Tony Manning's

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AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

New strategic imperatives

The last decade of the 20th century saw business competition escalate worldwide. The first years of this new century will see even more rapid and radical changes. Companies that understand the new priorities and act on them fast will grow no matter what happens outside their walls. Those that don't will find themselves among the also-rans.

Five issues will dominate the business agenda:

1. **Delivering predictable shareholder returns in a volatile environment**. Economies and markets will bring a surprise a minute. Firms will be challenged by the need for both certainty and flexibility, and under growing pressure to deliver results.
2. **The design of new business models**. The race to deliver the next new thing is just gathering pace. Expect it to accelerate, courtesy of the Internet, fragmenting markets, confusing customers, and raising big questions about brand building. At the same time, companies will have to cut costs further and faster. The rush to build Internet buying exchanges is an important first step – but it's only the first step.
3. **Competing for talent**. At last, the recruitment, development, and management of "magic people" are getting the attention it deserves. Companies are recognising that competitive advantage comes from human advantage. So people management will get greater attention even as companies adopt spectacular new technologies.
4. **How to use knowledge** – the resource that makes up more and more of every product and service … but belongs in people's heads. Technology is a big part of the answer, but not the *total* answer. Watch "strategic conversation" become the #1 business tool.
5. **Effective implementation**. Doing the right stuff takes the right stuff – insight, planning, aggression, speed, purpose, innovation, and above all, *courage*.

Is your company spending enough time on these matters? The window of opportunity won't stay open. If you snooze in these exciting, demanding, hyperactive times, you will lose. So best you drop a lot of what's on your "to-do" list now, and attend to what counts.

Tony Manning/*Strategist*

CONSULTANT IN COMPETITIVE STRATEGY & CHANGE MANAGEMENT
P.O. Box 750 Morningside 2057 South Africa Phone 27 11 884-2635 Mobile 082 800-5862 Fax 27 11 884-6006
E-mail strategist@tonymanning.com

Fading fads

As we entered the new millennium, a coincidence of factors changed forever the way business is done. This environment is different to anything any manager has known. So new business tools are needed; more of the same is simply not an option.

Bain & Company, an international strategy consultancy, has just released results of its latest annual survey into management tools. Falling from grace are such favourites as core competence, reengineering, total quality management, scenario planning, and – here's a surprise – knowledge management!

Are you still using these tools – and are they working?

Quite clearly, companies need new ways to get ahead and have any hope of staying there. But a lot of them use techniques that are way past their sell-by date. Or they latch onto a concept that may have some merit, and then fail to apply it effectively.

Here's my view of a few of them:

1. **Vision/mission statements**. Their purpose is clear: to spell out an organisation's ambition and to define its product/market opportunity and how management intends seizing it. But most of these statements are mushy drivel. More effort goes into the choice of words and where the commas go than into rigorous thinking about where the *company* should go.

   Back at the office, designers and printers are called in to commit the top team's prose to posters and laminated pocket cards. The boss makes stirring speeches, explaining how incredibly significant this all is. But the troops see through the hype, and while they clap and cheer they also become cynical and distrustful. And why not, because they've heard it all before, and they're still waiting to see positive results!

2. **SWOT analysis**. When this process was made popular about 40 years ago, it was meant to help executives check the "fit" of their organisations with the outside world. But what was intended to be a serious and systematic analysis has become a must-do icebreaker in just about every strategy workshop. Executives develop laundry lists of opinions they will never act on. Year after year they write exactly the same stuff on their flipcharts, and then go back to the office and get busy with things that apparently matter more.

   In most companies, the greatest value in a SWOT analysis is that it looks like the right thing to have on a workshop agenda, it provides structure and fills in time during the session, and it ends with screeds of flipchart notes. So managers feel busy during the activity, typists are kept busy afterwards, and there's plenty of padding for planning documents.

3. **Scenarios**. These are useful in that they involve teams of people in debating various possible futures. This forces individuals to challenge their mental models and think about not just Plan A, but also Plan B and C and so on. The downside is, when you've laid out the "High Road" and the "Low Road," or the "Ostrich," "Flamingo," or some other catchily named option, you're faced with a simple problem: *you have to choose*. You have to lay a bet. And if you're building an aluminium smelter or sinking a mineshaft, it might be a seriously big bet with a payoff five or ten years – or even longer.

   Scenarios are a key part of any discussion about "learning organisations." But too often the people discussing them know little about how to develop them and even less about learning organisations. While they produce hot air and fat reports, the world moves on. And while they're talking they don't act, so they learn precious little!

4. **Core competence**. Undoubtedly the most talked about strategy concept of the past decade, it's also one of the least understood. I've had executives tell me, "Our core competence is customer service," or "our competence is making ball bearings" (or whatever). Others produce lists of 20 or 30 "competences."

> Just why these activities are especially valuable and defensible is a mystery. How they can be leveraged is even less clear. And as to their durability – well, that's not for questioning.
>
> There's no arguing that it makes perfect sense for a firm to be damned good at something that matters to customers, and that will give it a competitive edge. But core competence and focus are not the same things. And today's competence can become tomorrow's *incompetence* (you can get better and better at things that nobody cares about.)

I could go on, but my point is made. Meanwhile, the business book sections of most bookstores get bigger and bigger. Magazine racks bulge with business titles. Consulting firms grow faster than their most successful clients. Business professors are superstars.

If the pace of change and the competitive temperature rose fast in the 1990s, this decade will see even more dramatic shifts. Yesterday's conventional wisdom about business is being turned on its head. In virtually every industry there's too much capacity and too many competitors … and customers are becoming more difficult and demanding.

What companies need now is not more complexity, more sophistication, or sexier concepts. Instead what they need is *simple* tools that will let them cut to the chase and spend more time making and selling great stuff. Today, *hussle* matters!

Thinking about strategy

Strategic thinking is more important than ever. But so is *implementation* – change management by another name. For while seeing the future first can give you an edge, even the boldest, smartest vision is no guarantee of lasting success. One company's dream today is everybody's benchmark by tomorrow and old hat the next day. If insights, ideas, and intent are not turned rapidly and effectively into action, they're worthless.

Over the past 40 years, thinking about strategy has advanced from *planning* and *control* to *anticipation, adaptiveness,* and *action*. Long-range planning was popular in the '60s, not least because military strategists infiltrated business with ideas developed during the Vietnam war (which they lost!) During the '80s, "Japanese management" grabbed the headlines, and for a while managers in the West flirted with 250-year visions. Now, *doing* is in.

It's starting to dawn on executives everywhere that cost-cutting may be a vital first action, but it's a) not strategy, and b) not a way to build a durable competitive advantage. For long-term success, there's no short cut: *the value-delivery process – the business model – has to be redesigned.*

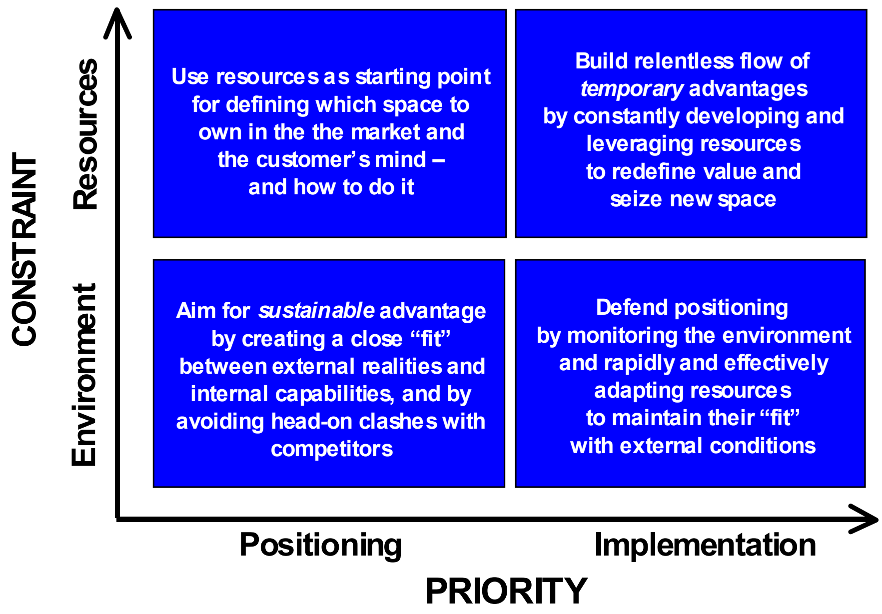
At the same time, the value of people is at last becoming accepted, and "human capital" has become a big deal. So world class firms are fighting for the best and the brightest.

Knowledge is the most valuable resource. New technologies may make it easier to use and more useful, but the jury is out on just how to do that.

Two approaches to strategy

Currently, two schools of thought dominate debates about strategy (see matrix below):

1. **Outside-in**. Companies are "prisoners of their environment." Managers should begin by understanding the world around them, and then try to create a sustainable "fit" between it and their internal capabilities. They should not challenge competitors head-on, but should rather position themselves as favourably as possible in "unoccupied space." (Michael Porter is the most famous and thoughtful champion of this view; Philip Kotler, Al Ries and Jack Trout, and many others are ardent advocates.)



2. **Inside-out.** Companies are constrained not by the world around them, but by their own ambitions and capabilities. No space will be unoccupied for long, so positioning is not a sustainable strategy. Innovation, speed, and aggression matter most. Resources should be built which can be leveraged over time to create new advantages. (Edith Penrose drew attention to this view in the 1950s; Gary Hamel and CK Prahalad made it famous in the early 1990s, and it has been the #1 topic in strategy books and conferences since then.)

Fans of positioning have a strong case. Naturally, every firm would like to avoid head-on clashes with competitors. So *doing different things* is obviously first prize.

But competitors usually don't let you get away with that for long. In no time at all, as an industry evolves, they all pile into the same space. Uniqueness becomes sameness. Innovative offerings become commodities, and prices fall. That's when *doing the same things differently* becomes essential. And "differently" might mean not just better or in novel ways, but also faster, more aggressively, or more consistently.

Twenty years ago, when there were fewer, less hungry, less inventive competitors, sustainable advantage was a goal firms could reasonably aspire to. Today, it's much less likely, and may even be impossible. And the extraordinary proliferation of new business models – many Internet-based – will make it even harder in the future.

Get things done!

Differentiation is an ideal that every firm should strive for. But in crowded markets of me-too players, *the ability to get things done* may matter even more. Certainly, it matters over the long run, when positioning advantages wane and when the strategies of most players in any industry start to converge.

Implementation is the ultimate make or break factor – often worth 100 I.Q. points. But implementing well *once* is not enough. You have to do it over and over again. And whereas sporadic stabs may have sufficed in the past, today you have to keep pushing the envelope with a stream of innovations and improvements.

The surest way to deliver the goods is to sharply cut the time given to any task, and to hold tough, no-holds-barred reviews of progress. I have most of my clients – in industries as diverse as finance, pharmaceuticals, and construction – committed to 30-day strategies. That's right … *30 days!*

Some have said this is too tactical (while conveniently forgetting that their one-year or threeyear plans didn't work). But when they try the 30-day approach, they get results.

Most change efforts fail because the deadlines are too far out. And when there's time for the wheels to spin, they do. So the best way to stop that happening is to "chunk" work and put specific people's names next to it. Then, to demand straight answers at month-end, and to give anyone who doesn't produce the goods a seriously hard time.

If this causes "strategy" to become "tactics," who cares? If some people bitch about being "micro-managed," that's tough. And so what if they don't like being roasted when they fail on their promises. If your goal is to progress, this way works. It gets things done. It forces people to identify the most important issues and to focus their time and attention on them, and puts huge pressure on them to perform. It also lets you celebrate work well done – every month!

E-commerce: start with the right question

With e-commerce all the rage, it makes sense to start with a cautionary note:

> Managers are falling into a dangerous trap: they assume that because "everyone" is going the "dot.com" route, they must, too. They also assume that "bricks and mortar" is out and "clicks-to-clicks" is the only way forward. Both assumptions are wrong.

Information technology is clearly changing the way business can be done. The PC has only been around for about 25 years. The Internet became popular as a communications medium only about five years ago. And more recent inventions – WAP phones, wireless personal digital assistants (PDAs), 1-gigahertz chips, Bluetooth wireless technology – will dramatically change our communications capabilities.

In the very near future we'll see quantum leaps in the ease and speed with which we find and share information and buy and sell anything.

It's little wonder then, that managers are currently obsessed by this question:

"WHAT MUST WE DO TO BECOME A DOT.COM BUSINESS?"

Instead, what they should be asking is:

"HOW MUST WE CHANGE OUR BUSINESS MODEL TO OWN THE FUTURE?"

If it turns out that technology is part of the answer, so be it. But to assume that technology is the *only* answer or even the central issue is to put the cart before the horse and to risk not thinking about critical aspects of strategy.

It is probably true that every business needs a serious infusion of new technology. Whether you're selling pot plants or cleaning services, books or jet engines, smart systems can help you cut costs and add value for customers. They are an important building block for every company.

But if you don't have a *clear business concept*, if you don't know precisely *how you will make a difference* that matters for customers, and if you aren't sure what you'll do to *stand out in the marketplace*, you have a problem. Chances are you'll blow a lot of time and money on technology and cause frustration all round. At best, you'll do the wrong things – or unimportant things – faster and cheaper!

Technology is a *tool* – not a strategy. It's a means to an end, not the end in itself. So begin with questions about your business model (see *StrategyLetter* No 24, September 1999) and then weigh up how technology might make it work better.

Many high-flying Internet companies failed to do this and are either being punished by the markets now, or soon will be. A lousy business model can never make money over the long haul. A great business model, on the other hand, makes success a real possibility.

Have you got a point of view?

How would you answer these questions:

1. Why does your company exist?
2. Why should your stakeholders allow it to survive into the future – and how will you ensure that it does?
3. What difference does it make, and why does that difference matter to anyone – especially customers?
4. What's your "profit recipe" (how exactly do you make money)?
5. What are your priorities?
6. How should your organisation behave?
7. How do you measure performance?
8. What's your attitude to *non-performance* – by companies, divisions, departments, products, and people?

Your answers add up to a point of view. And that is probably the most important leadership weapon any CEO has.

The questions may seem less than profound, but I work with lots of executives who don't have answers that are either thought about or clear. Result: they swing this way and that, with no consistency between their various utterance, initiatives, and actions. What's important today is forgotten tomorrow. Different parts of their organisations pay attention to different things. Nothing adds up.

Strategy is largely a matter of communication. Companies get things done when their people know what matters, what the priorities are, and what's happening. They fall behind when their people are kept in the dark.

But it's not only people *inside* a firm who need to know what's going on; other stakeholders must be kept in the picture, too. If you want them to "vote" for your company, you'd better be sure they know what they're voting for!

The #1 leadership skill

The CEO's point of view provides a "north star" for everything a company does, and for all its communications. It helps the team stay on track internally, and "on message" when dealing with outsiders. It's the basis of an organisation's "strategic conversation."

If you don't deliberately craft your strategic conversation, it will evolve by default. With luck, it will reflect roughly where you're going anyway. But *the risk is that your business agenda will be defined by someone else*, who may not have your best interests at heart.

To be worth anything, the strategic conversation needs to be simple. Start with two questions:

1. Where's your "hill" – i.e., where is your company aimed? What is its purpose and what is your ambition for it?
2. What must you do that will get you there, and in better shape than you are now?

Life is a moveable feast. There's no shortage of things to do, and things always change. If you aren't clear about your intentions, you'll be constantly surprised, dragged off course, and sooner or later stopped in your tracks.

Leadership is fundamentally about message-making. Yet survey after survey highlights communication as unquestionably the #1 problem in every company. So spend less time worrying about *how* to say things, and more about *what* to say, and you will make a positive difference faster than you might imagine.

Test your logic

As a strategy consultant, I regularly meet with business leaders who are absolutely passionate about what they're doing. They speak with great enthusiasm about their lofty goals, their smart moves, and their recent wins. They describe their business models in great detail. Yet often I struggle to get the message. I can't see the logic in what they say.

As a consultant, it's my job to quickly grasp the big picture, to put the pieces of a new corporate puzzle together, and to spot the holes. I deal daily with new information, unfamiliar situations, and novel strategies. Yet over and over I walk away wondering, "What the hell is going on in there? Why do they think that all makes sense? Do they really believe what they're saying? Do they think they sound convincing?"

As an "ignorant outsider" I have one advantage that insiders lack: "fresh eyes." (It is hard when you are part of an organisation to see things as they really are, and not as you want them to be. It's uncomfortable to see your vulnerabilities. And it is often difficult to be challenging and provocative – especially when you're trying to foster a team spirit.)

However, like all humans, *managers work hard to confirm their worldviews*. So it's no surprise that they fail so often to ask, "Where are we really going? Does it make sense? Does this direction have a future? Is there good reason for anyone to support it?"

It's human nature to keep the peace, to seek stability, and to avoid change. Companies go to great lengths to make sure everyone is "on side" (team-building exercises, newsletters, speeches, etc.) Meetings add the "glue" which welds assumptions and ideas and is so essential to culture. Minute by minute, in countless tiny ways, differences are suppressed, routines are imposed, and the extraordinary is shoved aside in favour of the ordinary.

But *strong companies are not built without dissent and disagreement*. Yes-men (and women) are their enemies. They understand that team-building can have toxic side effects: either groupthink or everyone agreeing in public and dissenting in private.

When managers fail to think coldly about their strategic logic, and when they fail to constantly challenge their thinking, they leave themselves exposed to outsiders who will do it without fear or favour. When they fail to ask, "Why?" "Why?" "Why?" – and ask it until everyone fed up with the question – they shut off opportunities for renewal and growth.

To check your company's logic right now, try this test:

1. What makes our offering (product or service) different to those of competitors?
2. If we asked our customers, would they agree with us?
3. Does the difference matter to them?
4. Does it have a future – or will something come along soon and blow it away?
5. Is the way we deliver that difference (our business model) as innovative/effective as it could be?
6. Is our business model a *profit* model?
7. If we weren't in this business now, would we get into it?
8. If we came in today, would we invest big money in it?

As you answer the first six questions, ask, "*How do we know?"* Because like most managers, you probably rely on shaky assumptions to underpin very serious decisions. It's a dangerous practice. In recent months I've had senior people justify strategies with statements like these:

> "I think…"
>
> "We feel …"
>
> "Economists say…"

Stay "on message"

As the US elections wind up, watch presidential candidates work to "stay on message." They know that effective communication is like Chinese water torture – you have to drip, drip, drip away relentlessly to get through.

Managers think they can do otherwise and still make an impact. Their *inconsistency* is mind-boggling. One minute they say one thing, and the next they charge off on a different tack. This leaves their stakeholders – staff, customers, suppliers, shareholders, and others – utterly bewildered and unlikely to support them, so it can be very costly. And once things are *said*, it's hard to change what people *think*. The memory lingers.

Words that appear in strategy documents, memos, letters, corporate videos, and the like must be well chosen. Many people won't read them carefully, and certainly won't unravel their deeper implications. But others will see strange things in them. To get attention and to get your message through, it must be crisp, clear, and consistent. If it's not simple enough for a 10-year-old to understand, it will miss your audience.

Recommended reading

I read about 10-15 books a month on a wide range of subjects. Here are some I've picked up on recent visits to the United States and Britain. Enjoy!

1. *The Future and its Enemies,*Virginia Postrel (The Free Press, 1998). A penetrating look at how society stifles progress by trying to get things 100% right … and how creativity can be unleashed by letting lots of individuals risk getting things wrong.
2. *Butterfly Economics,* Paul Ormerod (Pantheon Books, 1998) An unusual view of the dismal science. Ormerod's stories about ant colonies are especially relevant to business strategists as they highlight the random nature of behaviour.
3. *Leadership A to Z,* James O'Toole (Jossey-Bass, 1999). Short essays on important topics by one of the best business writers around.
4. *Six Sigma,* Mikel Harry & Richard Schroeder (Currency Doubleday, 2000). Detailed introduction to the hot new quality concept that firms like Motorola and GE are using to raise the competitive stakes.
5. *Prime Movers,* Rafael Ramirez & Johan Wallin (Wiley, 2000). How to gain market leadership by understanding the "value-creating logic" of customers, and co-creating the future with them and other stakeholders.
6. *Why We Buy,* Paco Underhill (Simon & Schuster, 1999). An insightful view of consumer behaviour.
7. *Serious Play*, Michael Schrage (Harvard Business School Press, 1999). Certainly the best recent book on innovation. Dozens of real-lie examples of how leading firms let people loose to be creative.
8. *Now or Never*, Mary Modahl (HarperBusiness, 2000). A leading researcher on the current state and the future of e-commerce.
9. *The Origin and Evolution of New Business,* Amar V. Bhidé (Oxford University Press, 2000). How and why entrepreneurship happens.
10. *The Market Driven Organisation,* George S. Day (The Free Press, 1999). Explains how marketing is an integral part of business strategy – and how to do it successfully.