

“Nobody really knows  
what strategy is.”

*The Economist*

# **What is Strategy?**

*A (very) brief introduction.*

# Why do we need a strategy?

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

"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4

# Five Definitions

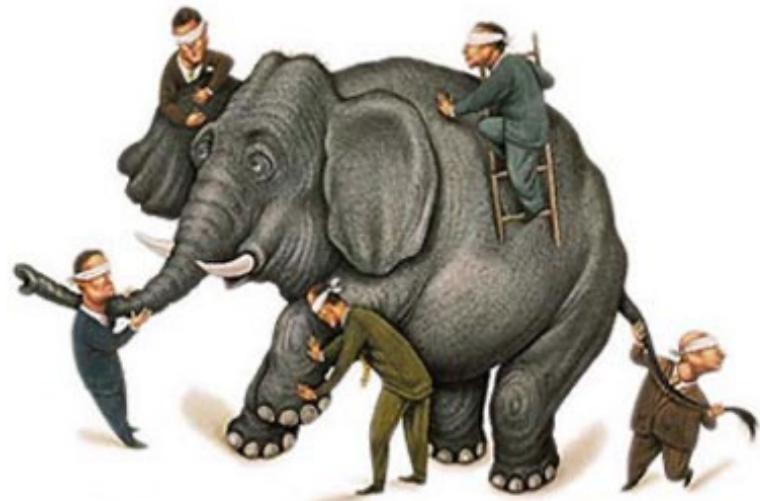
## Strategy as...

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

Mintzberg, H. (1987). "The Strategy Concept I: Five Ps For Strategy." California Management Review 30(1) Fall: 11-24.

# Mintzberg's 10 Schools

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



# Mintzberg's 10 Schools

## Prescriptive

- Design
- Planning
- Positioning

## Descriptive

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

# Mintzberg's 10 Schools : The 3 Prescriptive ones

## Design School

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

# Mintzberg's 10 Schools : The 3 Prescriptive ones

## Planning School

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

# Mintzberg's 10 Schools : The 3 Prescriptive ones

## PositioningSchool

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

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Configuration School

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

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Cognitive School

- Strategy as a mental process and creative interpretations

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Cultural School

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

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Entrepreneurial School

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

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Environmental School

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

# Mintzberg's 10 Schools : The 7 Descriptives ones

## Learning School

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

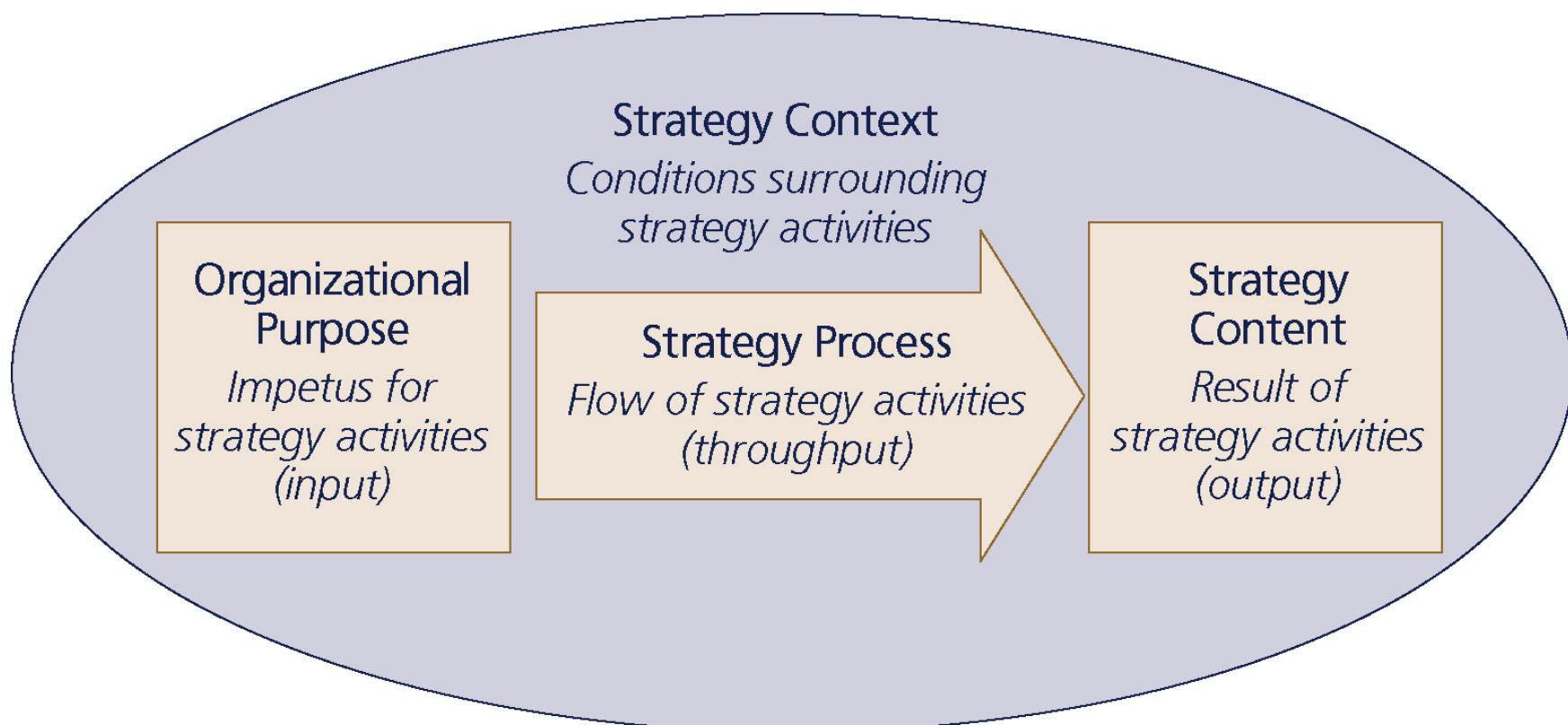
# Mintzberg's 10 Schools : The 7 Descriptives ones

## Power School

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

# Dimensions of Strategy

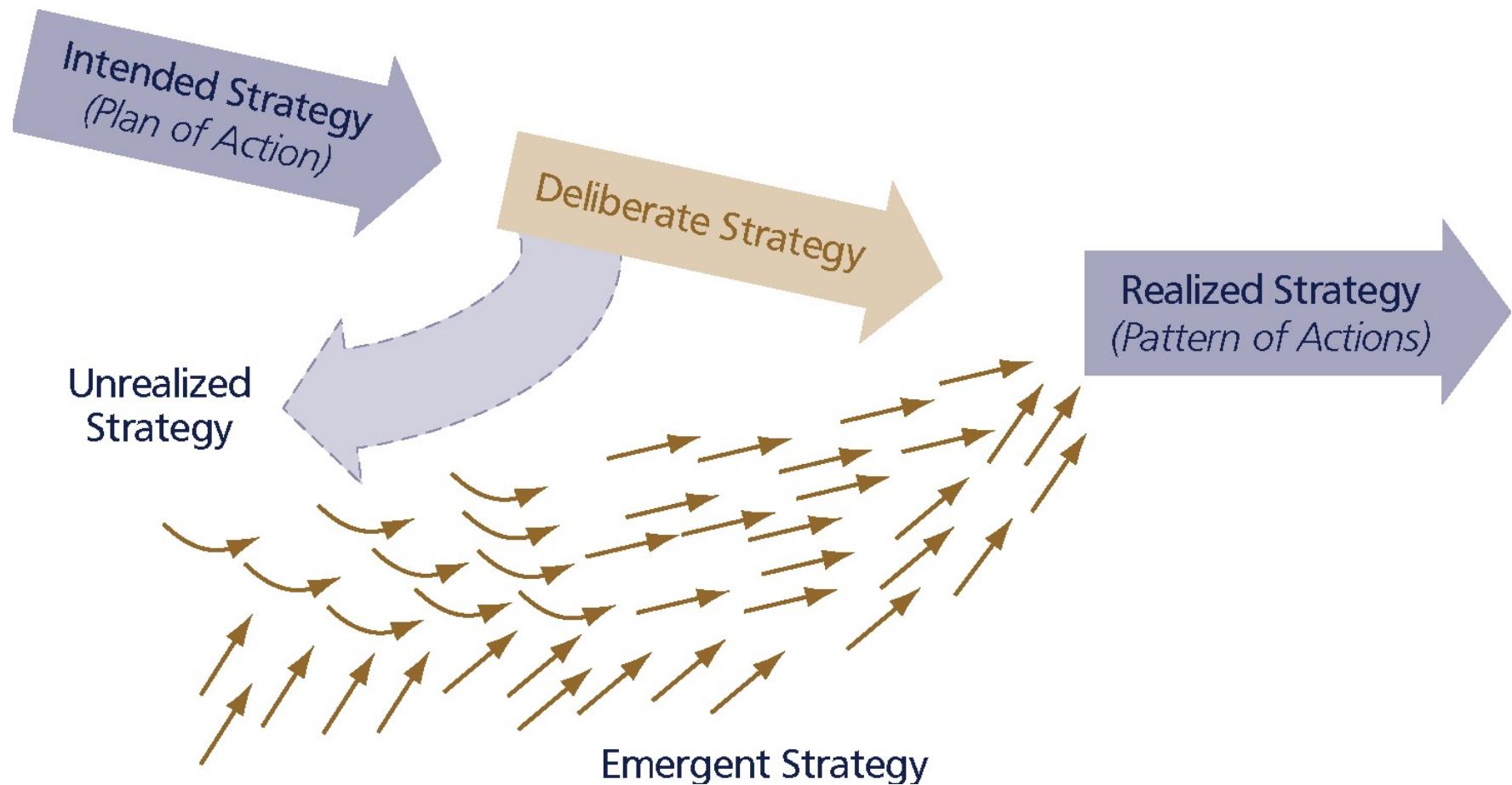
## Process, Content, Context



# Strategy Process



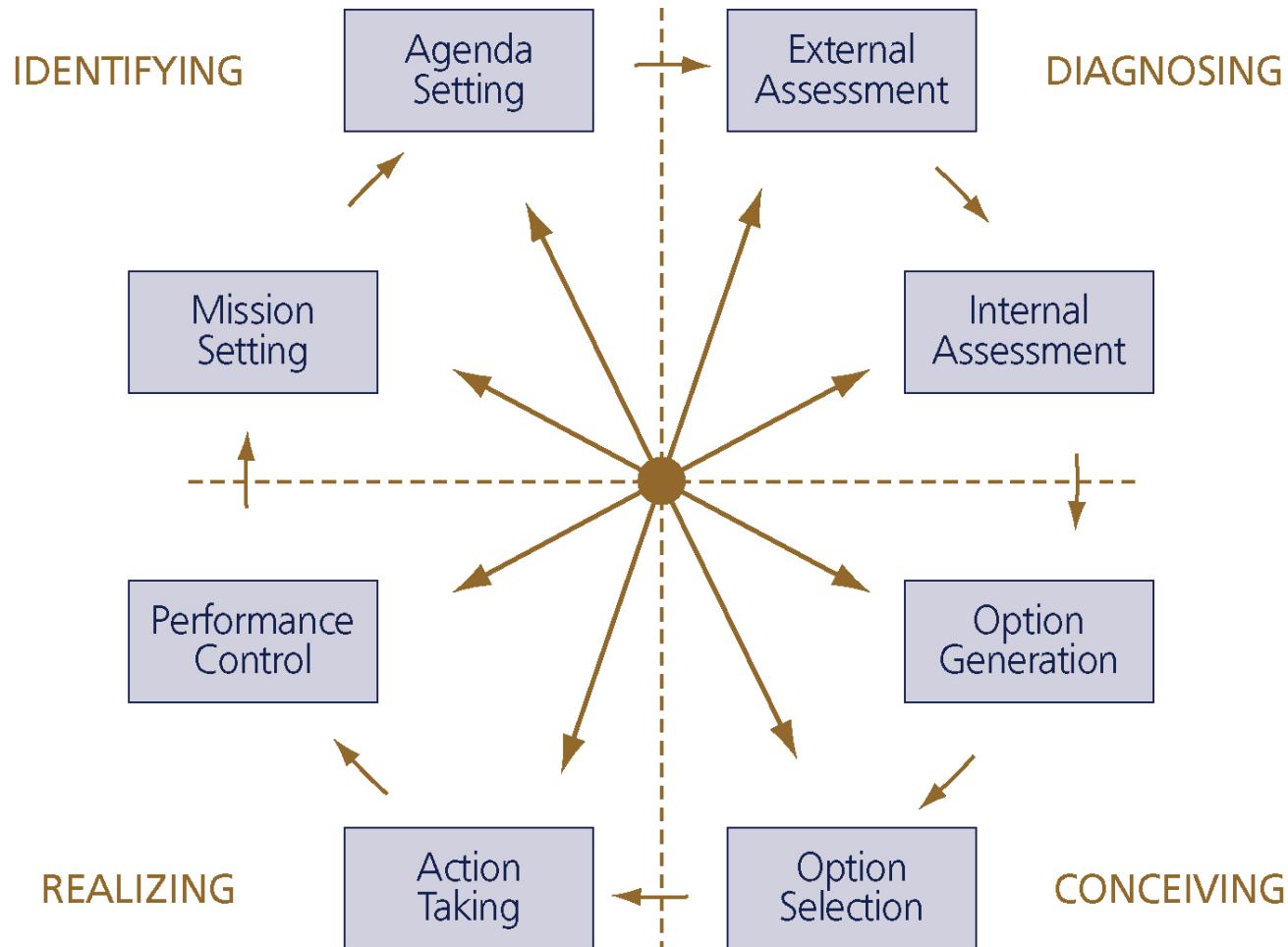
# Strategy Formation



"Strategy: Process, Content, Context" 3rd edition De Wit & Meyer Thomson Learning 2004

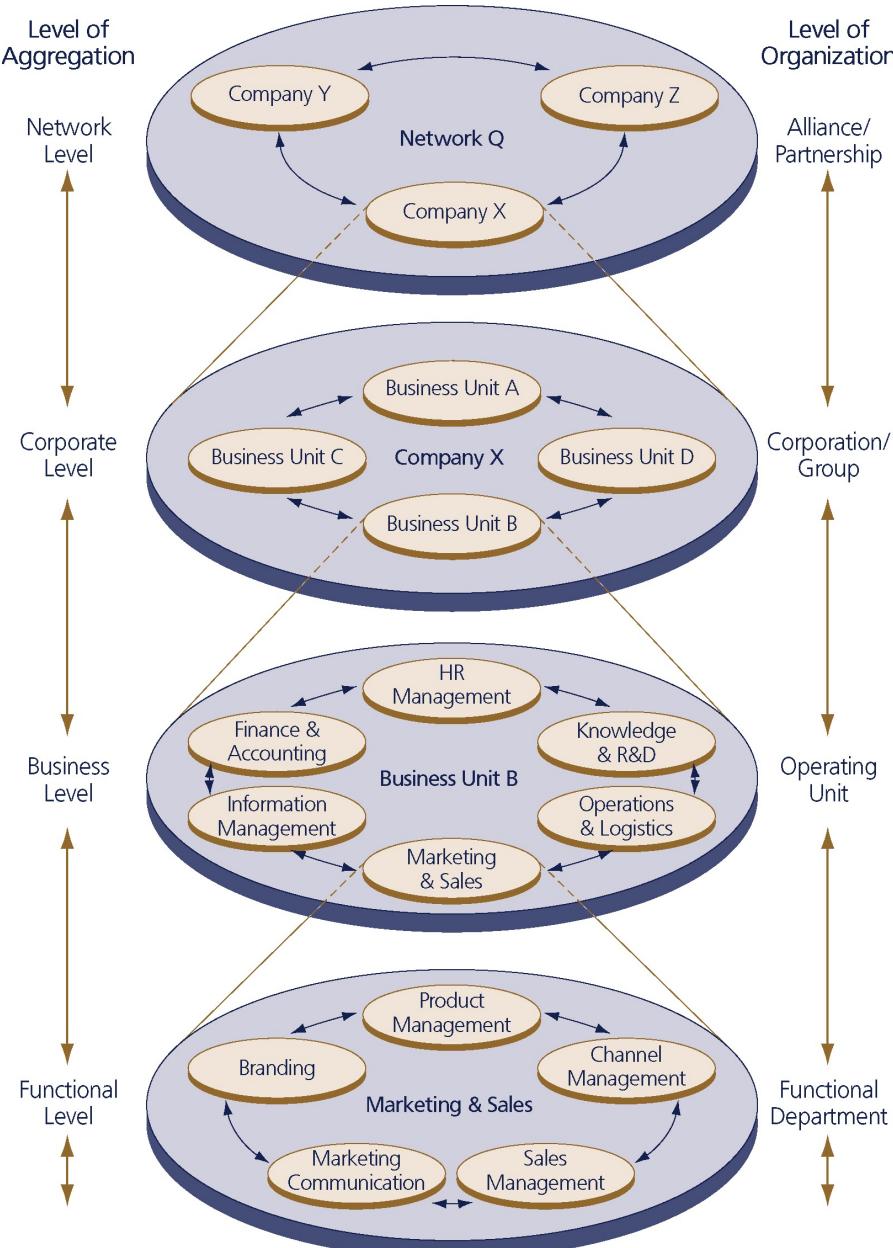
# Realized Strategy

## Strategy Formation Activities



"Strategy: Process, Content, Context" 3rd edition De Wit & Meyer Thomson Learning 2004

# Strategy Content



# Strategy Context



# Strategic Tensions

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

"Strategy: Process, Content, Context" 3rd edition De Wit & Meyer Thomson Learning 2004

# **Setting Strategy**

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

# Putting strategy in its place

It's not about the sequence.  
The robustness of the whole is key !

**Mission**

- Fundamental purpose
- Values
- Vision

**Objectives**

- Specific targets, short & long term

**Strategic Analysis**

- Industry Analysis
- Customer/marketplace trends
- Customer activity cycle
- Environment forecast
- Competitor analysis
- Assessment of internal strengths, weaknesses, resources, culture
- Stakeholders

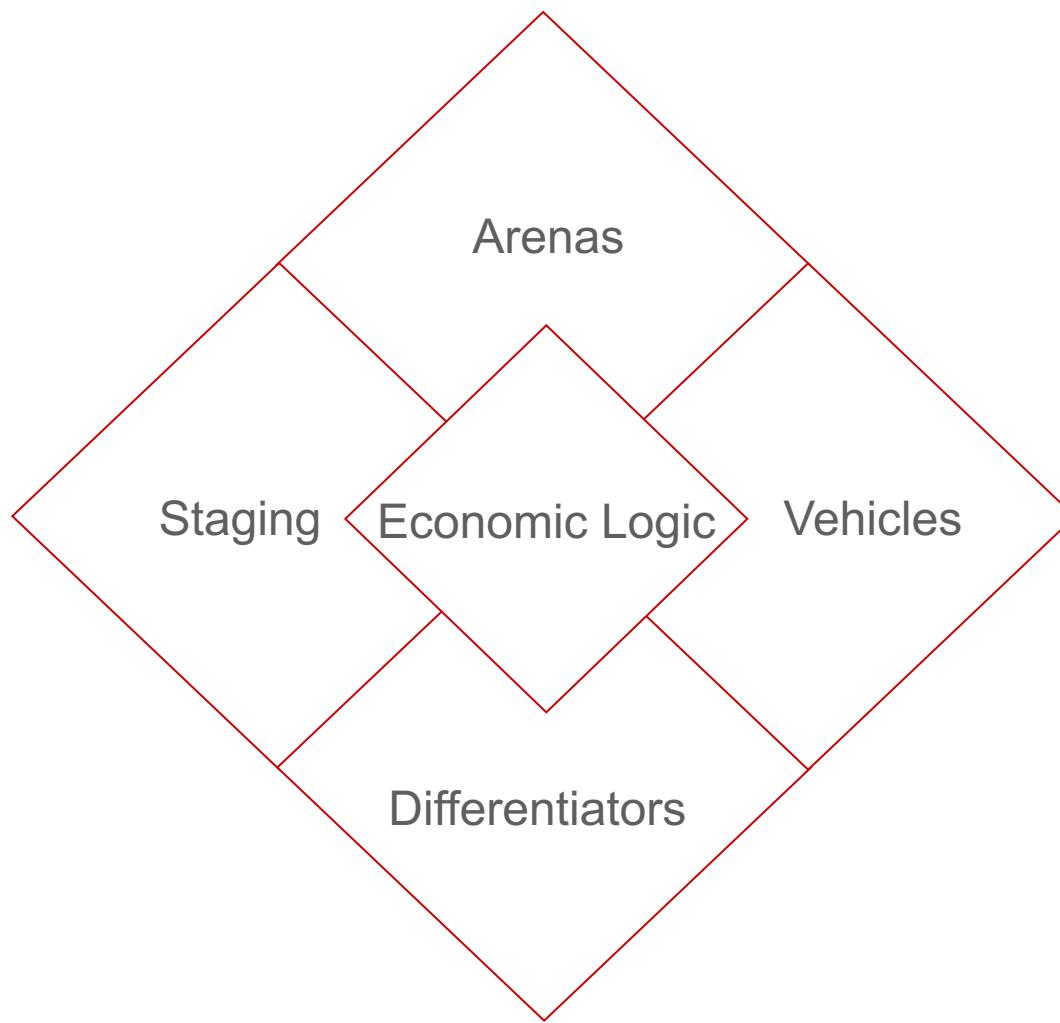
**Strategy!**  
The central integrated, externally oriented concept of how we will achieve our objectives

**Supporting Organizational Arrangements**

- Structure
- Process
- Symbols
- Rewards
- People
- Activities
- Functional policies

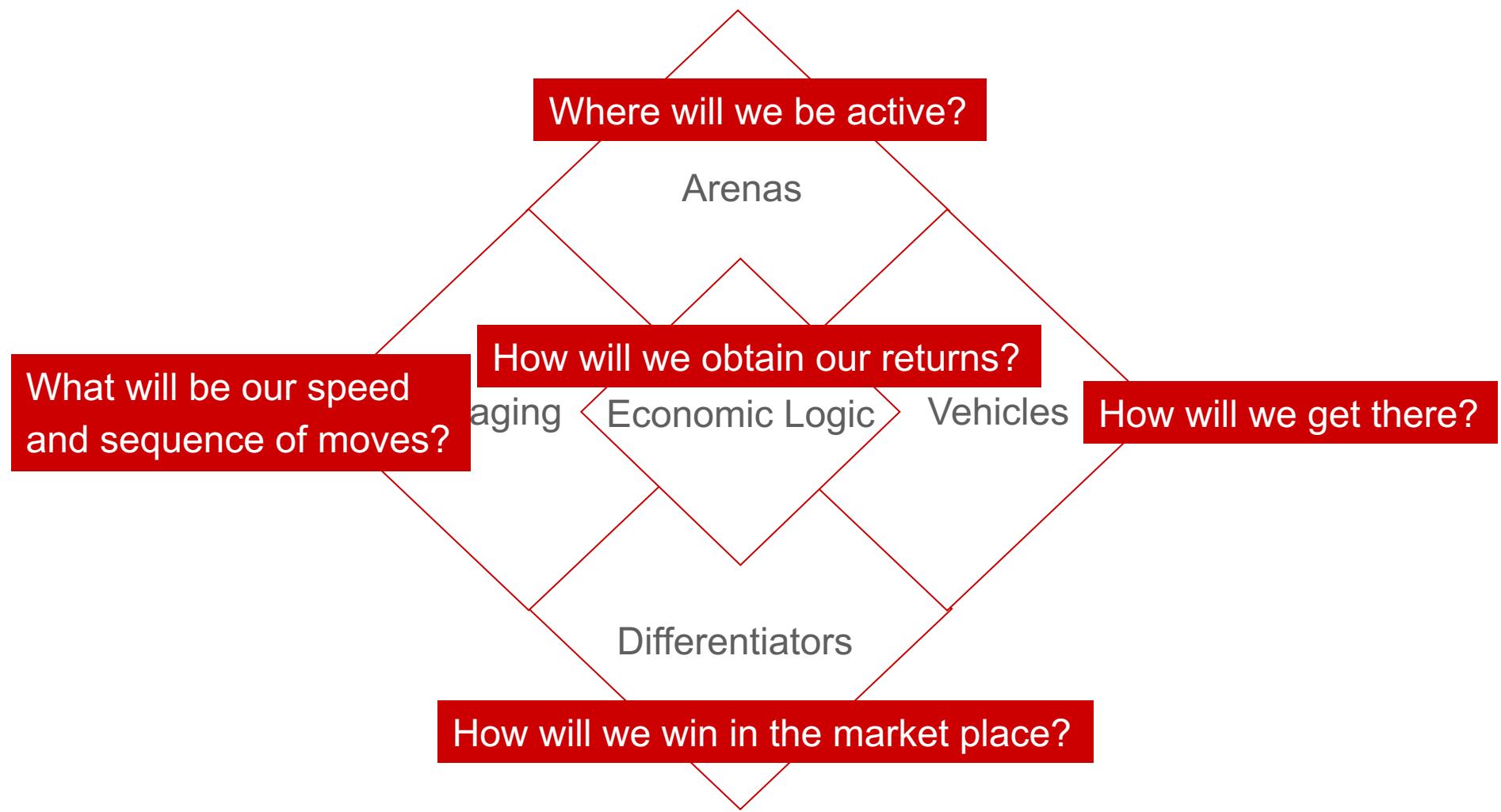
"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4

# The five major elements of strategy



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# The five major elements of strategy

Strategy is an integrated set of choices.

- **Arenas** Where will we be active?
- **Vehicles** How will we get there?
- **Differentiators** How will we win in the market place?
- **Staging** What will be our speed and sequence of moves?
- **Economic Logic** How will we obtain our returns?

# The five major elements of strategy

1

## Arenas: Where will we be active?

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

# The five major elements of strategy

2

## Vehicles: How will we get there?

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

# The five major elements of strategy

3

## Differentiators: How will we win?

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

# The five major elements of strategy

4

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

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

# The five major elements of strategy

5

## Economic Logic: How will we obtain our returns?

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

# The five major elements of strategy

5

## Economic Logic: How will we obtain our returns?

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

# **Testing the Quality of Your Strategy**

## **Some key evaluation criteria**

Will your envisioned differentiation be sustainable?

Are the elements of your strategy internally consistent?

Is your strategy implementable?

Do you have enough resources to pursue this strategy?

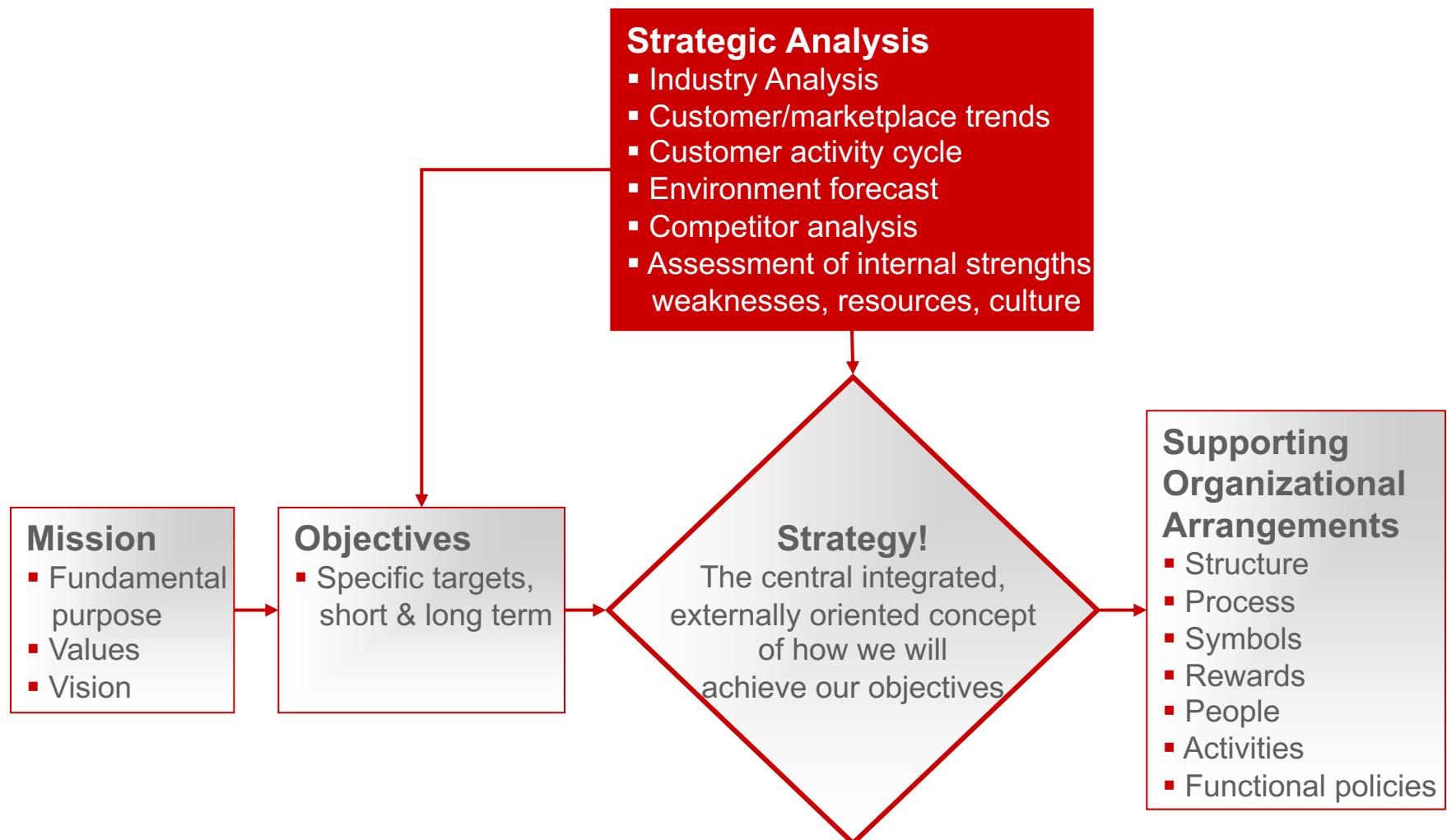
Does your strategy exploit your key resources & capabilities?

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

# Some key evaluation criteria

- **Does your strategy exploit your key resources & capabilities?**  
With your particular mix of resources, does this strategy give you a good head start on competitors? Can you pursue this strategy more economically than competitors?
- **Do you have enough resources to pursue this strategy?**  
Do you have the money, managerial time & talent, & other capabilities to do all you envision? Are you sure you're not spreading your resources too thinly, only to be left with a collection of feeble positions?
- **Will your envisioned differentiation be sustainable?**  
Will competitors have difficulty matching you? If not, does your strategy explicitly include a ceaseless regimen of innovation & opportunity creation?
- **Are the elements of your strategy internally consistent?**  
Have you made choices of arenas, vehicles, differentiators, and staging, and economic logic? Do they all fit and mutually reinforce each other?
- **Is your strategy implementable?**  
Will your key constituencies allow you to pursue this strategy? Can your organization make it through the transition? Are you & your management team able & willing to lead the changes?

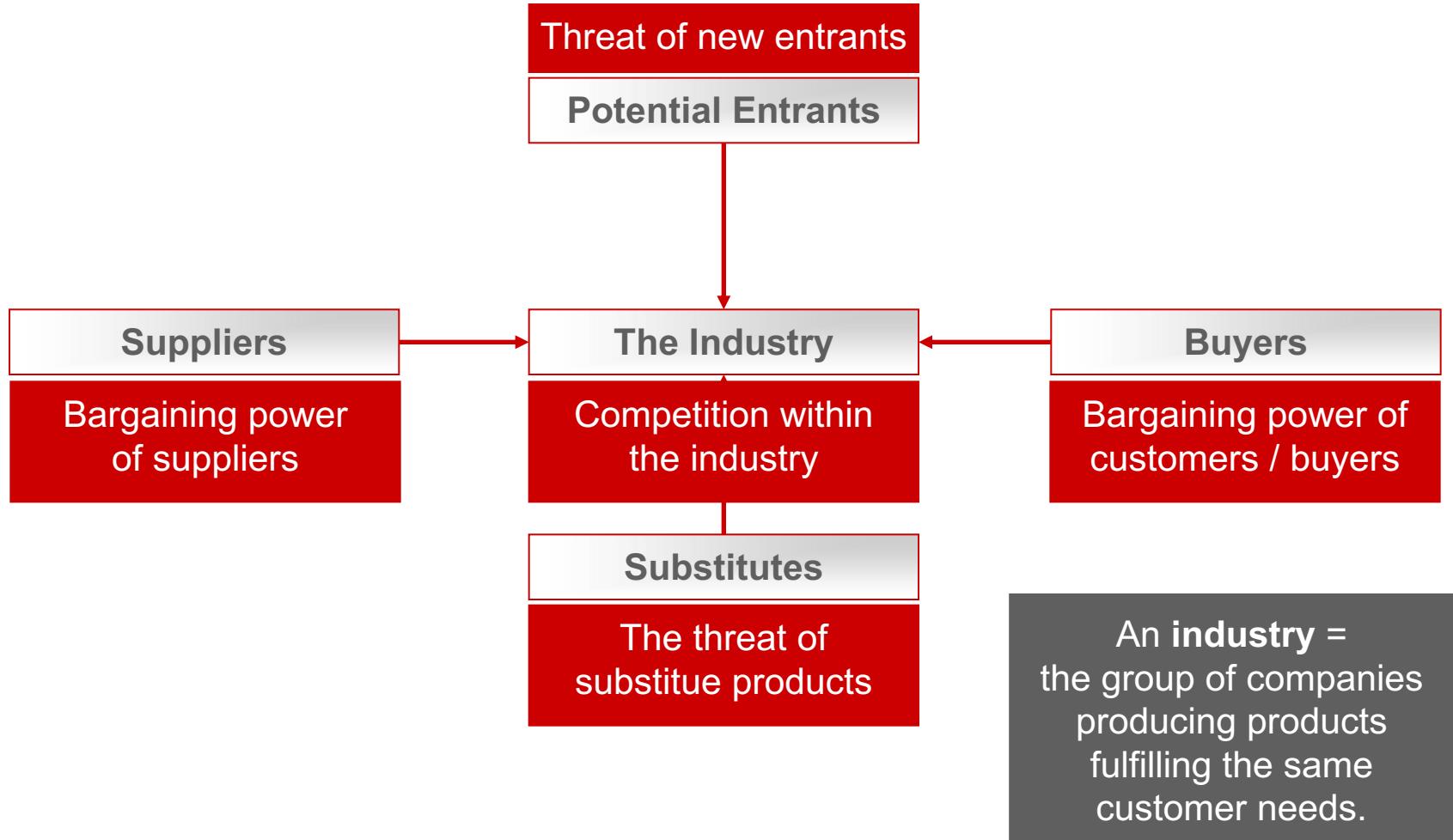
# Putting strategy in its place



"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4

# What drives competition in the industry?

## Porter's Five Forces



# What drives competition in the industry?

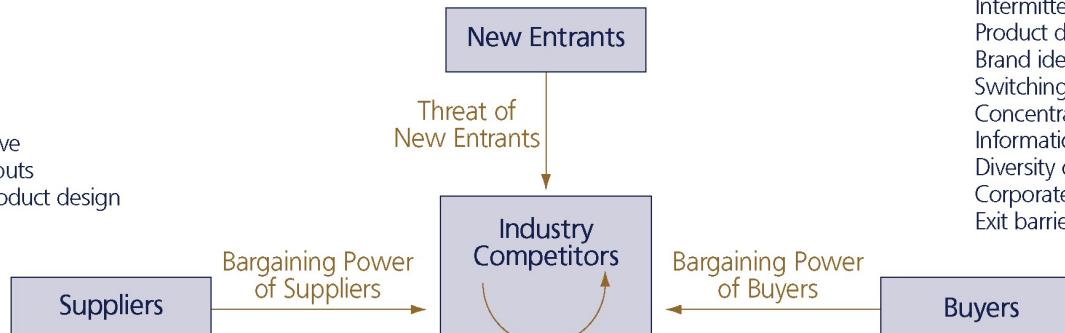
## Porter's Five Forces

### Entry Barriers

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

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

 Government policy  
 Expected retaliation



### Determinants of Supply Power

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

### Rivalry Determinants

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

### Determinants of Substitution Threat

Relative price performance of substitutes  
 Switching costs  
 Buyer propensity to substitute

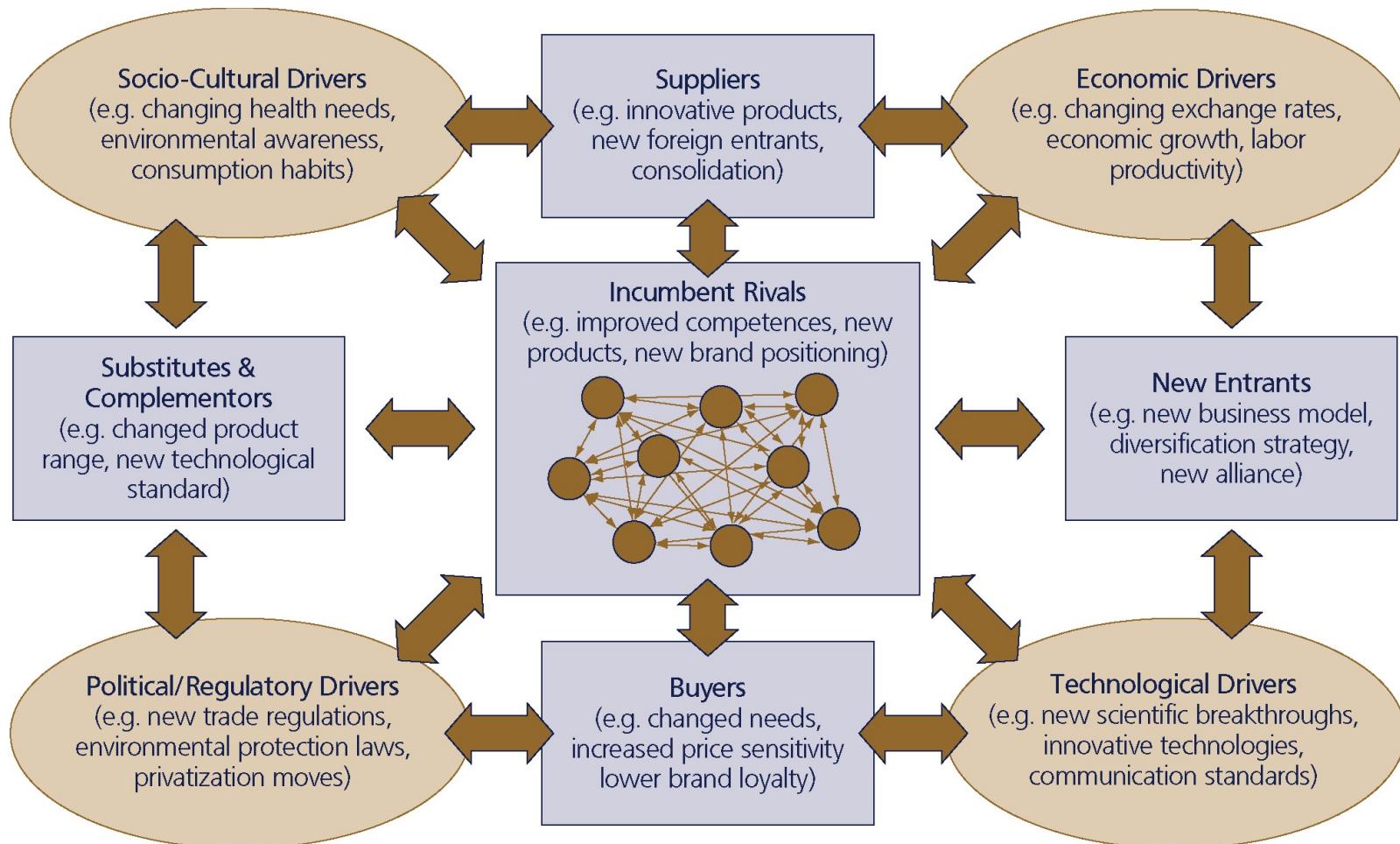
### Determinants of Buyer Power

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

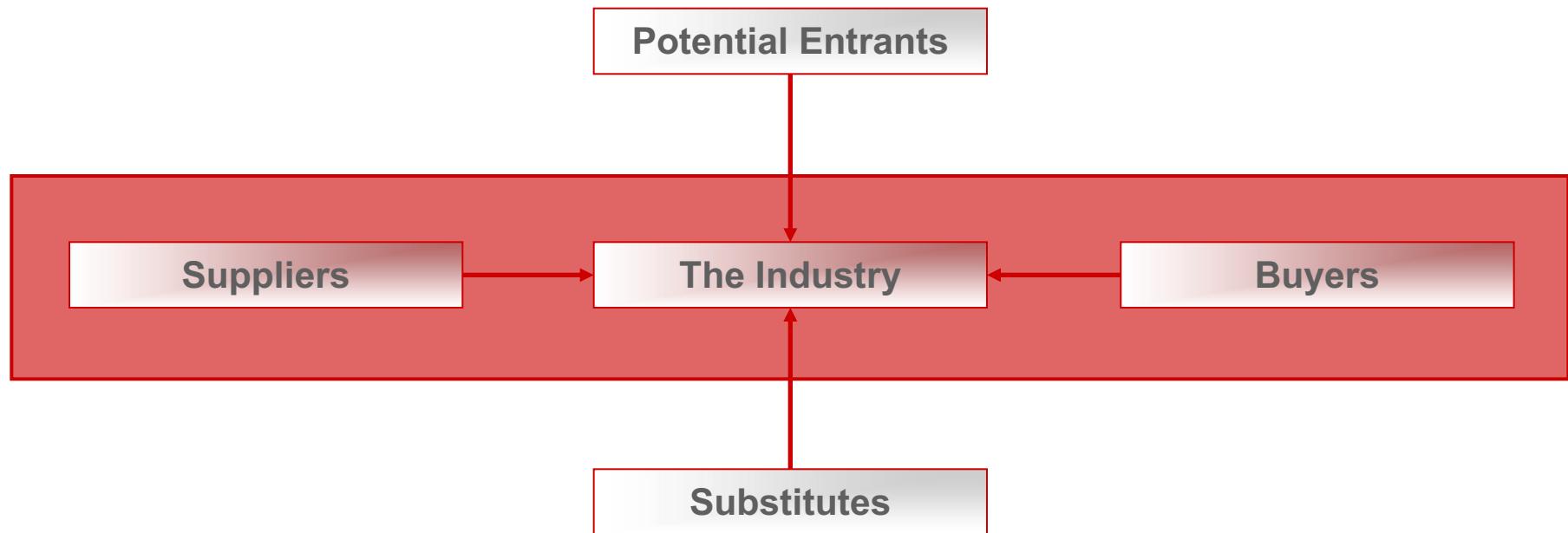
### Price Sensitivity

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

# Anything else?



# Let's move from the industry to the business!



# Industries, Markets and Businesses

*Markets (Demand side)*

|          | London–Paris Transport | London–Jamaica Transport | London–Barcelona Transport |
|----------|------------------------|--------------------------|----------------------------|
| Airlines |                        |                          | Charter Business           |
| Railways |                        |                          |                            |
| Shipping | Ferry Business         |                          |                            |

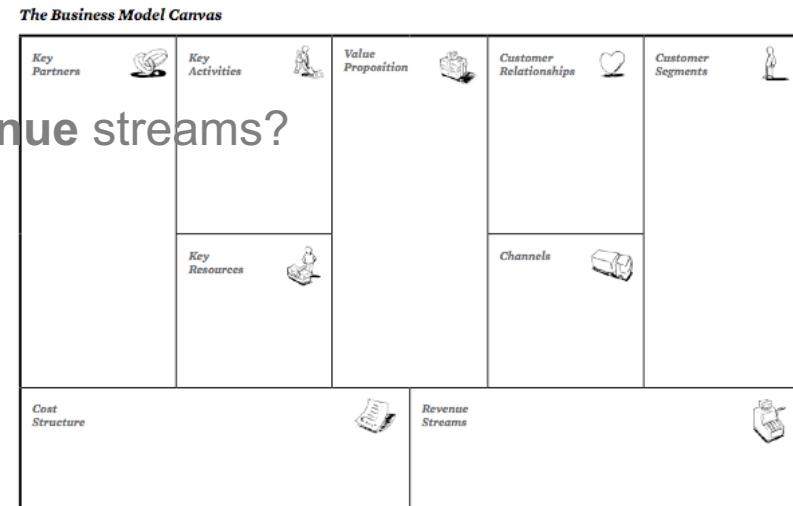
# Business System, Model & the value chain

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

# **What's your business model?**

# The Business Model: 9 Building Blocks

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



Adapted from Alexander Osterwalder [www.alexosterwalder.com](http://www.alexosterwalder.com)

# **Analyzing your company's value chain**

# The Activity System

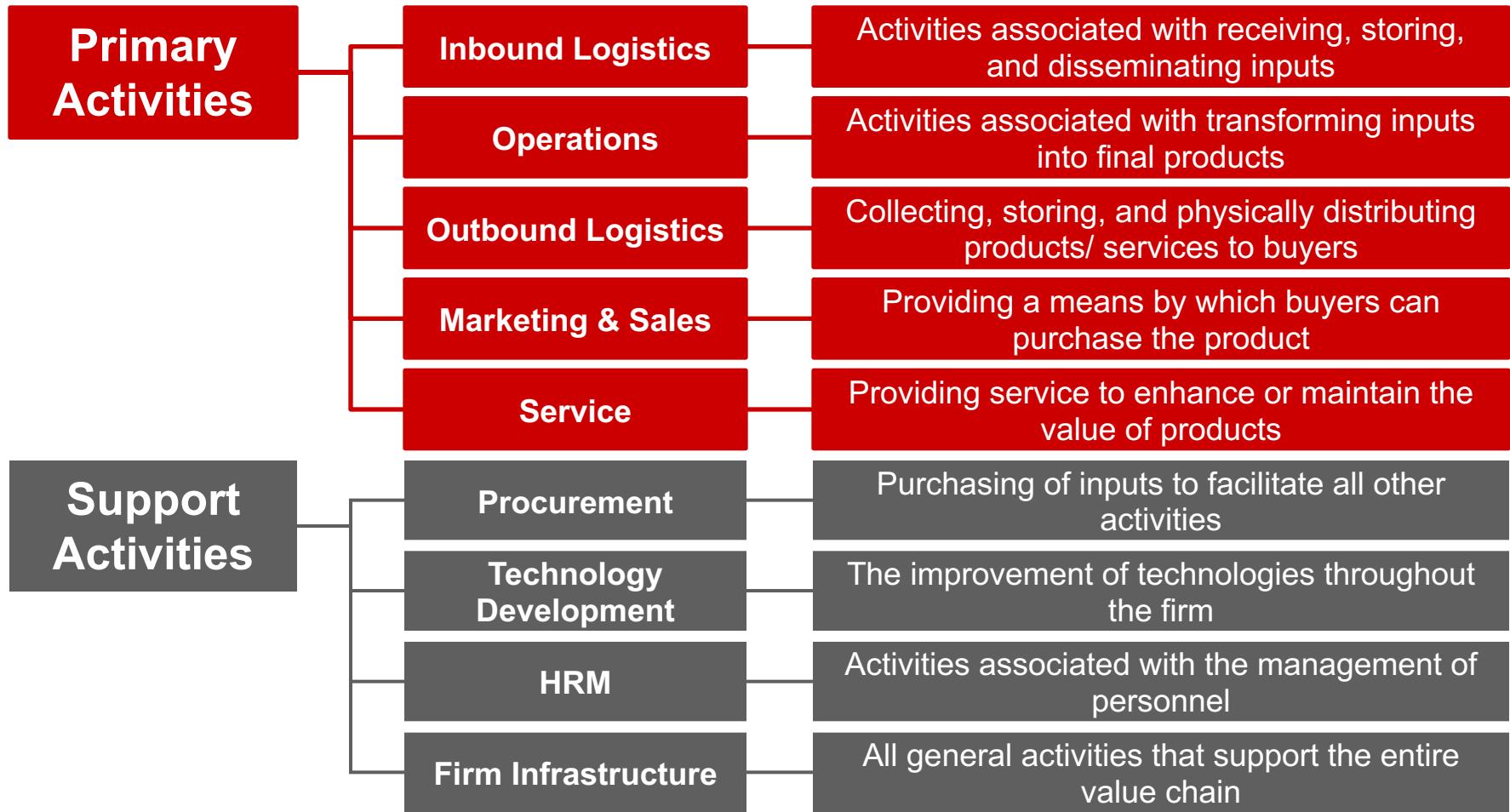
## Value Chain

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



# The Activity System

## Primary and Support Activities



Following "Strategy: Process, Content, Context" 3rd edition De Wit & Meyer Thomson Learning 2004

# **Implementing Strategies**

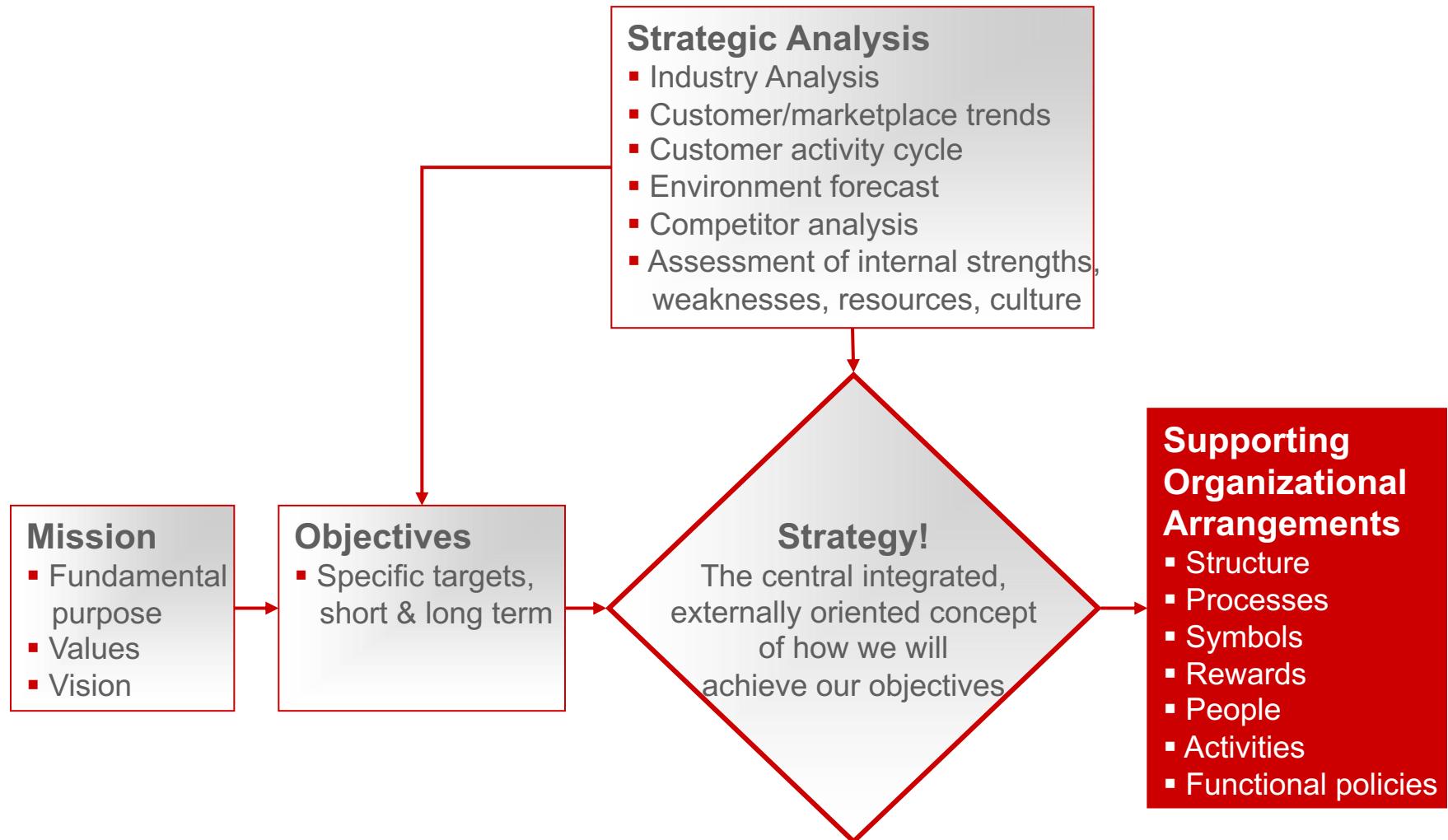
**What matters most to Strategy Execution**

**Building a Strategy-Focused-Organization**

**The Balanced Scorecard**

**Strategy Maps**

# Putting strategy in its place



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# What matters most to Strategy Execution?

Information

Decision Rights

Motivators

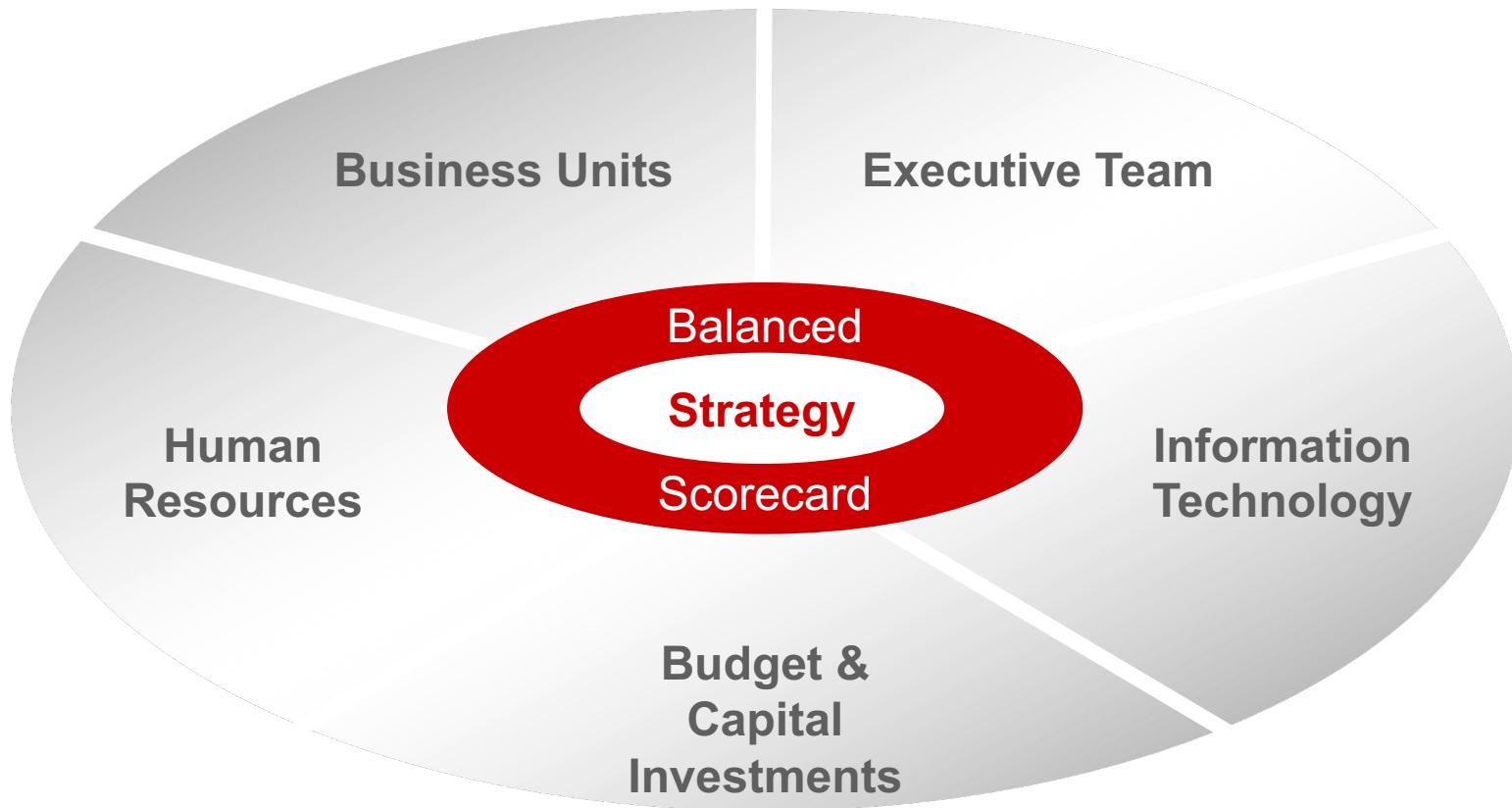
Structure

# What matters most to Strategy Execution? Ranking

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

“The Secrets to Successful Strategy Execution.” Gary L. Neilson, Karla L. Martin, and Elizabeth Powers. Harvard Business Review June 2008

# Aligning & Focusing Resources on Strategy

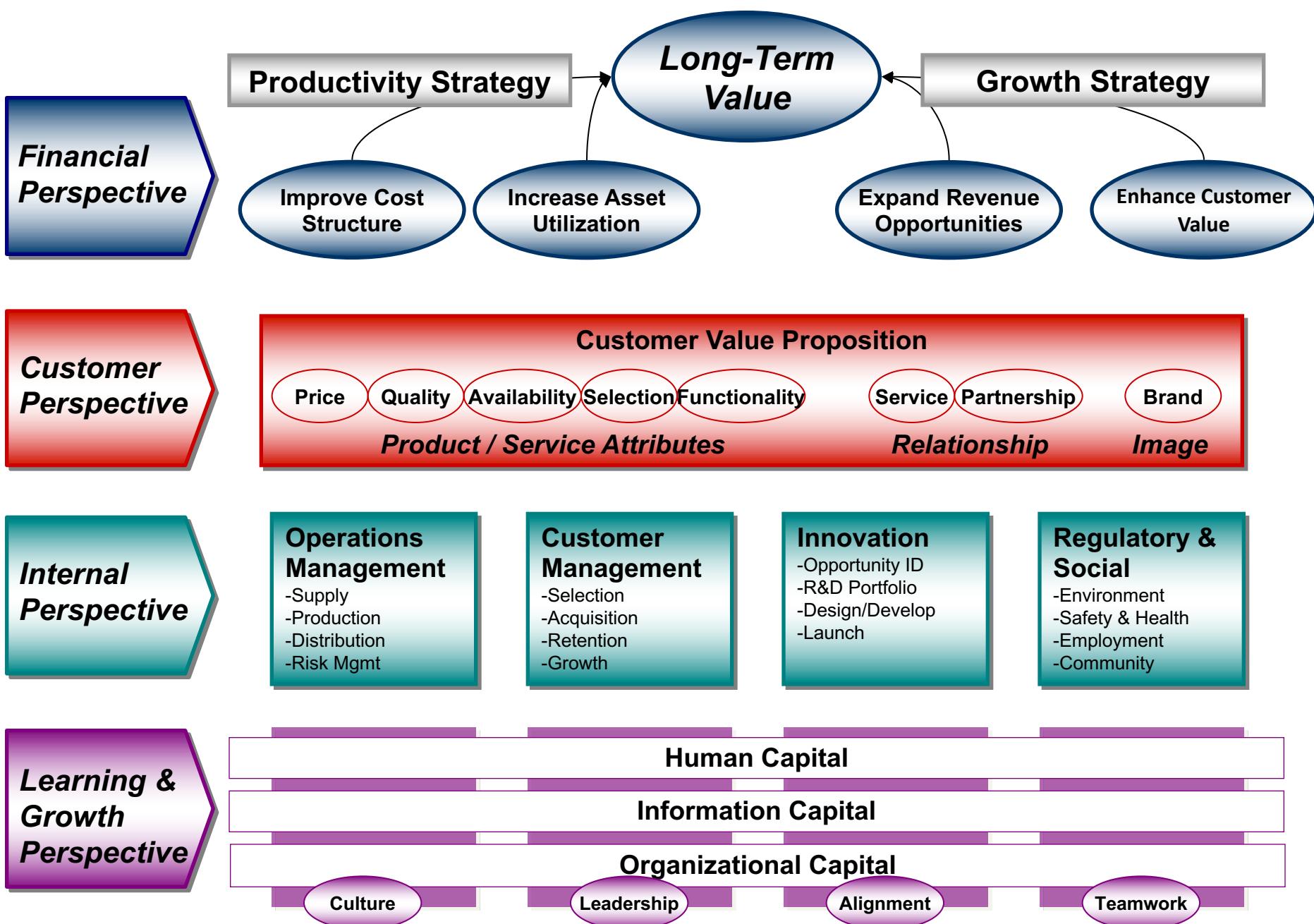


Adapted from "The Strategy-Focused-Organization" Robert Kaplan and David Norton Harvard Business School Press 2001

# The Principles of a Strategy-Focused-Organization

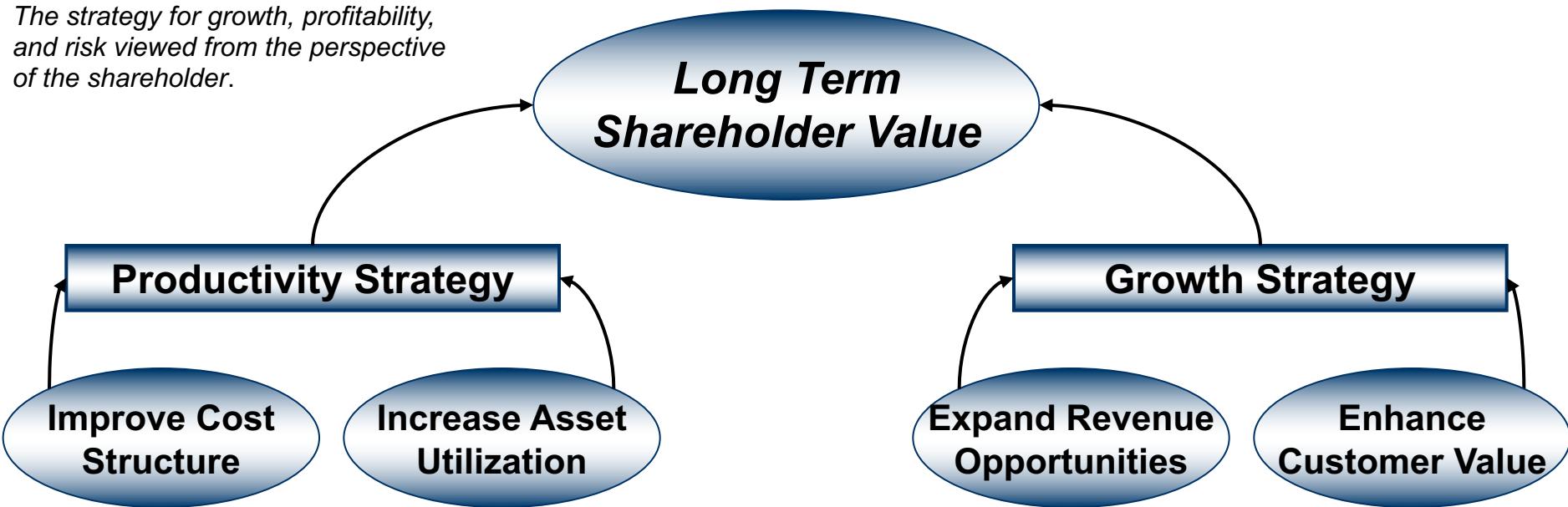


Adapted from "The Strategy-Focused-Organization" Robert Kaplan and David Norton Harvard Business School Press 2001



# Financial Perspective

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



- Reduce cash expenses
- Eliminate defects
- Improve yields
- Manage capacity from existing assets
- Make incremental investments to eliminate bottlenecks
- New sources of revenue
- New products
- New markets
- New partners
- Improve profitability
- Expand relationship with existing customers

# Customer Perspective

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

## ***Customer Value Proposition***

**Availability**      **Functionality**      **Price**

**Selection**

**Quality**

***Product / Service Attributes***

**Service**

**Partnership**

***Relationship***

**Brand**

***Image***

# Customer Perspective

## *Operational Excellence Strategy*

Availability      Functionality      Price

Selection

Quality

### ***Product / Service Attributes***

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

Service

Partnership

### ***Relationship***

Brand

### ***Image***

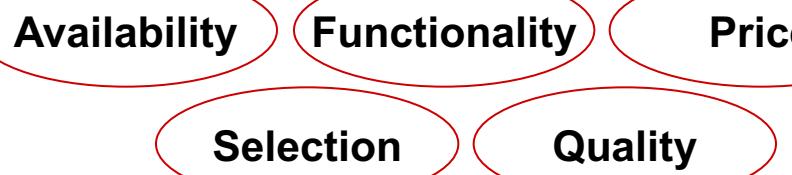
*„Smart  
Shopper“*

Differentiator

General  
Requirement

# Customer Perspective

## *Customer Intimacy Strategy*



### ***Product / Service Attributes***



### ***Relationship***

**Brand**

### ***Image***

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

*„Trusted Brand“*

Differentiator

General Requirement

# Customer Perspective

## *Product Leadership Strategy*

Availability

Functionality

Price

Selection

Quality

### *Product / Service Attributes*

*Unique products and services that „push the envelope“.*

Differentiator

General Requirement

Service

Partnership

### *Relationship*

Brand

### *Image*

*„The Best Product“*

# Internal Perspective

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

| Operations Management Processes   | Customer Management Processes   | Innovation Processes  | Regulatory & Social Processes   |
|---|---|---|---|
| <p><b>Processes that produce &amp; deliver products &amp; services.</b></p> <ul style="list-style-type: none"><li>• Supply Chain Mgmt</li><li>• Operations Efficiency cost reduction, quality &amp; cycle time improvements</li><li>• Capacity Mgmt</li><li>• Production</li><li>• Distribution</li><li>• Risk Mgmt</li></ul> | <p><b>Processes that enhance customer value.</b></p> <ul style="list-style-type: none"><li>• Selection</li><li>• Acquisition</li><li>• Retention</li><li>• Growth</li><li>• Solution Development</li><li>• Customer Service</li><li>• Relationship Mgmt</li><li>• Advisory Services</li></ul> | <p><b>Processes that create new products &amp; services.</b></p> <ul style="list-style-type: none"><li>• Invention</li><li>• Product Development / Design</li><li>• Speed to Market / Launch</li><li>• Joint Ventures / Partnerships</li><li>• Opportunity ID</li><li>• R&amp;D Portfolio</li></ul> | <p><b>Processes that improve communities &amp; the environment.</b></p> <ul style="list-style-type: none"><li>• Environment</li><li>• Safety &amp; Health</li><li>• Employment practices</li><li>• Community</li><li>• Social</li></ul> |
| <p><b>,,Achieve Operational Excellence“</b></p>   | <p><b>,,Increase Customer Value“</b></p>  | <p><b>,,Build the Franchise“</b></p>  | <p><b>,,Be a Good Corporate Citizen“</b></p>  |

# Strategic Internal Processes

| Internal Process       | Operations Management Processes   | Customer Management Processes   | Innovation Processes   |
|------------------------|---|---|--|
| Strategy               |   |   |  |
| Operational Excellence | <ul style="list-style-type: none"><li>▪ Supply Chain Mgmt</li><li>▪ Operations Efficiency</li><li>▪ Capacity Mgmt</li></ul> | Meet basic requirements   | Meet basic requirements  |
| Customer Intimacy      | Meet basic requirements   | <ul style="list-style-type: none"><li>▪ Solution Development</li><li>▪ Customer Service</li><li>▪ Relationship Mgmt</li><li>▪ Advisory Services</li></ul> | Meet basic requirements  |
| Product Leadership     | Meet basic requirements   | Meet basic requirements   | <ul style="list-style-type: none"><li>▪ Invention</li><li>▪ Product Development</li><li>▪ Exploitation</li></ul> |

# Operations Management

## Strategies for Achieving Operational Excellence

### *Supply*

- Develop supplier relations
- Lower cost of ownership
- Just-in-Time delivery
- High-quality supply
- New ideas from suppliers
- Supplier partnerships
- Outsource mature nonstrategic services
- Improve inventory management

### *Production*

- Lower cost of production
- Continuous process & quality improvements
- Process cycle time
- Fixed asset utilization
- Improve hardware performance
- Working capital efficiency
- Reduction of asset downtime
- Create flexible infrastructure
- Simplify where possible

### *Distribution*

- Lower cost to serve
- Responsive delivery time
- On spec; on Time
- Enhance quality
- Improve inventory management

### *Risk Mgmt*

- Financial risk / high credit rating
- Operating risk
- Technology risk
- Elimination of environmental, safety, & health-threatening incidents

**Improve Cash Flow**

# Customer Management

## Strategies for Increasing Customer Value

| <b><i>Selection</i></b>   | <b><i>Acquisition</i></b>   | <b><i>Retention</i></b>   | <b><i>Growth</i></b>   |
|---|---|---|--|
| <ul style="list-style-type: none"><li>▪ Understand segments &amp; needs</li><li>▪ Capture knowledge about customers</li><li>▪ Screen unprofitable customers</li><li>▪ Target high-value customers</li><li>▪ Strategic accounts</li><li>▪ Manage the brand</li></ul> | <ul style="list-style-type: none"><li>▪ Communicate value proposition</li><li>▪ Customize mass marketing</li><li>▪ Acquire/convert leads</li><li>▪ Develop dealer network</li></ul> | <ul style="list-style-type: none"><li>▪ Premium customer service</li><li>▪ „sole source“ partnerships</li><li>▪ Service excellence</li><li>▪ Lifetime customers</li><li>▪ Expand, deepen, or redefine relationships with existing customers</li><li>▪ Become trusted advisor &amp; consultant</li></ul> | <ul style="list-style-type: none"><li>▪ Cross-selling</li><li>▪ Solution selling</li><li>▪ Partnering/ integrated management</li><li>▪ Customer education</li><li>▪ Integrate with the customer's value chain to deliver solutions</li></ul> |

# Customer Management

## Strategies for Increasing Customer Value

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

# Innovation Management

## Strategies for Building the Franchise

### ***Identify Opportunities***

- Anticipate customer needs
- Identify new opportunities
- Ensure that ideas flow

### ***R&D portfolio mgmt***

- Choose & manage mix of projects
- Extend products to new applications
- collaborate

### ***Design & Development***

- Manage products through development stages
- Reduce development cycle time
- Reduce development costs
- Reuse what other parts of the company have already learned

### ***Launch***

- Ramp-up time
- Production cost, quality, cycle time
- Achieve initial sales goals
- Reduce time to market

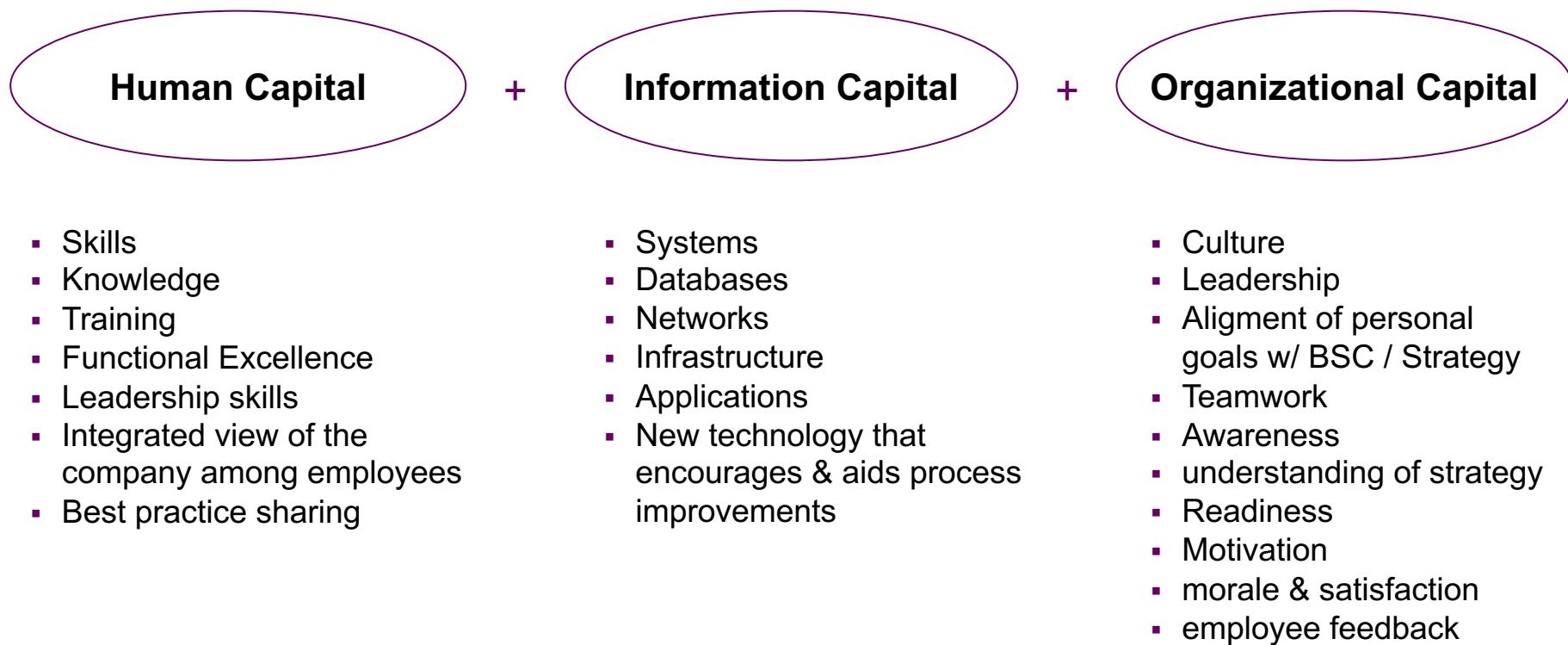
# Regulatory & Social

## Strategies for Being a Good Corporate Citizen

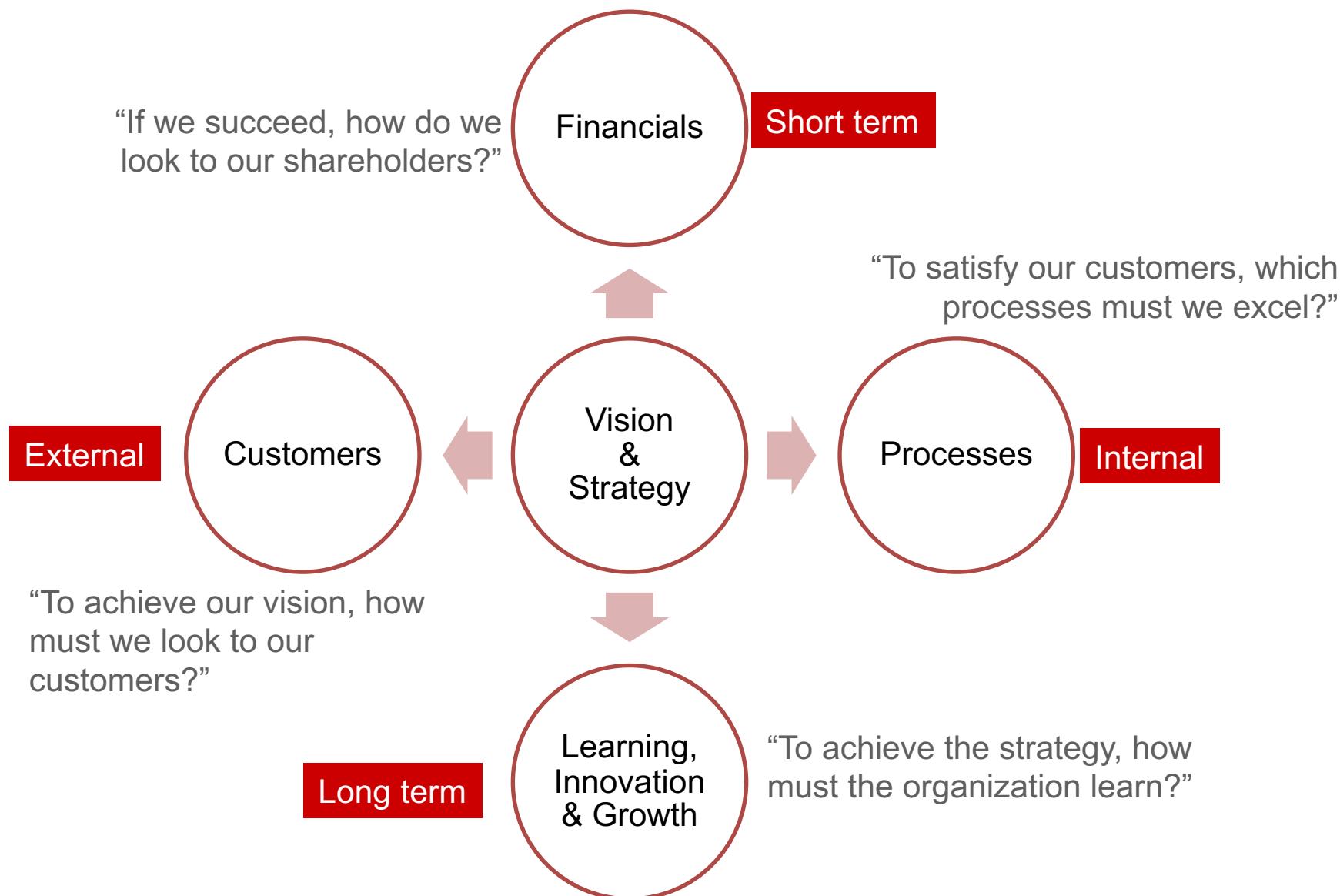
| <b><i>Environment</i></b>   | <b><i>Safety &amp; Health</i></b>   | <b><i>Employment</i></b>  | <b><i>Community</i></b>   |
|---|---|---|---|
| <ul style="list-style-type: none"><li>▪ Energy &amp; resource consumption</li><li>▪ Water &amp; air emissions</li><li>▪ Solid waste disposal</li><li>▪ Product environmental impact</li><li>▪ Environmental incidents</li></ul> | <ul style="list-style-type: none"><li>▪ Safety incidents</li><li>▪ Health</li></ul> | <ul style="list-style-type: none"><li>▪ Diversity</li><li>▪ Employ the unemployable</li></ul> | <ul style="list-style-type: none"><li>▪ Community programs</li><li>▪ Aliances with nonprofits</li><li>▪ Manage relationships with external, legitimizing stakeholders</li><li>▪ Maintain public support</li></ul> |

# Learning & Growth Perspective

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



# The Balanced Scorecard



# Strategy Maps & the Balanced Scorecard

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

# Want more?

**www.sniukas.com**

A presentation by **Marc Sniukas**  
[www.sniukas.com](http://www.sniukas.com)