CHAPTER 1

INTRODUCTION

Your Strategy Needs a Strategy

How to Select and Execute the Right Approach to Strategy

Strategy is a means to an end: favorable business outcomes. When we think about strategy, we tend to think about planning: study your situation, define a goal, and draw up a step-by-step path to get there. For a long time, planning was the dominant approach in business strategy—in both the boardroom and the classroom. But effective business strategy has never really consisted of just this one approach. The multidecade plans that oil companies make would feel inappropriate to the CEO of a software firm that faces new products and competitors every day and that therefore adopts a more fluid and opportunistic approach to strategy. Neither would such long-term plans feel natural to an entrepreneur creating and bringing a new product or business model to market. What is this broader set of ways in which we can approach strategy, and which approach is the most effective in which situation? That is the central question of this book, and we will show that getting the answer right can deliver demonstrable, significant value.

Today, we face a business environment that is faster changing and more uncertain than ever because of, among other factors, globalization, rapid technological change, and economic interconnectedness. Perhaps less well known is that the *diversity and range* of business environments that we face have also increased. Large corporations, in particular, are stretched across an increasing number of environments that change more rapidly over time (figure 1-1), requiring businesses not only to choose the right approach to strategy or even the right combination of approaches, but also to adjust the mix as environments shift.

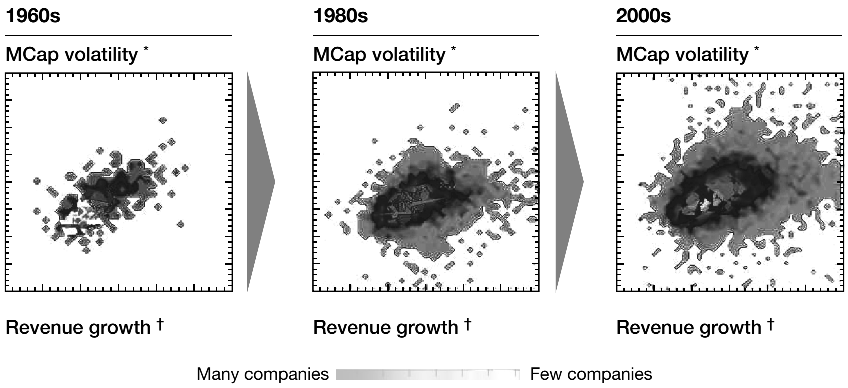
One size *doesn't* fit all.

Prompted by the increased uncertainty and dynamism of business environments, some academics and business leaders have asserted or implied that competitive advantage and even strategy more broadly is less relevant.[1] In fact, strategy has never been more important. The frequency and speed with which incumbents are being overthrown and the performance gap between winners and losers have never been greater (figure 1-2). Many CEOs are looking over their shoulders for the upstart competitor that may undermine their company's position, and many upstart companies are aspiring to do just that. It has never been more important, therefore, to choose the right approach to strategy for the right business situation.

FIGURE 1-1

Increasing diversity of environments

Heat map of range of strategic environments faced by companies



Source: Compustat (US public companies); Martin Reeves, Claire Love, and Philipp Tillmanns, "Your Strategy Needs a Strategy," *Harvard Business Review*, September 2012.

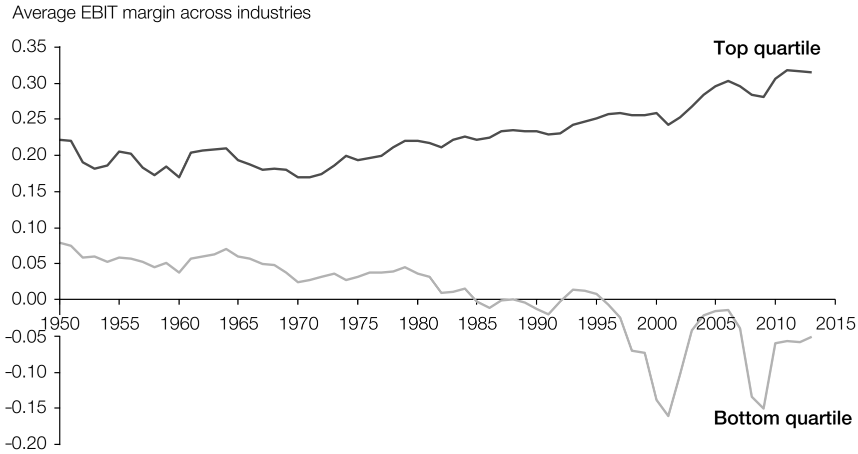
Note: MCap, market cap.

* Standard deviation over ten years of annual growth in market capitalization (MCap) (log scale).

† Absolute percent revenue growth averaged over the decade (log scale).

FIGURE 1-2

Increasing gap between winners and losers for US companies



Source: BCG analysis (August 2014), Compustat.

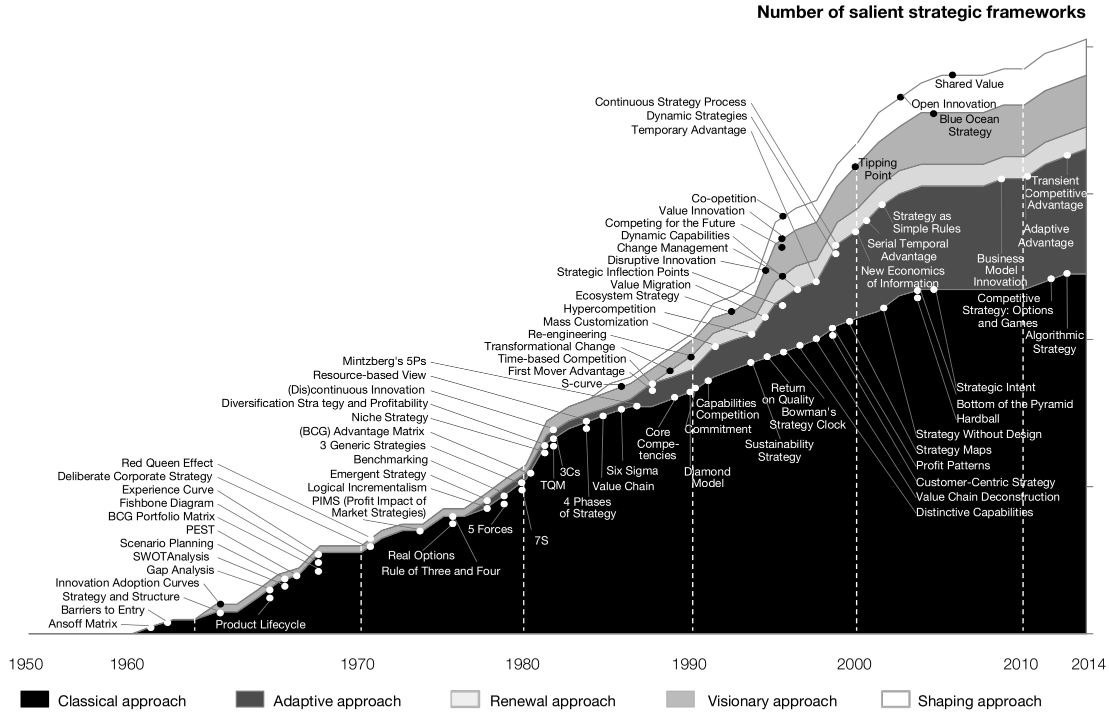
Note: EBIT: earnings before interest and taxes. EBIT margin across industries is based on an analysis of approximately 34,000 publicly listed, mainly US companies in years when net sales were greater than $50 million; computing quartile average within six-digit GICS industry (unweighted), then averaged across industries (weighted by number of companies per industry per year); excluding outliers (higher than 100 percent margin or lower than minus 300 percent margin) and industries in years with insufficient data points.

Unfortunately, it has also never been more difficult to choose the right approach. 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 (figure 1-3). 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?

FIGURE 1-3

Proliferation of strategy frameworks



Source: Pankaj Ghemawat, "Competition and Business Strategy in Historical Perspective," *Business History Review* 76 (Spring 2002): 37–74; Lawrence Freedman, *Strategy: A History* (New York: Oxford University Press, 2013); research by The Boston Consulting Group Strategy Institute.

Note: 3Cs, Customer, Competitors, Corporation; 5Ps, Plan, Ploy, Pattern, Position, Perspective; 7Ss, Strategy, Structure, Systems, Shared Values, Skills, Staff, Style; PEST, Political, Economic, Social, Technological; SWOT, Strengths, Weaknesses, Opportunities, Threats; TQM, total quality management.

In researching and writing this book, we spoke with many business leaders, and our conversations confirmed their dilemma. Some opined that strategy as a discipline had been made less relevant by changing circumstances. Others explained how traditional approaches to strategy needed to be replaced by new and more effective ones. One executive even warned that the word *strategy* had been banished from use in his company. Many told us that in businesses as large and diverse as theirs, they couldn't conceive of using a single approach to developing and executing effective strategy.

To address the combined challenge of increased dynamism and diversity of business environments as well as the proliferation of approaches, this book proposes 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 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.

EVIDENCE ON WHICH THIS BOOK IS BASED

This book is built on a broad body of evidence. *Your Strategy Needs a Strategy* is the result of half a decade of research within The Boston Consulting Group (BCG) Strategy Institute, numerous conversations with our clients, and a detailed survey of 150 firms from industries as diverse as banking, pharmaceuticals, high tech, and agri-food across major industrial nations in 2012. We also analyzed the conditions in different industries across a sixty-year period to understand how business environments have changed over time.

To supplement these observations, we conducted more than twenty in-depth interviews with CEOs about their experiences and perspectives on developing and realizing winning strategies. We also leveraged joint research with our academic collaborators, especially Simon Levin of Princeton University, with whom we explored insights from biological and evolutionary strategies, which are often associated with complex, diverse, dynamic, and uncertain environments.

Finally, we have explored the strategy palette mathematically, by developing a computer model that simulates business strategies and their performance in different business environments. The resulting model is at the heart of a companion iPad app, which will enable readers to experience and develop a more intuitive understanding of each approach. 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.

Five Strategy Environments

The Strategy Palette

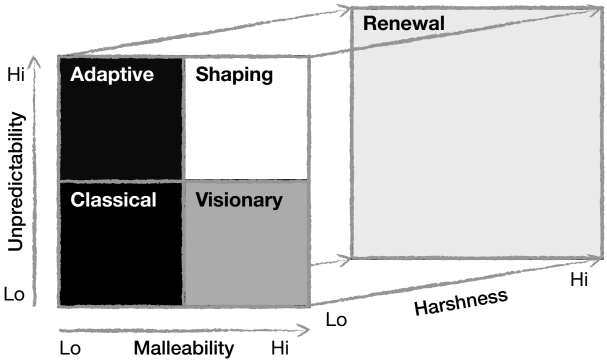
Strategy is, in essence, problem solving, and the best approach depends upon the specific problem at hand. Your environment dictates your approach to strategy. You need to assess the environment and then match and apply the appropriate approach. But how do you characterize the business environment, and 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 (figure 1-4).

- **Classical:** I can predict it, but I can't change it.
- **Adaptive:** I can't predict it, and I can't change it.

FIGURE 1-4

The strategy palette: five environments and approaches to strategy



- **Visionary:** I can predict it, and I can change it.
- **Shaping:** I can't predict it, but I can change it.
- **Renewal:** My resources are severely constrained.

Five Strategy Archetypes

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 to 8 percent of total shareholder return—over firms that didn't.[2] 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

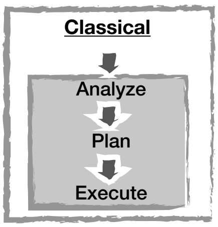
Leaders taking a classical approach to strategy believe that the world is predictable, that the basis of competition is stable, and that advantage, once obtained, is sustainable. Given that they cannot change their environment, such firms seek to position themselves optimally within it. Such positioning 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 (figure 1-5).

FIGURE 1-5

The classical approach to strategy



We will see how 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 multicategory leader over the course of a century.[3]

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.

WHAT YOU MIGHT KNOW IT AS

Most readers will be familiar with at least a handful of strategy concepts. So that you can relate your existing knowledge of strategy with the five colors of the strategy palette, we will highlight the main related schools of strategy and their associated frameworks and tools in sidebars like this one in the chapters detailing each approach.

For example, we will show how the classical approach is exemplified by Bruce Henderson's experience curve and growth-share matrix or by Michael Porter's celebrated five forces model. For the adaptive approach, we will describe Kathleen Eisenhardt's simple rules-based approach to strategy or Rita McGrath's work on strategies of agility. Similarly, we will discuss how the visionary approach underpins Gary Hamel and C. K. Prahalad's book *Competing for the Future*, and how the shaping approach is connected with the growing body of work on platform businesses and business ecosystems.

The aim is not to be comprehensive but rather to show how well-known approaches relate to each other and to the strategy palette, to clarify which should be used when, and to give readers some points of departure for further investigation.

Adaptive

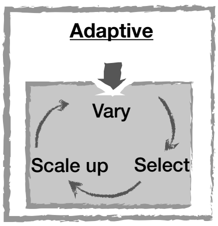
Firms employ an adaptive approach when the business environment is neither predictable nor malleable. When prediction is hard and advantage is short-lived, the only shield against continuous disruption is a readiness and an ability to repeatedly change oneself. In an adaptive environment, winning comes 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 (figure 1-6). 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

FIGURE 1-6

The adaptive approach to strategy



$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.[4]

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.

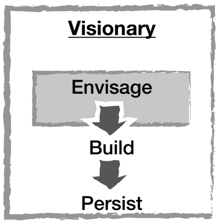
This approach works when the visionary firm can single-handedly build a new, attractive market reality. A firm can be the first to apply a new technology or to identify and address a major source of customer dissatisfaction or a latent need. The firm can innovate to address a tired industry business 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 (figure 1-7). 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.

FIGURE 1-7

The 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.[5]

Shaping

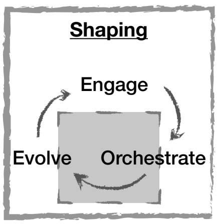
When the environment is unpredictable but malleable, a firm has the extraordinary opportunity to lead the shaping or reshaping of a whole industry at an early point of its development, before the rules have been written or rewritten.

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 (figure 1-8). Shaping strategies are very different from classical,

FIGURE 1-8

The shaping approach to strategy



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.[6]

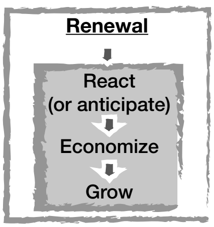
Renewal

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 (figure 1-9). 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

FIGURE 1-9

The renewal approach to strategy



approaches to strategy. Renewal has become increasingly common because of the number of companies getting out of step with their environments.

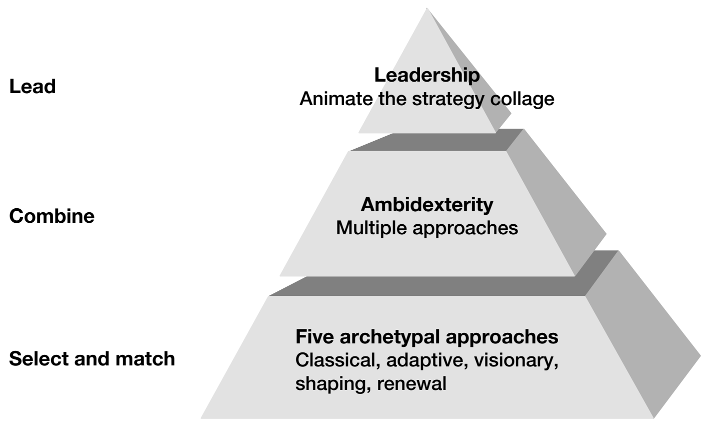
American Express's response to the financial crisis exemplifies the renewal approach. As the credit crisis hit in 2008, Amex faced the triple punch of rising default rates, slipping consumer demand, and decreasing access to capital. To survive, the company cut approximately 10 percent of its workforce, 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.[7]

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 (figure 1-10).

FIGURE 1-10

Three levels of application for the strategy palette



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. Table 1-1 summarizes the key elements of the strategy palette and includes specific examples of companies using the five approaches.

TABLE 1-1

The five approaches of the strategy palette

	Approaches				
Key elements	**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	• Semiconductors • Textile retail	• Not industry specific (create new, disrupt existing)	• Some software • Smartphone apps	• Financial institutions in the 2008–2009 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

(*Continued*)

TABLE 1-1 (*Continued*)

The five approaches of the strategy palette

	Approaches				
Key elements	**Classical**	**Adaptive**	**Visionary**	**Shaping**	**Renewal**
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 Consultancy Services under Chandrasekaran • 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	• Overapplication	• Planning the unplannable	• Wrong vision	• Overmanaged ecosystem	• No second phase

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.

UNPREDICTABILITY, MALLEABILITY, AND HARSHNESS AS AXES IN THE STRATEGY PALETTE

Why are unpredictability, malleability, and harshness the right dimensions for characterizing the business environment and choosing the right approach to strategy? By considering the fundamental underlying assumptions of the most familiar and historically appropriate approach, the classical one, and examining what has changed in the circumstances of business, we can demonstrate that these are indeed the right axes to inform the choice of the appropriate approach to strategy.

Leaders taking a classical perspective assume that the world is essentially predictable. Here, it makes sense to draw up long-term plans and invest in analysis and prediction. Additionally, classical leaders don't believe that they can markedly change the rules of their game, since they consider their environment a given: it is stable and therefore not malleable. Instead, they make the best of the given conditions by positioning themselves optimally.

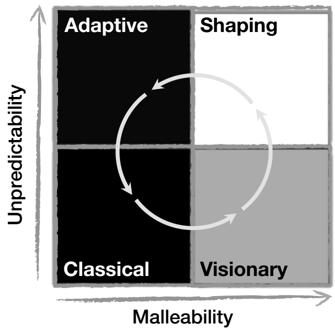
However, in a rapidly evolving world, these assumptions are challenged in three fundamental ways. First, because of the increased *unpredictability* in today's business environment, long-term planning is often no longer viable. Second, because of technological change, globalization, and other drivers, existing industry structures are constantly being disrupted. Consequently, industry structure and the basis of competition have become increasingly *malleable*, and individual firms have more opportunities to shape market development. Finally, mismatches between strategy and environment, because of either protracted strategic drift or sudden crises, are increasingly severe and frequent. We therefore need to consider the *harshness* of the environment, which can require companies to economize and focus on short-term survival.

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 (figure 1-11). 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. As we will see, Quintiles also employed such a succession of approaches to strategy as it developed.

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

FIGURE 1-11

Different approaches to strategy required across the business life cycle



from clouding the perspective, and by putting their weight behind critical change initiatives.

Traps: Where It Can Go Wrong

Most leaders we surveyed understand the need to differentiate their approach to strategy according to the environment: some 90 percent agreed that this is important. But at the same time, there are a number of challenges to doing so effectively. Three types of traps were observed to derail good intentions.

Environmental Perception

Though some leaders correctly estimate the degree of malleability and unpredictability in their environments, we saw that many executives perceive their environments to be significantly more predictable or malleable than they actually are. There is perhaps a human tendency to believe that we can predict and control our environment—but in many cases we can't, and as we have seen, this inability has important ramifications for our approach to strategy. In fact, in our survey, environments were most often perceived as predictable and malleable (visionary), irrespective of their actual measured characteristics. Consistent with this bias, environments were least often perceived as unpredictable and nonmalleable (adaptive), again irrespective of the actual measured environment. Additionally, we have consistently found that firms delay recognition of when they are in a harsh environment that requires a renewal approach. In principle, a renewal strategy could be preemptive, but in practice, most companies trigger transformations or turnarounds only when financial or competitive performance has already begun to deteriorate.

Selecting the Right Approach

We also saw mismatches in the firms' selection of their approach to strategy. While the declared approach was most commonly in line with the perceived environment for classical, visionary, and adaptive approaches, companies often declared styles that were logically incompatible with their perceptions of the environment. The firms also tended to confuse adaptive and shaping approaches when declaring their strategic approach, which is not surprising given the relative unfamiliarity of the latter. The firms also declared an intention to use an adaptive approach much more often than either their own assessment of the environment or an objective assessment of its degree of unpredictability would seem to warrant. This discrepancy may be the result of the recent prominence and popularity of the concepts of agility, speed, and experimentation—an outlook biased toward an adaptive approach, irrespective of the actual business conditions.

Applying an Approach Correctly

Finally, many leaders choose the right approach to strategy for their business environment, but their organizations often stumble in its application. Our survey showed a strong tendency for organizations to hold on to the familiar and comfortable practices associated with the visionary and classical approaches even when the leaders have declared an intention to execute a different approach. Take planning, for example. Most companies create a strategic plan. Furthermore, nearly 90 percent of companies surveyed said they develop these plans on an annual basis, regardless of the actual pace of change in their business environments—or even what the companies perceive it to be.

How to Use This Book

This book begins by exploring the five core approaches to strategy—the basic colors of the strategy palette. We then look at how to use these basic colors in combination—applying different approaches simultaneously or sequentially in different parts of the business—and the role of leaders in dynamically orchestrating the resulting strategy collage.

Case studies and interviews are used to illustrate each approach, and each chapter begins with a major case study. Additionally, sidebars in each chapter examine the strategy palette's theoretical underpinnings and illustrate how each approach works, by showing the results of simulations of different environments and strategies. The book ends with a short epilogue dealing with how to develop individual mastery of the strategy palette.

Chapters 2 through 6 each deal with one approach to strategy in depth, exploring

- **What** defines and characterizes the approach
- **When** to use it
- **How to** apply it successfully, including both how to formulate a strategy and how to execute it, and the implications for information management, innovation, culture, organization, and leadership
- **Tips and traps** to guide the practical application of the approach

You will be able to observe each approach in action in case examples and CEO discussions. A note of caution: our examples feature successful and respected leaders and companies—but our intention is not to hold them up as comprehensive or eternal examples of excellence. Conditions change, competitive advantage fades, and the fortunes of companies rise and fall. In fact, that is precisely why firms need to shift their approaches to strategy over time. Rather, we intend to present the firms we feature as clear examples of the applications of each approach to strategy in a particular business at a particular point in time.

After we explore the five basic colors in the strategy palette, we look at more sophisticated ways of using the palette. Chapter 7 shows how firms can use multiple approaches to strategy successively or simultaneously, for instance, across geographies, business units, or life-cycle stages. We refer to this ability to take a multidimensional approach as *ambidexterity*. Four techniques can be used to achieve ambidexterity and are optimal in different situations:

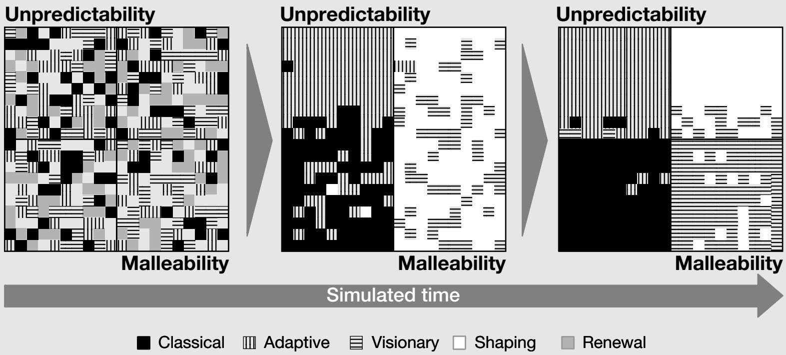
- **Separation:** firms deliberately manage which approach to strategy belongs in each sub-unit (division, geography, or function) and run those approaches independently of one another.
- **Switching:** firms manage a common pool of resources to switch between approaches over time or to mix them at a given moment in time.
- **Self-organization:** each unit chooses the best approach to strategy when it becomes too complex to select and manage this in a top-down manner.
- **Ecosystems:** firms rely on an external ecosystem of players that self-select the appropriate approaches to strategy.

MATHEMATICAL BASIS OF THE STRATEGY PALETTE

Why did we select these five approaches—classical, adaptive, visionary, shaping, and renewal—and what is the evidence that they are the best ones for each environment? In fact, the different approaches to strategy have sound mathematical underpinnings, which we demonstrate by simulating the environments of the strategy palette. These environments range from highly predictable ones that resemble classical environments, to highly unpredictable and malleable environments that resemble shaping ones. We then simulated different approaches to strategy and allowed these to compete with each other across a range of environments, noting which approaches performed best through many iterations (figure 1-12). The simulations fully validated the match between the five archetypal approaches to strategy and the business environments that make up the strategy palette (our model is described in more detail in appendix C). In separate sidebars in each chapter, we use this model to show why a particular approach to strategy is the fit best for a specific environment.

FIGURE 1-12

Best strategic approaches in different environments (simulation)



Source: BCG multi-armed bandit (MAB) simulation.

We used the same simulation model as the platform to develop an iPad app, which is built around a business game in which you can explore which approaches to strategy work well in which environments. You do this by operating the simplest of businesses—a lemonade stand. The app should enable readers not only to understand how to choose and deploy different approaches to strategy but also to experience and develop a more practical feel for each approach.

Chapter 8 shows what your role as a leader is in creating and animating the collage of strategic approaches. We identify eight critical roles that leaders play in this respect.

- **The diagnostician:** Looks externally to assess the business environment and then match it with the right strategic approach.

- **The segmenter:** Matches the approach to the organization at the right level of granularity.
- **The disrupter:** Reviews the diagnosis and segmentation on an ongoing basis, modulating or changing approaches when necessary.
- **The team coach:** Selects the right people to manage each cell of the collage and develops them, both intellectually and experientially.
- **The salesperson:** Advocates and communicates the strategic choices in a coherent, integrated narrative, both internally and externally.
- **The inquisitor:** Sets and resets the correct context for each strategic approach by asking the right questions.
- **The antenna:** Continuously looks outward and selectively amplifies important change signals that might otherwise be overlooked or underestimated.
- **The accelerator:** Puts weight behind select critical change initiatives to speed up their implementation or to increase their traction to overcome resistance or inertia.

Finally, the epilogue details the four steps by which individual managers can develop their understanding and mastery of the strategy palette.

As you familiarize yourself with the different approaches, it can be helpful to try to apply them to your own business: to assess the environment where you do business, to decide the best approach to strategy, and to assess the actual practices that your organization deploys. The short survey in appendix A will provide a simplified but directional view; a more detailed version is also available online: bcgperspectives.com/yourstrategyneedsastrategy. Appendix B lists further reading for those who wish to delve deeper into the different approaches to strategy. Appendix C gives additional background and details of our simulations of different environments and approaches to strategy.

Let's begin our exploration of the strategy palette.