Competitive Strategy

Navigating the Dozens of Different Strategy Options

by Martin Reeves, Knut Haanaes, and Janmejaya Sinha

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In this adaptation from the new book, Your Strategy Needs a Strategy (HBR Press, 2015), BCG strategy experts make sense of the all the different, and competing, approaches to strategy: Which strategy is right for your business? When and how should you implement it? The practical tool offered here helps executives answer such questions as: What replaces planning when the annual cycle is obsolete? Where can we — and when should we — shape the game to our advantage? How do we simultaneously implement different strategies across different business units?

Executives are bombarded with bestselling ideas and best practices for achieving competitive advantage, but many of these ideas and practices contradict each other. Should you aim to be big or fast? Should you create a blue ocean, be adaptive, play to win — or forget about a sustainable competitive advantage altogether? In a business environment that is changing faster and becoming more uncertain and complex almost by the day, it's never been more important to choose the right approach to strategy.

And it has never been more difficult. The number of strategy tools and frameworks that leaders can choose from has grown massively since the birth of business strategy in the early 1960s (see the chart below — and keep scrolling, you'll get to the end eventually). And far from obvious are the answers to how these approaches relate to one another or when they should and shouldn't be deployed.

It's not that we lack powerful ways to approach strategy; it's that we lack a robust way to select the right ones for the right circumstances. The five forces framework for strategy may be valid in one arena, blue ocean or open innovation in another, but each approach to strategy tends to be presented or perceived as a panacea. Managers and other business leaders face a dilemma: with increasingly diverse environments to manage and rising stakes to get it right, how do they identify the most effective approach to business strategy and marshal the right thinking and behaviors to conceive and execute it, supported by the appropriate frameworks and tools?

To address the combined challenge of increased dynamism and diversity of business environments as well as the proliferation of approaches, we propose a unifying choice framework: the strategy palette. This framework was created to help leaders match their approach to strategy to the circumstances at hand and execute it effectively, to combine different approaches to cope with multiple or changing environments, and, as leaders, to animate the resulting collage of approaches.

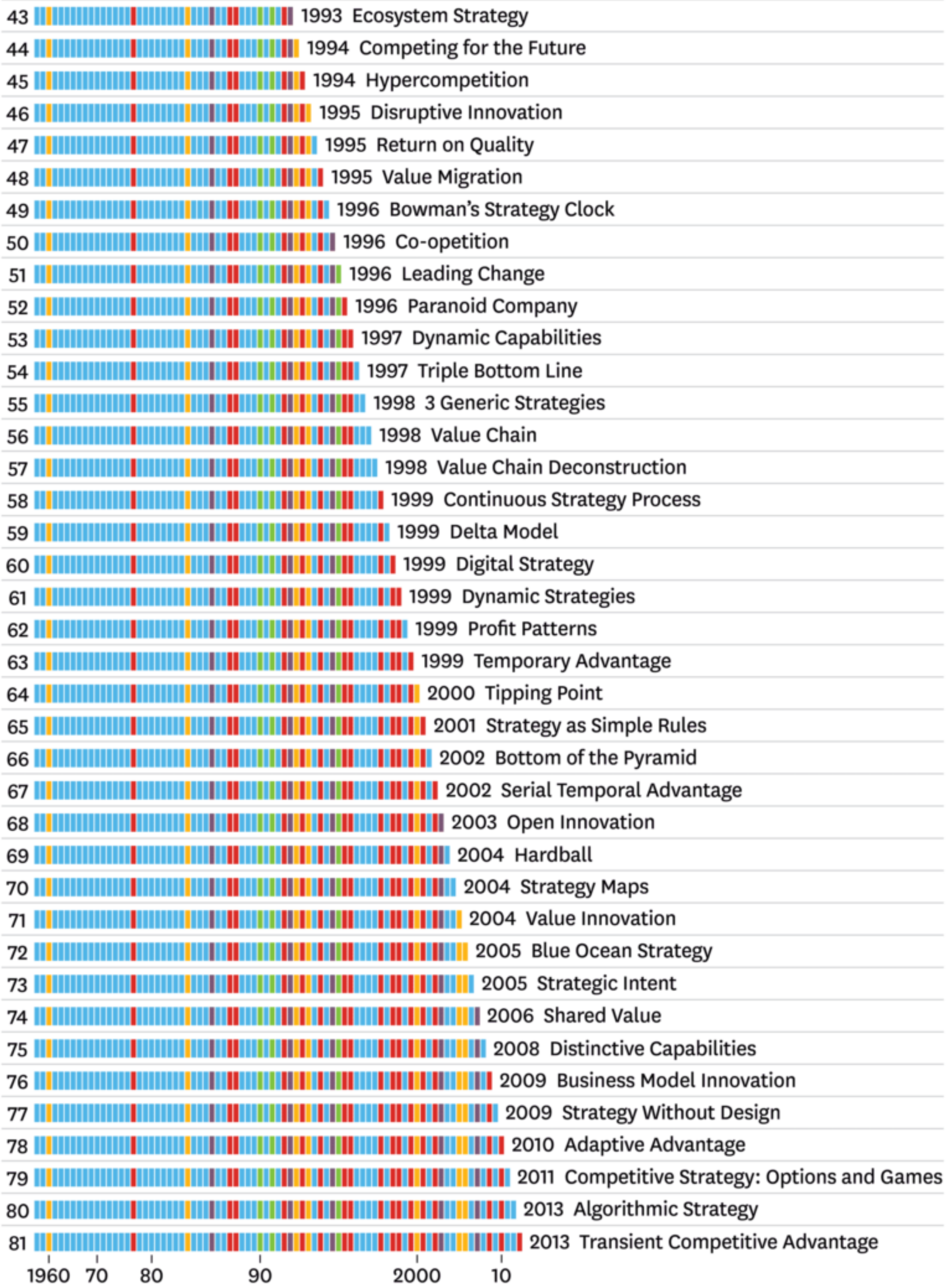
The Number of Strategy Frameworks has Skyrocketed Over Time

TYPE OF FRAMEWORK

- *Classical*
- *Shaping*
- *Visionary*
- *Renewal*
- *Adaptive*

CUMULATIVE NUMBER OF FRAMEWORKS / TYPE / YEAR / NAME

1	1958	Ansoff Matrix
2	1959	Industrial Organization
3	1962	Diffusion of Innovations
4	1962	Scenario Planning
5	1962	Strategy and Structure
6	1965	Gap Analysis
7	1965	Product Lifecycle
8	1967	PEST
9	1968	Experience Curve
10	1969	SWOT Analysis
11	1970	BCG Portfolio Matrix
12	1971	Andrews's Strategy Framework
13	1973	Red Queen Effect
14	1974	PIMS (Profit Impact of Market Strategies)
15	1976	Real Options
16	1976	Rule of Three and Four
17	1978	Deliberate and Emergent Strategies
18	1979	5 Forces
19	1980	4 Phases of Strategy
20	1980	Logical Incrementalism
21	1981	BCG Advantage Matrix
22	1982	3Cs
23	1982	7s
24	1982	Diversification Strategy and Profitability
25	1982	Niche Strategy
26	1982	Technological Paradigms and Technological Trajectories
27	1982	TQM
28	1984	Resource-Based View
29	1986	Fishbone Diagram
30	1986	S-Curve
31	1986	Six Sigma
32	1987	Mintzberg's 5 Ps
33	1988	First Mover Advantage
34	1988	Time-Based Competition
35	1989	Benchmarking
36	1989	Core Competencies
37	1990	Diamond Model
38	1990	Re-Engineering
39	1991	Commitment
40	1991	Transformational Change
41	1992	Capabilities Competition
42	1992	Mass Customization



SOURCE "COMPETITION AND BUSINESS STRATEGY IN HISTORICAL PERSPECTIVE," BY PANKAJ GHEMAWAT, *BUSINESS HISTORY REVIEW* 76 (SPRING 2002); *STRATEGY*: A HISTORY, BY LAWRENCE FREEDMAN; RESEARCH BY THE BOSTON CONSULTING GROUP STRATEGY INSTITUTE

The strategy palette consists of five archetypal approaches to strategy — basic colors, if you will — which can be applied to different parts of your business: from geographies to industries to functions to stages in a firm's life cycle, tailored to the particular environment that each part of the business faces.

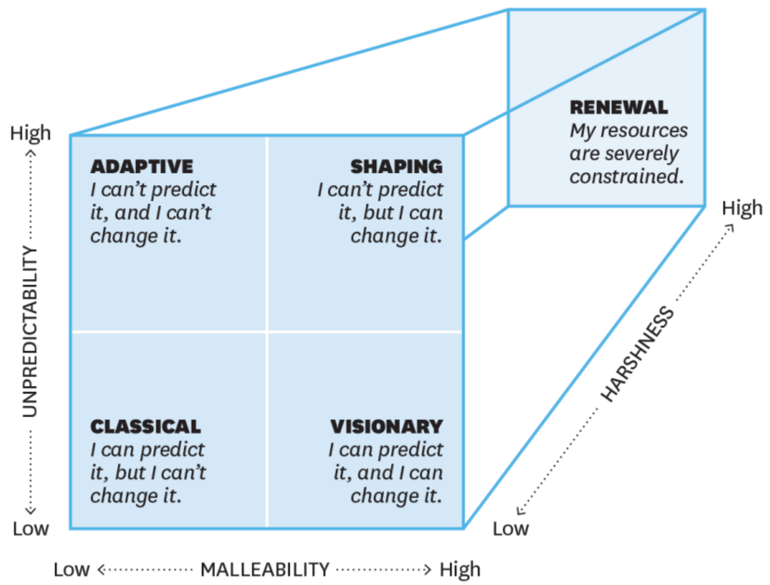
Five Strategy Environments

Strategy is, in essence, problem solving, and the best approach depends upon the specific problem at hand. Your environment dictates your approach to strategy. You need to assess the environment and then match and apply the appropriate approach. But how do you characterize the business environment, and how do you choose which approach to strategy is best suited to the job of defining a winning course of action?

Business environments differ along three easily discernible dimensions: Predictability (can you forecast it?), malleability (can you, either alone or in collaboration with others, shape it?), and harshness (can you survive it?). Combining these dimensions into a matrix reveals five distinct environments, each of which requires a distinct approach to strategy and execution.

5 Approaches to Strategy

And the business environment in which you might use each one.



SOURCE BCG

Each environment corresponds to a distinct archetypal approach to strategy, or color in the strategy palette, as follows: predictable classical environments lend themselves to strategies of position, which are based on advantage achieved through scale or differentiation or capabilities and are achieved through comprehensive analysis and planning. Adaptive environments require continuous experimentation because planning does not work under conditions of rapid change and unpredictability. In a visionary setting, firms win by being the first to create a new market or to disrupt an existing one. In a shaping environment, firms can collaboratively shape an industry to their advantage by orchestrating the activities of other stakeholders. Finally, under the harsh conditions of a renewal environment, a firm needs to first conserve and free up resources to ensure its viability and then go on to choose one of the other four approaches to rejuvenate growth and ensure long-term prosperity. The resulting overriding imperatives, at the simplest level, vary starkly for each approach:

- Classical: Be big.
- Adaptive: Be fast.
- Visionary: Be first.
- Shaping: Be the orchestrator.
- Renewal: Be viable.

Using the right approach pays off. In our research, firms that successfully match their strategy to their environment realized significantly better returns— 4-8% of total shareholder return — over firms that didn't. Yet around half of all companies we looked at mismatch their approach to strategy to their environment in some way.

Let's delve a little deeper to see how to win using each of the basic colors of strategy and why each works best under specific circumstances.

Classical

Leaders taking a classical approach to strategy believe that the world is predictable, that the basis of competition is stable, and that advantage, once obtained, is sustainable. Given that they cannot change their environment, such firms seek to position themselves optimally within it. Such positioning can be based on superior size, differentiation, or capabilities.

Positional advantage is sustainable in a classical environment: the environment is predictable and develops gradually without major disruptions.

To achieve winning positions, classical leaders employ the following thought flow: they analyze the basis of competitive advantage and the fit between their firm's capabilities and the market and forecast how these will develop over time. Then, they construct a plan to build and sustain advantaged positions, and, finally, they execute it rigorously and efficiently.

Mars, the global manufacturer of confectionery and pet food, successfully executes a classical approach to strategy. Mars focuses on categories and brands where it can lead and obtain a scale advantage, and it creates value by growing those categories. This approach has helped Mars build itself into a profitable $35 billion company and multi-category leader over the course of a century.

Classical strategy is probably the approach with which you are the most familiar. In fact, for many managers, it may be the approach that defines strategy. Classical strategy is what is taught in business schools and practiced in some form in the majority of strategy functions in major enterprises.

Adaptive

Firms employ an adaptive approach when the business environment is neither predictable nor malleable. When prediction is hard and advantage is short-lived, the only shield against continuous disruption is a readiness and an ability to repeatedly change oneself. In an adaptive environment, winning comes from adapting to change by continuously experimenting and identifying new options more quickly and economically than others. The classical strategist's mantra of sustainable competitive advantage becomes one of serial temporary advantage.

To be successful at strategy through experimentation, adaptive firms master three essential thinking steps: they continuously vary their approach, generating a range of strategic options to test. They carefully select the most successful ones to scale up and exploit. And as the environment changes, the firms rapidly iterate on this evolutionary loop to ensure that they continuously renew their advantage. An adaptive approach is less cerebral than a classical one—advantage arises through the company's continuously trying new things and not through its analyzing, predicting, and optimizing.

Tata Consultancy Services, the India-based information technology (IT) services and solutions company, operates in an environment it can neither predict nor change. It continuously adapts to repeated shifts in technology—from client servers to cloud computing—and the resulting changes that these shifts cause in their customers' businesses and in the basis of competition. By taking an adaptive approach that focuses on monitoring the environment, strategic experimentation, and organizational flexibility, Tata Consultancy Services has grown from $155 million in revenue in 1996 to $1 billion in 2003 and more than $13 billion in 2013 to become the second-largest pure IT services company in the world.

Visionary

Leaders taking a visionary approach believe that they can reliably create or re-create an environment largely by themselves. Visionary firms win by being the first to introduce a revolutionary new product or business model. Though the environment may look uncertain to others, visionary leaders see a clear opportunity for the creation of a new market segment or the disruption of an existing one, and they act to realize this possibility.

This approach works when the visionary firm can single-handedly build a new, attractive market reality. A firm can be the first to apply a new technology or to identify and address a major source of customer dissatisfaction or a latent need. The firm can innovate to address a tired industry business model or can recognize a megatrend before others see and act on it.

Firms deploying a visionary approach also follow a distinct thought flow. First, visionary leaders envisage a valuable possibility that can be realized. Then they work single-mindedly to be the first to build it. Finally, they persist in executing and scaling the vision until its full potential has been realized. In contrast to the analysis and planning of classical strategy and the iterative experimentation of adaptive strategy, the visionary approach is about imagination and realization and is essentially creative.

Quintiles, which pioneered the clinical research organization (CRO) industry for outsourced pharmaceutical drug development services, is a prime example of a company employing a visionary approach to strategy. Though the industry model may have looked stable to others, its founder and chairman, Dennis Gillings, saw a clear opportunity to improve drug development by creating an entirely new business model and, in 1982, moved first to capitalize on the inevitabilities he saw. By ensuring that Quintiles moved fast and boldly, it maintained its lead and leapt well ahead of potential competition. It is today the largest player in the CRO industry which it created and has been associated with the development or commercialization of the top fifty best-selling drugs currently on the market.

Shaping

When the environment is unpredictable but malleable, a firm has the extraordinary opportunity to lead the shaping or reshaping of a whole industry at an early point of its development, before the rules have been written or rewritten.

Such an opportunity requires you to collaborate with others because you cannot shape the industry alone—and you need others to share the risk, contribute complementary capabilities, and build the new market quickly before competitors mobilize. A shaping firm therefore operates under a high degree of unpredictability, given the nascent stage of industry evolution it faces and the participation of multiple stakeholders that it must influence but cannot fully control.

In the shaping approach, firms engage other stakeholders to create a shared vision of the future at the right point in time. They build a platform through which they can orchestrate collaboration and then evolve that platform and its associated stakeholder ecosystem by scaling it and maintaining its flexibility and diversity. Shaping strategies are very different from classical, adaptive, or visionary strategies—they concern ecosystems rather than individual enterprises and rely as much on collaboration as on competition.

Novo Nordisk employed a shaping strategy to win in the Chinese diabetes care market since the 1990s. Novo couldn't predict the exact path of market development, since the diabetes challenge was just beginning to emerge in China, but by collaborating with patients, regulators, and doctors, the company could influence the rules of the game. Now, Novo is the uncontested market leader in diabetes care in China, with over 60 percent insulin market share.

Renewal

The renewal approach to strategy aims to restore the vitality and competitiveness of a firm when it is operating in a harsh environment. Such difficult circumstances can be caused by a protracted mismatch between the firm's approach to strategy and its environment or by an acute external or internal shock.

When the external circumstances are so challenging that your current way of doing business cannot be sustained, decisively changing course is the only way to not only survive, but also to secure another chance to thrive. A company must first recognize and react to the deteriorating environment as early as possible. Then, it needs to act decisively to restore its viability—economizing by refocusing the business, cutting costs, and preserving capital, while also freeing up resources to fund the next part of the renewal journey. Finally, the firm must pivot to one of the four other approaches to strategy to ensure that it can grow and thrive again. The renewal approach differs markedly from the other four approaches to strategy: it is usually initially defensive, it involves two distinct phases, and it is a prelude to adopting one of the other approaches to strategy. Renewal has become increasingly common because of the number of companies getting out of step with their environments.

American Express's response to the financial crisis exemplifies the renewal approach. As the credit crisis hit in 2008, Amex faced the triple punch of rising default rates, slipping consumer demand, and decreasing access to capital. To survive, the company cut approximately 10 percent of its workforce, shed noncore activities, and cut ancillary investment. By 2009, Amex had saved almost $2 billion in costs and pivoted toward growth and innovation by engaging new partners, investing in its loyalty program, entering the deposit raising business, and embracing digital technology. As of 2014, its stock was up 800 percent from recession lows.

Applying the Strategy Palette

The strategy palette can be applied on three levels: to match and correctly execute the right approach to strategy for a specific part of the business, to effectively manage multiple approaches to strategy in different parts of the business or over time, and to help leaders to animate the resulting collage of approaches.

The strategy palette provides leaders with a new language for describing and choosing the right approach to strategy in a particular part of their business. It also provides a logical thread to connect strategizing and execution for each approach. In most companies, strategizing and execution have become artificially separated, both organizationally and temporally. Each approach entails not only a very different way of conceiving strategy but also a distinct approach to implementation, creating very different requirements for information management, innovation, organization, leadership, and culture. The strategy palette can therefore guide not only the strategic intentions but also the operational setup of a company. The table below summarizes the key elements of the strategy palette and includes specific examples of companies using the five approaches.

Comparing When, Where, and How to Use the Different Approaches to Strategy

	CLASSICAL	ADAPTIVE	VISIONARY	SHAPING	RENEWAL
Core idea, or what it takes	• Be big	• Be fast	• Be first	• Be the orchestrator	• Be viable
Type of environment	• Predictable, nonmalleable	• Unpredictable, nonmalleable	• Predictable, malleable	• Unpredictable, malleable	• Harsh
Industries where approach is most visibly applicable	• Utility • Automobile • Oil and gas	• Semi-conductors • Textile retail	• Not industry specific (create new, disrupt existing)	• Some software • Smartphone apps	• Financial institutions in the 2008–09 crisis
Indicators of the approach	• Low growth • High concentration • Mature industry • Stable regulation	• Volatile growth • Limited concentration • Young industry • High technological change	• High growth potential • White space, no direct competition • Limited regulation	• Fragmentation • No dominant player, platform • Shapable regulation	• Low growth, decline, crisis • Restricted financing • Negative cash flows
How	• Analyze, plan, execute	• Vary, select, scale up	• Envisage, build, persist	• Engage, orchestrate, evolve	• React (or anticipate), economize, grow
Measures of success	• Scale • Market share	• Cycle time • New product vitality index (NPVI)	• First to market • New user customer satisfaction	• Ecosystem growth and profitability • NPVI	• Cost savings • Cash flow
Related approaches	• Experience curve • BCG Matrix • Five Forces • Capabilities	• Time-based competition • Temporary advantage • Adaptive advantage	• Blue Ocean • Innovator's dilemma	• Networks • Ecosystems • Platforms	• Transformation • Turnaround
Key examples	• P&G under Lafley • Mars under Michaels	• Tata Consul-tancy Services under Chan-drasekaran • 3M under McKnight	• Amazon.com under Bezos • Quintiles under Gillings	• Apple under Jobs • Novo Nordisk under Sørensen	• Amex under Chenault • AIG under Benmosche
Key traps	• Overappli-cation	• Planning the unplannable	• Wrong vision	• Overmanaged ecosystem	• No second phase

SOURCE BCG SYNTHESIS

The palette can also help leaders to “de-average” their business (decompose it into its component parts, each requiring a characteristic approach to strategy) and effectively combine multiple approaches to strategy across different business units, geographies, and stages of a firm's life cycle. Large corporations are now stretched across a more diverse and faster-changing range of business contexts. Almost all large firms comprise multiple businesses and geographies, each with a distinct strategic character, and thus require the simultaneous execution of different approaches to strategy. The right approach for a fast-evolving technology unit is unlikely to be the same as for a more mature one. And the approach in a rapidly developing economy is likely to be very different for the same business operating in a more mature one.

Inevitably, any business or business model goes through a life cycle, each stage of which requires a different approach. Businesses are usually created in the visionary or shaping quadrants of the strategy palette and tend to migrate counterclockwise through adaptive and classical quadrants before being disrupted by further innovations and entering a new cycle, although the exact path can vary. Apple, for example, created its iPhone using a visionary approach, then used a shaping strategy to develop a collaborative ecosystem with app developers, telecom firms, and content providers. And as competitors jostle for position with increasingly convergent offerings, it is likely that their strategies will become increasingly adaptive or classical. Leaders themselves play a vital role in the application of the strategy palette by setting and adjusting the context for strategy. They read the environment to determine which approach to strategy to apply where and to put the right people in place to execute it.

Moreover, business leaders play a critical role of selling the integrated strategy narrative externally and internally. They continuously animate the strategy collage — the combination of multiple approaches to strategy — keeping it dynamic and up-to-date by asking the right questions, by challenging assumptions to prevent a dominant logic from clouding the perspective, and by putting their weight behind critical change initiatives.

To explore and apply these ideas to your own situation, we have developed a companion iPad app. To download the iPad app, visit Apple's App Store and search for "Your Strategy Needs a Strategy." You can also find it by visiting our website: www.bcgperspectives.com/yourstrategyneedsastrategy.

This excerpt is adapted from the book *Your Strategy Needs a Strategy: How to Choose and Execute the Right Approach* by Martin Reeves, Knut Haanaes, and Janmejaya Sinha (HBR Press, 2015)

Martin Reeves is the chairman of Boston Consulting Group's BCG Henderson Institute in San Francisco and a coauthor of *The Imagination Machine* (Harvard Business Review Press, 2021).

KH

Knut Haanaes is a former senior partner at the Boston Consulting Group and the global leader of BCG's Strategy practice area. He is a professor of strategy and holds the Lundin Sustainability Chair at the International Institute for Management Development (IMD) in Switzerland.

JS

Janmejaya Sinha is chairman of BCG Asia Pacific, and a senior partner in the Mumbai office.

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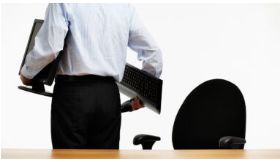

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