

Professional Strategy Development

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Executive Summary

This paper aims to improve strategy development by outlining a rigorous conceptual framework within which business strategy may be critically evaluated and distinguished from important related activities such as market research, analysis, and budget planning. Business strategy is characterised in section 2.4 as a set of choices about where and with what competitive model a business will attempt to position itself in a set of markets with respect to:

- 1) those markets' customers and segmentation,
- 2) competitors in those markets, and
- 3) the dynamic nature of both 1) and 2).

Without pointing any fingers, this paper suggests that some large corporates may be stronger in closely related areas that look a bit like strategy than in strategy development itself, but it offers several recommendations in section 4 for improving strategy capability and provides a checklist in section 5 for helping to identify and evaluate business strategies lurking amid other material.

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1. Introduction and Rationale

1.1 Making Strategy Easy

In the absence of a conceptual framework specifying with some degree of rigour what constitutes a business strategy, claims of the form *x is my strategy* are effectively rendered unarguable and even facile. That is, one can claim that virtually anything is a strategy: while the merits of *x* itself may be debated, whether *x* fulfils the requirements of actually *being* a business strategy in the first place is a question entirely left aside. This makes the strategist's job easy, because any critical evaluation may in that case simply focus on whether the ideas embodied in *x* are good ideas or bad ideas, not whether they provide a good *strategy* (or, indeed, *any* strategy) for the business in question. Unfortunately, having a set of good ideas is not the same as having a good strategy.

Example. *Our strategy is to sell more widgets than anyone else.*

Example. *Our strategy is to phone a friend.*

Example. *Our strategy is to lead in mobile data.*

In each case, in the absence of a conceptual framework for understanding strategy, the only types of critical evaluations which may be made are along the lines of: is it a good idea to sell more widgets? to phone a friend? to lead in mobile data? Unfortunately, even an affirmative answer in each case reveals little about the respective merits of these statements *as strategies*.

1.2 Making Strategy Hard

The aim of this paper is to improve strategy development (while making it a little harder than it otherwise might be) by outlining a rigorous framework within which strategy work may be critically evaluated; by providing a clear focus on which activities should appropriately fall under the heading 'strategy'; and by underscoring the fact that strategy development takes place within a rich environment of information about the business, its customers and its competitors.

The paper finishes with specific recommendations about strategy development within organisations and with a checklist to help separate strategy development from other important types of work which often feature alongside it and which are sometimes mistaken for it.

2. Conceptual Framework and Definitions

Business strategy occupies a volume of intellectual space bordered by and often partly merging with *tactics*, *strategic principles*, *strategic goals*, and *responsibilities to shareholders*. While the interfaces between these areas of activity can be blurry, the important fact from the standpoint of professional strategy development is that they are nonetheless *distinct*: for instance, neither a strategic principle nor a strategic goal is itself a strategy. While the following definitions and relationships should by no means be taken as universally accepted, they may nonetheless provide the beginnings of a conceptual framework within which professional strategy development can be understood. Although other frameworks might differ with respect to particular terminology, it is likely that any robust framework will include *at least* this number of similarly differentiated categories.

2.1 Responsibilities to Shareholders

Definition. Responsibilities to shareholders are those fiduciary, statutory and other duties which exist solely in virtue of the fact that a company is a legal entity with well defined ownership. They are the ultimate *raison d'être* of strategy and indeed of management, and an awareness of them should inform the development of strategic goals and strategic principles.

Example. Managing so as to maximise shareholder value is a responsibility (not a business strategy).

2.2 Strategic Goals

Definition. Strategic goals are specific high-level objectives, normally set by the senior leaders of a business, the achievement of which will 1) fulfil management's responsibilities to shareholders and 2) further the realisation of the leaders' vision for the future of the business. Strategic goals should in turn be supported by strategic principles and business strategy.

Example. Achieving a top quartile ranking in the FTSE 100 in terms of total shareholder return is a strategic goal (not a business strategy).

2.3 Strategic Principles

Definition. Strategic principles are more general statements of method which support strategic goals and responsibilities, guide the development of strategy itself, and provide conceptual coherence to the elements of business strategy. It is with reference to general strategic principles that specific elements of a business strategy 'make sense'. In combination with empirical facts about the competitive environment, strategic principles constrain the space of available business strategies.

Example. Establishing or consolidating international positions with a favourable mix of 1) growth in cash flow, 2) potential for influence above that reflected in shareholding percentage, and 3) potential for operational synergies is a general strategic principle (not a business strategy itself) which, in conjunction with empirical facts about the marketplace, constrains the domain of available business strategies.

2.4 Business Strategy

Definition. A business strategy is a set of choices about where and with what competitive model a business will attempt to position itself in a set of markets with respect to 1) those markets' customers and segmentation, 2) competitors in those markets, and 3) the dynamic nature of both 1) and 2). In other words, it addresses not only how a business will attempt to position itself in a given competitive environment, but also how that positioning should alter over time contingent upon market changes and competitor actions. A business strategy also specifically addresses the question of which markets a business will *not* actively compete in. A business strategy is consistent with strategic principles and constrained by empirical facts, and it is supported by specific tactics.

Example. For a hypothetical pizza company, one small part of a business strategy might be to enter only the youth market of southeast England, supplying a high volume of premium-ingredient pizzas at the lowest margins consistent with its fiduciary duties to shareholders. It might differentiate itself from existing competitors both via its high quality/low cost combination and via a delivery-only service obviating the need for retail storefronts. Over time, it might plan to extend its offerings to higher margin companion products as well as beginning to compete with incumbents for older customers. It might make contingency plans to launch a massive loss-leading promotion on soft drinks in the advent of direct competition from incumbents for the targeted demographic. The strategy might be guided by a general principle that the company should exploit

market gaps in geographic areas of high population density, and it might be constrained by empirical data suggesting a significant unaddressed market opportunity with quality-valuing 14-18 year olds but stiff competition in other areas.

A good business strategy is both robust and adaptive in the face of change in the competitive environment, providing a network of possible actions which may be implemented depending on what new information flows from both the external environment and the internal operations of the business itself.

2.5 Tactics

Definition. Tactics are the specific operational steps which implement a business strategy. As in the case of business strategies, the space of possible tactics is constrained by empirical facts, and operational limitations on possible tactics in turn form part of the body of empirical facts which constrains the development of business strategy. The relationship between strategy and tactics is that of a continuous spectrum, and the hierarchical nature of tactical implementation suggests that what look to be tactics at one level of description might sometimes be viewed as strategies at a lower level of description (supported by their own, still lower level tactics).

Example. *In the case of the hypothetical pizza company above, the business strategy might be supported with tactics including operational plans for rapid-fire pizza production and speedy delivery teams, marketing partnerships with mobile phone companies and MTV, a “never too old for pizza” marketing campaign for eventual competition in older markets, and high-volume agreements along the supply chain.*

3. What Strategy is Not

A great deal of worthwhile and important work is required to make the job of developing strategy possible, but it is useful to distinguish these areas from the actual strategy and its development. To put it another way, it is useful to identify some of the things which strategy specifically is *not*. Of course the domain of activities which are not strategy is infinite; what follows is just a representative sample of a few things which are most frequently confused with strategy.

3.1 Market Research

Statements about current market shares, market sizes, maps, customer demographics, historical spending trends, and political and macroeconomic features are not strategy. They do, however, provide important empirical constraints on which business strategies should be considered, and they can inform the development of strategic principles and even high level strategic goals.

Example. *The GDP of China is the second largest in the world, after the United States of America.*

Example. *More people are buying widgets than ever before.*

Example. *A UK mobile operator’s market share is falling.*

In each case above, the statement provides information which is useful to the strategist, but it does not by itself provide any indication of how or with what competitive model a business should actually be positioned in any specific market.

3.2 Market Forecasts

Market analysts' reports about growth in particular markets again form a useful source of empirical information for the strategist, but they do not in themselves provide any indication of how a business should be positioned.

Example. By the end of 2000, China will have more mobile subscribers than any other country.

Example. The widget market will saturate in 2003.

Example. A UK mobile operator will be in third place by Christmas.

3.3 Overly General Statements of Principle (Platitudes)

Very general statements of principle are sometimes confused with strategy, with the unfortunate effect that the job of developing real strategy in support of them is stymied. These general statements of principle could better support the development of strategy if they were sharpened into genuine strategic principles with clear links to strategic goals and possible business strategies.

Example. We will focus on customers.

Example. We will win the match.

Example. We will sell other things besides widgets.

Example. We will improve operational performance.

Example. We will lead in mobile data.

Example. We will expand across the value chain.

The last three examples come from real corporate presentations on business strategy.

3.4 Spending, Earnings, Customer Base, Historical Achievements, Etc.

Three-year or five-year spending plans are tactical details, not business strategy, while earnings trends and forecasts constitute part of the analysis which would normally be undertaken to evaluate the impact of a business strategy on cash flow. Information on existing customer bases and historical achievements likewise provides useful background information but is not itself a part of business strategy. It is important to realise that a business can easily have a multi-year spending plan without having any actual business strategy.

Example. We will spend 20% of turnover on research.

Example. We launched widgets in 4 new markets last year.

Example. We now have 18.7 million equity customers.

Example. We will invest £10 billion in UMTS licenses.

4. Recommendations

The recommendations below are offered not from the perspective of an expert on commercial strategy formulation within any *specific* large enterprise, but from the perspective of a comparative 'outsider' who has been involved in a number of large corporate strategy activities which left him wondering when he might see the actual *strategy*. I emphasise this *in particular* with respect to the first section below, on 'What Some Businesses Do Now': this is my own very limited perspective on what *some* large enterprises do now. If these observations do not ring true in your own organisation, that is a good thing! In that case, the recommendations which follow may be of less use to you.

It should be remembered that this paper focuses strictly on business strategy development; achieving operational excellence and sound management execution are much broader goals, and the following recommendations will contribute to their realisation only to the extent that the rest of the business context in which strategy development takes place is in good working order.

4.1 What Some Businesses Do Now

Frequently strategy presentations consist largely of market research and forecasts attributed to various external sources. Consistency appears to be valued over originality, and it can be difficult to find presentation labelled with the word 'strategy' which do not include several illustrations borrowed from earlier presentations. Statements explicitly flagged as business strategy rarely even approximate the description offered in section 2.4 and more often appear to be very general statements of principle (platitudes) as described in section 3.3. Genuine strategic principles are very rare. Often it is unclear what specifically, if anything, should actually be *done* differently as a result of adopting the material presented as a 'strategy', and 'strategies' are only rarely explicitly contingent in any way upon changes in the competitive environment.

It is crucial to understand that these observations are altogether independent of the specific words used in the conceptual framework offered here: regardless of what we might call strategy and regardless of what other words we might use to describe the other areas in which we work, what most often appears to be lacking is anything with the *function* of what has here been called *business strategy*, whatever name might be used.

4.2 What Might Be Done Differently

To put it crudely, the main recommendation of this paper is that enterprises should actually generate some strategic principles and business strategies. More circumspectly, the list below includes some recommendations which are implicit in the rest of the paper and a few which are in addition.

Implicit in the paper:

- Adopt a conceptual framework for understanding professional strategy development and its relationship to other activities; the one offered in this paper in section 2 would be a start.
- Adopt the 'business strategy checklist' offered in section 5 for distinguishing strategy from other work, and apply the distilling method for locating the business strategy *content* lurking within papers and presentations.
- Ensure that every statement of strategy addresses 1) customers and markets, 2) competitors, and 3) dynamic change. Any strategy beyond the draft, 'discussion paper' stage should feature explicit links to strategic principles and goals on the one hand and the space of possible tactics on the other.
- Balance the desire for consistency with the need for originality and decrease the re-use of old slides.

In addition:

- Improve the flow of information from those implementing tactics back to those formulating strategy, to better prepare strategists to generate entire *sets* of tactically plausible contingent strategies for use in alternative future scenarios.
- Communicate strategy to the entire company, so that every individual can see how their own individual actions and the actions of the company as a whole help to implement its strategy.
- For the sake of both employees and investors, ensure that every news release about company action in the marketplace specifies how that action furthers the company's business strategy; if that is difficult, it suggests a misalignment between strategy and action.
- Increase 'genetic diversity' in the talent pool of strategy departments by initiating short term secondments, student placements and the like, and by adopting an 'up or out' culture: if anyone has had as their principle job focus the

development of strategy in the same area of the business for more than two years, they are either very good and should be moved upward in the organisation, or they should be doing something else.

4.3 What it Might Cost to Do Things Differently

The primary cost associated with the recommendations above is the personal stretch and intellectual effort required to move out of the ‘comfort zone’ of the way things are done now. Adopting a robust conceptual framework, for instance, is not particularly difficult, but it might be uncomfortable to evaluate one’s own work within it. A secondary cost is the investment in time which is required to acquire new skills and confidence in creating rather than re-using content, specifying business strategies in greater detail, and communicating the results more broadly. The first part of the suggestion on genetic diversity carries very little cost, but the ‘up or out’ culture will present challenges for those who prefer long term stability in their work area.

4.4 Benefits of Doing Things Differently

Business strategy links operational tactics to strategic goals and to management responsibility to shareholders. Thus, the primary benefit of re-shaping strategy development in accordance with the recommendations of this paper would be an improvement in the extent to which one’s business operations support one’s avowed strategic goals and vision and one’s responsibilities to shareholders. It would improve transparency and help in the creation of a strategic framework with reference to which investors can evaluate business actions and employees can understand their jobs. And it just might provide some competitive advantages in those areas where a business presently lacks anything which would be called ‘strategy’ as the term is used in this paper.

5. Is it Strategy?

Determining whether a particular presentation or piece of written work addresses business strategy is relatively straightforward. Below is a quick checklist derived from the conceptual framework of section 2, followed by a simple heuristic for distilling papers and presentations and locating the business strategy component which can sometimes be hidden within them.

5.1 Business Strategy Checklist

- Does it specify a set of markets or segments the business *will* actively compete in?
- Does it specify a set of markets or segments the business *will not* actively compete in?
- Does it mention customers and specific *types* (not tactical details) of value propositions to them?
- Does it describe intended positioning with respect to competitors?
- Does it outline a competitive model/business model, indicating in broad terms how cash flow will be generated?
- Does it demonstrate links with realisable tactics?
- Is it sensitive to changes in the competitive environment, offering some actions which are contingent upon specific changes?
- Is it consistent with empirical facts?
- Is it consistent with general strategic principles?

If the answer to each of the above is ‘yes’, a piece of work satisfies minimum requirements for being business strategy. Of course, this leaves open the question of whether it is *good* business strategy, but verifying that it is business strategy in the first place allows subsequent debate to focus on quality.

5.2 Distilling Strategic Content

Because presentations on strategy ordinarily include a great deal of supporting information (indeed, sometimes an outright *overwhelming* quantity of it), it can be challenging to locate the content which is specifically business strategy. So, before applying the business strategy checklist above, it may be helpful to use the following heuristic.

Step 1: Eliminate primarily aesthetic or scene-setting features by removing any slide consisting of the following:

- initial or final splash slides
- agendas
- questions
- diagrams of technology relationships, ‘architectures’, or elements of the marketplace
- cartoons, pictures of equipment or locations, or other embellishments

Step 2: Eliminate items frequently confused with strategy by removing any slide consisting of the following:

- market research (including market shares, market sizes, maps, customer demographics, consumer spending trends, and political and macroeconomic features)
- static market forecasts (i.e., those without specific actions flagged as contingent upon different possible outcomes)
- lists of current portfolio or partner companies
- historical or future data about spending, earnings, size of customer base, achievements, etc.
- overly general statements or platitudes as described in section 3.3

Step 3: The smaller volume left over *may* be business strategy content, so the checklist may now be applied.

6. Conclusions

However the conceptual space is carved up, whether via the terminology provided here or some alternative, it is clear that many organisations are presently stronger in areas closely related to strategy development (such as market research, analysis, and budget planning) than in strategy development itself. In the large corporate strategy documents which I have reviewed, there is very little evidence of much which fulfils the functions of ‘business strategy’ as the term is used here.

Nonetheless, by appealing to a rigorous conceptual framework, I believe attention may be focused on what it is that strategy development activities should generate, and some of an organisation’s existing strengths in related areas may be brought to bear to support the creation of original, robust, and adaptive business strategies.

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