

What Strategy is Not

By: VN Bhattacharya

Managers use the word "strategy" loosely and often. Before formulating a successful strategy, they need to grasp what it is, and isn't.

Managers use the word strategy often and loosely. There is considerable confusion about what it means. This ignorance is dangerous in the fiercely competitive world of business today. Strategy is necessary to make a firm competitive. There is no other way to create wealth for shareholders and society. It is an absolute imperative for survival. It is, therefore, even harder to understand why managers responsible for the health of the corporation carry erroneous notions about it.

Their lack of understanding sometimes reflects the leadership's discomfort with abstract concepts. At other times it is conditioned by their preoccupation with results, or action. Because managers learn on the job, leaders' preference for the concrete and the specific leads to errors in what managers come to believe is strategy. There are six common misconceptions. They arise from mixing strategies with results, action, scale, operational efficiencies, business plan and

excessive focus on competition. Let us see how each clouds vision.

1. The Fallacy of Action

Action is confused with strategy. This is perhaps the most common error. Managers tend to answer the question 'How shall we achieve growth?' by offering a number of alternative actions. Let's enter new markets. Or, train sales engineers to sell better. Increase the number of calls sales people make. Introduce new products. Do something, anything!

Most industrial societies favour action orientation. The West drew its inspiration from the Protestant work ethic¹. In other cultures, India for instance, business is greatly influenced if not shaped by western practices. Managers who are pragmatic, quick off the starting block and get things done are praised. Those who think are considered lazy. Action orientation is good for one's career. Recruiters actively look for such people. Hardly anyone hires "people who think". Is it any wonder that

strategy meetings lead to divergent ideas with nothing in common among them? It is even given a respectable name: brainstorming.

Strategists ask three questions: Where, How and What. "Where" leads to the destination, the end they seek. Answers to "How" are the domain of strategy. They provide clues to the means by which the desired result will be achieved. "How" does not tell them what to do. It merely suggests the direction and the manner in which the goal will be accomplished.

"What" prescribes activities that must be performed to achieve the stated goal by using the stated strategy. Actions must flow from strategy if they are to remain consistent over time. Managers should be able to inventively use resources – cash, people, assets, and so on – to execute strategy. The activities that use these resources are the realm of tactics. They are not strategy.

It is true that our experience tells us what actions might succeed and which might not. They help us craft

In Brief

- > Managers frequently confuse strategy with other business decision-making: there are six common misconceptions
- > To qualify as a strategy, the plan must have a long-term purpose, and leverage resources and capabilities
- > Strategy is best crafted through “synthesis” – integrating data, knowledge of markets, technology, processes, and insight.
- > Making strategy is a creative and intuitive process, as well as a purely rational one.

viable strategies. In that sense, strategy is the outcome of knowledge gained from past action. But it is the insight gained from activity, and not the activity itself, that helps us formulate strategy.

Tactics and strategy go hand in hand. Action is necessary to bring strategy to fruition. But without a game plan action, no matter how diligent, will not lead to the desired goal except by chance. Sun Tzu, the Chinese philosopher, put it perfectly, “Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”

2. The Seduction of Scale

Asked how they would achieve stated objectives, some managers will offer to do more. They would add manpower, appoint more resellers, open more outlets, increase production, or simply work harder. Admittedly, it may work if the firm’s customers are already inclined in their favour. If it is simply a matter of reaching more customers, or producing to meet pent up demand, scaling up the effort might work. Chances are the firm already has a strategy and it’s working. But scaling up is not strategy. If current methods are ineffective, scaling up effort is unlikely to produce results.

Greater effort may work if it builds on the foundation of the firm’s successful business strategy. DELL may open a large call centre in Swaziland and employ their Internet based order booking system in the local language. In this

case DELL will transpose, or scale up their strategy of serving corporate customers to a new country. It will work if the market segment is large enough and sufficiently ready to buy in the manner DELL sells.

But doing more of what they do in Mexico may not work as well for Monsanto in India. Crops are different. Worms and pests have strange appetites. Peasants have small landholding and farm mechanisation is rudimentary. Monsanto’s growth strategy for India would need to be different. They can’t hope to grow by merely doing more of the same methods they employ in Mexico. New ones relevant to the needs of Indian farmers are necessary. Monsanto must give them good reasons to buy. If the firm’s growth strategy is not built on the foundation of competitive strategy, it will not be effective.

Scaling up is akin to casting the net wider, or using a bigger net. But as any fisherman will tell you it doesn’t help if the fish are feeding elsewhere. To catch customers a company must first know the kind they want. They must learn about what customers prefer, where they might be found and how to persuade them. And then employ that insight to offer products and services in the most effective manner. This is strategy. No business can grow without it. Doing more, working harder may lull us into believing we are trying but it is not strategy.

3. High quality, low cost, and superior customer

service – none are strategy

In this era of globalisation it has become imperative to continuously chase costs. No business can justify higher costs unless it is delivering a unique or superior benefit. Lower costs enable the firm to charge lower prices and sell more. If the firm chooses to sell higher and customers still find it attractive, they make more profit. Productivity of plant and machinery, or people can create similar outcomes. It may seem paradoxical, but aggressively reducing costs or increasing productivity does not constitute strategy. Neither does raising quality.

There is an acceptable quality at every price point in a product category. Customers will shun a product that offers inferior quality at the same price as competitors’. They avoid services that do not measure up in their expectation of quality. By improving quality over competitors’ a firm can create competitive advantage. But it doesn’t take long for others to match, or move ahead. Quality is a moving target. You have to improve it continuously to remain in customers’ consideration. Fall behind and you’re doomed; forge ahead and you gain a short and diminishing lead. Competing on quality is usually unsustainable. Quality is an imperative. You cannot hope to be in business if you do not offer quality products or services. That is why quality cannot be strategy.

Customer service can’t be either. Customers expect to be served promptly, effectively. They expect

sellers to be responsive. Buyers of machinery know faults can occur at a certain frequency. When they do, sellers must set them right within reasonable time. A company can create a temporary advantage by serving customers better than competition. They can fix faults quicker, more reliably. But it is unlikely the benefit will last. Competition is very likely to catch up.

Michael Porter (1996), in his influential article "What is Strategy", called cost reduction, quality improvement and customer service operational effectiveness. He argued they are not strategy because, one cannot choose to market products of competitively low quality. One cannot afford to say one will not reduce costs, or will serve customers poorly.

Strategy is about creating value for customers. In this respect operational efficiencies and strategy

Concentrating energy on destroying the competition can take one away from creating **uncontested** markets

are alike. But that is where similarities end. Strategy is about making choices. If you take one road you cannot take another. Unlike strategy operational efficiency, or operational effectiveness as Porter called them, is a never-ending demand of the market place. It is complementary to strategy, not an alternative to it.

5. Hurting the competition is not strategy

In a meeting convened to explore opportunities, I asked my client's managers how they intended to grow faster. The sales & marketing manager confidently replied they would destroy smaller competitors. My client, the leader in their industry, held a dominant share of the market. Small regional companies had been nibbling away at their heels for several years. The leader had not lost significant share, nor had their growth rate declined. But they chafed at the constant irritation, and felt they could have grown faster but for these rats.

Aggressive pricing of new low-end products, they felt, would wean customers away from small players and spell their doom. Customers deprived of cheap alternatives from regional companies would flock to the leader. Their feelings reflected what many managers believe: hurting the competition is sound strategy.

The sales & marketing manager believed that low-priced products would hurt the competition and grow the business. The flaw was in focusing strategy on competition, instead of on the customer. The assumption that hurting the competition would spur growth is erroneous.

A company's strategy must enable it to prepare for the future, to assure a healthy long life. The strategy of the market leader, especially one enjoying dominant market share, may lie in growing usage and creating new niches in a

growing market. There are likely to be significant growth opportunities in creating new and compelling value for customers. Concentrating energy on destroying the competition can take one away from creating uncontested markets and achieving own goals besides surprising and unpleasant consequences.

Small regional players are a product of a free market economy. They exist because there is a market for their products. Large companies often cannot, or do not, fulfil the needs of certain segments of customers. Killing competition merely creates a vacuum. New players rise from the ashes of the dead just like Raktabeej did in Hindu mythology, or snakes rose from Medusa's blood in Greek myth.

Actions that aim to hurt other players are not strategy. If you absolutely insist, they are bad ones.

6. An annual operating plan is not strategy

Most companies spend a hideous amount of time preparing what they call the annual operating plan (AOP). It is usually a three-month haul that ends in a voluminous document and several hundred PowerPoint slides. It is also known as the strategic plan. Usually there is nothing strategic in it!

The process involves many rounds of haggling between senior, middle and lower levels of management. Coaxing, cajoling, threats and capitulation are fair means to negotiate resources and revenue targets. Over several

AOPs are notorious for their **business-as-usual** approach. They list much **the same** things that were done last year, and the year before.

iterations the management team produces a plan of action and indicates the results that will follow when those steps are taken.

AOPs are notorious for their business-as-usual approach. They list much the same things that were done last year, and the year before. A few new activities dot the pages as sparks of innovation. The more sophisticated ones detail target customer segments and describe them fitfully in broad demographic terms. No more. Pages display a timetable for various actions. The bulk of the document is a dissertation of numbers: volumes, revenues, margins, and so on. Little, if any, is written about how the firm would create value for its customers.

An AOP is a programme of actions. In the real world, actions, how ever well executed, do not guarantee results. Jack Welch had this to say: "Men could not reduce strategy to a formula. Detailed planning necessarily failed, due to the inevitable frictions encountered: chance events, imperfections in execution, and the independent will of the opposition." Adaptation and course correction are endemic to successful execution. That is why there must be strategy first.

Henry Mintzberg (1994) emphasised: "Managers don't always need to program their strategies formally. Sometimes they must leave their strategies flexible, as broad visions, to adapt to a changing environment." This, the annual operating plan is not.

Strategy is the product of insight;

an annual plan is a programme of action. Strategy is a broad direction that permits experimentation, adaptation and learning from experience. An annual plan expects actions will be performed as stated and reasons for success or failure learnt from post mortem.

Is an annual plan useful? Yes, most certainly, but not if it masquerades as strategy.

What strategy is

The origin of strategy is undoubtedly military. Strategia in Greek means generalship, or art of the general. The Concise Oxford Dictionary defines strategy as "the art of planning and directing military activity in a war or battle". A military strategy is victorious when the enemy is vanquished. Its application in competitive sports is similar. In business it need not be. It is possible for rivals to do well simultaneously without hurting each other.

The use of strategy in business is a relatively modern phenomenon, not much older than a hundred years. Its first significant application was at the turn of the century when Henry Ford Senior successfully established the Ford Motor Company as the largest automobile company in the world using the strategy of cost leadership. To achieve lower costs he vigorously integrated backwards. At one time, he owned or controlled a railroad and 16 coalmines. He built a sawmill to use wood from 700,000 acres of forest Ford Motor owned. He acquired a fleet of Great Lakes freighters to bring iron ore from

Lake Superior mines. He even bought a glass plant. His strategies pursued a single objective: make the automobile affordable so that every American could own one.

Long-term Goal: Henry Ford's vision is symbolic of the first characteristic of strategy. It must serve a purpose. The Concise Oxford dictionary says strategy is a plan designed to achieve a particular long-term aim. It could be to increase market share, reputation, profits, revenue, or achieve a larger cause.

We hear the terms corporate strategy, business strategy, growth strategy and functional strategy. They are game plans in different domains of business. Corporate strategy deals with issues like what businesses we should be in. And how we shall manage them. Competitive or business strategy asks how we should be competitive in whichever businesses we are in. Growth strategies enable a firm to increase its revenue or market share. Functional strategies are the plans of production, finance, human resources, marketing and other departments. They derive from and should be consistent with the firm's corporate, business and growth strategies. They must integrate across the corporation in order to make distant goals attainable.

Leverages capabilities, resources: To realise its ambitions a firm deploys resources – cash, manpower, technology, production facilities and others. Strategy

determines the manner in which they are used. A strategy is effective when it leverages the firm's unique strengths. Conversely, strategies that ignore strengths while chasing opportunistic goals fail.

Does this imply that firms should chase opportunities that fit existing resources? No.

Besides analysis, they used their **knowledge** and **beliefs** about how the world will change. They trusted their **feelings**.

Entrepreneurial firms often successfully enter markets they do not appear to have previous experience in. They are able to do so because they acquire or develop relevant skills that are crucial for success. If the company already enjoys some relevant skills and resources, it enables them to adapt faster or better. In his influential book *Corporate Strategy*, Igor Ansoff (1965) postulated the "product-mission" matrix to explain how the firm's mission – a link with the past and present – is a means to manage risk of diversification and other growth strategies.

Nokia began research in semiconductor technology in the 1960s while it was engaged in manufacturing power and telephone cables. By the 1970s, they began developing digital switches when electro-mechanical analogue switching was the norm for voice telephony. In the early

1980s, they introduced their first cellular systems. At that time, they were a large manufacturer of televisions and a leading IT company in the Nordic countries. It was only in 1992 that they decided to divest non-core businesses and focus on telecommunications. We can see how a connectedness with the past laid the foundations for Nokia's stellar success in cellular telephony. It helped the company acquire new skills, and integrate and leverage those skills effectively.

Product of Synthesis: Why was Nokia able to see a promising future in telecommunication? What gave Narayanan Vaghul and KV Kamath the confidence to transform the ICICI Bank, which had been a government- and industry-sponsored development financial institution offering only project finance, into India's second largest bank? Leaders of both companies possessed insight into their markets, and the foresight to see how changes would create opportunities. Did they analyse data, crunch numbers? They probably did. But numbers are about the past. Their decisions were about the future. Besides analysis, they used their knowledge and beliefs about how the world will change. They trusted their feelings. They crafted their strategies by a process Henry Mintzberg (1994) called synthesis. It is integrating data, knowledge of markets, technology, processes, and insight into how events and trends may shape the future. Strategy formulation is intuitive and creative.

Some people are blessed with it. Others - indeed everyone - can learn through training and practice.

Adaptive, dynamic: Perhaps the most important aspect of strategy is that it deals with the future. Tomorrow is certain; what it will bring is not. It is possible to anticipate it, but prediction is impossible. The operative environment of strategy changes all the time. People change, competitors react. They are influenced by social changes. Governments regulate. People adopt or reject new technologies. Their needs, wants and desires alter not only as they age, but also as a result of what they learn and experience.

What is valid today may no longer work tomorrow. A dynamic environment and actions of other players imbue risk. That is why strategies, no matter how brilliant in thought and execution, can and do fail. To be successful they should mutate to remain relevant in this ever-changing world. They must adapt.

Imperative: Strategy is not a list of things to do. It is not about doing more, or working harder. Superior quality, higher efficiency and lower costs are mandatory. Customers expect them. They are not strategy. Nor is a business plan strategy.

Strategy is a long-term game plan to gain and retain the favour of customers. One company may do so by designing stylish yet affordable products. Another might produce and sell a function at a low price. Yet another may succeed by combining superb quality at very attractive

prices. India has executed this strategy brilliantly and established her world leadership in the offshore software services market.

Strategy is a pattern of action designed to achieve a long-term goal. A good one is necessary to succeed in business – to grow profitability. An improper one can and does lead to disaster. It is an imperative managers may ignore at their own peril.

VN Bhattacharya is a management consultant on strategy. He helps companies grow profitably, in a sustained manner.
www.vnbhattacharya.com