Corporate strategy

By:
Dr. drs. Bart Eikelenboom
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Can you summarize your business strategy in 35 words or less? And if so, would your colleagues formulate it in the same way?

In our experience, very few (top) directors can answer these questions in the affirmative. And it is also striking that the companies where managers work who can, happen to be often the most successful in their industry. On the other hand, there are companies that do not have a clear formulation of their business strategy. They often fall into the category of those companies that failed to implement their strategy, or, worse, who never actually had a business strategy. In this case, business questions arise such as:

- "*I don't know if I should take this opportunity in the market or not, I get mixed signals from the top*";
- "*Why are we participating in this tender again? We had already lost that last year and I thought we agreed that we would not put any more energy into it!*"
- "*Shall I lower the price for this customer? I don't know if we are better off winning this deal with a lower price or if we should let that business go.* "

Managers of these types of companies doubtfully wonder why their - what they thought was a beautifully polished - business strategy is never implemented. They do not recognize the importance of having a simple, clear and concise business strategy that everyone can master and that can serve as a 'beacon' for making difficult decisions!

What does a good formulation of your business strategy say?

Of course, Michael Porter, in his standard article '*What is strategy?'* (Harvard Business Review, 1996) has summarized the characteristics of a good strategy. But in our experience, most directors do not know what the basic elements of a clear business strategy are. And this makes it impossible for them to set up one. But what if it succeeds? Then two things happen. (1) Formulating it becomes a lot easier because managers know what they are trying to formulate, and (2) Implementing it becomes a lot easier because the essence of the business strategy can be clearly communicated within the organization, so that employees can adopt their business strategy much faster and much more easily.

The basic elements in determining your strategy are:

- *The target;*
- *The scope;*
- *The competitive advantage.*

(Top) drivers must be crystal clear about these 3 things! These elements are a simple, but also sufficient list. Together they describe and determine the competitive position of the company. Let's walk past them.

The target:
Each strategy formulation must begin with a definition of the goals for which the organization is established to achieve. "If you don't know where you are going, every road is the right one", is an appropriate statement. The goal must not only represent an end situation to be achieved, but also the corresponding time path to reach it.

The scope:
Given that companies often compete in a more or less unlimited landscape, it is also crucial that they determine the scope (or domain) of the business in which they are located. What are the limits beyond which we no longer participate? If you are going to do business in the restaurant business, are you going for fast service or for extensive comfort? Do you go for luxury or for simple? What type of dishes will you serve? French? Mexican? Which geographical area do you want to serve? Questions like that.

The competitive advantage:
Both of the above aspects are not enough to determine your strategy. Would someone invest in your restaurant if you did not explain how you are going to achieve your goals? Determining your competitive advantage is the essence of your strategy. What does your company do differently or better than others? This defines the means with which you want to achieve your goals, within the range you have set. The competitive advantage has 2 components that complement each other: external and internal. The external component must provide a clear value proposition that makes clear why your desired customer is buying from you instead of the alternatives. The internal component describes how your internal activities must be aligned with each other so that your company can also deliver that value proposition.

Examples:
If you state that you want to serve institutional customers, you could ignore your retail customers. If your value proposition is 'lower prices', then you are for example not opting for fashion trends or specific wishes. If your competitive advantage is 'economies of scale', then

you will not opt for customization. These are the considerations that distinguish individual companies strategically from each other.

We will now look in more detail at the individual 3 components of the corporate strategy:

1. Defining the goal:

The first element in determining the strategy, the goal, is what most companies do in one form or another. Unfortunately, however, the form of the target formulation is not good. Companies tend to confuse their values statement or mission with their purpose.

A strategic goal, for example, is not the somewhat 'flat': *"Maximizing shareholder value by exceeding customer expectations for product/service X/Y and offering opportunities for our staff to lead fulfilled lives, while respecting the environment and community in which we work"*. No, it is more a single and precisely described objective that determines the business for, say, the next 5 years. Companies must have their mission and values clear, but they are not their strategic objectives.

In short: the strategic goal must be specific, measurable and time-bound and it has to be just one. So not: "*We go for profitable growth".* After all: what is more important: profitability or growth? The goal must be the basis and create clarity for the decisions that employees have to make in everyday business. For example, a salesperson must know the answer if he or she must decide on how aggressive the pricing will be.

It is very well possible that there is a set of underlying goals that results from the strategic goal and that these provide the units of measurement in a *balanced scorecard* that keeps track of progress for those responsible within the company. But the ultimate strategic goal that 'drives' the business for the coming years, must be crystal clear.

The choice for a strategic goal has a major impact on the company. For example, when Boeing shifted their strategic primary goal from 'becoming the largest in the aircraft business' to: 'becoming the most profitable in the aircraft business', it had to restructure the entire organization. Everything. From sales to production.

2. Defining the scope:

The scope of an organization comprises 3 dimensions:

√ Customer or offer;

√ Geographical location;

√ Vertical integration.

The point here is to clearly define the boundaries on these dimensions, so that it becomes clear to managers which activities they should focus on and - more importantly - which do not. These 3 dimensions vary in relevance. For one company, the type of customer is much more important and more decisive than the geographical scope, for the other it is the other way around.

Important: the range does not prescribe exactly what should happen within the limits set. On the contrary, it should experiment and encourage initiatives within the established limits. The point is that the boundaries are (once again) very clear to everyone within the organization. This will prevent hours of meetings being held about projects that will eventually be cancelled by the management because they do not fit into the strategy. Clarity in scope helps companies to focus on things they are good at and to reap the benefits of simplicity, standardization and experience.

3. Defining the competitive advantage:

Given that a sustainable competitive advantage is the essence of your corporate strategy, it is no surprise that this is the most important part of your strategy formulation. Clarity about what distinguishes the company helps employees best to help them understand how they can contribute to successful implementation of the strategy.

The competitive advantage has, as stated, 2 components. The first is the customer value proposition. Any strategy that cannot explain why customers should buy your product or service, is doomed to fail. A simple graph in which you compare your value proposition with your competitors provides simple and useful insight into what makes you distinctive. See the following example:

Figure 1: Wal-Mart's value proposition compared to its main competitors (from: Collis & Rukstad, Harvard Business Review, April 2008)

In this example, Wal-Mart's customer value proposition can be formulated as: *"All-day low prices for a wide range of goods that are always in stock in easily accessible geographical locations".* Wal-Mart scores (much) better on these aspects of customer experience compared to its competitors. The lower performance on other criteria are strategic choices that save costs and promote the 'low prices' competitive advantage. The second component of the competitive advantage describes the unique (combination of) activities that ensure that only you can deliver that value proposition. This part touches on Porter's definition of strategy as making consistent choices about the configuration of business activities.

Vision, mission, strategy:

Organizational direction, that's what it's about. How do we indicate the direction in which the organization wants to go? This can take many forms, with Anglo-Saxon companies usually having a slightly different set-up than the Rhineland strategy models. The trio 'mission - vision - strategy' is known in many Anglo-Saxon countries. However, this order is not generally accepted and I have even seen companies that used different orders at different company levels. It usually starts with something like a mission statement. It can serve as a beacon, but it is the least specific.

From top to bottom it becomes more specific, practical, concrete and is ultimately unique. No other company will ultimately have the same strategy formulation (strategy statement), from the definition of your competitive advantage to the balanced scorecard that monitors your strategy implementation.

In this article, I offer a concrete framework in which a complete business strategy can be captured. My order is slightly different, see below the proposed hierarchy of company statements:

Figure 2: Hierarchy of company statements (adapted from Collis & Rukstad, HBR, April 2008)

Values:

Your vision and mission are embedded in a set of ethical values: that which the company stands for. However important and essential, the formulated values are not strategic in the sense that they guide behavior; they give direction in the sense of 'doing things right', but they don't say anything about 'doing the right things'.

Vision:

So many strategy statements start with their mission, but really, your vision of the market is your starting point. This vision defines the basic reason for being in business at all. It will often be a perceived 'lack' or shortcoming in the existing range of products/services in the market that the company believes it can meet.

For example, Swatch, a Swiss watch manufacturer, had the vision that there might be many high-quality Swiss watches on the market, but that they could be a bit hipper and more affordable. So that was their vision: they turned this 'lack' they recognized in the market into their mission: *"To offer hip, affordable, yet high-quality watches".* They developed their own 'hip' look and based on plastic, with much fewer parts than traditional watches. With this they also entered new markets.

Mission:

It follows that your mission is simply to 'fill the gap' in the market that you have recognized in your vision. Your mission indicates what the company wants to contribute to society. For example, an insurance company may have the mission: *"Provide financial security for consumers*". However, many companies in the same industry often have the same mission: do not all insurers offer their clients financial security? Your vision and mission statements are important and provide direction, but they are not enough to serve as a strategic starting point for all kinds of concrete business decisions.

Strategy:

Because values, vision and mission do not necessarily have to be very distinctive within a sector, the distinctive character of a company is mainly due to its strategy. The three elements of your strategy - goals, scope and competitive advantage (see earlier in this article) - will have to differ considerably if they are to make a real difference in the market (if your strategy is almost the same as that of your competitors, you do not have a good one). It is clear that a careful description of the unique activities that your company undertakes to achieve a distinctive customer value proposition, is the real strategy.

A relatively simple strategy formulation can provide an sharp characterization that fits no other company than yours. This is what we strive for. It has to be specific and clearly defined and subsequently internalized with all employees. So they can see how their daily activities are contributing to the overall success of the company and they can make the right decisions in the difficult choices they have to make in their daily work. Having a clearly formulated and distinctive strategy that has also been 'internalized' by all employees and so that it is truly the basis for their attitude and their task fulfillment. Thát is what makes a company distinctive and successful!

Balanced scorecard:

The balanced scorecard makes clear how the strategic plans are implemented and monitored.

The meaning of strategy

On the basis of the above, it is clear that the contribution of a strategy lies primarily in a careful description of the unique activities that a company undertakes in order to create a distinctive customer value proposition. But what is the core, the real meaning of strategy? I use this model for this:

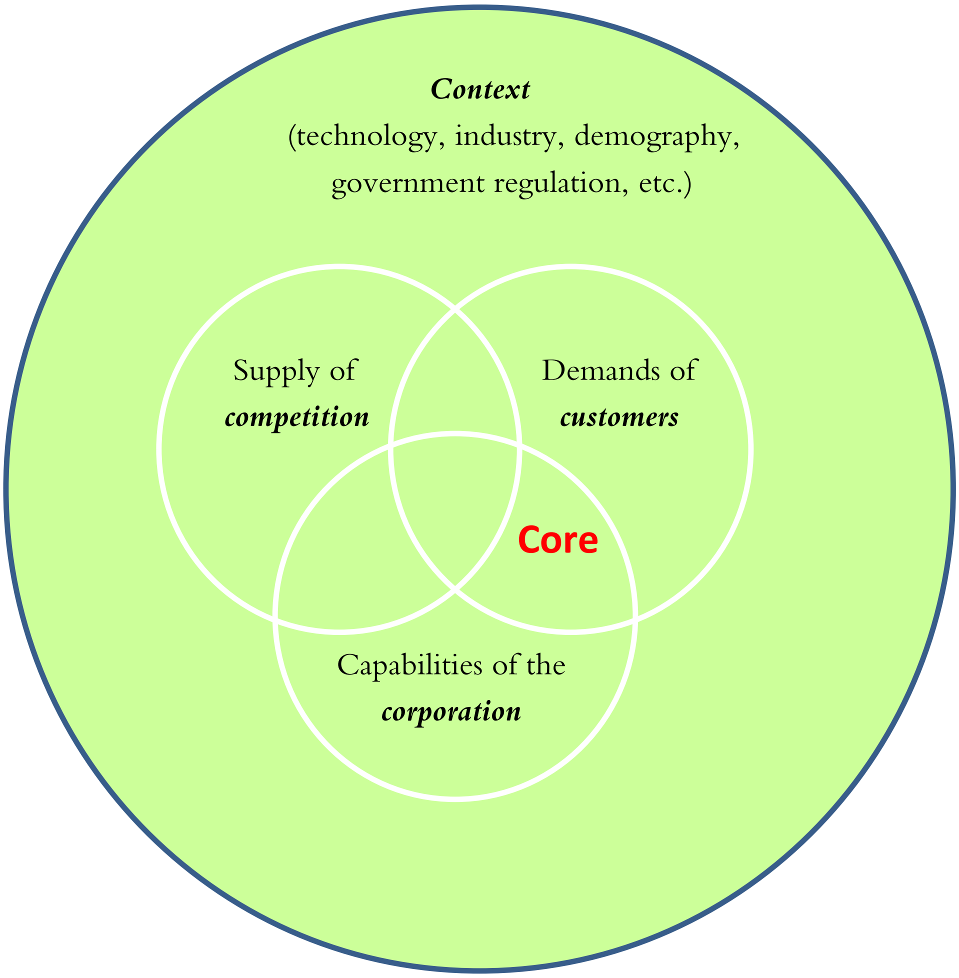


Figure 3: The "strategic core" (derived from Collis & Rukstad, HBR, April 2008)

Jim Collins called the core of the strategy the ***'hedgehog concept'*** (*Good to Great*, 2001). That is: that what the company can do very well and makes it distinctive. We call this the 'strategic core' (or: 'strategic sweet spot'). The strategic core indicates the reason for existence; the meaning of the company. In the strategic core, the capabilities of the company are optimally aligned with the client's wishes in the selected target group(s), given a (changing) external context of technology, sector demography, government regulation, et cetera.

How does this strategic core arise?

The strategic core is the result of three elements. Of course, it starts with a great strategy, which comes from a careful evaluation of the environment. This includes: (1) a detailed understanding of customer needs, segmenting them into customer groups and identifying ways in which value will be created for those customer groups that the company has selected. In addition: (2) competitors' current strategies must be analyzed and predictions made as to how they might change in the future. Finally, (3) the competencies and capabilities and resources of the company and those of the competitors must be rigorously and objectively examined.

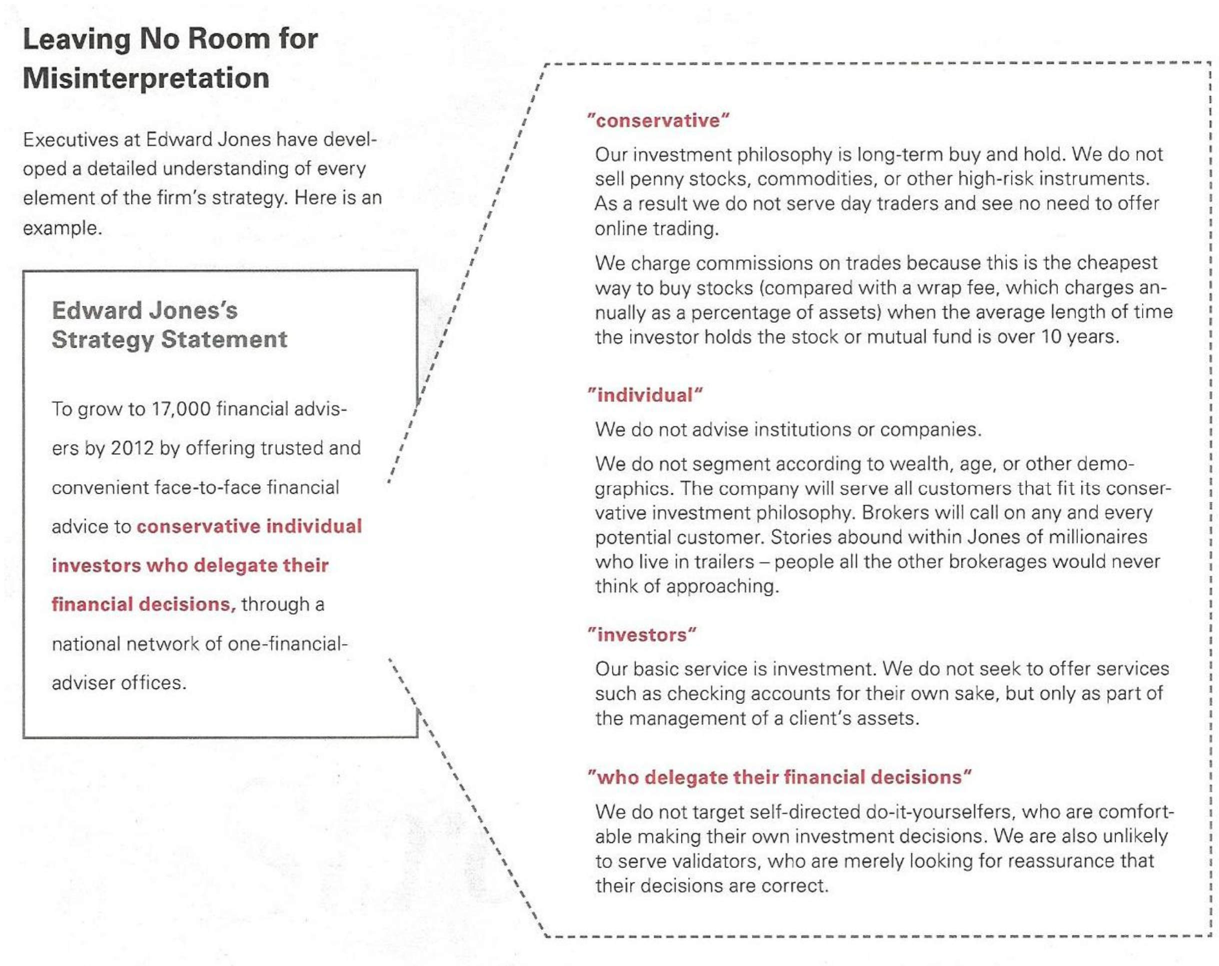
Strategic scenarios

In my experience, this exercise can best result in the development of two or three plausible, but very different, strategic options (scenarios). If two fairly extreme extremes are identified as strategic options, it helps to make strategic choices. For example, a restaurant (chain) can compare the strategic option of a 'McDonalds-like' set-up with that of a luxury, full-service restaurant and thus weigh the consistency of strategic choices for whether or not to deliver certain services/products.

Strategy development

Achieving a strategic core and its diligent formulation is the most powerful part of the strategy development process and has great significance. This process of researching, developing and then carefully formulating your strategy and strategic core, in an easily communicable manner, should not be done by management alone. Employees from all parts and layers of the company must be involved. (And you can involve E-OA too.) We often see heated discussions taking place about a single word in the core formulation and that is good; it makes its significance and impact on the strategy and the consequences it has for choices to be made even clearer.

The end result is a short description containing the aforementioned 3 elements of an effective strategy. This short strategy statement must be accompanied by a clear explanation that eliminates all possible misunderstandings as in the following example:



Leaving No Room for Misinterpretation

Executives at Edward Jones have developed a detailed understanding of every element of the firm's strategy. Here is an example.

Edward Jones's Strategy Statement

To grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to **conservative individual investors who delegate their financial decisions,** through a national network of one-financial-adviser offices.

"conservative"

Our investment philosophy is long-term buy and hold. We do not sell penny stocks, commodities, or other high-risk instruments. As a result we do not serve day traders and see no need to offer online trading.

We charge commissions on trades because this is the cheapest way to buy stocks (compared with a wrap fee, which charges annually as a percentage of assets) when the average length of time the investor holds the stock or mutual fund is over 10 years.

"individual"

We do not advise institutions or companies.

We do not segment according to wealth, age, or other demographics. The company will serve all customers that fit its conservative investment philosophy. Brokers will call on any and every potential customer. Stories abound within Jones of millionaires who live in trailers – people all the other brokerages would never think of approaching.

"investors"

Our basic service is investment. We do not seek to offer services such as checking accounts for their own sake, but only as part of the management of a client's assets.

"who delegate their financial decisions"

We do not target self-directed do-it-yourselfers, who are comfortable making their own investment decisions. We are also unlikely to serve validators, who are merely looking for reassurance that their decisions are correct.

<u>Figure 4</u>: A "strategy statement" with explanation so that incorrect interpretations cannot occur (from: Collis & Rukstad, HBR, April 2008)

If the strategy statement has been formulated satisfactorily, it can be disseminated within the organization, accompanied by the value proposition and a detailed activity schedule that illustrates how the business activities contribute to the competitive advantage. Michael Porter used the 'activity system map' for this (from: *'What is strategy?'*, Harvard Business Review, 1996).

Conclusion:

The significance of your corporate strategy for achieving a competitive advantage is twofold:

(1) Your specific customer value proposition, based on your strategic core. The value and meaning of this should not be underestimated! A strategy statement of 35 words can really have a decisive meaning on the success of a company: words do lead to action;

(2) The activity schedule to implement it. If the strategy statement is spread from top to bottom in the organization, the upper management layer is the teacher of the layer below. In this way, the strategy statement really becomes the starting point for everyone's behavior. The strategy will only have meaning if the directors can trust that the empowered employees are guided by the same strategy and principles as themselves.

The time invested to arrive at a well-considered and well-considered strategy statement that really contains the core of your strategy and that energizes and empowers your employees, will ultimately increase the long-term financial performance of your company. Take that time. I will be more than happy to help you.