

Developing a strategy

Introduction

Once you can effectively describe and diagnose a strategy, you next need to translate your analysis into new plans and strategies moving forward. We would likely be very unsatisfied if we went to our doctor, learned that we were diabetic, and then walked out without any help or support from the doctor to adjust and refine our lifestyle.

Similarly, in business, once we affectively diagnose an existing strategy and situation, we then need to develop a new or updated strategy that accounts for the insights we have gained. As we discussed in our overview of the first of the four Ds, describing a strategy, there are some key areas strategy must address, including where the company will or will not compete, the approach to win against the competition, and what resources and capabilities are needed to achieve the strategy. If we think of a journey, the strategy provides the roadmap for how we will get to our destination.

So, how do you successfully develop a strategy, whether from scratch or when updating an existing strategy. Many of the same tools and skills used in strategic diagnosis will be helpful in conducting the analysis needed to develop a winning strategy. It takes a thorough understanding of customer needs and preferences, competitive alternatives as well as potential business models and approaches. The best strategy development processes are iterative and evidence-based so that strategists know that their path will lead to success before fully committing to the journey.

Rent the Runway

Consider for example the strategy developed by Rent the Runway founders, Jennifer Hyman and Jennifer Fleiss. They had a hunch there was an important market opportunity for young women who wanted to look and feel beautiful in high fashion dresses but who were not yet financially able to afford purchasing those dresses regularly. They also recognized that these fashionable women would only want to wear any particular dress once.

Through a thorough but low-cost approach they tested and validated these basic assumptions about customers and developed a business model for making dresses available that they knew customers would like and which they knew they could effectively deliver.

With the strategy in place, they determined that the capabilities, processes and systems to select the right dresses, create an engaging and user-friendly technology interface for customers, handle shipping and returning for those dresses, and all the other logistics from cleaning to storing their inventory. The rental cost was a fraction of the purchase price for the dresses and gave these women a one-time opportunity to wear an amazing dress, look and feel beautiful, and then return the dress at the conclusion of the event. Their ability to identify a market opportunity, offer unique value in that market and quickly build a set of resources and capabilities to deliver that value, led Rent the Runway to over a \$100 million in annual revenues by 2016 with an estimated valuation of over \$600 million.

Strategy development isn't just for new opportunities. Confident business professionals also need to clearly understand how to develop and adapt a winning strategy over time because, unfortunately, the

world changes constantly. We see political, economic, social and technological shifts fundamentally changing the way businesses compete. A winning strategy only stays a winning strategy as long as the external business environment stays stable enough to support that strategy. Once the external environment starts to change, business leaders need to develop new strategies to address their new external realities.

Netflix

Consider the example of Netflix, which started in 1997 as a mail-order DVD rental business. Netflix initially introduced a new business model to compete with brick and mortar rental stores and grew rapidly through the early 2000s with this initial strategy. But by the mid 2000s Netflix leaders recognized that both internet infrastructure and video streaming technologies were improving. They recognized that their mail order service providing physical DVDs would likely become less and less relevant as customers shifted towards video streaming technology.

Accordingly, this on-going diagnosis provided the basis for the development of a new strategy focused on online streaming of digital media. This strategic pivot helped them to transition to becoming the dominant video streaming provider by 2010. Netflix repeatedly used the key strategic skills of analyzing customer needs, understanding external trends in technology and consumer behavior, as well as competitor analysis to decide where and how they wanted to continue to compete. They also utilized strategic frameworks to analyze their internal core competencies, capabilities and resources to decide how to best enter and win in those markets, whether through strategic alliances or by going it alone. This shift required new resources, new capabilities and new strategy implementation systems. Netflix leadership saw this change coming and developed a new strategy to reposition the company in a quickly changing external business environment.

A key part of developing a strategy includes determining the right speed and sequence for the strategic moves. Netflix learned this the hard way by trying to shift a bit too quickly and break from the old strategy by splitting the streaming and DVD businesses into two in 2011. The market was simply not ready for the shift. 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.

We also know that Netflix has continued updated strategy based on its regular diagnosis of the key issues. As streaming started to grow, Netflix also started to realize that its suppliers had all the power. The studios actually created the content and Netflix just resold the content by streaming it to customers. As time went on, Netflix found itself in more and more painful bargaining situations where content providers were asking for larger and larger fees. In response, Netflix reconfigured its strategy to start creating its own content.

As early as 2011, Netflix started acquiring its own content and making it exclusively available on Netflix. They were able to leverage their unique and proprietary data on what people watched in their streaming service in order to customize content creation to meet popular preferences. In this way, Netflix was able to become their own supplier and efficiently create content that would appeal to the masses. The key point here is that after describing and diagnosing a strategy, we have a good sense of how the strategy is working and where it might need to be improved. 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 the unique value we offer to customers, develop new resources or capabilities, get rid of some old resources and capabilities, and so on.

Conclusion

When we are clear about our diagnosis, then we can develop and design a new strategy to address the issues we identify. As skilled strategic thinkers, we will effectively utilize the tools and frameworks of strategy. We will understand the industry and market we are competing in, and we'll be well positioned to identify both the external threats and opportunities, as well as our internal strengths and weaknesses relative to those threats and opportunities. We'll be skilled in understanding a variety of business models and strategic alternatives, from cost leadership to niche differentiation, and understand how to use our insights to define a new strategy moving forward.

And, once we've effectively developed a new strategy, we're ready to make sure that we deploy it well.