



STRATEGY IS DEAD?

LONG LIVE STRATEGIC THINKING!

By IMD Professor Paul Strebel

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Strategy is a dead concept say Bill Fischer and Michael Wade, two of my colleagues at IMD. The world is moving too fast for strategy. Industry boundaries are blurring, new entrants and technologies are emerging in unexpected places. Customers prefer excitement to continuity. In the midst of all this rapid change, strategic positioning in an industry is meaningless. Several big trends like digitalization and the internet of things are massively disrupting established players. What matters is agility and continual innovation.

I couldn't agree more. But strategy is about much more than positioning within an industry. It's also about focusing on the development of unique capabilities that will allow a business to create value in this rapidly changing world. You can't do everything. Even startups have to figure out what will allow them to beat competitors in the pursuit of new opportunities. Startups that can't develop the capability to provide something that customers want and competitors don't have die.

Unfortunately a commitment of time and resources is needed to develop a capability before it's fully clear whether it'll bear fruit. Capabilities depend on a blend of talent, processes and culture, not something that can be conjured up with a snap the fingers. This is why business is about taking well managed risk. If it were just about innovative agility, keeping one's eyes open and taking the next opportunity that emerges, we wouldn't have start-up success rates of only 5 to 10%.

Take the case of Google trying to disrupt the automobile industry with Waymo, its self-driving car project. The Google platform dominates the search market collecting huge amounts of personal information, as well as providing the bulk of its profits with related advertising. It is a leader in mapping the physical environment and connecting that information back to the preferences of users. But developing the "eyes" of a car sensitive to the user is not the same as integrating those eyes into the electronics, mechanics and propulsion of a car. The opportunity is there, but the capability gap is substantial relative to a rival like Tesla.

Deciding on what capabilities to develop now to exploit future market opportunities requires strategic thinking. Yet, so many books have been written on business strategy that there is a fog of confusion about how to do it. Henry Mintzberg and colleagues tried to clarify things by taking readers on a "Strategy Safari" through the jungle of strategic thinking. This reader got lost in the thickets of ten different approaches. For practicing executives, it's most useful to go back to the origins of strategy in the military where it was defined as a set of actions/initiatives designed to reach a longer term objective. In business the longer term objective is profitable growth. Developing the action plan involves three iterative phases of strategic thinking.

Diagnostics: Where are we?

A diagnosis of both the internal and external situation is needed. Tens of frameworks are available often masquerading as all that's needed to develop a strategy. Internally some form of financial analysis is essential to determine where the firm is making money and where it is doing less well. Consultants have developed matrices for classifying business lines in terms of profitability and growth. Sometimes they recommend investment and divestment decisions based on how a business is classified. This can be disastrous if little further analysis is done to see what the else could be done with the business. In addition internally, some form of business model analysis is required to determine the firm's strengths and weaknesses and how these correspond to the financial performance.

Externally, you have to look at what both current and emerging competitors are doing. One of the most popular frameworks is the Five Forces developed by Michael Porter. Originally it was used to decide how a firm should position itself in its industry. As Bill Fischer points out this perspective is grossly myopic in today's fast moving world. However, if the Five Forces are used not to prescribe strategy, but as a dynamic perspective on what's happening competitively, both in terms of the value chain of suppliers, partners, competitors, distributors, customers and especially in terms of new entrants and potential substitutes, it remains useful. The second essential external diagnostic is a market and customer analysis. Where are the growth opportunities? How are customer needs, wants and behaviors evolving? What kind of new market segments are emerging?

Alternatives: What might we do?

Military strategists spend lots of time analysing historical moves in battle and war to open up leaders' minds to the alternatives available for dealing with different situations. In business, strategic alternatives usually get short shrift often being reduced to either cost leadership, differentiation, or disruptive innovation. In IMD's online-based program on [Strategic Thinking](#) we ask participants to take three different perspectives to develop their list of strategic alternatives.

Firstly, what kind of performance moves are needed to boost the top and/or bottom line? This involves considering both incremental and radical moves like adjacent markets, new products, segments, operating excellence, portfolio restructuring.

Secondly, what kind of business models are needed to support the performance moves? These can be grouped into a series of business models involving on the one hand an increasing customization of the value proposition, starting with pioneering and moving towards co-creation. And on the other hand, an increasing scope of efficiency in the value delivery system starting with volume efficiency and moving towards eco-system efficiency. Important are the opportunities for outpacing the competition by rapidly combining a new value proposition with a new value delivery system.

Thirdly, what kind of innovative experiments are needed to give the business models a truly competitive edge? Here the open, explorative, agile innovation advocated by Fischer and Wade comes into play. However, not all possibilities are equally relevant. The pay-off to innovation is likely to be greater if it enhances/extends the performance moves and business models being evaluated. This doesn't negate the stand-alone importance of unrelated out-of-the-box experimentation, but it does mean it will be less useful in rejuvenating the existing business.

Choice: What should we do?

Strategy is choice. Leaders have to focus the organization's effort. They have to lead the selection of a limited number of strategic initiatives from the possible alternatives, based on value creating potential versus execution risk. Ideally there should be three sets of initiatives: performance moves for today, new business models for tomorrow and experiments to provide the competitive edge for the day after tomorrow.

Execution risk is key to this choice and depends on how the necessary capabilities and market opportunities will be developed. The challenges are usually underestimated. The culture supporting new capabilities has to be nurtured. Acquisitions have to be integrated. Out-of-the box experiments clashing with the existing culture either have to overcome the integration hurdle or be spun off. Google is set to move its self-driving car project out of the experimental lab into a stand-alone unit of its parent company, Alphabet, before possibly spinning it off as an independent firm. So even for one of the hi-tech stars, strategic thinking is more relevant than ever.

[Paul Strebel](#) is Professor Emeritus of Governance & Strategy and Director of IMD's online program, [Strategic Thinking](#).

Related Programs



NEGOTIATING FOR VALUE CREATION - <http://www.imd.org/nvc>

Leverage complexity to build win-win partnerships

Program Directors Luis Almeida and Robert Hooijberg

- Sharpen your negotiation skills
- Manage complex and challenging negotiations
- Prepare to deal with different types of negotiation situations
- Drive value creation in your organization
- Gain further real world experience through negotiation simulations



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>

Create your own learning journey

Program Directors Jean-François Manzoni and Tawfik Jelassi

- Learn about the newest trends in business management and leadership
- Solve challenges with face-to-face learning from world-class Faculty
- Build team commitment around your real business issues
- Identify capability gaps and update skills around a common strategy
- Create the necessary team dynamics to turn your strategy into action
- Company-specific custom option: work with Faculty to address a particular challenge, gain clarity on your strategy and build team commitment to drive change
- Become part of a network of 80,000 executives from 140 countries