IoD

Tony Manning's

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*Strategy*Letter©

AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

Just when you thought it was safe …

There's economic trouble ahead! US productivity fell in the first quarter of 2001 for the first time in six years. Japan is on the brink of recession. The European Central bank has just lowered its growth projections for this year. Confidence levels of UK manufacturers have fallen sharply. Cisco Systems recently posted its first quarterly loss. Nokia issued a shock profit warning on June 11. The whole telecommunications sector is buried in debt.

Growth is slowing fast in many countries and interest rates are being cut by central bankers anxious to ward off recession. Jittery executives are slashing costs – people, inventories, and investments in new equipment and facilities – as their sales dive.

The jury is out on how long or deep a global slump may be, or whether this is just a brief slowdown in a long-term growth path. But *there are enough warning signs to suggest something more serious and long-lasting than most people like to think*. So far, consumer confidence has held up (except in Japan). But sooner or later, job cuts will put a brake on shopping, and then things will get really interesting.

Already, many firms have announced aggressive new strategies – usually involving sharp price cuts. The months ahead are likely to see even more hostile competition as the battle for customers intensifies. But not everyone is paying attention.

Complacency is a dangerous habit, and more so when there are sudden and big shifts in the business arena. *If insanity can be defined as doing more of the same and expecting different results, management insanity is a big threat to many businesses right now*. Either their executives haven't noticed that something has changed, or they're not doing much about it. The future will make road-kill of them.

This is another of those moments of crisis and opportunity. It calls for alertness, imagination, toughness, and a swift revision of strategy. *Carpé Diem* should be the battle cry in boardrooms and throughout organizations everywhere. There is not a moment to lose.

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Competition after the dotcom meltdown

The last five years have seen many companies – particularly in the dotcom arena – come and go with blistering speed. But even though "new economy" types have lost their lustre, and "old fashioned" (maybe not quite smoke-stack) operators are back in favour, the pace and magnitude of change are not abating.

In fact, with all the dotcom hype out of the way, you can now expect things to get really hot. A new era of competitiveness is already here. Some issues to watch:

1. **Widespread economic concerns mean that selling anything anywhere will be much harder.** Customers are hanging on to their wallets and shopping carefully. They demand both lower prices and better value. To get their attention – and their money – companies are shaping up, sharpening their strategies, and chasing sales with increasing aggression.
2. **Companies will get back to strategy and do what it takes to make a real difference**. As I have pointed out in articles and speeches over the past three years, and as Michael Porter confirmed in a recent *Harvard Business Review* article ("Strategy and the Internet," March 2001), the Internet is not strategy. It is, at best, an *enabler* of strategy. My "First Principle of Business Competition" – "if you don't make a difference, you don't matter" – applies now more than ever.
3. **The race for new business models – *embracing* the Internet but not dependent on it – will accelerate**. For a while, the tech-heads ruled; their words were gospel. It was the Internet or nothing. If you weren't into servers, routers, satellites, WAP-enabled cell phones, etc., you were on the way to being irrelevant. Now, "normal" managers are back in charge. Business models are being tested against old-fashioned notions like costs, margins, profits, and real growth potential. The new realism is concentrating attention on the fact that novel business models are the starting point to success in the marketplace.
4. **The human factor will become an even more critical competitive issue**. Ironically, after 50 years or so of bleating by the "human resources school" that people matter, it is the technologists who are driving this message home with real impact. Thought leaders like Larry Prusak (IBM), John Seely-Brown (Xerox), Thomas Davenport (Accenture), and Michael Schrage (MIT) understand best that technology empowers people, that knowledge management depends on human beings talking to each other, and that a "learning organization" is, first and foremost, a place where people share what they know and reflect deeply on what they see and hear. The word will spread. The war for talent will continue, and companies will get smarter about tapping their "social capital."
5. **More costs will be cut, more value will be added**. Pricing power is a thing of the past, so companies are shedding weight faster than ever. At the same time, they're working frantically to knock their customers' socks off with new, different, better offerings. Those that hadn't quite grasped the "value up, costs down" mantra have now got religion. They're discovering that yesterday's best efforts in every department can be beaten, so they're setting new standards, developing new practices – and becoming more dangerous.
6. **The short shelf life of chief executives will make them more belligerent**. In recent times, surviving at the top of a big firm *for more than 1 000 days* has been a challenge. Today, as investors watch sliding stock prices zap their wealth, they're quicker than ever to call for the heads of the CEOs who cause them pain. So with their jobs (and pay) on the line, captains of industry are acting fast and taking tough steps to pump life back into their under-performing firms. This is likely to continue; competitiveness will rise all around.

Actions for your new agenda

In harsh times, there's no margin in bluster and bullshit. The best practices of the best leaders make sense because they produce results. Here are some to think about:

1. **Raise your antennae**. Wake up! Involve your whole team in continually scanning the world around you for change, information, insights. Pay attention to small things: faint signals often give you a clear message. *Talk often about what you're all sensing*.
2. **Look the future right in the eye**. You might not want to hear bad news, but that won't make it go away. So while you should emphasise the positive and focus on opportunities, don't kill the messengers who bring you a darker picture.
3. **Focus on your core business**. If you're not brilliant at what you do today, you're likely to go down the tubes fast in a slump. So while it might be smart to consider new opportunities, it's even smarter to make the most of the ones you already have, rather than squander them.
4. **Get costs out fast**. You can't run a hard race if you're carrying flab. It's a fact of organizational life that costs sneak up unseen. In no time at all, what looked like an extravagance is taken for granted – a "must have" overhead that is easily justified. But no matter how hard cutting costs might seem, it is almost always possible. Time and again in strategy sessions, I pull the nasty trick of proposing an arbitrary number – R40 million … 50% of operating costs – as the target to aim for. People go nuts arguing why it can't be done. But almost every time, when they apply their minds for just a short while, they find ways to do it. I've saved big companies fortunes by being the tough enforcer who focuses attention onto an unpalatable discussion, and keeps up the heat until there's hard action.
5. **Nail down your current customer base**. There's a fortune to be mined in the filing cabinets of most companies – from their current and past customers. Yet where does their time and attention go? Answer: on chasing new customers – strangers whom they haven't identified and don't know, and who don't know them! This is dumb and unaffordable. *It's pointless trying to grow new business while you lose ready opportunities*. Warren Buffet, chairman of Berkshire Hathaway, put it beautifully in his latest shareholders' letter (www.berkshirehathaway.com) when he said, quoting his grandsons: "A blond in a convertible is worth five in the phone book."
6. **Develop new value propositions**. Today's skittish customers are not only looking for better price deals, they also want more value. You can't keep delivering the same old stuff and expect them to stay loyal. Every person in your firm should be constantly engaged in dreaming up new ways to add value. And you should step up your efforts to make your *promise* clear – and to broadcast it loudly.
7. **Find new customers, attack new markets**. Can you honestly say you've found *every* customer for your product/service? I doubt it. Even the smartest of marketers miss people who might buy from them. So do some research: redefine your "market," re-segment it, and re-think your offerings. Gather information on potential customers and their habits. Plan now to reach out to them by re-packaging and re-branding whatever you sell, by developing new distribution methods, and by changing your approach to pricing, financing, service, support, or whatever.
8. **Drive operational improvements**. No matter how hard you might have worked at productivity, and efficiency, and no matter how satisfied you might be with what you've achieved, this is no time to rest on your laurels. There's room for more progress. And there's an urgent need for it. Get started today!

Get real!

It is always important for executives to be brutally realistic when assessing the future. And it was never more critical than right now. This is no time to believe your own bullshit.

The smartest strategy in the world will come unstuck if it's based on wild assumptions. Yet the air at management meetings is thick with statements like these:

- "Our prices are too high"
- "Our customers aren't buying"
- "There's no market for our service"
- "Our offering is world class"
- "Competitors can't copy us"
- "We've got the best people in the industry"
- "We're the low-cost producer"
- "People love our ads"

Often, it takes just two or three minutes and a bit of probing to find out that these opinions are pure fantasy. They're based on guesswork rather than solid research and analysis. They're what people think others want to hear. And if you go with them they can sink you.

The first rule of survival in any strange environment is to look around and get the clearest possible fix on what you have to deal with. If a storm is brewing, it's no use pretending that there's fair weather ahead. If there's a wild animal ahead of you, best you see it before it sees you. (Then you can decide whether to stand still, shoot it, or run like hell.)

Effective board directors bring an independent perspective to high-level discussions, and test the assumptions of the CEO and his or her management colleagues. They do this by asking questions the "insiders" don't – or *won't* – ask themselves.

In the same way, executives at all levels can add value by asking "dumb" questions like these:

- "How do you know?"
- "Are you sure, or are you guessing?"
- "How reliable are the facts?"
- "How likely are things to pan out the way you explain it?"
- "Is there a precedent?"
- "Just because that was once the case, will it be so again?"
- "If 'all else is *not* equal,' what happens?"
- "Are there other possibilities?"
- "Would someone else hold a different view?"

Confidence is an important executive trait. But confidence based on ignorance or strategic blindness is the kiss of death. Tough questioning is the surest way to get answers that mean anything. Every firm needs people who refuse to accept glib views, who challenge opinions, and who force a deep review of assumptions.

Test your assumptions

As human beings, our decisions and actions are coloured by our individual values, experience, and beliefs. We interpret things through the twin lenses of facts and assumptions. Whether we're optimists or pessimists depends on how we choose to see the world, as does the way we interpret economic data, customer research, or sales trends.

- When Roberto Goizueta became chairman of Coca-Cola in 1991, many of his colleagues agreed with industry analysts that growth for the soft drink giant would be hard. After all, "everyone already drank Coke." But Goizueta had another opinion. "Until Coke comes out of every tap on the planet," he said, "everyone doesn't drink it." His comment captured the possibility that Coke could compete not just against other soft drinks, but against *any* drink – water, beer, wine, tea, coffee, or whatever. And this simple switch of mental gears turned Coke into a "main market beverage" growth machine.

- Executives at Boeing and Airbus both have much the same industry information on which to base their strategies. Yet Airbus opts for building giant 550-seat planes (on the assumption that airport landing slots will be limited in the future), while Boeing lays its bets on smaller, faster craft (on the assumption that the real challenge will be to give more passengers the convenience of Concorde-like speed).
- Executives at America Online Inc. saw the future in an $85 billion bid for "old media" giant Time Warner Inc. – and went for it. Their competitors at Yahoo! decided that owning content production would *not* be an advantage, and stuck with their strategy of bundling other people's news and entertainment products. AOL's assumptions pad off handsomely; Yahoo!'s have sent its share price spinning downwards.

When you think about your strategy, it helps to put assumptions in two categories:

1. **Assumptions about the future**. Since we can't see tomorrow with certainty, we draw conclusions based on past experience or speculation about "what might be." Our best predictions about social, economic, or technological trends are mostly wrong – and the further ahead we try to see, the more likely we are to be off beam.
2. **Assumptions that shape your mental models**. As we travel through life, we collect a lot of "stuff" that becomes the frame for our values, our opinions about how the world works, our views of other people, and so on. Then we add our pictures from a palette of fact, feeling, rumour, and vague impressions. Past experience is a big influence. Other people's views sway us. Assumptions in this group include: the purpose of business, which objectives (and stakeholders) matter most, what actions produce results, and which measures are best.

By making an effort to understand what underpins our thinking, we can often avoid jumping to the wrong conclusions. Make a habit of asking, "Why do I think that?" or "Why do I say that?" and "How do I know?" and you'll hugely improve your chances of success. You'll start to understand why you hold onto sacred cows – and you'll find it easier to kill them!

11 Rules for winning

1. **If you're not serious about winning, stay at home.** Competition today – especially in international markets – is a street fight, not a social event. If you don't prepare well, commit yourself to your strategy, and execute with skill, aggression, and determination, you'll get hurt.
2. **Master the basics.** If you want to build a decent wall, you have to lay the first few bricks properly or the rest will tumble down. It's the same in business. In any industry, you have to master a handful of issues in order to compete. Every company has to get a few things right to come out on top. And every part of the firm – division, department, work team, individual – has to know what to focus on. Success is almost always a result of managing these "basics" exceptionally well rather than doing lots of other things quite well.
3. **Implementation is worth 100 IQ points.** Some firms are able to cook up really brilliant strategies, but they're in the minority. Usually, most players in any industry do roughly the same things. So it's your ability to do them better than your competitors that gives you the edge. *Copycat strategies can pay off if you execute better than your competition*. Implementation doesn't happen by accident, or by decree. It happens when it's *managed*.
4. **Speed kills!** Sometimes, the prize goes to the first-mover. Amazon.com, for example, captured the imagination of customers – and massive market share – by being ahead of the pack in the internet retailing game. But *you don't have to start first to be first*. In fact,

as the saying goes, "pioneers often get arrows in their backs." It can pay you to wait and let others experiment with new technologies, get legislative approval for breakthrough products and services, educate customers, and try various marketing approaches. By watching and waiting, you can learn a lot and save plenty of pain. *But when you do act, act fast*. Don't second-guess what you're going to do, or how to do it.

5. **It's more important to out-*imagine* your enemy than outspend them**. There are times when throwing money at a business opportunity is the best thing to do. The sheer weight of your attack might pay off. More often, though, insight, imagination, and ideas make the difference that matters. Smart thinking is a powerful force.
6. **Live your brand values.** A brand is not a slogan, a symbol, or a slick advertisement. It's the *customer's perception of the total value a company delivers*. That, in turn, is a product of everything you do and the way you do everything.
7. **Bullshit and bluster may confuse your enemy – but be careful they don't confuse *you and your team***. Sometimes it's possible to send competitors charging down the wrong path by suggesting that's where the opportunity lies. By signalling that you're about to launch a massive promotion or slash prices, you can provoke them to act in ways they might not otherwise have chosen. But beware: when you start talking about these things in your company, facts and reality are easily mixed up. In no time, propaganda aimed at your adversary can swing back and hit you in the head.
8. **Pick your fights – and try to influence which weapons will be used**. You can't chase every customer, exploit every distribution opportunity, or experiment with every new technology. Since all resources are limited –even in the biggest organizations – you have to concentrate on the profit opportunities most likely to pay off. At the same time, you should try to seize the high ground and shape how the battle will be fought. *By proactively choosing to advance with breakthrough products, change a pricing formula, or re-jig supplier relations, you can force competitors to follow – and maybe to do things that don't suit them and will ultimately hurt them*.
9. **Aim to be incredibly, magically, impossibly, fantastically, stupendously brilliant at something that makes a difference that matters to customers**. Strategy is about being different in the mind of customers. You gain the edge in the marketplace when they are able to consistently and clearly explain why they buy from you – when they can say "XYZ Company is different and special to me because …" So *what's your difference?*
10. **Forget "neat" strategy … attack with a flurry of blows**. It's vital to be single-minded and focused. But once you've defined your core "difference," look for other ways to add value and step up your attack. (Extra distribution channels, more sales people, short-term promotions, differential pricing, etc.) There's a risk that doing more things will take your eye off the ball, but *adding layers of complexity will make life harder for competitors*.
11. **Make every move a stepping-stone to the future**. *Strategy is the process of thinking and acting in the present to create the future*. By not understanding this, many companies rush straight down a blind alley. They do things in the short term that look clever, but soon find themselves in trouble. You improve your chances of avoiding this trap by constantly asking, "Where will this lead? What's the next move? And the move after next?"

The importance of stakeholder "votes"

Some firms fail because they have lousy strategies. More often, *implementation* is the stumbling block. Managers can't turn their ideas into action. Planning is an annual rain dance, but wonderful plans don't necessarily bring rain. Usually, they turn to dust.

Strategy is clearly one of the most important issues on the top management agenda. But that doesn't mean it's exclusively a matter for top managers. The fact that they hog it in so many companies is precisely why it so often comes to nothing.

Implementation is a team affair. It involves not just insiders, but many people outside as well. Every organization has many stakeholders with different agendas. These are its "voters," and they choose whether it will move forward or backwards, or simply stand still.

Stakeholders fall into six groups:

1. **Company** – all insiders.
2. **Customers –** anyone who buys its products or services.
3. **Competitors –** "natural" ones who are in the same business, and others who compete for the same customer spend.
4. **Suppliers** – who provide whatever the firm needs to function, including finance, services, supplies, components, and utilities.
5. **Influencers** – anyone who can life easier or harder, such as activists, lobbyists, industry associations, the media, environmentalists, and trade unions.
6. **Facilitators** – those who make it possible to carry on the business, such as government, regulators, licensing agencies, and standards authorities.

Some stakeholders can fall into more than one group. Just where you put them isn't important; what does matter is that you accept that they all have some kind of interest in your success or failure, they all influence what you can do, and it's better to have them on your side than fighting against you or getting in your way.

Most of your stakeholders either can't or don't work as hard for your organization as they might. Because they don't understand your strategy, or don't agree with it or feel the need to support it, they aim their energies elsewhere. In some cases, they may work actively *against* your company (Figure 1).

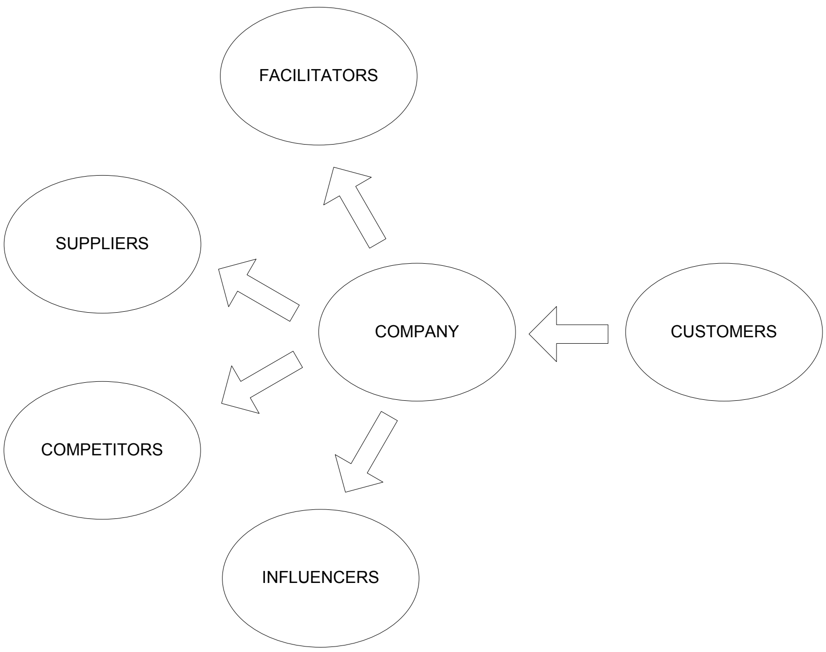

Figure 1

This is a serious matter in an increasingly networked world. If you ever thought you had your value chain under control, that's probably not true today. Key players in your value system may be across town or on the other side of the globe. And when you cross them, they may take to the streets, boycott you, or "flame" you on the Internet.

A key objective in strategy is to get all that stakeholder energy focused on the same objectives (Figure 2). This multiplies the impact of their efforts, and gives your organization "more bang for its bucks."

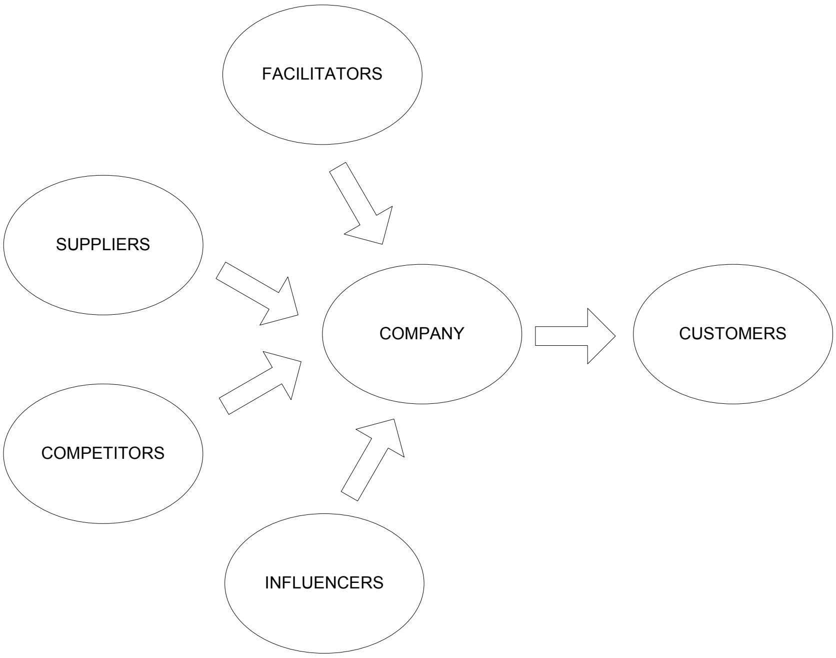

Figure 2

What's more, since innovation comes from many places, it brings unexpected ideas and insights to your management team. And you waste less time and energy arguing and sorting out differences.

While strategy is partly about making choices, it is largely about *communication*. Smart choices can give you an edge – but only if you sell them to your stakeholders and get their enthusiastic and active support.

Winning their votes begins with the way you create your strategy. There are two ways to go about it:

You can appoint a small team (usually of your most senior people) to create your strategy and then try to convince others that it's good for them.

You can involve more people from the start, so they understand both the big picture and the fine detail, the complications and the implications, and they own the process and the outcomes.

Of course, you have to be practical. Too many cooks *can* spoil the broth. Big meetings *can* be counter-productive. Too many voices *can* result in noise rather than clarity. There are questions of time and the availability of lots of people. And revealing your hand can be dumb.

On balance, however, you'll do best to err on the side of involving more rather than fewer people early in any change process. Their participation equips them to perform. *There is no way to make up for the learning that takes place when people work together on important tasks.*

(From my new book, *Making Sense of Strategy*, Zebra Press, 2001, R69,95 including VAT, available now at good bookstores)