

## Introduction

The purpose of this video is to give you a very high-level overview of how many of the strategy tools and frameworks fit together. It can be easy to get lost when we focus on specific tools and frameworks, so this hopefully helps us to take a step back and tie them all together. Other videos have more detailed information on the specific tools and frameworks introduced here. Even after you become familiar with these tools, this video will be a helpful review of how they can be applied and used together in strategic analysis.

The fundamental principle to keep in mind in any strategic analysis is that our efforts must lead to insights that enable us to make better business decisions as we manage and run our business. If we gain no insight from our analysis then the analysis has no purpose, it is just a paper and pencil exercise to pass the time. Thus, any time we apply a strategy tool or framework our starting question should be: What insight do we hope to gain?

## Two Main Categories of Strategy

Now, I like to think about two main categories of strategy: business strategy and corporate strategy. Business strategy is all about how you compete in a particular competitive environment for particular customers. Corporate strategy, in contrast, is a higher-level set of questions about which competitive environments the corporation competes in, how many businesses it operates and how those businesses work together. A single corporate strategy may include many businesses that each have their own markets and their own unique business strategies.

I will start by focusing on a high-level overview of how the tools and frameworks of *business* strategy fit together, and then come back to *corporate* strategy to help you see the larger connections.

## Business Strategy

There are many frameworks for business strategy, and the underlying principles of all of these frameworks are essentially the same. The framework we use considers Business strategy as answers to four key questions.

1. First, where do we compete? In other words, who are our key customers and what products and/or services are they buying from us? This includes identifying the industries, geographies and/or technological spaces we operate in.
2. Second, what unique value do we bring to our customers? Why will customers buy our products and services over all other options available to them? Are we better in terms of quality or design, faster, cheaper, easier to purchase, or some combination? There must be some compelling reasons why customers transfer money from their wallets into our bank accounts. What are those reasons?
3. Third, how do we deliver that unique value? What resources, capabilities, systems, practices, policies, people, and so forth, help us to consistently deliver that unique value to our customers? We tend to break this question into two parts: (1) what resources and capabilities do we have? And (2) how do we execute our strategy?
4. Fourth, what allows us to sustain our ability to deliver that unique value? Can we continue to do what we do over time, profitably? Is there anything preventing some other organization from moving into our space and doing what we do so that we are no longer offering “unique” value?

## Tools and Frameworks

So, let's go a bit deeper and consider what tools and frameworks fall under each of these high-level questions.

In identifying and describing where we compete the first step is clearly defining our competitive environment. Where do we compete? What technological spaces, industries, markets, geographies, etc? We want to be as precise as we can be.

Once we have clearly defined where we compete we can then perform more detailed analyses. For example, industry analysis allows us to analyze the extent to which current competitors, future competitors, suppliers, buyers, substitutes and complements threaten the profitability of our competitive environment. Given these five types of players in our industry, is this an attractive place for us to compete?

But, traditional industry analysis tools really only apply to a particular and somewhat narrowly defined competitive environment. We also need to zoom out a bit further to consider the larger factors that may affect many industries and markets.

A PEST analysis encourages us to explore the political, economic, social and technological trends that may affect the future attractiveness of our competitive environment. We can think carefully about how these trends will affect our customers, our competitors, our suppliers, our buyers, the likelihood of new viable substitutes, and so forth.

Once we apply these tools we should have a very strong sense of the external environment in which we compete, and we should have a sense for how this external environment may shift and change over time.

So now that we know where we compete, we need to clearly understand why customers buy our products and services when they could purchase from our competitors. There are two very high-level logics.

First, is the idea of competing on price, where your price is lower than all other options for a product that is 'good enough' to meet the customer's basic needs. Thus, you are the best price option for the customer and you tend to attract price sensitive customers.

Second, is the idea of differentiation. Your product or service may be more attractive than other products or services due to unique product features, product quality, convenience, brand image or your ability to customize a solution. For some reason your product or service meets the needs of your customers better than other products or services. In many cases, your customers are willing to pay more for your product or service because it does a better job of meeting their needs. [link to differentiation video]

Hopefully there is a very clear mapping between the unique value that we offer and the insights we gained about our competitive environment from our external analysis, in terms of being able to win against the competition. One way to assess this is by systematically comparing our customer value proposition to our competitors' customer value propositions. If there is not a clear advantage, then we probably have a problem. [link to a strategy canvas description/video?]

Now that we know what unique value we offer and will need to offer into the future, we can examine how we actually deliver that value. There are at least two important sub-parts of analyzing how we deliver unique value. First, what resources and capabilities are necessary to support and deliver our unique value to our customers?

We generally think of resources as “things in the toolbox.” These things could be tangible like cash, property, equipment, or a customer base or they could be intangible such as intellectual property, knowledge, brand, reputation, and so forth. These are the tools in the toolbox that the firm can pull out as needed to execute its strategy and achieve its objectives.

We generally think of capabilities as “what the firm can do with its tools.” So, a firm may have a strong brand as a resource but may be able to leverage that brand to aggressively grow its customer base as a capability. A firm may have a lot of intellectual property as a resource, but it may be able to quickly commercialize its intellectual property as a capability.

Second, how do we implement or execute our strategy? For execution I like the simplicity of Jay Galbraith’s star model for organizational design, but there are many other models that are identical in principle (such as the McKinsey 7S model). These models all emphasize the alignment that is required between the firm’s internal structures, processes, people and rewards and the overall strategy of the business. Thinking through these issues will ensure that we are organized and operating to make the best use of our resources and capabilities.

Hopefully there is a strong mapping between the resources and capabilities, the execution practices, and the unique value we discussed above. We should see that our resources, capabilities, and execution plans directly lead to our unique value, which fits nicely in our external environment.

The prior questions really help us understand the current strategy and may help us to see what strategy we need in the future. But we also want to think carefully about whether our position is defensible. We may have a good position now, but can some competitor come in and unseat us and steal our customers?

There are a number of barriers to imitation that may impede our competitors. We can carefully analyze the strategy we have developed so far and explore the extent to which these barriers may help us to hold off competition or, of greater concern, the extent to which there are NOT barriers to protect us. Maybe we are just sitting ducks... so we should be worried. Are there ways to create barriers to competition so that we aren’t just sitting ducks? Again, we are looking for insights from our analysis that may inform what we do moving forward.

### **Corporate Strategy**

Now, at this point, we have done a very high-level overview of business strategy and how some of the most common tools and frameworks of strategy fit together. But I promised I would come back briefly to *corporate* strategy. Corporate strategy is really more about what businesses we are in and how those businesses fit together. Maybe we have three businesses with three very distinct business strategies, or maybe we have 200. Let’s look at two simple ways of thinking about corporate strategy.

The first simple way of thinking about corporate strategy is vertical integration, which is when we own several sequential steps in the production of a product or delivery of a service. Essentially, one of our businesses is a customer of one of our other businesses as we move a product from raw materials to end consumption or use (also known as the value chain).

In this case, maybe we have businesses in raw material extraction, processing and distribution. Each of these stages of the value chain has a unique and distinct business strategy, we may even think about these as three very distinct businesses under our corporate umbrella. Maybe we are mining focused in raw material extraction, chemical focused in processing and logistics focused in distribution. Thus, each

of these three businesses has a distinct EXTERNAL ENVIRONMENT and to be successful, the unique value each business offers to customers must be distinct. Note that maybe only a percentage of the raw materials go directly to our processing business, and maybe our processing business also buys from other suppliers besides our raw material extraction business, and so forth.

Accordingly, each of these three businesses has its own resources and capabilities. But, since we are under the same corporate umbrella, it is also entirely possible that we have some corporate resources or capabilities that we share across all three businesses. Maybe we share office space, marketing capabilities, R&D capabilities, accounting, and so forth.

Similarly, each business may have its own unique execution practices, but we also may have some high level corporate execution practices that are shared across all of our business units. Corporate strategy helps us configure the overall portfolio of businesses in a way that maximizes overall corporate performance.

The second simple way of thinking about corporate strategy is diversification. This generally refers to having businesses that may be related but are not really in sequential steps in the value chain. So, now our Corporation has three business units that operate in three different environments that require three different kinds of unique value. Each business unit has its own resources and capabilities, but again, they may be highly shared, or they may be completely independent. It depends very much on what the corporation is trying to accomplish, and how similar the business environments are to each other.

But, as you can see, the business strategy framework we developed earlier shows up separately in each of these three distinct businesses.

### **Conclusion**

So, there you have it. I hope this helps you to put all the pieces together in a higher level integrative framework that makes the detailed pieces of strategy easier to use. More importantly, I hope seeing how the pieces fit together give you a much stronger set of tools to generate strategic insights!