

Rethinking your business strategy

Will lessons learned from recent events compel organisations to explore new strategic paths or is there a sense that organisations feel content to return to business as usual? By **Sam Bodley-Scott**

As companies start their fragile progress towards restored commercial health, business leaders are keen to understand whether their experience of recession is shared by others and whether these experiences, combined with a changing economic landscape of lower demand, more personal saving and reduced government expenditure, will trigger a shift in the way organisations choose to compete.

To find the answers to this question, Kepner Tregoe recently conducted a survey of senior European managers, in which we asked about the impact of recession on their businesses.

Of the 375 respondents across a range of industries, only 22% saw any growth during the recession, 18% reported business was stable, with 59% experiencing decline. With the exception of food and beverage, all sectors reported some decline. Those most severely impacted by the downturn were the building products and automotive sectors. Recovery is under way now, however, with grounds for cautious optimism. Only around 10% of respondents reported that their business is still in decline, while 64% are seeing a return to growth, albeit largely 'slow and fragile'.

So how has the depth of this recession and the fragile recovery shaped business leaders' thinking on strategy? In general, all respondents reported that, as a result of the downturn, their strategy needed work. More than a third (39%) recognised that certain important strategic choices needed revision, and 15% favoured a more fundamental and holistic review. Respondents from the government and public sector and the automotive industry reported the greatest need for significant strategy revision.

Ability to respond

There was a broad consensus that "in order to remain competitive we need to improve how we monitor the wider economic environment and improve our ability to react to changing economic conditions," supporting the contention that it is remarkable how many organisations were caught on the hop by the speed and severity of the recession. We believe a good strategy is based on a set of assumptions about what is likely to happen in the external environment. Good strategic management includes monitoring these assumptions and responding appropriately when unexpected change occurs.

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Conversely, the idea that in response to the recession “we need to revise the ethical standards and values that shape who we are and how we should behave as an organisation” received the least support from our respondents.

Key choices

At the heart of any strategy lie the key strategic choices that determine the products you offer and the markets you serve. From the survey findings we looked at the relationship between the impact of the recession on different industry sectors and their reported need to change their product and market positions. We allocated these responses to one of four categories: predictive, reactive, secure and questionable.

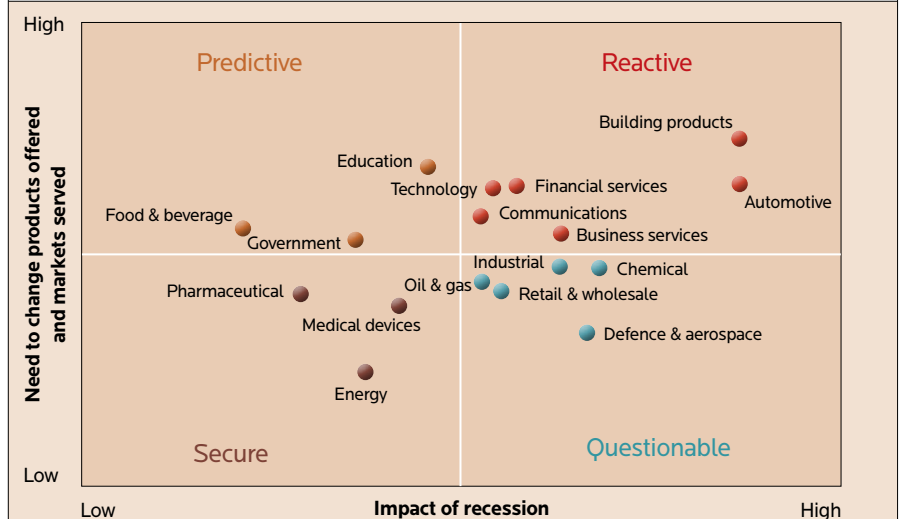
Secure sectors are those which have been least affected by the recession and consider their current product and market strategies as relatively robust. Predictive sectors are less affected by the recession, but perceive their existing strategies do not position them well for the future. Reactive industries may have been hit harder by the recession and recognise that rethinking their product and market strategies may help strengthen their performance as the economy recovers. Finally, there are those industry sectors we have classified as questionable. These have been hit by the recession yet feel little need to rework strategy. For some industries in this category, lengthy investment and product life-cycles may be a factor; for others the situation is less clear.

Return of strategic differentiation

Of all the statements we asked people to consider as part of our survey, the suggestion that organisations will have to be better at differentiating their products and services if they are to compete effectively in the future generated the strongest support.

It is our view that since 2000, many executives have believed that formulating a unique, differentiated strategic position was too restrictive for such dynamic times. They perceived that market needs and expectations, technology, deregulation and global competition were moving so fast that such a strategy would be invalid before

Figure 1: Strategic responses to the recession



the ink was dry. With markets expanding so rapidly, there must be room for competition and the advantage obtained by achieving a clear market position was at best temporary as rivals would quickly catch up.

During this period executives and managers preferred to turn their attention to ‘operational effectiveness’ instead of differentiation. Quality improvement, cost reduction and time compression objectives driven by such programmes as Six-Sigma and Lean created a prevailing mentality that could be best described as “where we are heading is less important than our need to travel there smoothly, inexpensively and quickly”.

Today’s challenge is that while operational effectiveness is as important as ever, few are likely to find true market advantage through waste elimination, delivering benchmarked standards of best practice or even enhanced customer satisfaction. Real advantage will come from performing different activities to their rivals or performing similar activities in different ways – strategic differentiation.

With the buoyant, credit-fuelled markets of the pre-recession years, increasing demand allowed organisations

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to sell similar products at similar price points and, through greater efficiency, provide growing returns for shareholders. As the tide of consumer confidence has ebbed, organisations that cannot demand a premium for products perceived as having distinct value can only compete on price. With low demand and so much spare capacity in our economies, this becomes a price war no one can win. Our survey confirms this: 75% agreed their market is becoming much more price driven.

Implementation

The final set of questions looked at strategy implementation, clearly another major area of concern for respondents. In spite of it being a principal mantra in boardrooms in recent years, the effective implementation of strategy appears to be as much of a challenge as ever, with 76% of respondents agreeing that it needs to be improved.

If, as our survey suggests, organisations are about to embark on a period of serious strategic reflection, the ability to implement the conclusions that emerge will be vital.

To make strategy implementation effective, we see there being three distinct areas that must be addressed.

First there is the identification of the initiatives required to deliver a strategy. This requires thought to be given to each activity that will be needed to make it happen, whether in the area of leadership, process, measurement, people, systems, organisation or culture. In the survey, 76% of respondents agreed or strongly agreed that initiative identification was an area in need of improvement.

Second is the prioritisation of those initiatives. Initiative overload is one of the primary causes of unsatisfactory strategy implementation. Many organisations seem

incapable of standing back and asking the two pivotal questions: how many initiatives can we take on given available resources? And which of these deserve to make the cut? Some 92% of respondents agreed that this was an area in which their organisation had to improve.

Finally there is the ability to implement strategic initiatives once identified and prioritised. This is essentially a project management function and the right people, processes, measurement and performance management systems must be in place if successful strategy implementation is to be achieved. Again, 76% of respondents cited this as an area of concern. Interestingly, respondents who reported their companies were recovering fastest from recession saw themselves as the most capable in all three of the above areas.

What next?

The results of the survey suggest that the downturn has put strategy back on the agenda. There is now greater need for strategy formulation from leadership teams going through rational, structured choices about the nature of their organisation and their direction of travel in these uncertain times. For those most affected by the downturn, we see a critical appraisal of products offered and markets served, probably followed by some marked changes in the competitive positions adopted by these organisations.

Our research has demonstrated almost universal acceptance that in this period of over-supply and low demand, an organisation's ability to build creative, breakthrough positions that will differentiate its products and services from those of its competitors will provide the fastest and most effective route to restored business success.

The survey highlights that rethinking business strategy is only part of the battle and that renewing the wiring that connects high-level strategy with day-to-day decision making is critical. Without the ability to translate vision into action by identifying, prioritising and implementing the right set of strategic initiatives, the ability to recover from the effects of this remarkable economic unpleasantness will remain elusive. ■

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