

Corporate strategy for the new millennium



By Saul J. Berman and Peter J. S. Korsten

Corporate strategy for the new millennium

Contents

- 1 Corporate strategy
- 1 The new corporate strategy
- 2 Redesigning the playing field
- 7 Breaking away in rapidly changing markets
- 9 Setting the vision
- 12 Developing strategies that create value
- 14 A framework for strategy development
- 16 About the authors

It is possible to lead in this race for long periods of time and to create significant value for shareholders and employees.

Corporate strategy

Some perspective...

Companies in industries around the world are in a race that gets more difficult every year, with bigger, stronger, and more innovative competitors. In addition, the rules of the race are constantly changing with the emergence of electronic business, globalization, disruptive technologies, innovation and convergence of industries. Competitors who have been in other races suddenly join your race with strength, technology, and new approaches to the market – often becoming instant leaders.

Nonetheless, it is possible to lead in this race for long periods of time and to create significant value for shareholders and employees. To do this, companies need a strategy that sustains their strong position in the race, anticipates changes, and helps them continue to lead.

The rules of the race are simple:

- Competitive advantage is short-lived
- Today's competitive advantage is tomorrow's competitive requirement
- Companies without a competitive advantage should expect, at best, zero return.

The new corporate strategy

For a variety of reasons, many companies have underdeveloped strategies. Sometimes an underdeveloped strategy is effective – a single spectacular idea can carry a business a long way, even without an explicitly stated strategy. Management intuition and organizational willpower can substitute temporarily as well. However, with the pace of business today, industry leaders need to think through and plan for the next industry lifecycle or risk being dethroned. It is possible in today's environment to fully engineer a company from a strategic point of view in a way that was unthinkable five years ago. Advances in technology, combined with worldwide deregulation and decontrol of product and financial markets, allows new flexibility in the implementation of company strategies. The key to implementing this type of strategic structure are managers who have competency and understanding in the broad strategic and tactical issues facing each functional area of a company. These managers are able to implement strategies based upon creating value from cross-functional processes. An effective strategy development process begins to recreate this general management perspective and builds a general management learning competency among top executives at business and enterprise levels.

It is possible, in today's environment, to fully engineer a company from a strategic point of view in a way that was unthinkable five years ago.

What is strategy?

Strategy is what a company does to sustain and grow its business value into the future. Over the years, strategy has evolved from the traditional financial planning of the fifties to asset management in the nineties. IBM Business Consulting Services strategy practitioners continue to build and refine their approaches to strategy with investment in thought leadership, in order to remain a step ahead. Strategic Change characterizes the approach for the new millennium and is also the name for our strategy practice.

	Stage in strategy evolution	Representative tools	
1950	Financial planning	• Financial ratios	
1960	Long range planning	• Learning curves	• Growth-share matrix
1970	Strategic planning	• Strategic business	• Profit impact of marketing strategies
1980	Strategic management	• Fiveforces	• Value chain
1990	Strategic change	• Core competence	• Scenario analysis

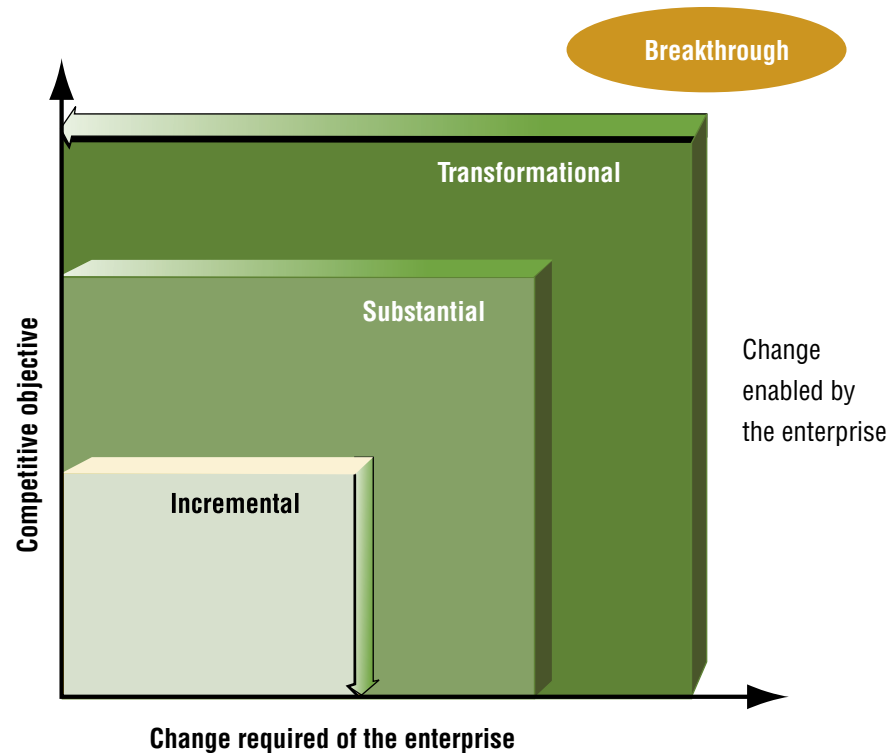
Redesigning the playing field

Sustained value creation in today's highly competitive market usually involves a breakthrough strategy – one where a company wins by changing the rules of the industry in which it competes and is rewarded by a disproportionate increase in sustained value. Identifying breakthrough opportunities is difficult because they imply major change and risk for the company. Implementing them is even more difficult. This is why breakthroughs are well-rewarded in the market. In this context, the job of a contemporary strategist is to structure a continuous management process that relentlessly seeks and achieves value for the company. Too often, management finds that it is unable to gain a broad perspective on their business, and assess in a coherent way the range of value creation opportunities available to them.

Sustained value creation in today's highly competitive market usually involves a breakthrough strategy.

Getting to breakthrough

Consider three grades of change: incremental, substantial, and transformational.



Incremental change involves better “blocking and tackling.” Substantial change involves calling new plays, perhaps with new players. Transformational change redefines the game, both within the company and its industry. The company breaks through the conventional wisdom of competitive parity to first capture and then sustain an advantage.

Our approach to strategy is based on six core principles:

1. Find value across the corporation
2. Have a bias for rapid implementation
3. Bring industry-specific expertise
4. Be customer-driven
5. Be global
6. Create a strategic management competency.

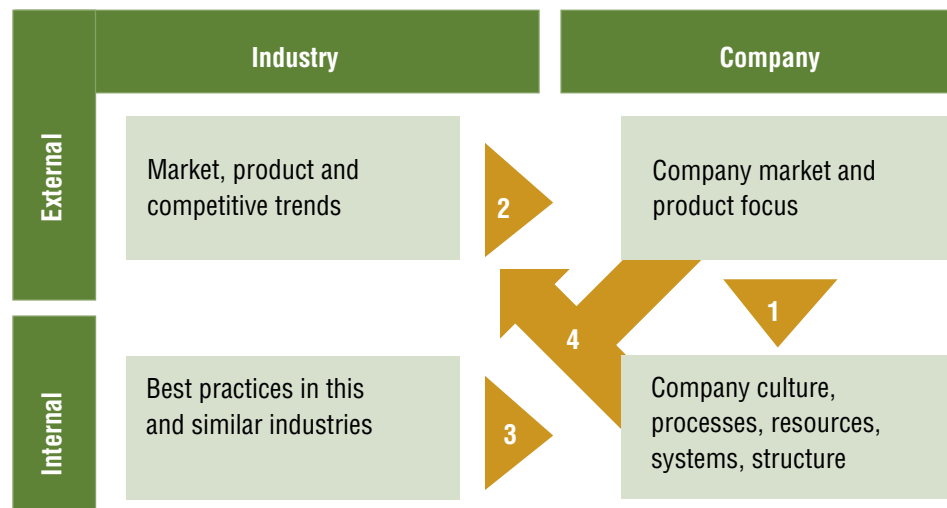
Breakthrough strategies create new and attractive market and product opportunities.

The breadth and speed of endeavor implied by these principles position breakthrough strategies within the realm of possibility.

The first critical step towards reaching this level is to understand external and internal issues from the perspective of the company, and also from the broader perspective of the company's industry (including customers, customers' customers, end-users, competitors, suppliers, and possible new entrants). Fact-based insights gained from a comprehensive understanding can form the basis for good strategic thinking.

The breakthrough framework organizes this comprehensive understanding into four categories, and specifies the current and future state of each. This framework is more than just a convenient way to ensure a thorough review of the company's competitive situation. The power of the framework lies in exploring the space between the quadrants.

Breakthrough framework



This framework suggests four types of strategies:

- | | |
|--|--|
| 1. Operations alignment:
"Right sizing" | 3. High performance organization:
Beyond best practice |
| 2. Repositioning:
New market/product focus | 4. Breakthrough:
Change of the industry |

Incremental change

Operations alignment involves incremental change. This strategy is appropriate by itself only for companies who have not kept operations current with market realities. Many if not most, companies employed this strategy sometime during the last 10 years under the name of “right-sizing” but with the primary objective of cost reduction. Only some of these companies have also learned to keep operations aligned with market/product focus.

Substantial change

Repositioning is what most people mean when they say “strategy.” This classic market/product matrix as seen on the following page, illustrates three repositioning options. The three repositioning strategies keep either markets or products or both relatively constant. They are not mutually exclusive, although most companies focus on getting one right. Each of the three alone implies substantial change. Repositioning as a strategy will also drive operations alignment. Indeed, when repositioning strategies fail, it is more often an execution error in implementation than a factual, analytical or conceptual error in strategy development.

Becoming a *High performance organization* also requires substantial change. The well-documented failure of a substantial majority of TQM and BPR efforts testifies to the difficulty of implementing this type of strategy.

Operations alignment, market/product repositioning, and high performance organizations can by themselves or in combination be value creating strategies. It depends on the particular company at a particular point in its life; not every occasion calls for breakthrough. Substantial change can lead to substantial value creation.

Transformational change

Breakthrough is transformational. In the other three strategies, competitive conditions in the industry are more or less assumed to be fixed. The strategies involve understanding and responding well to these conditions (to the point of being able to anticipate them).

A breakthrough strategy combines the other three, and adds a dose of entrepreneurial zeal with the intent of changing the rules, and hence the competitive conditions of the industry.

Breakthrough strategy adds a dose of entrepreneurial zeal with the intent of changing the rules.

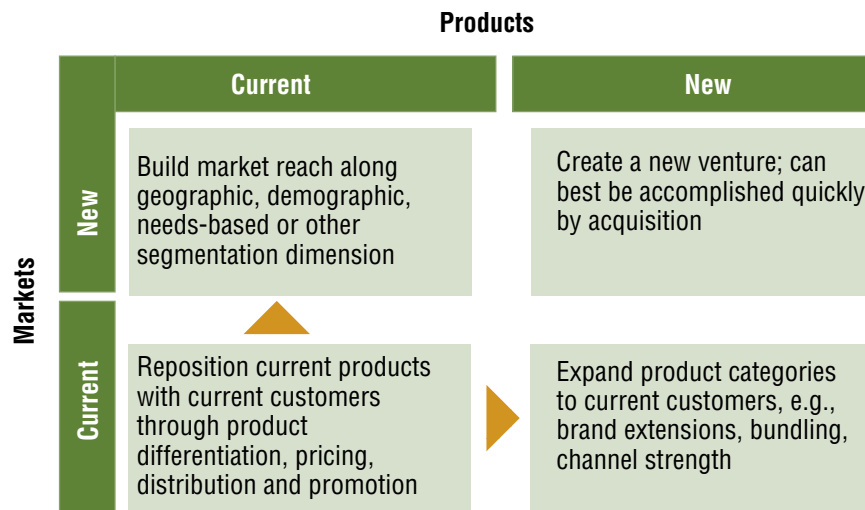
Breakthrough strategies are often “resource based” in that the company builds a core competence which transcends current industry practice and thus creates new and attractive market/product opportunities. The breakthrough strategy shown below – new markets and new products – is not really repositioning. Rather, it implies a new business. Experience has shown that trying to do this organically has a low probability of success. Acquisitions fare somewhat better although the burden of proof is heavy: the need for a strategic fit and economic pay back. Given that the acquired markets and products are new to the company, the strategic fit is often tenuous, while the economic projections vary widely on shaky assumptions.

Breakthrough strategy examples include:

- Toyota: the lean production system
- Frito-Lay: end-to-end supply chain management and the use of advanced technology
- Intel: high velocity product development
- Amazon.com: Internet based channels of distribution.

In each of these examples, resources were developed with a clear vision and intent for their economic exploitation on behalf of shareholders. Agreeing on an incremental, substantial or transformational strategic objective is not even half the battle. There are usually several viable alternative routes to achieving that objective. The key initial challenge is to develop a shared strategic vision among the management team.

Positioning matrix



Scenario Envisioning can help companies plan in rapidly changing markets.

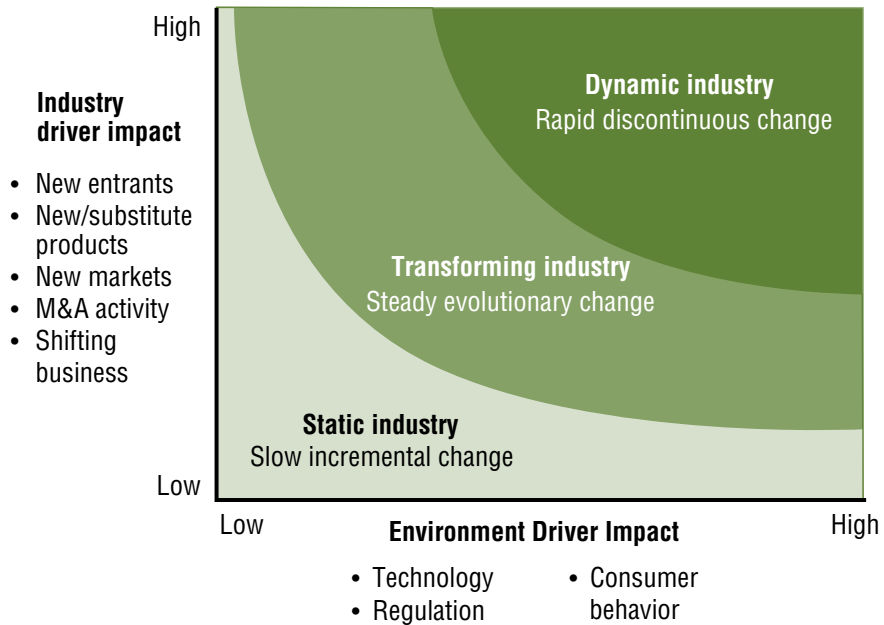
Breaking Away in Rapidly Changing Markets

Consider the future of many established businesses: non-traditional competitors, armed with new technology and skills, traverse industry, geographical and cultural borders to solicit their customers with alternative product and service offerings.

Such is the phenomenon that is beginning to occur as a result of innovations in technology, greater accessibility to information and more sophisticated consumers.

So how can executives in industries in transition position their companies to be competitive?

Traditional methods of industry analysis and forecasting cannot anticipate customer demand for products based on technologies that don't yet exist. A new approach is needed to plan strategically in rapidly changing environments.



With future vision-based strategic planning, decision makers can rethink how the driving forces of their industry might combine in surprising ways.

Rather than just looking at existing strengths and trends, as is typical of traditional corporate planning, a new approach we call Scenario Envisioning can help companies develop a new vision of an industry's possible future.

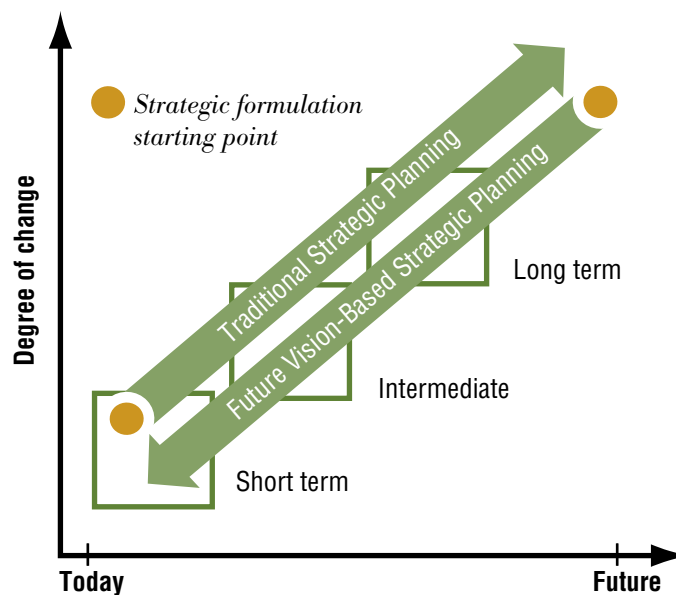
Scenario Envisioning is a future-based vision approach that allows decision makers to rethink how the driving forces of their industry might combine in surprising ways.

In these new models of the future, executives test their current strategy and develop and explore other options. They can practice operating and understanding their business in states that current rivals don't expect, making decisions today that will enhance their organization's chances of succeeding tomorrow.

Many managers expect scenario projects to begin with prefabricated world visions of economic and geopolitical trends.

In contrast, Scenario Envisioning develops customized pictures of a company's future markets that are distinctly different from the present, and yet quite possible. These visions form the basis for developing optimal strategic options.

Traditional strategic planning vs. future vision-based strategic planning



The vision statement fundamentally describes what it will take to win.

Setting the vision

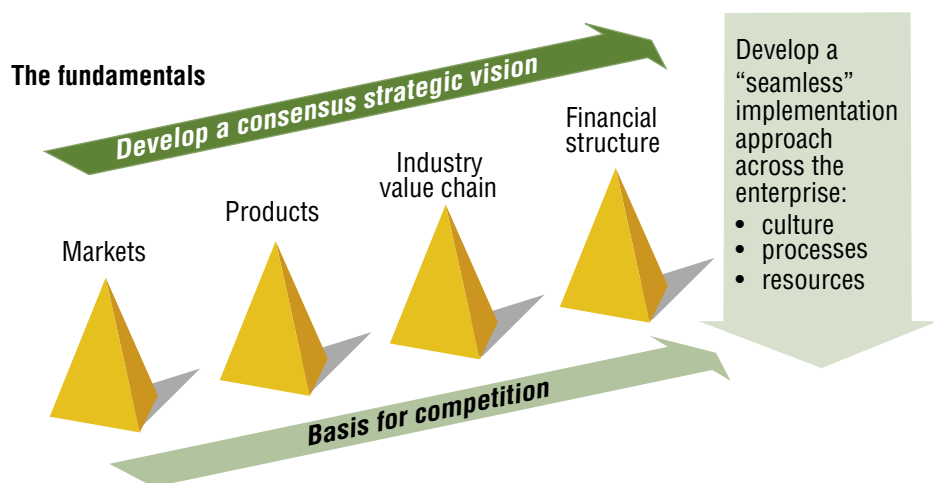
A strategy which works can be articulated in a very precise and coherent “vision” of what the company must be to sustain and grow itself. This vision is understood and shared by the management team.

A useful strategic vision statement is a thorough description of the future state of the company; it paints a picture in words and numbers of what the business will be at a certain point in time in the future. It includes a measurable summary financial target which, when attained, assures strategic success by generating sufficient economic value for the company to remain a desirable business entity (compared to what investors could achieve by investing in something else).

The vision statement fundamentally describes what it will take to win. A good strategic vision statement can be long or short, as long as it is specific with respect to the following:

Economic objectives

- Time frame (e.g., “in 2005, we will be...”)
- Financial goals (e.g., “return 20% annually on shareholders’ equity”).



Competitive Positioning

Where to compete:

- Markets (e.g., customer segmentation and targeting; market share targets)
- Products (especially portfolio life cycle management and margin targets)
- Channels (e.g., value-added channel, e-commerce)

How to compete:

- Industry value chain (e.g., supplier strategy; company domain; channel strategy)
- Financial structure (e.g., cash flow strategy)

Internal Capabilities

- Culture (i.e., set of beliefs held by the people of the company about the company)
- Core processes (i.e., central set of linked work activities performed by the company to create value)
- People, capital, technology (i.e., the company's fundamental resources)
- Systems and technology (especially customer understanding, decision support, performance measurement and other information-based systems)
- Organization structure

Vision Into action

While specifying a winning strategic vision is important, the vision alone will not produce valuable results unless it is implemented rapidly. In our experience, successful strategy implementation starts with the selection of the strategy team. This team should include key decision makers, operators, and those with significant influence over strategy direction. In addition, management must promote intensive communication of the vision to all others to influence business performance across the organization. This communication builds understanding, develops consensus, and encourages commitment.

As the vision is developed and communicated, the process involves key implementation players at all levels of the organization in developing operating targets and action plans.

People come together in crossfunctional project teams to specify what the company must do day-to-day to succeed with the new strategy. They are then positioned to implement their plans using operating measures and targets to manage against the strategy which they helped create.

In successful strategies these “frontline” plans are integrated into an economic model of the strategy and a business plan which outlines the investments and payoffs expected from the strategy over the next five years.

At the same time, successful companies recognize that because competitor and market conditions can change rapidly, strategy development must also include the refocusing of general management processes to quickly understand changes and rapidly adapt to them. A solid strategy development process should lead to ongoing strategic management of the company.

Even when correct strategic thinking is shared at the executive level, failure in management can lead to incomplete or flawed implementation. Instead, correct strategic thinking and implementation success should not be independent events. Good strategic thinking requires operating experience; success in implementation depends on key issues being surfaced early in the strategy development process.

In addition, implementing strategic change means getting people across the company to change their behavior. It is critical to identify, measure and reward behavior early through key performance indicators. In addition, these indicators must be linked to value drivers as well as to the company’s competitive objective.

The implication for strategy consulting is that the process of developing a strategy is as important as the correctness of the solution.

Traditionally, companies undergoing a strategic review and identifying sources of value would tend to focus on market assessment (new markets to enter, better market segmentation, perhaps global strategies), and product assessments (product mix and portfolio, new technologies, better product positioning in the market). While these two areas of value creation are still very important, our experience is that the greatest opportunities for creating value may lie elsewhere.



Value building is the critical link between strategy and operational management.

Developing Strategies that Create Value

At the foundation of our approach to developing strategies that create value are three key tenets:

First, there is an intrinsic link between strategy and finance despite the fact that many companies allow these two domains to operate independently. In reality, strategy is at the heart of financial results.

Second, strategy is about choice. Companies consciously choose which of their current markets to invest in, where they will compete now and in the future, and how they will develop and maintain positions of advantage. Different choices have different value consequences and any strategy a company considers should be measured against its ability to produce more value than another strategy.

Third, value is actually created when companies bridge the critical gap between strategy and operational management – when they develop strategies with the objective of maximizing value and then align their organizations and focus employees to make these strategies happen.

It follows that our approach to value management, unlike others based solely on value metrics, puts strategy at the core but integrates strategic, financial and operational planning through five mutually supporting value processes. All of these processes must be addressed to achieve the desired results of business performance.

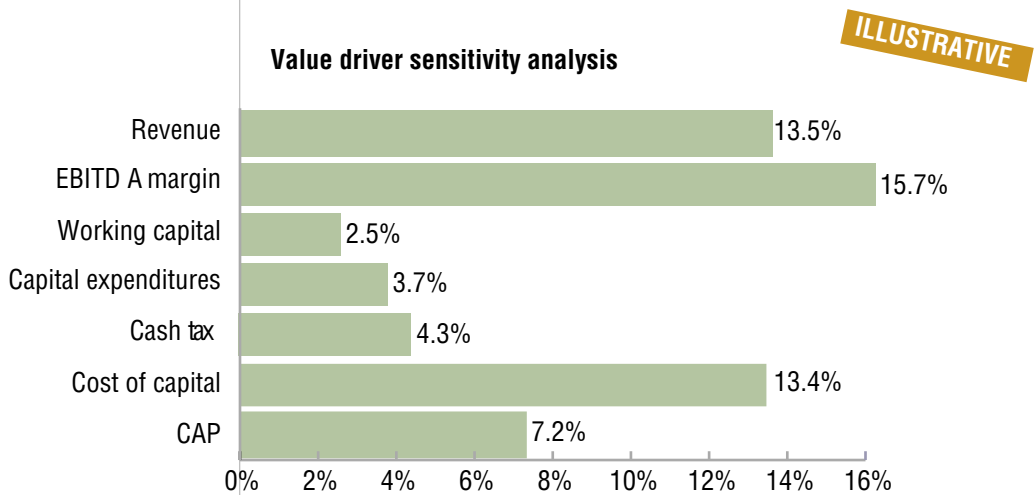
- *Corporate strategies and goals* – Linking vision, objectives and strategies with value
- *Resource allocation and planning* – Dedicating resources to develop required capabilities and harvest capital from unproductive uses
- *Compensation* – Aligning reward systems
- *Performance management* – Managing operational execution
- Value communication – Reinforcing key value messages.

We use a variety of techniques to assist in the development of value realization strategies:

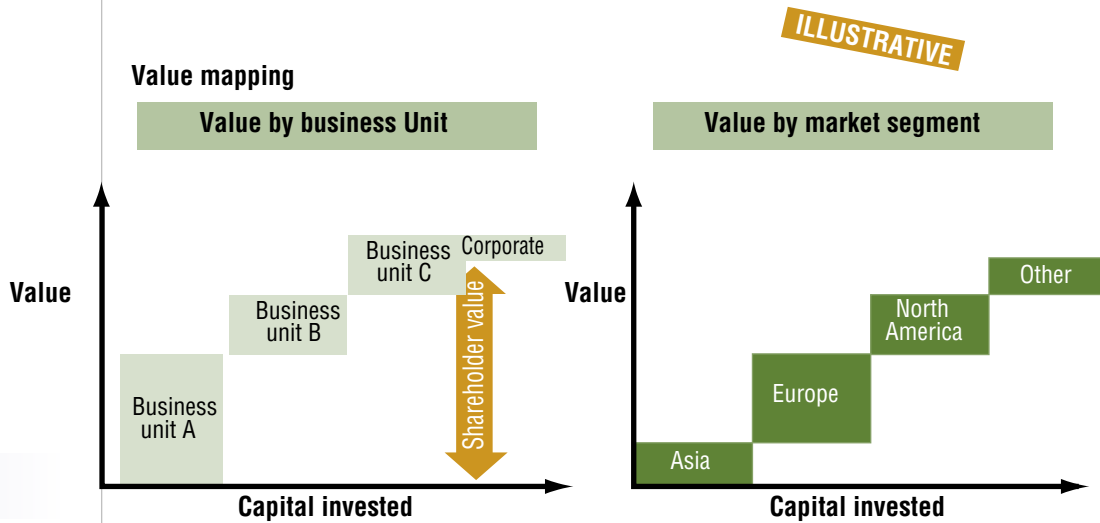
- *Value driver sensitivity analysis and external benchmarking* help to identify the best areas to target improvement initiatives.
- *Value mapping* indicates the relationship between the value of a business (or segment) and the capital invested. (It is typically performed using both internal plans and market expectations of the corporate and business unit results.) It highlights areas of strength and weakness from a return on investment perspective and brings gaps between current and desired performance into critical focus.

Corporate strategy for the new millennium

In order to close the gaps companies need to generate and evaluate strategic options, to identify initiatives that will operationalize the strategies; and prioritize and fund these initiatives based on their expected value impact.



A 10% positive change in each value driver would have affected the shareholder value to a widely different extent . . .



The strategy formulation approach serves as a framework for strategic exploration, decision-making, commitment, action, and learning.

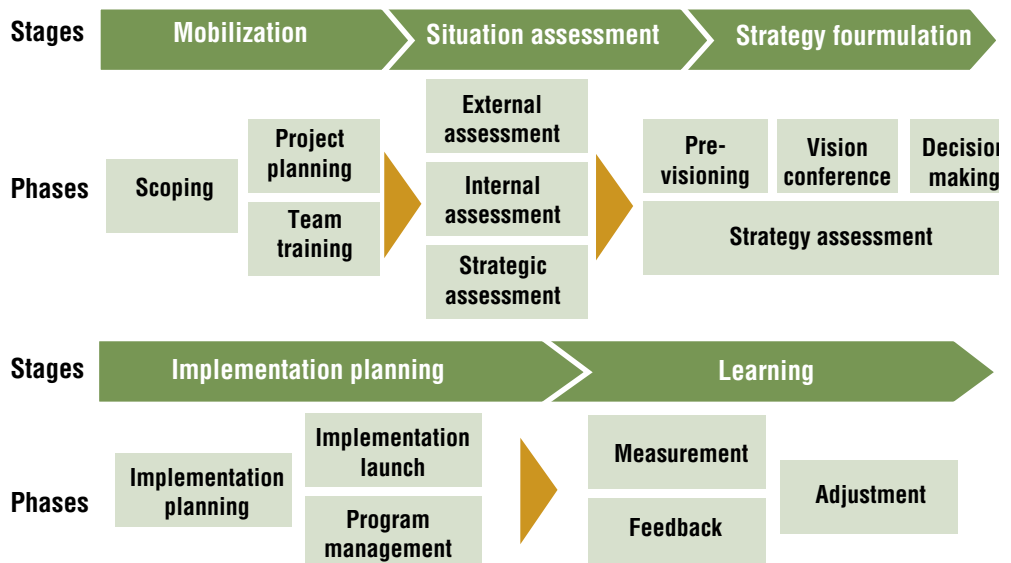
A framework for strategy development

IBM Business Consulting Services strategy formulation approach is a compilation and distillation of our many years of collective experience working with senior executives to develop and implement improved strategies. It is comprehensive because we have learned that constrained approaches are usually not big winners. Having said this, we recognize that every strategy assignment is unique because every client situation is unique, and thus our approach has the flexibility that allows it to be adapted in each instance of use.

The strategy formulation approach serves as a framework for strategic exploration, decision-making, commitment, action, and learning. It is divided into five steps:

- 1) *Mobilization* utilizes preparation and planning to greatly increase the odds of successful and timely project completion
- 2) *Situation assessment* establishes a shared assessment of the current and future situation among the senior client team management
- 3) *Strategy development* defines strategic options and specifies strategic initiatives which create significant value for the client
- 4) *Implementation planning* determines the critical success factors and establishes change programs to implement the strategic initiatives
- 5) *Learning* measures and adapts the strategic management process in realtime utilizing key performance indicators.

The strategy formulation approach specifies a straight forward project path and serves as a repository for useful strategy development activities and tools.



However, good strategy development is seldom so linear. Hence, the real value is in the breakthrough strategy approach that the methodology builds upon. This approach is used when working with senior management teams to develop and implement winning business strategies. It is also a model of the way we think and work with clients to create and implement winning strategies focused on the best alternative for shareholders.

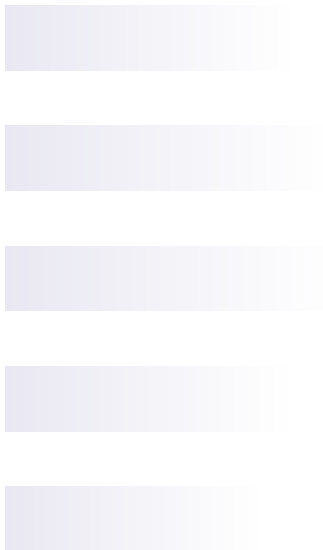
Building strategic resources for strategy formulation

Traditionally, as corporations have been confronted with increased complexity in their markets, products and value chains, they have responded with classical division of labor approaches – seeking refuge in ephemeral economies of scale.

This has led them to create highly “functionalized” organizations populated by narrow specialists who work across many market segments. General managers are a scarce resource in many large corporations, although the title may appear on many organization charts. The problem with this typical approach is that a customer-driven view of a business usually argues for a process-based (i.e., crossfunctional) organization focused on quick, effective response to customer demand. What is needed are functional “generalists” who specialize on specific market segments.

Our strategy formulation approach assembles cross-functional teams of managers to develop and implement a new strategic vision. In this process, managers develop and hone their own general management skills to continuously update and improve their strategy – be it through repositioning, scenario envisioning or other types of strategies.

As these management skills are extended throughout the entire organization, the company can reevaluate its management processes so that responsibility and authority for strategy (i.e., profit creation) is pushed as far towards the frontlines as possible. In this model, executives don’t make day-to-day decisions; instead, they build the strategic resources of the corporation to face the next wave of competitive opportunity.



About the authors

Saul J. Berman is an IBM Business Consulting partner and Strategy Change Solutions Global Strategy and Business Development Executive. He has over 20 years consulting experience advising senior management of large corporate and start-up organizations in the United States, Japan, Europe and Australia. Dr. Berman is a frequent speaker at leading industry and strategic planning conferences.

Peter J.S. Korsten, an IBM Business Consulting Services partner, is the EMEA leader for the Institute for Business Value. With more than 20 years of experience, Mr. Korsten has worked across many European countries and the USA in wide variety of industries including: consumer goods, industrial goods/manufacturing, banking, high tech, telecommunications, agriculture and social services. He's concentrated on strategy and operations projects as well as e-business thought leadership and methodology development.

About IBM's Strategic Change practice

Our Strategic Change Solutions help clients transform their enterprise and operations by:

- Framing industry opportunities and challenges into specific strategic options;
- Formulating actionable strategies that intersect business and technology; and
- Accelerating implementation through tailored operations and change programs.

In these ways, we enhance our clients' competitiveness and increase their sources of economic value.

The IBM Institute for Business Value develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. Clients in the Institute's member forums – the Marketing and Customer Strategy Forum and the Knowledge and Organizational Performance Forum – benefit from access to in-depth consulting studies, a community of peers and dialogue with IBM strategic advisors. These programs help executives realize business value in an environment of rapid, technology-enabled competitive change. You may contact the authors or send an e-mail to bva@us.ibm.com for more information on these programs.

Corporate strategy for the new millennium

For more information about our approaches, or to answer any questions about your company's possibilities, please contact:

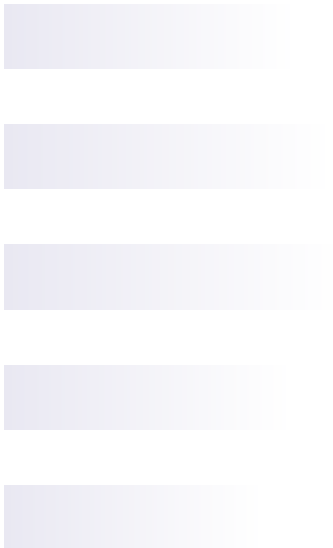
Saul J. Berman, Los Angeles
1 213 236 3130
saul.berman@us.ibm.com

Peter Korsten, Netherlands
31 36 5454468
peter.korsten@nl.ibm.com

Eric R. Pelander, Chicago
1 312 245 7601
pelander@us.ibm.com

Matthias Hartmann, Germany
49 40 36958 x267
matthias.hartmann@de.ibm.com

Grace Chopard, AsiaPac
61 2 8266 7748
grace.chopard@aul.ibm.com





© Copyright IBM Corporation 2002

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
01-03
All Rights Reserved

IBM and the IBM logo are registered trademarks of International Business Machines Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.