

What is Strategy?

Since this is a Strategy course, it seems only natural to start with a discussion of what strategy is, and what it isn't.

What Strategy is Not -

First, consider the following strategy statements drawn from actual documents and announcements from well-respected companies:

"Our strategy is to be the low cost provider"

"We're pursuing a global strategy"

"The company's strategy is to integrate a set of regional acquisitions"

"Our strategy is to provide unrivaled customer service"

"Our strategic intent is to always be the first-mover"

"Our strategy is to move from defense to industrial applications"

What do these strategy statements all have in common? Well, first of all, none of them are actually strategies. They represent **tactics, goals, objectives** and **descriptions**, but not strategies. They are mere strategic threads, small components of overall strategies.

The problem is that in recent years strategy has become something of a buzz word. Whenever we want to sound smart and demonstrate our business acumen, we just make sure the word "strategy" shows up in our ideas. The result is that we now refer to many mundane and uninteresting aspects of the business as being strategic, when they are really only small pieces of the overall business strategy.

So, then, what is a strategy? Being clear about what a strategy is will help us understand more clearly what a strategy is not.

What is Strategy? -

Well, the word "strategy" originally comes from the Greek word "Strategos", meaning, "the art of the general." In other words, the origin of strategy comes from the art of war, and, specifically, the role of a general in a war. In fact, there is a famous treatise entitled "The Art of War" that is said to have been authored by Sun Tzu, a legendary Chinese

general, around the second century BC. Strategists consider “The Art of War” to be one of the great masterpieces on strategy.

In the art of war, the goal is to win. Winning is good and losing is very, very bad. Can you imagine the great Hannibal saying something like “Our strategy is to beat Rome!” No, Hannibal’s goal was to defeat Rome, his strategy was to bring hidden strengths against the weakness of his enemy at the point of attack to achieve that goal, such as crossing the Alps when his enemies did not believe he could.

The general is responsible for multiple units that must work together to win the battle and the war. The way the general adds value to the battle is by providing high level orchestration and vision – i.e. he can see what the field commanders cannot. Great generals think about the whole, and they work to coordinate all the necessary pieces, even sacrificing some pieces when necessary, in order to ensure the overall goal is achieved.

We sometimes think of business as modern day war, but the casualties are more frequently investor pocketbooks rather than human lives. The challenge of the executive is similar to the challenge of the ancient general. The modern day executive needs to develop a set of complex tactics and activities that lead to a victory.

Figuring Out Our Strategy -

So, how do we know what our strategy is? Or, if we do not have a strategy, how do we formulate one?

A good strategy provides clear and concise answers to four key questions:

1. Where do we compete?

- a. In other words, what competitive arenas or markets will we be active in?
- b. We define markets as industries, product markets within those industries, and geographic markets.

2. What unique value do we bring to win in those markets?

- a. In other words, why do our customers choose our products and services when they could have chosen the products and services of any competitor out there?
- b. Our unique value could be cost or differentiation which includes image, customization, styling, reliability, etc.

3. What resources and capabilities do we utilize to deliver that value?

- a. Do we have exceptional human capital, superior technology, unrivaled network connections or a unique reputation?
- b. Resources generally refer to the things we have in our toolbox. These things can be tangible such as a diamond mine or an oil field, or they can be intangible, such as a reputation.

- c. abilities generally refer to the things that we can do, or our abilities to use the things in our toolbox.
- 4. **How do we sustain our ability to provide that unique value?**
 - a. Are there barriers to imitation; are there factors that keep our competitors from being willing or able to replicate the value we create for our customers?
 - b. This last question focuses on understanding what factors allow us to continue to win over time.

A concise set of answers to these four questions should lead us to a strategy that is central, integrated, externally oriented and that articulates how we will achieve our objectives.

Example of a Strategy -

So, one example of a clearly defined strategy comes from IKEA.

IKEA sells relatively inexpensive, contemporary, Scandinavian style furniture and home furnishings to primarily young white collar customers all over the world. By being the first furniture retailer to put stores in every major country, IKEA has **greater scale** than local competitors. This choice of markets has helped IKEA offer their **unique value proposition** of inexpensive, fashionable furniture. IKEA sells this furniture in a **fun and low pressure showroom** where **order fulfillment is usually immediate**. IKEA is able to sell **inexpensive, stylish furniture** because they've developed excellent design capabilities for inexpensive Scandinavian design. But perhaps even more important is that fact that the products are **designed to be manufactured by suppliers** using mass production techniques – and then shipped in flat boxes. The flat boxes require that **final assembly is done by the final customer** but this dramatically drops shipping costs. Because shipping costs are so low, IKEA's suppliers can manufacture furniture in **high volumes** and **ship it around the globe**. The **complex interdependence** of IKEA's strategy makes it difficult for competitors to imitate because they don't design their own furniture and their suppliers don't manufacture furniture in high volumes and ship in flat boxes. To imitate IKEA they would have to completely change the way they design, manufacture, and ship their furniture.

Note that we learn what IKEA does, but we also learn what IKEA does not do. IKEA does not compete in the high end furniture business. IKEA does not try to provide high levels of service or customization to customers. IKEA designs most of its furniture but does not try to manufacture its products.

Thus, in addition to clearly articulating why we win with customers, a really good strategy also provides a clear boundary line signaling what we do NOT do.

It is also important to note that what we have discussed briefly over the last few minutes is not in any way intended to be comprehensive, and there are many important perspectives that are excluded.

Conclusion -

For example, Henry Mintzberg, one of the most well respected business strategists of our day, would want to emphasize the important differences between an **intended strategy**, an **emergent strategy** and a **realized strategy**. He would want you to know that sometimes strategy is really more about what you actually do rather than what you intend to do – i.e. your real strategy emerges as you do it, and may not line up with your plans.

Other strategists would not want me to leave out the importance of **staging**, or **timing**. You may have a great plan, but if you execute the plan with poor timing it may fall flat. To be successful you also need to have a well-orchestrated set of timed steps in order to win in the marketplace.

Summary -

In conclusion, since we cannot adequately cover every expert's opinion in just a few minutes, I really want to focus your attention on the four questions we discussed before. As you strategically analyze companies and/or develop your own strategies, you need to have compelling answers to these four questions:

1. Where do we compete?
2. What unique value do we bring to the table in those markets?
3. What resources and capabilities do we utilize to deliver that value?
4. How do we sustain our ability to provide that unique value?

When you have these answers, you will be well on your way to articulating a clear strategy.