

Diagnosing a strategy

Introduction

It is great if you can examine a company and effectively describe its strategy. This is a crucial first step but one of the most essential activities of a strategic leader is to look at a situation and clearly, accurately and honestly state how things are going. Are we winning or losing against the competition? Are we completely dominating or are we looking doomed? Is our company healthy or sick? And what is it about our strategy that can explain our state of health?

Diagnosing analogies

It can be helpful to consider the analogy of visiting a doctor here. We are pretty good at noticing when something isn't quite right with our health. We have an unexplained pain or just don't seem to be feeling as fit as we normally do. We might turn to the internet to self-diagnose, but the better approach would be to go to a trained physician who can use her expertise, tools and training to assess the situation and diagnose exactly what might be wrong. She can check our vital signs, listen to our description of symptoms, examine the areas of pain, run lab tests, and hopefully pinpoint exactly what is wrong.

Is it strep throat or just a bad cold? A remnant cough or the first signs of pneumonia. And what are the root causes of the problem? You might have a weakened immune system due to stress or lack of sleep or perhaps you have a genetic weakness that contributes to the problem. Or, maybe you've been exposed to allergens or environmental toxins. Thus, the doctor must analyze both your internal conditions as well as your external environment and how these two intersect if she hopes to help you heal.

Similarly, in business, we often turn to a strategic diagnosis when things are going badly. If you have some key strategy tools and frameworks at your fingertips, you can ask the right questions and look in the right places to diagnose the strategy. Are customer preferences changing? Are your offerings keeping up with those changes? Is there a new competitive technology that is making our product or services less appealing or even obsolete? Do we have some gap in our resources or capabilities that prevents us from meeting demand and delivering quality products? Are we fully utilizing our strengths to prosper against our primary competitors? Do these questions sound familiar? They should.

Frameworks for diagnosing a strategy

Most people are familiar with SWOT, or Strengths, Weaknesses, Opportunities and Threats analysis. This tool provides a starting point for diagnosing a company's strategic situation and the root causes of current performance. But we can also have more specific strategy tools that will help us make our diagnosis more effective. We can use tools of internal analysis to help us understand the strengths and weaknesses in our resources and capabilities. We can use tools of external analysis to help us understand opportunities and threats. We can examine very high-level factors using a PEST analysis or we can examine industry level factors using an industry analysis. These tools may help us think differently about the opportunities and threats in the broader external environment.

PepsiCo

These fundamental tools in the strategist's toolbox are just like the physician's tools when she's working hard to correct your malady. Consider for example Indra Nooyi's leadership at PepsiCo. She served as CEO and chairperson of the board from 2006 to 2018. During that time period customer preferences were shifting significantly towards healthy eating options. Under Nooyi's leadership, PepsiCo consistently and proactively analyzed shifting customer preferences. Nooyi commented on this, stating: "PepsiCo as a company has had a history of strategic acuity, and as a company we've always anticipated megatrends and skated towards those trends and try to proactively shape the portfolio."

As she and others diagnosed these external trends, they also diagnosed the strengths and positions of their internal brands and offerings, and their abilities to determine how well they could deliver products to satisfy shifting markets. She facilitated continual reconfiguration of the product portfolio to adapt to these shifting trends. PepsiCo evolved a portfolio of products in three broad categories:

1. Fun for you
2. Better for you, and
3. Good for you

The *Good for You* category consisted of healthy snacks and drinks that accounted for approximately \$20 billion of PepsiCo's almost \$70 billion dollars in annual sales by 2015. By consistently using strategy tools to understanding what is happening outside of the company and what that means in terms of organizing resources and capabilities inside the company, PepsiCo has identified moves that position the company for continued success.

Now, many of us wait until we are sick to go see the doctor, but some of us actually engage various health professionals for routine check-ups in order to stay healthy or perhaps to achieve certain goals. If you want to prepare for a marathon, for example, you may hire a personal trainer to help you get ready. The trainer will diagnose your current life strategies by examining your eating, sleeping, working and exercise habits and routines. You may be very healthy, but the trainer can help you identify where you need to get even stronger so that you can achieve your next level of stretch goals. This is also a form of diagnosis.

Similarly, businesses that are doing well are wise to diagnose their strategies to identify what is working well and how they can build on those strengths to further improve. Not only will this kind of diagnosis help to improve short-term performance, but it may help the company to build internal capabilities for the future.

NutraSweet

Consider for example NutraSweet, which for years enjoyed a monopoly in artificial sweetener for sodas. They had the only patented artificial sweetener that was approved for carbonated soft drinks by the U.S. Food and Drug administration. This monopoly allowed them to charge very high prices for their product, which led to gross margin in excess of 60 percent. But NutraSweet recognized that when their patent expired, they would have to deal with potential competitors bringing generic aspartame to the market. Thus, they invested significantly in their underlying cost structure during their patent-protect monopoly

years so that when the patent expired, they would have low cost capabilities in what might become a commodity market.

They were doing quite well during the patent, but they foresaw a time when they would require a different set of capabilities in order to remain competitive. This strategic diagnosis and adjustment was one of the keys to NutraSweet's long term viability beyond the patent expiration.

Conclusion

While we've not given you any of the strategy tools in this video, we hope we have given you a high-level intuition for how to use strategy tools to diagnose a strategy. Once we learn how to use the strategy tools and frameworks to effectively diagnose a company's strategy, we'll be ready to move on to designing and deploying new strategies.