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Strategy Blueprint 2015

The latest thinking on how to lead your business in an ever-changing world...

- **Don't Just Lead Your Industry – Dominate It**
- **Thrive in a Slow-Growth Industry**
- **How To Survive Digital Disruption**
- **10 Ways to Test Your Strategy is Working**
- **How to Avoid Deadly Strategy Traps**
- **Win New Customers: Your Four-Step Strategy**
- **How to Defeat Your Rivals in a Price War**

Strategy Blueprint 2015

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Strategy Blueprint 2015

A special report from *Leadership Review*

Dear Leader

In this brand new edition of our annual *Strategy Blueprint*, we share the latest thinking on how to lead your business in an ever-changing world, with a particular focus on digital success.

How did Netflix slay Blockbuster on its way to dominating its market? And how can your company be more like Netflix and avoid the fate of the former video rental giant? We show you how to think big.

It can be hard to know if your current strategy is effective – so we tell you how to test it, and also help you avoid the most dangerous traps that could scupper your business.

Whatever the size of your business, whichever industry you're in, I'm sure you'll find this year's blueprint useful. Please feel free to share it with your colleagues and associates.

I wish you a successful and profitable 2015.

Yours in business

Mark Nunney
Publisher
Leadership Review

Contents

p.5 **Don't Just Lead Your Industry – Dominate It**
Supercompetitors, and how to be one.

p.10 **Thrive in a Slow-Growth Industry: How Netflix Slayed Blockbuster and What You Can Learn From It**
There's no excuse for slow growth in a weak market – how to tilt the market in your favour.

p.14 **How Established Companies Can Survive Digital Disruption**
Adapt – or die.

p.19 **10 Ways to Test Your Strategy is Working**
Have you tested your strategy recently? Do it now.

p.24 **How to Avoid Deadly Strategy Traps**
Conquer the fear of making the wrong decision.

p.29 **Winning New Customers: Your Four-Step Strategy**
Getting into the 'consideration set'.

p.33 **How to Defeat Your Rivals in a Price War**
The smart way to cut prices – and win.

Don’t Just Lead Your Industry – Dominate It

Competitive advantage is shifting, say Thomas N. Hubbard, Paul Leinwand and Cesare Mainardi, writing for *Strategy+Business*. The new industry leaders are leaner and more focused than their predecessors. They are the “supercompetitors”.

These companies have the power to change entire industries. They excel at delivering a small number of relevant, scalable capabilities. They have developed “mutually reinforcing systems”, which combine the processes, skills and organisation necessary to deliver their outcomes consistently and to an ever larger customer base.

Amazon is one such supercompetitor. The company formulated its distinguishing capabilities – distinctive retail interface, great IT and supply chain capabilities and automated, tailored recommendations – when it began life as an internet bookseller. Amazon has now successfully scaled up its capabilities system across many product categories including homeware, clothing and cloud-based services.

Other supercompetitors include IKEA, with its “globally scalable business model for affordable home goods”, Starbucks, Danaher, Enterprise Rent-A-Car, McDonald’s, Qualcomm and Toyota.

SUPERCOMPETITOR EVOLUTION

Yesterday’s market leaders were broad conglomerates whose competitive advantage was based around assets, product portfolios and economies of scale.

Today’s winners have a more focused strategy, based on a single value proposition and a steady stream of capabilities. But these capabilities take time to build and are both complex and expensive, warn the authors. This is why most supercompetitors can only afford to focus energy and investment on a few (between three and six) capabilities.

Because supercompetitors have to invest heavily in their distinctive capabilities, they are incentivised to scale up across several categories. Many

grow by acquiring or merging with services and products that will prosper with them, choosing companies whose capabilities match their own. These highly focused supercompetitors in turn attract the best employees and the best suppliers.

All of these factors contribute to a "gravitational pull" towards the supercompetitors and eventually the industry itself aligns around them.

CAPABILITIES-DRIVEN

The consumer packaged goods (CPG) industry demonstrates this increasing migration from broad conglomerate to more focused capabilities-driven business.

In the early 90s, the CPG industry was carved up between several large companies – Unilever, Procter & Gamble, Kraft, Colgate, Nestlé, and Sara Lee – each with broad and diverse portfolios combining food, drinks and personal care goods.

The sheer size and scale of these companies gave them huge advantages, including bargaining power, lower-cost back-office functions and the funds necessary to make effective use of television advertising.

Over time, these large companies started to lose their advantage, as the internet allowed new companies with more specialised capabilities better access to markets. Some of the big CPG players began rethinking their own strategies. Rather than maintaining broad portfolios requiring too many diverse capabilities, they doubled down on areas in which they were strongest.

Sara Lee underwent capabilities-driven restructuring in the 2000s, divesting its coffee business; Kraft split its business in two; Unilever dropped healthcare and chemicals; and Proctor & Gamble sold off its food and beverage companies.

A study of the top 15 CPG companies between 1997 and 2013 shows a reduction in scope from an average of 4.3 to 3.1 segments per company, and a corresponding increase in revenue per segment from $8.9bn to $11.2bn.

The authors comment: “As these companies focused on capabilities, they grew stronger and more dominant across a smaller number of categories. They have become the supercompetitors of the supermarket shelf.”

THE RIGHT ENVIRONMENT

For an industry to support the emergence of a supercompetitor, it requires two qualities:

1) Scalability of critical capabilities. The supercompetitor’s capabilities system must be scalable across an expanding number of products, services and customers over which it can spread its extensive fixed costs (such as IT, the supply chain and talent management).

The capabilities of players in the lower-end restaurant industry are highly scalable. Hence this industry lends itself to supercompetitor chains like McDonald’s. The premium restaurant industry, however, will not support the emergence of supercompetitors because its inherent distinctive capabilities – highest quality ingredients, specialised menus, personalised service – are not scalable to this degree.

2) Differentiation relevance. There must be a relevant audience that cares enough about the distinguishing capabilities a company is delivering.

Some industries – including the paper towels and toothpaste categories – have reached a threshold of “good enough value and usefulness”, so that consumers show little, if any, brand loyalty, explain the authors.

YOUR COMPANY AS A SUPERCOMPETITOR

Conducting a “meaningful inquiry into the supercompetitor potential of your industry” can allow you to rethink your company’s strategy in a more transformative way.

To do this, the authors suggest considering these four factors:

1) **Is your industry supercompetitor-ready?** To determine this, ask yourself the following questions:

Are the leaders in your industry different from those of ten years ago? Are new companies beating the old players? Are the conglomerates in your industry breaking up?

Is the success of your industry leaders due to their capabilities, as opposed to assets or product portfolios? Are the distinctive capabilities of these companies scalable? Is there a high level of differentiation relevance?

If you answered "yes" to most of these questions then your industry already supports the emergence of supercompetitors, or soon will.

If you answered mostly "no", take the opportunity to ask yourself what opportunities everyone in your industry is missing, and how you can best test those opportunities.

2) **What will your new supercompetitors look like?** Look to the future and ask who your industry supercompetitors might be and what capabilities might they offer.

Here it is useful to think "in terms of kinds of rivals, or archetypes", advise the authors. For example, if your industry is air travel, supercompetitors might include the low-cost provider, the premium provider and the global aggregator.

List three to five archetypes that best fit your industry. Next, look "under the hood" at each supercompetitor archetype to determine their critical capabilities. Ask what these companies would need to do to excel. Are their capabilities scalable and would they be relevant to enough customers?

3) **Where does your company fit in?** Determine which supercompetitor archetype best fits your company based on your current and prospective capabilities.

"Set aside the other constraints of current reality," advise the authors. Start from the image of your company as supercompetitor and work backwards.

Ask yourself what capabilities you would need to develop. Also determine

who will be trying to deliver value in the same way as you.

“These are the ones you have to beat,” explain the authors, “because when supercompetitors take ownership of a specific area of value creation within their industry, they make it nearly impossible for others to compete in the same way.”

4) **How will you get there?** Now, create your road map. Decide which capabilities you need to invest in. Work out how you can scale them up and how you can create a “mutually reinforcing system that no competitor can beat”.

Think about which products or businesses you might acquire or divest and how you could beat any rivals in your chosen area of value creation. This type of enquiry can take a few weeks, advise the authors. But it will show you where best to focus your resources and attention.

Building your strategy around strong capabilities will give your company competitive advantage and help shape the future of your industry. The authors conclude: “The aspiration to become a supercompetitor changes the heart of a company’s identity, both today and in the future.”

Source: *The New Supercompetitors*
Thomas N. Hubbard, Paul Leinwand and Cesare Mainardi
Strategy+Business

Thrive in a Slow-Growth Industry: How Netflix Slayed Blockbuster and What You Can Learn From It

Weak markets are not a valid excuse for a company's slow growth, write Kasturi Rangan and Evan Hirsh for *Strategy+Business*. With the right market proposition, you can achieve success, no matter what state your industry is in.

Slow growth is a frequent excuse for underperformance. And this is hardly surprising when, at any one time, around half of all industries are growing below global GDP rates.

But plenty of companies competing in average or below-average industries are still able to make above-average returns, effectively creating their own growth cycles.

So how do these high performers thrive in slow-growth industries while their competitors fail? By harnessing the power of disequilibrium, say the authors.

CREATING DISEQUILIBRIUM

When markets are in a state of equilibrium, competitors provide similar offerings, receive similar returns and fight over tiny amounts of market share. No company ever achieved spectacular results from a market in a state of equilibrium.

Disequilibrium, however, is a much more dramatic condition. When there is disequilibrium within an industry, the market is tilted in one company's favour and can remain tilted that way for years.

There are two ways to create disequilibrium:

1) Supply-side changes – where a company pushes the market in its direction through advantages in quality, cost, price, service, functionality and/or selection.

2) Demand-side changes – where a company captures demand that did not previously exist. Demand-side changes are usually facilitated by shifts in technology or new regulations.

Leaders wishing to create disequilibrium should ask themselves:

What is or what could be our advantage? How can we use any upcoming technological or regulatory shifts to our advantage?

SUSTAINING DISEQUILIBRIUM

Creating some degree of disequilibrium is fairly commonplace, say Rangan and Hirsh, but sustaining the advantage is a much rarer thing.

Market leaders have to work hard to "deepen and extend" the disequilibrium working in their favour. And there are two ways of doing this, explain the authors.

First, they can "manage the ecosystems of their industry". This means getting better deals from suppliers, "thwarting" competitors and influencing the structure of the industry itself.

Second, they can "use pricing strategically". However, Rangan and Hirst warn that "pricing must be used in a way that doesn't cross a line and open the company up to accusations of anti-competitive behaviour."

Used correctly, these tactics will continue to rob competitors of market share and profit. "The effect is cumulative," explain the authors.

As the position of competitors weakens, the less they can invest in their futures – weakening their position even further.

The weakest eventually go out of business, freeing up yet more market share for the market leader to take.

"It's like we have a fortress, and our competitors are down below, trying to get over the moat," one executive told the authors.

If a company is to sustain its advantage in the long term, it will need to set industry trends and continuously refresh its business model.

The authors use the examples of Blockbuster Video and Netflix to illustrate how businesses can create, sustain and ultimately fall victim to disequilibrium.

BLOCKBUSTER VIDEO

The Blockbuster Video chain entered the film rental market in the mid-1980s with huge supply-side advantages over the existing independents. Its shops were brighter and better organised and its inventory wider, smarter and cheaper than independent video rental shops.

These advantages tilted the market in Blockbuster's favour, and it held on to its advantage for decades. Even when the video rental market began flattening out in the 1990s, Blockbuster's market share continued to grow – from 10% in 1990 to 35% in 1995 and 45% in 2000.

Although new video rental chains sprang up in the 1990s, they did little to threaten Blockbuster's position. The rivals were merely copying the Blockbuster model and offered no real supply-side advantages.

So long as the company's competitors were offering nothing new, Blockbuster's hold over the market was secure.

NETFLIX

Everything changed in 1999, when Netflix entered the market and offered customers a brand new value proposition. Tapping into the new taste for online shopping, Netflix enabled customers to order DVDs online and receive them by mail. Blockbuster was, for once, behind trend.

In 2007, Netflix further increased its advantage with another demand-side change, this time making its inventory available via streaming technology. Blockbuster had no answer to this new value proposition and continued operating its rental-store model.

Online rental and streaming eventually made the rental-store model almost obsolete. Blockbuster's retail spaces turned from being its greatest asset to its greatest drain on resources.

In failing to evolve its business model in line with demand-side changes, Blockbuster lost its advantage and its business. The company filed for bankruptcy in 2010, closing for good in 2014.

In contrast, by anticipating and responding quickly to the demand-side changes within the video rental industry, Netflix was able to tilt the market in its direction. The company's figures are impressive – Netflix increased its revenues by more than 250% between 2009 and 2013.

CREATING AN ADVANTAGE

If your organisation is in a slow-growing industry, it's up to you to do something special, say the authors. Start by working out where you have an advantage or where you could create one.

Once you have tilted the market in your favour, you must do everything you can to sustain the disequilibrium and stay ahead of any technological and regulatory developments that will affect your company's future.

The authors conclude: "The nature of any market is that the opportunity is finite. It's you or them."

Source: *Growing When Your Industry Doesn't*
Kasturi Rangan and Evan Hirsh
Strategy+Business

How established companies can survive digital disruption

Companies well established in the market are most at risk of being left behind by digitisation, say Martin Hirt and Paul Willmott, writing for *McKinsey Quarterly*.

These firms must adapt if they are going to survive digital disruption, say the authors, and CEOs will need to make some tough decisions and reassess their strategies in order to compete.

Every industry will eventually face its digital tipping point (some, such as traditional media, already have) – when digitisation among companies and customers has reached such a level that what was once radical becomes normal. Any unprepared companies will be left behind.

For those firms willing to embrace digitisation, there are several opportunities:

1) **Better relationships with customers, suppliers, employees and stakeholders.** Digital communications are multi-channel, combining mixed media, location data, demographics and social media. This makes them more accessible, more personal and more social. They are also more transparent, making dispute resolution quicker and easier.

2) **Better decision making**. Analysis of big data from social technologies and the "Internet of Things" enables better decision making and enhanced performance.

3) **New business and operating opportunities.** Peer-to-peer product innovation, crowdsourced customer service and 3D printing are just some of the areas in which digitisation is breathing new life into business.

SEVEN TRENDS TO ADDRESS

Hirt and Willmott point to seven trends that could dramatically change industry landscapes:

1) **Price pressure**. Customers can now compare pricing, service offerings and product performance quickly and easily, switching between online retailers with the click of a mouse or the swipe of a screen.

Price-comparison sites make this process even easier, allowing consumers to make instant, real-time comparisons on all kinds of purchases – down to the cost of a loaf of bread.

And this price pressure is now spreading to B2B businesses, claim the authors.

2) **Unexpected competition**. Digitisation breaks down traditional barriers, allowing new players to enter a market quickly and start competing straight away. Big data, cloud-based algorithms and "plug and play" models mean startups can scale up quicker and cheaper than incumbents.

But digitisation also enables established firms to enter new markets. The Singapore Post, for instance, plans to use its pre-existing logistics and warehousing infrastructure to pursue an e-commerce sideline.

3) **"Winner-takes-all dynamics".** Digital businesses seem to do better in everything, benefiting from what Hirt and Willmott call "winner-takes-all market dynamics".

With digitisation, labour and transaction costs are lower, returns to scale are higher and there is much greater revenue per employee.

And, as the authors explain: "Comparative advantage can materialise rapidly in these information-intensive models – not over the multi-year spans most companies expect."

4) **Plug-and-play services**. Traditional value chains are disintegrating in the face of digitisation. Third parties are offering products and services that businesses can plug into their value chains. Amazon's provision of logistics, IT support and online storefronts to businesses is one example.

5) **Redistribution of talent**. Digitisation substitutes software for labour and the digital age will see many knowledge roles disappear to automation. Even

skilled professions can be automated – IBM's Watson can diagnose cancer more accurately than a physician.

On the other hand, there is a dearth of talent in digital skills, with digital strategists and data scientists particularly lacking.

Industries will see talent redistribution on a major scale. The authors predict that the social effects of this change will be significant.

6) **Reshaped global flows**. Digital customers expect a unified, standardised experience. They want universal payment systems, shipping and customer service. Corporate purchasers in B2B markets are also demanding the same from their suppliers.

7) **An ever-changing game**. Things change dramatically and quickly in the digitised age, and they keep on changing. "Digitisation isn't a one-stop journey", argue Hirt and Willmott.

SIX BIG DECISIONS

In the face of these digital challenges, the authors list six tough decisions that every CEO is going to have to make.

1) **Buy or sell your portfolio?** Companies will need to reassess their portfolios. Digital acquisitions might improve your customers' experience or prevent competitors from overtaking you.

In other cases, you might have to offload some of your portfolio if you're going to weather the digital storm.

2) **Lead or follow?** Businesses must actively decide whether to digitise or not. Inaction is not an option, warn the authors.

Incumbents can take the lead and act before digital rivals get the opportunity to do any damage. For other businesses, digital moves might not be worth pursuing because the barriers to entry are too high. In such situations, choosing not to digitise is the best decision.

3) **Beat them or join them?** Attacks in the digital age can come from dozens of different fronts. So should you fight back by copying or even acquiring the competition?

Co-operation with your attackers often makes more sense, argue Hirt and Willmott, particularly when there are too many fronts to defend at once.

Market incumbents can work with startups to trial digital services before developing their own versions. And joining forces with competitors can provide a unified front against attackers from outside the industry.

4) **Diversify or double down?** It can be tempting to diversify and trial several different digital initiatives at once. But the authors advise CEOs to "think like a private-equity fund, seeding multiple initiatives but being disciplined enough to kill off those that don't quickly gain momentum and to bankroll those with genuinely disruptive potential".

Doubling down in one area is the other alternative – only extending your investment once you have achieved success in the first digital initiative.

5) **Integrate or segregate digital business?** Integrating your digital and non-digital businesses can provide value to customers and allows companies to share infrastructure.

But it can be difficult to attract digital talent to a traditional work culture. And there may be "turf wars" and clashes between digital and main business leaders.

A way to get round these problems is to keep the two teams separate at first. The digital business can continue to stand alone or be integrated later on.

6) **Delegate or own the digital agenda?** Personally directing your company's digital agenda takes a great deal of time and attention that you may not be able to spare.

Some companies choose to delegate digitisation to a Chief Digital Officer – someone recruited from outside the company, with the talent and mindset to advance the digital agenda.

The risk with delegation is that the incomer CDO lacks the authority to make changes or the breadth of focus to deliver on the bigger picture.

In some cases the CEO will need to own the company's digital strategy if it is to have the support and momentum it needs to succeed.

The authors conclude that "digitisation is a moving target. The emergent nature of digital forces means that harnessing them is a journey, not a destination".

As such, leaders will constantly face new challenges, new competitors and new opportunities for growth.

Source: *Strategic Principles For Competing In The Digital Age*
Martin Hirt and Paul Willmott
McKinsey Quarterly

10 Ways to Test Your Strategy is Working

The basic principles of a good strategy can often get obscured. Sometimes there is the distraction of pursuing the "next new thing".

In other instances, the true purpose of the strategy gets lost in "torrents of data, reams of analysis, and piles of documents that can be more distracting than enlightening".

WAY OF THINKING

In their article in McKinsey Quarterly, entitled 'Have You Tested Your Strategy Lately?', Bradley, Hirt and Smit assert that strategy is a way of thinking rather than a procedural exercise or a set of frameworks. In order to "stimulate that thinking and the dialogue that goes along with it", they have developed a set of tests for leaders to assess the strength of their strategies.

They explain: "The tests of a good strategy are timeless in nature. But the ability to pressure-test a strategy is especially timely now. The financial crisis of 2008 and the recession that followed made some strategies obsolete, revealed weaknesses in others, and forced many companies to confront choices and trade-offs they put off in boom years.

“At the same time, a shift toward shorter planning cycles and decentralised strategic decision making are increasing the utility of a common set of tests. All this makes today an ideal time to kick the tyres on your strategy."

1) Will your strategy beat the market?

The authors say that good strategies emphasise difference versus your direct competitors, potential substitutes and potential entrants. To beat the market, your advantages must be "robust" against onrushing market forces.

They add: "Few companies, in our experience, ask themselves if they are beating the market – the pressures of 'just playing along' seem intense enough. But playing along can feel safer than it is. Weaker contenders win surprisingly often in war when they deploy a divergent strategy, and the same is true in business."

2) Does your strategy tap a true source of advantage?

"Know your competitive advantage, and you've answered the question of why you make money," say Bradley, Hirt and Smit.

Competitive advantage comes from two main sources: positional advantages and special capabilities. The authors explain that the former are rooted in "structurally attractive markets" and favour incumbents because "they create an asymmetry between those inside and those outside high walls".

UNIQUE BENEFITS

Special capabilities are "scarce resources whose possession confers unique benefits". They must be crucial to a company's profit and "exist in abundance within it while being scarce outside".

The authors observe: "Companies often err here by mistaking size for scale advantage or overestimating their ability to leverage capabilities across markets. They infer special capabilities from observed performance, often without considering other explanations (such as luck or positional advantage). Companies should test any claimed capability advantage vigorously before pinning their hopes on it."

3) Is your strategy granular about where to compete?

Bradley, Hirt and Smit point out that the degree to which the market is segmented significantly influences resource allocation and thus the likelihood of success.

"Defining and understanding these segments correctly is one of the most practical things a company can do to improve its strategy," they say, advising that "companies should be shifting their attention greatly toward the 'where' and should strive to out-position competitors by regularly reallocating resources as opportunities shift within and between segments".

4) Does your strategy put you ahead of trends?

Too many strategies are directed at preserving the status quo because they extrapolate from the previous three to five years, a timeframe "too brief to capture the true violence of market forces".

According to Bradley, Hirt and Smit, major market transitions are an ideal opportunity to rethink strategies and get ahead of the curve. They say strategists must take trend analysis seriously and "always look to the edges".

5) Does your strategy rest on privileged insights?

These days data is easily accessible and can be assembled into detailed analysis relatively cheaply. But if you feel that represents an informed strategy, remember that your rivals can do exactly the same thing.

To develop proprietary insights, the authors advise that searching for problems can help get you started: "Create a shortlist of questions whose answers would have major implications for the company's strategy."

NEW DATA

They also recommend collecting new data through field observations and research rather than recycling the industry reports that everyone else uses.

6) Does your strategy embrace uncertainty?

Bradley, Hirt and Smit say: "A central challenge of strategy is that we have to make choices now, but the payoffs occur in a future environment we cannot fully know or control. A critical step in embracing uncertainty is to try to characterise exactly what variety of it you face – a surprisingly rare activity at many companies."

They add: "Rigorously understanding the uncertainty you face starts with listing the variables that would influence a strategic decision and prioritising them according to their impact.

"Focus early analysis on removing as much uncertainty as you can… Then apply tools such as scenario analysis to the remaining, irreducible uncertainty, which should be at the heart of your strategy."

7) Does your strategy balance commitment and flexibility?

The more you commit, the less flexible you are and this tension represents one of the "core challenges of strategy".

TRADE-OFF

A market-beating strategy focuses on a limited number of "crucial, high-commitment choices to be made now" while leaving enough flexibility for other choices to be made over the long term.

Aim for a three-pronged strategy comprising "big bets" (committed positions), "no-regrets moves" (which will pay off regardless) and "real options" (low-cost actions that you can commit to at a higher level if conditions warrant).

8) Is your strategy contaminated by bias?

Fuzzy thinking can lead you to believe you have a market-beating strategy when you don't. Over-optimism, using arbitrary reference points, following the crowd and confirmation bias can all pollute your thinking. To "de-bias", develop multiple hypotheses and potential solutions. Specify objective decision-making criteria in advance and examine the possibility of being wrong.

9) Is there conviction to act on your strategy?

Bradley, Hirt and Smit explain: "CEOs and boards should not be fooled by the warm glow they feel after a nice presentation by management. They must make sure that the whole team actually shares the new beliefs that support the strategy.

"The result of such an effort should be a support base of influencers who feel connected to the strategy and may even become evangelists for it."

10) Have you translated your strategy into an action plan?

When implementing a new strategy you must clearly define what you are moving from and where you are moving to regarding the business model, the organisation and its capabilities.

DETAILED VIEW

Everyone needs to know what they should be doing and you must formulate a "detailed view of the shifts required to make the move, and ensure that

processes and mechanisms, for which individual executives must be accountable, are in place to effect the changes".

Source: *Have You Tested Your Strategy Lately?*
Chris Bradley, Martin Hirt, and Sven Smit
McKinsey Quarterly

How to Avoid Deadly Strategy Traps

Strategy is important, as every executive knows. But some are frightened by it because it requires them to make decisions that cut off other possibilities and options – so they fear that making the wrong decision could potentially wreck a career.

This is an observation made by Roger L. Martin, writing for *Harvard Business Review*. The natural reaction to the challenge, he explains, is to make it less daunting by turning it into a problem that can be solved with tried and tested tools.

"That nearly always means spending weeks or even months preparing a comprehensive plan for how the company will invest in existing and new assets and capabilities in order to achieve a target – an increased share of the market, say, or a share in some new one," writes Martin.

He adds: "The plan is typically supported with detailed spreadsheets that project costs and revenue quite far into the future. By the end of the process, everyone feels a lot less scared."

However, according to the author, this is a "truly terrible" method of devising a strategy. While it addresses fear of the unknown, Martin insists that fear and discomfort are essential in the process of making strategy.

In fact, he argues that if you are completely comfortable with your strategy, it's a sign that it isn't very good. True strategy, he emphasises, is about making bets and hard choices. You shouldn't attempt to alleviate risk – the objective is to increase the chances of success.

Martin describes three "comfort traps" to avoid, and insists that strategy should be the result of a simple, rough-and-ready process of "thinking through what it would take to achieve what you want and then assessing whether it's realistic to try". He adds: "If executives adopt this definition, then maybe, just maybe, they can keep strategy where it should be: outside the comfort zone."

Comfort trap 1: strategic planning. Mistaking planning for strategy is a common trap, observes Martin. This, he believes, is because planning is a

"thoroughly doable and comfortable exercise".

Strategic plans, explains the author, are usually fairly similar in format. They consist of a vision or mission statement setting out aspirational goals, a list of initiatives and the conversion of the initiatives into financials to comply with budgets.

This kind of planning, however, should not be confused with strategy, insists Martin. He explains: "Planning typically isn't explicit about what the organisation chooses not to do and why. It does not question assumptions. And its dominant logic is affordability; the plan consists of whichever initiatives fit the company's resources."

Comfort trap 2: cost-based thinking. The process of planning generally leads to an overemphasis on costs, according to Martin.

The author observes: "Costs are comfortable because they can be planned for with relative precision. This is an important and useful exercise. Many companies are damaged or destroyed when they let their costs get out of control."

However, he adds: "The trouble is that planning-oriented managers tend to apply familiar, comfortable cost-side approaches to the revenue side as well, treating revenue planning as virtually identical to cost planning and as an equal component of the overall plan and budget."

Revenue plans are painstakingly built up salesperson by salesperson, product by product, channel by channel, region by region. But when the planned revenue fails to materialise, it leads to managers feeling confused and aggrieved.

Martin points out the simple reason for the discrepancy between the results of cost planning and revenue planning: costs are under the control of the company, but customers are in charge of revenue.

Comfort trap 3: self-referential strategy frameworks. Martin warns that this trap is the most insidious as it can snare managers who are trying to build a real strategy, having avoided the first two traps.

The majority of executives adopt one of a number of standard frameworks

when identifying and articulating a strategy. However, two of them – which are among the most popular – can lead their users to design strategies built entirely around what the company is capable of controlling.

Influential academic and business author Henry Mintzberg distinguished between deliberate strategy, which as the name suggests is intentional, and emergent strategy, which consists of a company's responses to a number of unanticipated events.

Mintzberg observed that managers have a tendency to overestimate their ability to predict and plan for the future. Mintzberg's aim of drawing the distinction between the two types of strategy was to encourage managers to be vigilant of changes in their environment and change their deliberate strategy as appropriate. He also warned against adhering to a fixed strategy against a background of change in the competitive environment.

Martin explains: "All of this is eminently sensible advice that every manager would be wise to follow. However, most managers do not. Instead, most use the idea that a strategy emerges as events unfold as a justification for declaring the future to be so unpredictable and volatile that it doesn't make sense to make strategy choices until the future becomes sufficiently clear."

This is a comfortable interpretation as it dispenses with the need to make intimidating decisions about the unknowable and uncontrollable.

However, the logic is flawed, as Martin points out: if the future is too unpredictable and volatile to make strategic choices, what could happen to make it significantly less so? And how would a manager identify the point at which predictability is high enough and volatility low enough to make choices?

Martin believes, therefore, that the concept of emergent strategy is being used as an excuse for avoiding tough strategic choices, deflecting criticism for not taking a bold direction, and replicating choices that appear successful for others as a "fast follower".

Another popular strategic concept is Burger Wernfelt's resource-based view (RBV). This states that a company's competitive advantage lies in its valuable, rare, inimitable and non-substitutable capabilities.

Martin explains: “This concept became extraordinarily appealing to executives, because it seemed to suggest that strategy was the identification and building of ‘core competencies’, or ‘strategic capabilities’.

“Note that this conveniently falls within the realm of the knowable and controllable. Any company can build a technical sales force or a software development lab or a distribution network and declare it a core competence. Executives can comfortably invest in such capabilities and control the entire experience. Within reason, they can guarantee success.”

However, as Martin points out, the capabilities themselves don’t compel a customer to buy – those that produce superior value for a specific set of customers do. But customer and context both fall into the realm of unknowable and uncontrollable.

AVOIDING THE TRAPS

To avoid the traps, Martin presents three basic rules for the strategy-making process:

1) Keep the strategy statement simple. The key choices that influence customers – the revenue decision makers – should be the focus of your energy.

Martin explains: “Two choices determine success: the where-to-play decision (which specific customers to target) and the how-to-win decision (how to create a compelling value proposition for those customers).”

2) Strategy is not about perfection. Because strategy is primarily about revenue rather than cost, you cannot hope to achieve perfection. Your ultimate aim should be to shorten the odds of the bets the company makes. The gambling aspect of strategy needs to be reinforced by boards and regulators, not undermined.

3) Make the logic explicit. Martin asks: “For your choices to make sense, what do you need to believe about customers, about the evolution of your industry, about competition, about your capabilities?”

He adds: “If the logic is recorded and then compared to real events, managers will be able to see quickly when and how the strategy is not

producing the desired outcome and will be able to make necessary adjustments – just as Henry Mintzberg envisioned."

Source: *The Big Lie of Strategic Planning*
Roger L Martin
Harvard Business Review

Winning new customers: your four-step strategy

Understanding how consumers make purchasing decisions will help your company win more customers and beat the competition, says Niraj Dawar, writing for *Strategy+Business*. The author provides a four-step marketing strategy, and it starts with getting to know your consideration set.

Before you can start playing "win the customer", you need to be clear about who your main rivals are. You might think your biggest competitors are the companies that vie with yours for shelf space, resources, employees and SEO rankings. But, Dawar argues, your true rivals are the handful of brands your customers consider alongside yours when deciding what to buy. Your idea of the competition and your customers' views might be very different. It's the latter that counts, the author advises.

You and your rival brands form what's called "the consideration set". The customer assesses the brands in the consideration set, checking off a number of criteria before selecting the one they will purchase.

Dawar proposes a four-step marketing strategy:

• Get your brand into the consideration set.

• Limit the number of other brands in your consideration set.

• Influence who else is in your consideration set.

• Win the trade-off; be the compromise.

1**) Getting your brand into the consideration set**. Customers apply cutoff criteria, or must-haves, to whittle a large market down to a small consideration set, Dawar explains. Your first aim is to encourage as many consumers as possible to use cutoff criteria that point to your brand.

Cutoff criteria for automobile customers, for instance, can include price, fuel

economy and/or number of seats. Cars are marketed according to these cutoff criteria. Automobile marketers may pitch to the big car segment, the green segment, the economy car segment, the city car segment or the German car segment, among others.

The marketer of a German car brand could not hope for a better cutoff criterion than “German”, argues Dawar. Although the big German car brands still have to compete with one another within their consideration set, they have a collective interest in promoting the German engineering myth. A large segment of consumers is so convinced by the superiority of German engineering that it cannot be swayed, even when less expensive non-German models do better in consumer tests.

And being compared between themselves is far preferable for high-cost German brands Audi, BMW, Mercedes and Porsche, than unfavourable comparisons with less expensive global brands.

2) **Limit the brands in your consideration set**. Keeping your consideration set as exclusive as possible means fewer competitors and less competition, says Dawar.

A differentiated position will limit the size of your consideration set. Apple’s iMac plays a “niche-player approach”. Its unique operating system, great design and a high price are cutoff criteria that all limit competition.

Dawar’s research shows that the iMac customers consider just 2.11 brands compared with the 3.35 brands considered by purchasers of Windows-based PCs.

Raising the consumer cutoff bar is another way to keep the competition out of your consideration set, says the author. Smartphone brands use this technique, aggressively marketing new technological features, not as extras, but as must-haves. Competitors are forced to match the new advances or risk being left behind.

An exclusive consideration set means fewer competitors, but it also means fewer customers, warns Dawar. For this reason marketers will need to choose between the niche-player approach adopted by Apple and the wider-

market approach of, say, Dell.

3) **Influence who else is in your consideration set**. You can also influence the composition of your consideration set, says Dawar. Honda's website provides a comparison tool which essentially suggests a consideration set to the consumer. Not including the brand's most serious competitor is Honda's attempt to keep it out of the consideration set.

Comparative advertising is another technique that can influence the makeup of your consideration set.

This technique is used by lesser players to put themselves in an exclusive consideration set with the market leader, highlight those criteria in which they excel and piggyback on the brand awareness of the market leader. Second player Pepsi frequently uses comparative advertising to do battle with market leader Coca Cola.

How and where brands are sold can also limit the consideration set, says the author. Car manufacturers favour brand-based dealerships, where dealers sell non-competing brands, making comparison difficult for the customer. Consumers are deterred from choosing between too many cars because to do so, they would have to visit several different dealerships.

A similar technique is used by ice cream giant Häagen-Dazs. It offers display freezers to retailers on the condition that they are only stocked with Häagen-Dazs ice cream – an attempt to limit the consumer's consideration set to one brand only.

4) **Win the trade-off; be the best compromise**. "Once your brand is inside the consideration set, the competitive game changes", says Dawar. Consumers are now ready to pick the best fit for their needs. Several criteria are evaluated simultaneously and there will be trade-offs.

For car buyers, price might trump reliability, comfort might trump style, and so on. The brand that is ultimately chosen will be the one that offers the best compromise to the consumer.

You must, therefore, understand which are the more important criteria and

“the exchange rate” consumers will use in trade-offs, Dawar advises. How much will customers compromise on fuel efficiency to get more space in a vehicle? If you know that roominess is the more important criteria to the family car segment, you can emphasise this in your car design and in marketing materials.

So how can you influence these trade-offs? By pushing the importance of criteria your brand excels at and then demonstrating your brand’s performance in that area.

Volvo want their customers to use a high exchange rate for safety – their speciality. So Volvo advertising plays the safety card. And Volvo buyers are sufficiently convinced as to accept poorer design and fuel efficiency in return for this feeling of safety.

In the game of winning the consumer, Dawar concludes: “You can’t play if you’re not considered, and you can’t win if you don’t exert strong influence on the elements of consideration.”

Source: *A Step-By-Step Guide to Winning The Customer*
Niraj Dawar
Strategy+Business

How to Defeat Your Rivals in a Price War

Competing on the basis of low prices is commonplace. But price wars are more than just trying to get an edge, observes Patrick Reinmoeller, writing for *MIT Sloan Management Review*.

Companies engaging in price wars can be accused of self-destructive behaviour, initiating downward pricing spirals that can damage the whole industry. In fact, there is research that strongly suggests there are no winners in price wars, with companies either forced out of business or suffering a long-term reduction in profitability.

However, Reinmoeller begs to differ. He researched price wars that took place between 1980 and 2013 in various industries, including air travel, telecoms and financial services. Contrary to the majority of studies, Reinmoeller discovered that "under the right circumstances, it's possible for a company to win a price war by leveraging a specific set of strategic capabilities".

These include: the ability to read business context and detect change; the skills to analyse market data and identify trends and opportunities; the pragmatism to implement organisational change internally and across the value chain.

Reinmoeller uses the example of Albert Heijn (AH), a Dutch company in the grocery industry, which initiated a price war in the Netherlands between 2003 and 2005.

The author believes the case suggests companies might be able to achieve successful outcomes from price wars by establishing five rules of engagement, which will help managers frame contextual, analytical and pragmatic capabilities.

The rules are as follows:

1) **Affirm the need**. If a company is involved in a mature, slow-growing and relatively stable industry, it's likely to face a price war sooner or later, so the best thing to do is to prepare for it, says Reinmoeller.

In 2003, AH and other Dutch retailers were losing market share to discount stores such as Aldi and Lidl. AH studied market data and identified shifts in the purchasing patterns of customers.

Reinmoeller explains: “Although AH was selling new and higher priced items, it was seeing fewer families among its clients and a sharp decline in high-volume products. Dick Boer, the AH CEO at the time, and other executives wanted AH to be ‘a supermarket for everyone’ even though its leading competitors had cost structures that gave them a 6% advantage. What followed was a fierce price war.”

2) **Pick your battlefield**. You need the analytical capabilities to develop new strategies and implement them quickly. But to conserve resources you need to pick battles carefully, avoiding confrontations with cost leaders. AH’s market share had fallen by nearly two percentage points by the second quarter of 2003. Consumers were obviously attracted by bargains.

In response, AH announced the biggest price cuts in the company’s 116-year history. However, the firm was careful not to attack the discounters. AH’s strategy wasn’t to become the retailer with the lowest prices; it was aiming to position itself as mid-priced and service-oriented.

Reinmoeller observes: “In a sense, by defining the battlefield the way it did, AH chose a middle course in hopes of limiting the price war.”

3) **Pick your target**. The author warns of the difficulty and expense of taking on everyone with a business model similar to yours. Instead, go after a single, vulnerable competitor.

AH’s data showed its market share was suffering partly because consumers saw it as being high-priced. Instead of competing with discounters on major brands, the company targeted private labels, including milk and other dairy products. To win back customers, its pricing policy was announced on advertisements proclaiming: “From now on, your daily groceries are much less expensive.”

4) **Stay under the radar**. In targeting its own former customers rather than its rivals’ established customers, AH’s plan was to boost its market share

without provoking a strong reaction from competitors. As Reinmoeller observes, it worked.

He notes: “The initial reaction from competitors was muted, allowing AH to focus on what it saw as its weakest competitor: Super de Boer, Laurus’ flagship chain.”

Less service-oriented than AH, Super de Boer was seen also as less expensive. However, parent company Laurus had been showing weak performance, so AH sensed vulnerability.

With wave after wave of price reductions, AH won back as many customers in four months as it lost between 2000 and 2003. Initially, Laurus matched some of AH’s prices but eventually decided to be more forceful. When it finally implemented broad-based price cuts in the spring and summer of 2004, the company was disappointed with the impact.

AH then unleashed another major assault, cutting up to 35% on 2,000 products.

5) **Align revenues with cost structures and rally support**. Reinmoeller observes: “Companies can’t pursue pricing policies in a vacuum. Management needs to make sure that their pricing decisions are aligned with their cost structures and the broader value chain.”

To protect gross margins, AH reduced headcount and improved operational effectiveness early on.

“While revenues fell initially,” explains the author, “reducing operating costs helped AH generate profits on lower revenue, which softened the blow.”

Reinmoeller adds: “As the initiator of the price war, AH had begun making its plans before competitors knew what was coming. Then, after demonstrating resilience early on, AH was able to negotiate valuable price concessions from suppliers, much to the consternation of its main rivals.”

Laurus’ response came too late, only looking to increase efficiency and reduce costs after the price war had been established. It lost money in 2004

and 2005 and management opted to sell off the bulk of its operations and focus on its Super de Boer chain.

AH, meanwhile, regained its market share and became the leader of the Dutch grocery retail market (although Reinmoeller observes that holding on to the position hasn't been easy).

The author concludes: "As AH's experience demonstrates, you don't need to have the best cost position to start and win a price war. In fact, having strategic capabilities such as market awareness, analytic skills and the ability to execute effectively can be more important. Although AH was disadvantaged on cost, it launched a price war and won – something other companies can learn from."

Source: *How To Win A Price War*
Patrick Reinmoeller
MIT Sloan Management Review

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