

Developing a strategy

Introduction

- Once you describe and diagnose a strategy, you need to turn your analysis into new plans.
- How do you successfully do that, whether from scratch or when updating an existing strategy?
- Many of the same tools and skills of strategic diagnosis will help conducting the analysis to develop a winning strategy.
- The best strategy development is iterative and evidence-based so that strategists know that their path will lead to success before committing to the journey.

Rent the Runway

Seizing a new opportunity

- Rent the Runway founders noticed a market opportunity for young women wanting to look and feel beautiful in high fashion dresses, but who were unable able to afford them. These women wanted to wear a dress once.
- Using a thorough but low-cost approach, Rent the Runway tested and validated these basic assumptions about customers.
- They then developed and determined a business model (capabilities, processes and systems) to serve customers efficiently.
- Rental cost was a fraction of the dress' price. Customers now had unique access to wear an amazing dress, look and feel beautiful, and return the dress at the end of the event.
- Rent the Runway's ability to identify a market opportunity, offer unique value and quickly build a set of resources and capabilities to deliver that value, led them to over a \$100 M in annual revenues by 2016 with an estimated valuation of over \$600 M.

Netflix

From physical DVDs to online streaming

- Strategy development isn't just for new opportunities. Once the external environment starts to change, business leaders need to develop new strategies to address external transformations.
- Consider Netflix, which started in 1997 as a mail-order DVD rental business.
- But by the mid-2000s, Netflix recognized improvements in internet infrastructure and video streaming technologies. They realized that their mail order service of physical DVDs could become less relevant as customers shifted towards video streaming.
- Accordingly, this on-going diagnosis led to the development of a new strategy in digital streaming media, helping Netflix become the main video streaming provider by 2010.
- Moving at the right speed and sequence is key to developing a strategy. Netflix learned this the hard way when shifting too quickly from DVD rental to online video streaming.
- After a negative reaction from customers, Netflix decided to keep the businesses together and adopted a new strategy of slowly phasing out their DVD business.

From renting content to producing it

- Netflix has continued to update its strategy based on its diagnosis of key issues.

- As streaming grew, Netflix realized that its suppliers had all the power.
- Studios created the content and Netflix just resold it by streaming it to customers.
- But studios kept asking for larger and larger fees.
- In response, Netflix reconfigured its strategy to start creating its own content and making it exclusively available on their streaming service.
- Thus, Netflix became its own supplier and efficiently created content that would appeal to the masses, based on their proprietary data of customers preferences.
- Key point: after describing and diagnosing a strategy, we have a good sense of how the strategy is working and where it might need improvement. We can then revise our strategy to address any concerns and/or opportunities that emerge through our diagnosis.
- Our analysis may require us to shift to new markets, update our unique value offer to customers, build new resources/capabilities, get rid of old resources and capabilities, etc.

Conclusion

- The right diagnosis can help us develop and design new strategies to address issues we identify.
- Skilled strategic thinkers, will effectively utilize the tools and frameworks of strategy:
 - Understand the industry and market they are competing in,
 - Identify both the external threats and opportunities,
 - And the internal strengths and weaknesses relative to those threats and opportunities.
- Once we've developed a new strategy, we're ready to make sure that we deploy it well.