

# Strategy as Simple Rules

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# Why Strategy as Simple Rules?

Organization	Cisco	Yahoo!	Lego
<b>Objective</b>	New Network Technology	Development in Content and Commerce Opportunities	Extend its Power Brands and Philosophy into new Markets
<b>Lack</b>	Time & Engineering Talent	Partners	Operated in Slower Pace (less competition)
<b>Solution</b>	Acquisition	Extended Partnership	PROD Growth - Children's Robotics, Clothing, Theme Park, Software

	Position	Resources	Simple rules
<b>Strategic logic</b>	Establish position	Leverage resources	Pursue opportunities
<b>Strategic steps</b>	Identify an attractive market Locate a defensible position Fortify and defend	Establish a vision Build resources Leverage across markets	Jump into the confusion Keep moving Seize opportunities Finish strong
<b>Strategic question</b>	Where should we be?	What should we be?	How should we proceed?
<b>Source of advantage</b>	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
<b>Works best in</b>	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
<b>Duration of advantage</b>	Sustained	Sustained	Unpredictable
<b>Risk</b>	It will be too difficult to alter position as conditions change	Company will be too slow to build new resources as conditions change	Managers will be too tentative in executing on promising opportunities
<b>Performance goal</b>	Profitability	Long-term dominance	Growth

# Yahoo! - Simple Rules for Unpredictable Market

- Initially focused on Branding and PROD Innovation rules – Priority rank for each prod in Development
- Flexibility – Work Culture, to bring dog to workplace, Every engineer works in the PROD,
- One Developer Covered EU Soccer championship - Within 48hrs he developed – 100,000 hits per day.

# Simple Rules, Summarized

In turbulent markets, managers should flexibly seize opportunities – but flexibility must be disciplined. Smart companies focus on key processes and simple rules. Different types of rules help executives manage different aspects of seizing opportunities.

Type	Purpose	Example
How-to rules	They spell out key features of how a process is executed – “What makes our process unique?”	Akamai’s rules for the customer service process: staff must consist of technical gurus, every question must be answered on the first call or e-mail, and R&D staff must rotate through customer service.
Boundary rules	They focus managers on which opportunities can be pursued and which are outside the pale.	Cisco’s early acquisitions rule: companies to be acquired must have no more than 75 employees, 75% of whom are engineers.
Priority rules	They help managers rank the accepted opportunities.	Intel’s rule for allocating manufacturing capacity: allocation is based on a product’s gross margin.
Timing rules	They synchronize managers with the pace of emerging opportunities and other parts of the company.	Nortel’s rules for product development: project teams must know when a product has to be delivered to the leading customer to win, and product development time must be less than 18 months.
Exit rules	They help managers decide when to pull out of yesterday’s opportunities.	Oticon’s rule for pulling the plug on projects in development: if a key team member – manager or not – chooses to leave the project for another within the company, the project is killed.

# Types of Rules

## ◉ How to Rules

- > Key features of how a process is executed
- > Eg – Akamai Rules for Customer Service process (R&D and Customer Service Executives switch roles)

## ◉ Boundary Rules

- > Focus Managers on opportunities
- > Eg – Cisco's Acquisition with 75% Engineers & not more than 75 Employees

# Priority Rules

- Help Managers rank accepted opportunities
- Eg., Intel – Manufacturing Capacity Allocation is based on Product's Gross Margin

# Timing Rule & Exit Rules

- ◉ Timing – Managers Synchronize with emerging opportunities with other parts of the company
  - > PROD Dev Time <18 months & When a PROD has to be delivered (PROD team must know)
- ◉ Exit -- Helps Managers to decide when to pull out from Yesterday's opportunities
  - > Executives verify Prod Dev if key team member leaves to another project
  - > Eg: Senior Executives stop new Executives that don't meet certain goals



# WHAT SIMPLE RULES ARE NOT?

It's possible to dictate what simple rules should not be but impossible to say exactly what a company's simple rules should be.

## THEY ARE NOT BROAD

➤ Managers frequently misunderstand guiding principles with simple rules. Principles are designed to apply to every activity within the company from production to marketing/Sales. Simple rules are tailored to a single process which provide concrete guidance how to decide new market or partnership.

## THEY ARE NOT VAGUE

➤ Some rules cover a single process but are too cloudy to provide real guidance. If the opposite of the guidance doesn't make sense it means they are not effective.

## THEY ARE NOT STALE

➤ In a fast market, rules are extended beyond their sell-by dates. Always get rid of a rule that is outdated and not longer working. Declining growth is a good indicator and even stock price to determine if a rule is stale. If your shares or growth is slowing down relative to competitor shares, try to exit or refresh the rule.

## THEY ARE NOT MINDLESS

➤ Companies with implicit/indirect simple rules upon evaluation found that it destroys value rather than create value. Always remove the unwritten and embarrassing rules.

# HOW RULES ARE CREATED?

- ◉ In most cases, simple rules are created through **Experience** especially via **mistake** than **creative thinking**. Example can be seen in Yahoo! experience in partnership with a major credit card company which was a catastrophe. After an expensive exit, this lead Yahoo to develop simple rules for partnership creation to simplify the process. They rules include: **Deal can't be exclusive and Basic services always free.**
- ◉ In **start-up company**, where there is no history to learn from, simple rules are created from **Experience** gained from past work antecedents, training and coaching from other companies. Example; Akamai CEO used his decades to marketing experiences to focus his company on customer service by staffing the customer service group with technical gurus and also making sure that every call or email is responded immediately and also the R&D must rotate through customer service.

# DEFINING A NUMBER SIMPLE RULES

- ⦿ This help you reduce complexity by giving it guidance that are straightforward and easy to understand. Most of the times, managers have different opportunity before them and get confused with which opportunity to pursue or ignore at the end. Having the right and optimal number of rules to follow is very important. Complex rules can be destroying and paralyzing, making managers not to see opportunities and move quickly fast to seize/capture before them. It's usually between two to seven rules depending on the companies' optimal number from different directions.
  - > The most favorable number of rules for companies can shift depending on the nature of the business opportunities over time. Young companies usually have few rules, which prevent them from executing innovative ideas effectively. They need more structure, and often build their simple rules from ground up.
  - > On the other hand, older companies usually have too many rules which keep them from competing effectively in turbulent markets. They need to throw out massive complex procedures and start with easy to follow. More rules for companies to increase efficiency during predictability and focused opportunities to achieve objective.
  - > Logically, the optimal number of rules for a particular company can also shift over time, depending on the nature of the business opportunities. When the objective becomes less predictable and opportunities more diffuse/expanded, it meaningful to have fewer rules to increase flexibility. Example; **Cisco company**.

# Knowing when to Change

It's necessary and critical for companies with simple rules strategies to follow the rules religiously to avoid the temptation to change them too regularly. Having a persistent strategy quickly help to access all kinds of opportunities to gain short-term advantage by concentrating on the attractive ones and precisely to a long-term advantage.

- > Strategies can go stale : Shifting the rules can sometimes renovate strategy which create and capture economic value.
- > If they problems are deep: switching strategic processes is necessary. The ability to switch to new strategic processes has been a success secret of the best new economy companies. Ex; **Enron**

# Conclusion

Simple rules helps us to concentrate on the strategic process that matters, in other words it's a shortcut strategy that makes works convenient and flexible by focusing our energy and simplifying the processes we use.

Years before the digital and sustainable development era, businesses was simple making creating simple rule strategies complex but now that businesses are complex to implement, making your strategy as simple as possible is the best way to optimize the process for easy understanding and reaching performance growth.

For companies to reach performance goal the need to capture and pursue opportunities that are unique and also create economic value.

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  - > If they problems are deep: switching strategic processes is necessary. The ability to switch to new strategic processes has been a success secret of the best new economy companies. Ex; **Enron and Inktomi company.**

Thank you for your  
Attention 😊