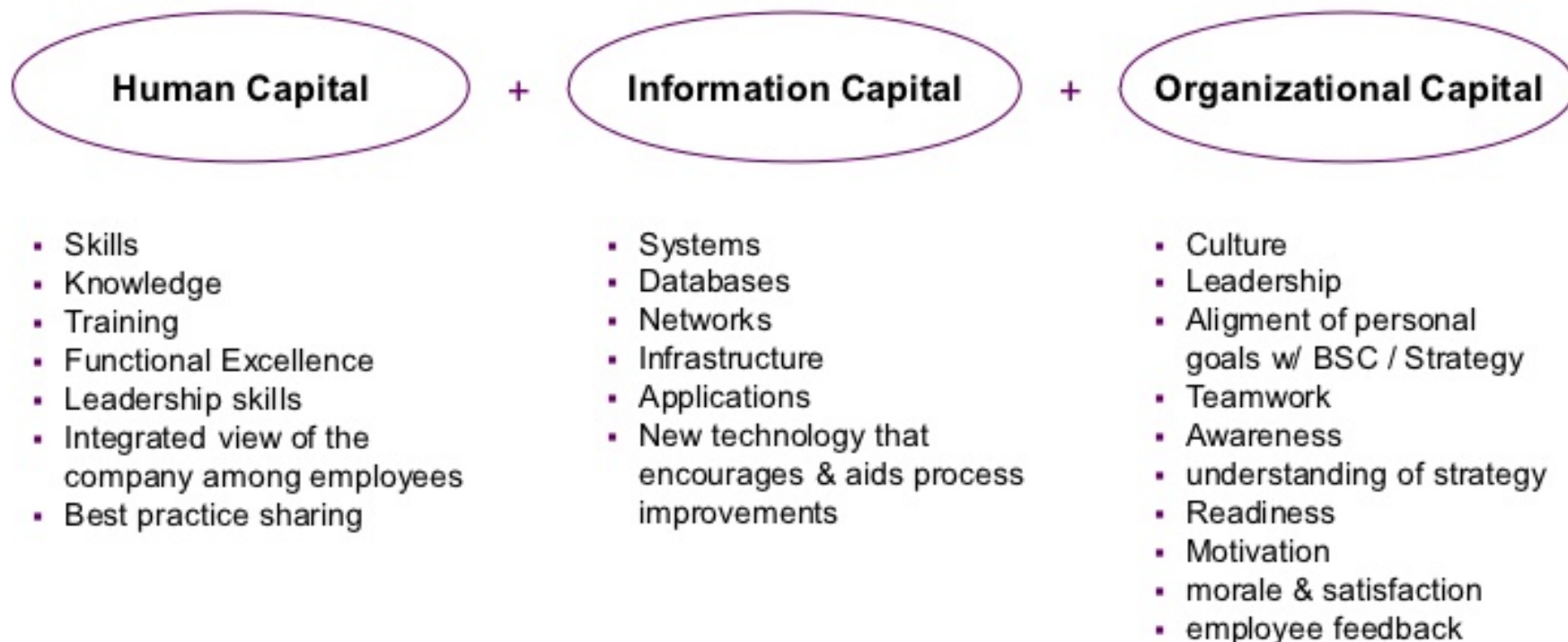
- Diversity
- Employ the unemployable

Community

- Community programs
- Aliances with nonprofits
- Manage relationships with external, legitimizing stakeholders
- Maintain public support

Learning & Growth Perspective

The priorities to create a climate that supports organizational change, innovation, and growth.



The Balanced Scorecard



Strategy Maps & the Balanced Scorecard

Strategy Map		Balanced Scorecard		Action Plan	
Perspective	Objectives	Measurement	Target	Initiative	Budget
Financial	Profitability	ROCE	25%		€ XXX
Customer	Attract & retain more customers	# repeat customers # customers	70%	Implement CRM	€ XXX
			+12%	Quality Mgmt	€ XXX
Internal	Asset Utilization	Inventory Turnover	4x	Inventory Mgmt	€ XXX
Learning & Growth	Develop the necessary skills	Strategic job readiness	Y1-70% Y3-90%	Staff training	€ XXX
	Develop the support system	Info system availability	Y5-100% 100%		€ XXX