

# Bring Strategy Back from the Dead

Walter Kiechel

At least a half dozen global companies say they “don’t do” corporate strategy any more. You can understand what they mean, but they’re missing the point. Now, coming out of a recession, the lessons of the strategy revolution are more urgent than ever.

The vultures are circling. “Strategy, as we knew it, is dead,” proclaims Walt Shill, head of Accenture’s North American consulting practice. A January 25 *Wall Street Journal* article quotes him explaining, “Corporate clients decided that increased flexibility and accelerated decision making are much more important than simply predicting the future.” A recent white paper from the Boston Consulting Group hung similar crepe. In its research on global powerhouses the firm found some saying they don’t “do strategy” any more.

So... Is it time to consign all your three-ring binders of strategic plans to a funeral pyre, maybe heaping the corporate planner onto the blaze for good measure? Well, yes—and no. If your planning consists of trying to predict exactly how many industrial fasteners you’re going to sell in eastern Canada three years hence, fire up the grill. But such exercises in futurology aren’t the same as having a strategy. Companies that decide to do without one of those are likely to have their heads handed them in the slow-growing-but-ever-more-turbulent days ahead for the economy.

Discussions of how to create the corporate future have long been bedeviled by the conflation of strategy and planning. The thinking too often ran that if you were to have a strategy you'd have to have an elaborate exercise of gathering data, formally discussing it, agreeing on what was to be done, then laying out goals and milestones to measure progress in achieving the desired future. In a big company this frequently entailed a separate staff of experts dedicated to the effort, sometimes working arm-in-arm with operating managers, but more often reporting directly to the top brass. The brass would then occasionally use the planners' output to beat the line managers over the head when the underlings didn't make their numbers.

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No wonder strategy got a bad name. There was also the small problem that most forecasts proved hopelessly incorrect, particularly the ones for five years out. It's no surprise, then, that companies would be giving up on the predict-plan-and-try-to-control model of strategy. They should have done it years ago, after having had a chance to read Henry Mintzberg's brilliant 1994 book, *The Rise and Fall of Strategic Planning*, a thoroughgoing demolition of both the assumptions behind, and the results of, most corporate planning.

But even Henry Mintzberg would concede that a company should have a strategy. (Admittedly you may have to search hard in his abundant writings for that particular concession, but it's there.)

The people who first brought that point home were the consultants who in many ways invented modern corporate strategy. Ask a partner from the early days of the Boston Consulting Group



or Bain & Co. if he or she ever helped a client install a strategy. “Of course,” comes the proud answer, “many times,” *con mucho gusto*. In the next breath he or she is likely to add, with equal pride, “Not that I ever wrote a”—you can hear the sneer of disdain forming—“*strategic plan*.”

The kind of strategy the consultants had in mind is the kind your company needs—now in particular. Coming out of the recession you may be tempted in all sorts of directions—add a new business here, grow an old one there, take a flyer on an innovation that looks really, really promising. At the same time you (and everybody else) are headed into an era of slow growth for the economy; or so say most experts I respect. It will also be an era when any competitive advantage you eke out will likely be chewed away by rivals, lickety-split.

## The strategy you need has at least six overlapping elements:

- 1. It begins with “a sense of where you are.”** A clearer sense than you may ever have had. Early in his career John McPhee wrote a book on what made Bill Bradley such a great basketball player at Princeton. Its title, *A Sense of Where You Are*, captured McPhee’s realization that much of Bradley’s skill was rooted in his uncanny ability to know exactly where he was, at any second, in relation to the ball and others on the court. A good strategy starts with a comparable knowledge of how your company is situated along three critical dimensions—costs, customers, and competition.
- 2. Your strategy should reflect an in-depth understanding of your costs, and how they compare to competitors.** One of the major discoveries of the strategy revolution was that many companies didn’t actually know the true cost of their products. Many still don’t. Conventional accounting systems are designed to turn out numbers for financial statements, those nicely attested-to figures in the back of your annual report. Unless you have an activity-based costing system, or one of its more up-to-date analytic successors, you’re probably

allocating overhead and other costs in a way that disguises what it truly costs you to produce that latest whizbang veeblefetzer.

Getting beneath conventionally reported numbers to calculate clients' true costs was a major contribution by consultants to the strategy revolution. Once their clients were armed with the facts about themselves, and again usually with consulting help to gather intelligence, they could usually figure out how their costs compared to rivals. It was a big wake-up call for many, especially once they understood the iron law of the experience curve.

## Discipline your company to continuously manage costs downward ... everybody agreeing to do it, everybody expecting to do it.

A discovery of the Boston Consulting Group, the experience curve says that your costs should decline in a predictable manner, usually about 15% or 20% for each doubling in your “experience,” the number of veeblefetzers you turn out. Follow the logic, which can be chilling, particularly for bit players: If you produce more units than anybody else, you should have a cost advantage, allowing you to underprice competitors, enabling you to sell still more, reduce your costs further, and so on and so on. If you're the market leader, and your advantage is based mostly on price, play your cards right—that is, keep reducing your costs systematically—and you can stay market leader forever.

Critics, particularly academics, have been heaping abuse on the experience curve ever since it was first expounded in the late 1960s. Cost may decline that dramatically in fast-growing market like computer chips, they point out, but in a mature industry like beer or cement the effect takes forever

and doesn't count for that much. And in most businesses you don't compete just on the basis of cost. Moreover, in the real world the market-share leader doesn't always have the lowest costs; some little wisecrack faster at latching on to the latest technology may suddenly undercut the big boys.

All true, but you neglect the logic of the curve at your peril. Its lasting legacy, whether the curve holds precisely true in your industry or not, is an imperative that should be built into your strategy and your budget: Discipline your company to continuously manage costs downward, year in, year out, everybody agreeing to do it, everybody expecting to do it.

If your newly sharpened "sense of where you are" indicates that, nonetheless, you're likely to be at a cost disadvantage to your rivals forever, you'll need to come up with some way to compete other than price. Differentiate your product, to use the technically correct if clunky verb: Make it brighter, shinier, smarter, more elegant, more helpful, or just downright sexier than anything else out there. Or head for a different spot in the market entirely.

**3. Your strategy should target the right customers.** Duh. Like you were going to go after the deadbeats?

As with calculating true costs, identifying the "right customers" is trickier than it sounds. They probably include some of your existing customers—as Bill Bain learned early in his career, it's almost always easier to get somebody to write you a check if they've written you a check before. But some of your current customers may be more trouble than they're worth.

In the early days of the strategy revolution, one of the consultants' best sales pitches was to ask the CEO of a potential client, "Do you know how much business you do with your largest customer, and how profitable that business is?" Frequently the CEO didn't. Lots of crawling through accounts across various divisions by a blue-suited consulting team would sometimes produce astonishing surprises. As in, the biggest customer was big indeed but had exacted so many concessions that your business with it was scarcely profitable.

Forty years after the strategy revolution set in motion what I call Greater Taylorism—companies taking a sharp pencil to analyzing every aspect of their operations—most corporations have a better handle on their costs and on the profitability of specific customers and products. Applying improved analytics, they often find that Pareto was right—that 20% of their customers (or their products) may account for something like 80% of their profits. That 20% of customers make great targets for more business.

Jack Welch argues that your toughest customer is often your best customer in that you learn the most from meeting its demands. Yes, but only if that best customer is also a thoroughly profitable one. The overall point is to know which customers are making the most money for you and to concentrate on them, especially when tough times may force you to cut back on your sales and marketing efforts.

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**4. Your strategy should build in an almost paranoid wariness about your competitors.** The junkie novelist William Burroughs defined paranoia as “having all the facts,” and the closer you come to having all the facts about your rivals, present and potential, the more secure you’ll be.

We’re not talking here about the CEO leaning back in his chair saying, “Oh yeah, I guess we compete a bit with old Charley’s outfit, and some with Susan’s, and maybe a little with that upstart from Taiwan.” No, what’s required is something more like, “In the market for SKU 411, we have 43.2% market share, Devilish Competitor 1 a 34.3% share, and D.C. 2, a mere 22.5%. And our best information is that the market is growing at 7% a year.” The naysayers may cavil that market size can’t

really be estimated with any precision, much less market growth. But it's worth the effort to get as precise a set of figures as you can, if only for the salutary, reality-slapping-us-in-the-face discipline that the information-gathering can provide. ("Wow, are we really that far behind old Charley's outfit?")

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In addition to looking at existing competitors, be paranoiacally concerned about potential new entrants to your fray, including some who currently may be lurking no closer than the outer edges of left field. (Did encyclopedia companies see the danger posed by Microsoft, or the record companies the threat emerging in the form of Apple?)

Here it may help to have on hand a 25-year-old who apparently spends most of his or her time glued to some electronic device. Give said youngling the job of reporting any first, faint signals of potential danger to your business from out there in the electronic netherworld.

**5. Once you have a firm grasp of the three C's—costs, customers, and competitors—make sure your strategy is synched up across all three dimensions.** If you're going to serve customers who shop mostly based on price, make sure that your costs are low, and watch out for some huge potential competitor—a Wal-Mart type—who might be able to undercut you big-time. If you aim to be a high-style, high-fashion luxury goods provider, you may not have to worry about costs quite so much (though you should still build in cost discipline). You *will* need to worry about whether you have access to high-end designers, entrée with upscale retailers, and a staff with great fashion sense,



What strategy provided that companies didn't necessarily have before was an integrated framework for thinking about the three C's. With devices like the growth-share matrix, strategy demonstrated that if you had a business with high share in a fast growing market, you should probably invest lots in it. But a low share of a low-growth market—that look liked what came to be labeled a “dog.” Pouring more money into it wasn't going to buy you much except more misery.

With a clear sense of where you sit on all three dimensions, you can consider what moves you may want to make. Do you need to grow share? Can you? If your company has a portfolio of many businesses, which ones should you concentrate on, which ones do you weed out?

What you're looking to do is to concentrate on the business, or the businesses, where you have a genuine competitive advantage—whether because of your lower costs, your special relationship with customers, your market share, your distinctive skills, or some combination of all of the above. Bruce Henderson, one of the original firebrands of the strategy revolution, observed that most companies were in some businesses they shouldn't be in, the ones where they had no advantage and not much prospect of generating any.

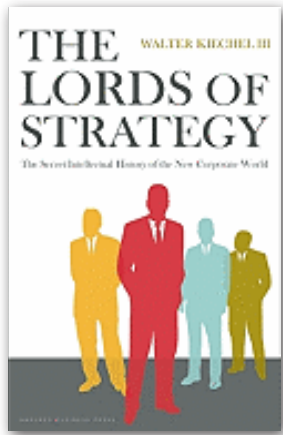
Having decided what business you want to focus on, you can then align all your operations around supporting its competitive edge. Everyone's favorite example of doing this brilliantly is Southwest Airlines. Having decided it was going to compete on price—so much so that its rivals included bus lines as well as other airlines—Southwest limited itself to short-haul trips, flown by a single type aircraft, which could be turned around quickly to keep more planes in the air more of the time.

**6. Your strategy needs to be made clear to everyone in the organization. Everyone. It helps if they have helped create it.**

The best strategies don't sit there in three-ring binders, accompanied by more binders of data and analysis. They are, instead, boilable down to statements you can laminate onto a card suitable for carrying in a wallet or purse. Not mushy statements of vision or "corporate purpose," but hard-edged declarations along the lines of "We aim to be the low-cost provider of industrial fasteners to the five largest appliance makers in the North America and Europe." Then make sure that everyone in the enterprise—including the folks who sweep the floors at night—has the card, can repeat what it says, and understands the reasoning behind the strategy.

Clarity and shared understanding will be your best weapons in the effort to carry out your strategy. Another lesson from the strategy revolution: It was often companies with the most elaborate strategic-planning apparatus that ended up struggling to implement what the apparatchiks had concocted. You're inevitably better off trying to bring the people who will be carrying out strategy into the process of devising it. Once you and they are agreed on the corporate future, and everybody has got a card, trust them to use their judgment and imagination to make it a reality in the world.

**After all, they're the ones who are actually keeping your costs under control, courting customers, and carrying the battle to competitors out in the marketplace. 📌**



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Get more details or buy a copy of Walter Kiechel's [\*Lords of Strategy\*](#).

## ABOUT THE AUTHOR

Walter Kiechel is author of *The Lords of Strategy: The Secret Intellectual History of the New Corporate World* from Harvard Business Press. A veteran journalist, he is the former Managing Editor of *Fortune* magazine and the former Editorial Director of Harvard Business Publishing. A collection of his columns was published as the book *Office Hours: A Guide to the Managerial Life* by Little Brown in 1988.

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