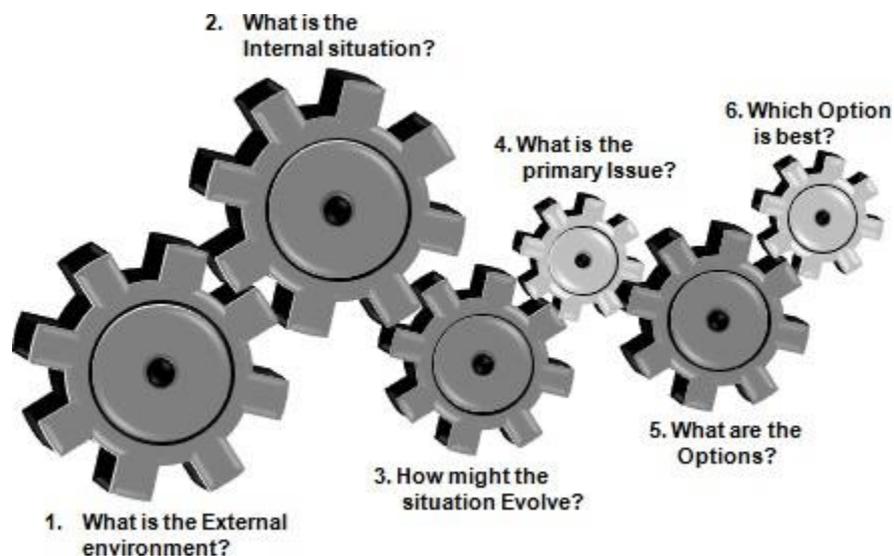


Extract from “All You Need to Know About Strategy”, by Jo Whitehead

How do you come up with a strategy?

The answer is surprisingly straightforward. Strategy design involves coming up with robust answers to the following six basic questions:



What is the External environment? Strategy involves aligning the organisation’s capabilities and assets with external opportunities and threats - so describing the external environment is a good place to start. However, this can be difficult to do, particularly when an organisation is facing rapid change or entering a new market.

For example, Honda famously misunderstood the US motorcycle market when it first entered it. It knew that there was a market for large bikes and tried to sell its most powerful machines – but these models proved to be unreliable in the US, where the average journey was much longer than on crowded Japanese roads. It was only when customers started to ask whether they could buy the smaller 50cc bikes that Honda managers were riding as work vehicles that they realised that this was an untapped market. Even then, senior management took some persuading.

What is the Internal situation? Two aspects of the internal situation must be understood: the objectives of the organisation and its capabilities. The tricky part is that both have to be viewed in the context of the external environment. It is not enough to know that you have capabilities in R&D; you must understand how valuable they could be in generating superior products for customers and how these capabilities compare with those of your competitors.

How might the situation Evolve? Your strategy will play out in an uncertain future. Understanding the current external environment and internal situation is an important start, but it is not enough. It is vital to project how things might evolve and identify the greatest sources of uncertainty. Is it the actions of competitors? Is it the way that the market will develop? Is it how your organisation will respond to change and a new direction? Your strategy should be robust and adaptable enough that it does not automatically fail in the face of unforeseen events. Expect the unexpected! This is one of the great challenges of strategy: you place big bets when you do not fully know the odds.

What is the primary Issue? Successful strategies tend to result from resolving a difficult issue in a way that is novel and hard for competitors to copy. Therefore defining the primary issue is a key step. When Apple entered the music business, for example, it identified the issue as how to help consumers easily buy and play music.

The primary issue may seem obvious in hindsight but not be so at the time. Indeed, it is often redefined during the creation of a new strategy in a way that offers new insight and opens up new options. For Honda in the US motorcycle market, the initial issue was how to sell big, fast bikes in competition with US and European competitors. Later, it was redefined as how to develop the market for small motorbikes – but only after a long period of failing to build market share in the initial target segment.

What are the Options? Once the issue has been properly defined, options need to be identified. In the case of Apple, these were not clear. Even after defining the issue as how to enable consumers to easily access music, it took time to develop the iPod and the iTunes website. In the case of Honda it was a little clearer; once the issue had been redefined as how to develop the market for small motorbikes, the main options – such as distribution channel and product design – became relatively easy to work through.

Which Option is Best? At some point an option has to be selected. In the case of Apple and Honda, a number of smaller decisions led to the overall shift in strategy. In other cases, such as when a major acquisition is required, there may be one big decision that needs particularly careful analysis and evaluation.

Since these questions are so important, it may be helpful to use the acronym EIEIO as an easy way to remember them. **E**xternal Environment, **I**nternal situation, how the situation will **E**volve, the primary **I**ssue, and what the **O**ptions are.

Answering the questions

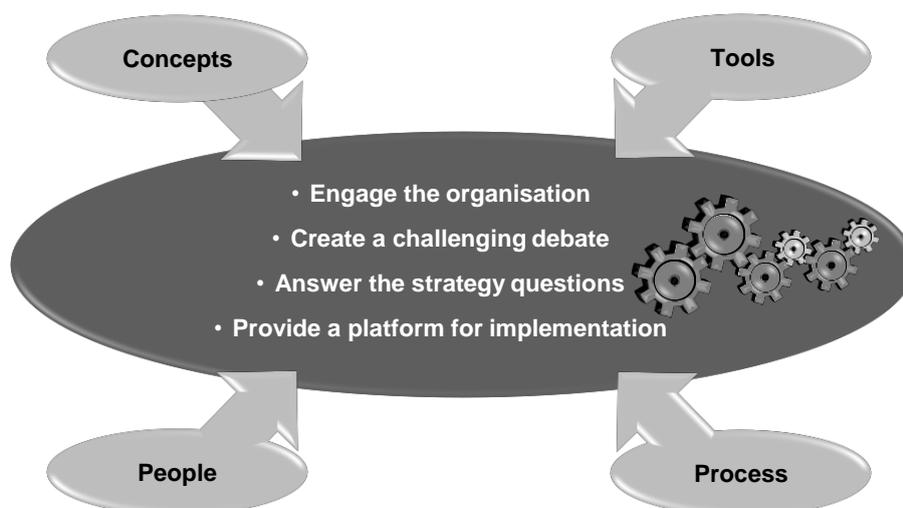
The questions may be simple but getting the correct answer is not. Even the best management teams can struggle, including those that eventually get it right. Apple took several years – having identified that it wanted to enter the music business – to come up with a successful way of doing so. Honda struggled to sell its big bikes in the US and only switched to selling smaller bikes when customers started asking for them. Clearly the answer was not immediately obvious.

One of the challenges in answering the strategy questions is the nature of the task itself, which is often misunderstood. Strategy-making does not conform to the stereotype of a logical, sequential, mechanical process, starting with the collection of data defined by standard templates which, like a sausage machine, spits out a fully-formed strategy at the end of it. Unlike the stereotype, it cannot be learned in the same way as the operation of a complex piece of machinery – simply by getting to grips with standard operating procedures and routines.

A more realistic notion is that of “crafting strategy”, as described by Henry Mintzberg, a professor at McGill University. Mintzberg compares creating strategy to the way a potter shapes a pot on the wheel; it is partly the application of a learned skill and partly an intuitive response to the nature of the situation and the emerging results. Good ideas sometimes turn out badly but give rise to new learning and opportunities – the very act of making the pot improves the skill of the potter.

The development of a good strategy is a creative act, often decided under high levels of uncertainty. The whole process involves a mix of analysis, judgment, gut feeling, opportunism, and trial and error. So a skilled strategist has to be a structured yet flexible thinker, deeply engaged in the situation they are evaluating, as well as dispassionately objective. This blend of ability is often described as a “strategic mindset”.

In practice, trying to do it on your own is not the best way. You need to use a combination of several approaches: intuition, data and analysis, strategy concepts, strategy tools or frameworks, people and processes, as summarised in the following exhibit.



Intuition informed by relevant experience is a powerful way to answer the questions. The problem is that past experience is often not adequate for making strategic decisions about the future. Lehman had to design strategy in the face of a developing financial crisis, Motorola had to design strategy for a new technology, and the UK motorcycle industry had to deal with a new type of competitor. Intuition based on experience would have helped, but would not have been sufficient to come up with the right choice.

Data and analysis can fill in the gaps in our knowledge. For example, analysing the potential impact of a financial crash might have alerted Lehman management earlier to the risks inherent in their strategy. But the real challenge is to work out what data is required and how

it should be analysed. Many organisations do not lack access to information, but they lack the ability to focus on the right information and to interpret it. Lehman was aware of the state of the financial markets, but did not use that information correctly. Data and analysis can be helpful but only if the individuals involved know how to use them properly. For this, strategic concepts and tools are invaluable.

A *strategic concept* is an idea that defines the nature of a successful strategy. For example, according to the concept of “segmentation”, competition occurs within particular segments of a market or industry, rather than at the level of the overall industry. For example, Moët & Chandon is part of the drinks industry, but competes in the segment for premium champagnes rather than against Coca Cola and Pepsi. Competitive battles are fought at the segment rather than the industry level.

Another example of a strategic concept is that of “competitive advantage” – the idea that strategic and economic success comes not from being *good* but from being *better* than the competition. Moët & Chandon’s success comes not from how good its marketing is, but how good it is *relative* to competing brands such as Taittinger and Veuve Cliquot.

Strategy concepts are helpful in framing the way you answer the questions. For example, consider how Moët & Chandon could use the concepts of segmentation and competitive advantage to address the question “What are the options?” They would guide Moët to seek options that provide them with a competitive advantage in particular segments – for example, by building its market share further in premium champagnes. Extensions into other segments – other wines or other luxury goods, for example – might be feasible, but only if the Moët brand or its capabilities in brand management allowed it to outperform the established competitors in those segments.

Strategic concepts help define what data to gather and how to analyse it. For example, the concepts of segmentation and competitive advantage might suggest surveying potential customers in new business segments to see if they would prefer a Moët-branded product more than those of existing competitors, or investigating whether Moët’s channels of distribution could be used for the new product.

An understanding of strategy concepts is fundamental to strategy. Later chapters will describe the most important ones, including segmentation, industry attractiveness, value creation, competitive advantage, mission and objectives, uncertainty, and engagement. However, for someone who is new to strategy they may seem rather abstract and difficult to apply.

Strategy tools or frameworks allow for a more structured approach to using the concepts – a more concrete way of structuring your thinking and analysis. There are many popular tools or frameworks, such as SWOT, key success factors, core competencies, scenario planning, value chain, the five forces, industry life cycle, and PESTLE and portfolio matrices. All of these, and more, are covered in subsequent chapters.

The most useful strategy tools are based on one or more strategy concepts. For example, a SWOT analysis requires you to lay out the strengths, weaknesses, opportunities and threats facing the organisation. Strengths and weaknesses are based on the concept of competitive advantage, while opportunities and threats are based on the concept of market attractiveness. Whether you use strategy concepts or more concrete tools and frameworks, you are drawing on the same set of fundamental ideas about what makes a strategy successful.

The decision to use strategy tools or strategy concepts will depend partly on how experienced you are in strategy. If you are relatively inexperienced it may be easier to use a strategy tool because it provides a more structured way of think through the answers to the questions. As you gain more familiarity with strategy, you will switch to using just the concepts in a more intuitive fashion. Do enough strategy and you won't even think about the concepts and frameworks you are using to assess situations and come up with options.

Strategy tools and frameworks are also helpful for holding a group discussion and in making presentations about the logic used during the strategy-making process.

Unfortunately, strategy concepts and tools alone will rarely get you to the right answer. Strategic decisions are almost always difficult, requiring experience and judgement. One individual rarely has the necessary breadth of experience to make a judgment on their own. Moreover, preconceptions and biases can lead even experienced experts into making a misjudgement.

People and Process. Because strategy can rarely be designed by a single individual, bringing together the right people in an effective process is critical to answering strategy questions. In some cases, relatively few people can be involved and the process can be very simple, but, as we demonstrate later, it can be important to widen out strategy thinking across the organisation. A strategy process involving a mix of people with different expertise and perspectives, all willing to debate and challenge, is as essential to crafting strategy as finding the right strategy tool. It will engage the broader organisation in a debate, help answer the questions, and provide a platform of shared understanding from which to launch a successful roll-out.