Strategy Toolkit

7 really useful tools to help build winning strategies and drive great results for your business

Stuart Cross

MORGAN CROSS CONSULTING

Because great results don't just happen

Stuart Cross is the founder of Morgan Cross Consulting.

"Stuart has a first rate strategic mind and has that rare ability to hold Executive's feet to the coals on key issues without provoking everyone to throw their toys out of the pram"

Simon Potts, Director of Consumer Healthcare, Boots the Chemists

"At ?WhatIf! it's usually us that gets hired to ask the smart questions and think strategically. When we worked with Stuart he was the one asking the brilliant questions. Even our smartest client deferred to his sense of wisdom. A class act!"

Graham Bishop, Customer Experience Team Leader, ?WhatIf! The Innovation Company

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Why you should use these tools

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Strategy Development need not be so hard

There is a great deal of mystique surrounding the formulation of competitive business strategies. But strategy development need not be so difficult.

Creating a strategy for profitable growth requires a focused and robust factbase, a set of simple tools to analyse the data, an open and objective mindset, and a willingness to share and explore new ideas.

Done well it is a rewarding (and even fun!) experience and will help you and your business to:

- establish a more distinctive position in the market
- focus your efforts on activities that are truly valued by customers
- better exploit and develop your strengths
- make better ongoing decisions and act more quickly
- grow future profits more effectively

Beyond the SWOT

The SWOT analysis is, perhaps, the most famous strategy tool. Whilst it is simple, it is not particularly insightful. It gives you a long list of information without a real handle on what's truly important.

The tools in this booklet may require a little more effort, but the rewards in terms of better strategy formulation will be significant.

They are tools that will help you better understand where and how your business succeeds, as well as its potential for future success. The tools won't give you all the answers, but are a great starting point to the development of a winning strategy for you and your organisation.

For each of the 7 tools I have provided you with a visual of the tool, an understanding of how and why to use it, and, where relevant, further information sources for you to pursue.

I wish you and your business every success. Have fun!

Stuart Cross, Morgan Cross Consulting

The 7 strategy tools

1. Value Discipline
2. Value Driver Analysis
3. Portfolio Analysis
4. Comb Chart Analysis
5. Core Capability Assessment
6. Strategic Position Assessment
7. Growth Share Matrix

1. Value Discipline

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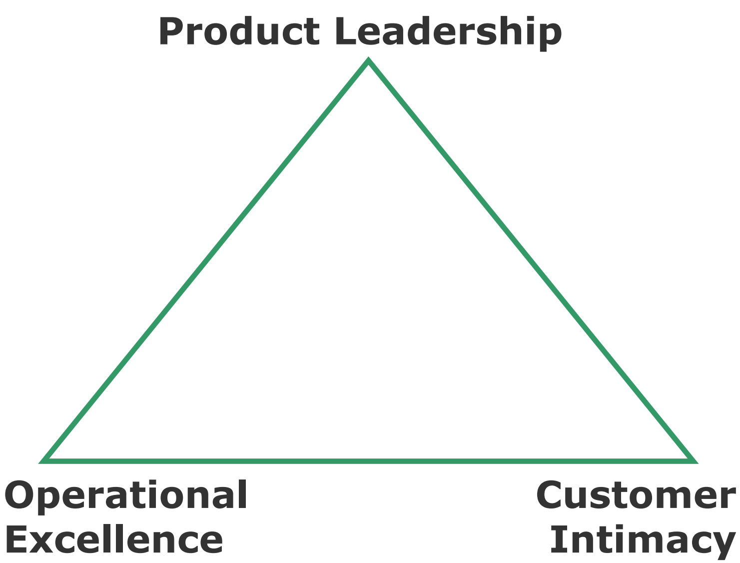

Discipline	Operational Excellence	Product or Service Leadership	Customer Intimacy
Value Proposition	Best value for money	Best product	Best total solution
Golden Rule	Variety kills efficiency	Cannibalise with new innovations	Solve the client's broader problem
Core Processes	End-to-end delivery; customer service cycle	Invention; Bringing to market	Client acquisition, development
How To Improve	Process design; Lean; Continuous improvement	Product technology; R&D cycle time	Problem expertise; Service customisation
Challenges	Shift to new asset base	Jump to new technology	Total change in solution paradigm

Source: The Discipline of Market Leaders, Michael Treacy and Fred Wiersma, 1995

1. Value Discipline

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What is this?

The Value Discipline tool is based on two core principles:

1. Customers value one of three core value propositions
    - Best value for money
    - Best product
    - Best solution
2. Companies must choose a business model that delivers the appropriate proposition
    - Operational excellence - for best value for money
    - Product leadership - for best product
    - Customer intimacy - for best solution

Companies who do not have the discipline to focus on one of the core areas will get "stuck in the middle" and lose out to more focused and disciplined competitors.

How to use it

The tool can be used to map

- Current performance of the company
- Desired future performance of the company
- Performance and trends of competitors

The tool can be used conceptually or objectively. Using data from Comb Charts (see pages 8-9) and Capability Assessments (pages 10-11), relative focus on the three core disciplines can be established and a position on the chart produced.

When to use it

The tool can be used as part of a strategic assessment exercise (where are we now?), or to help set the future direction of the company (where do we want to be?).

Why is it so good?

Strategy is about making trade-offs and being distinctive. The Value Discipline model not only gives managers a tool to discuss the best way forward, but also a grounded and objective way of understanding their current position.

What to watch out for

First, even though companies need to excel at one of the disciplines, they cannot ignore being "good enough" in the other two.

Second, it should be explicitly linked to what customers value. Different segments may value different disciplines, and therefore a robust assessment of customer needs should be developed.

Want to know more?

The Discipline of Market Leaders, Michael Treacy and Fred Wiersma, 1995

2. Value Driver Analysis

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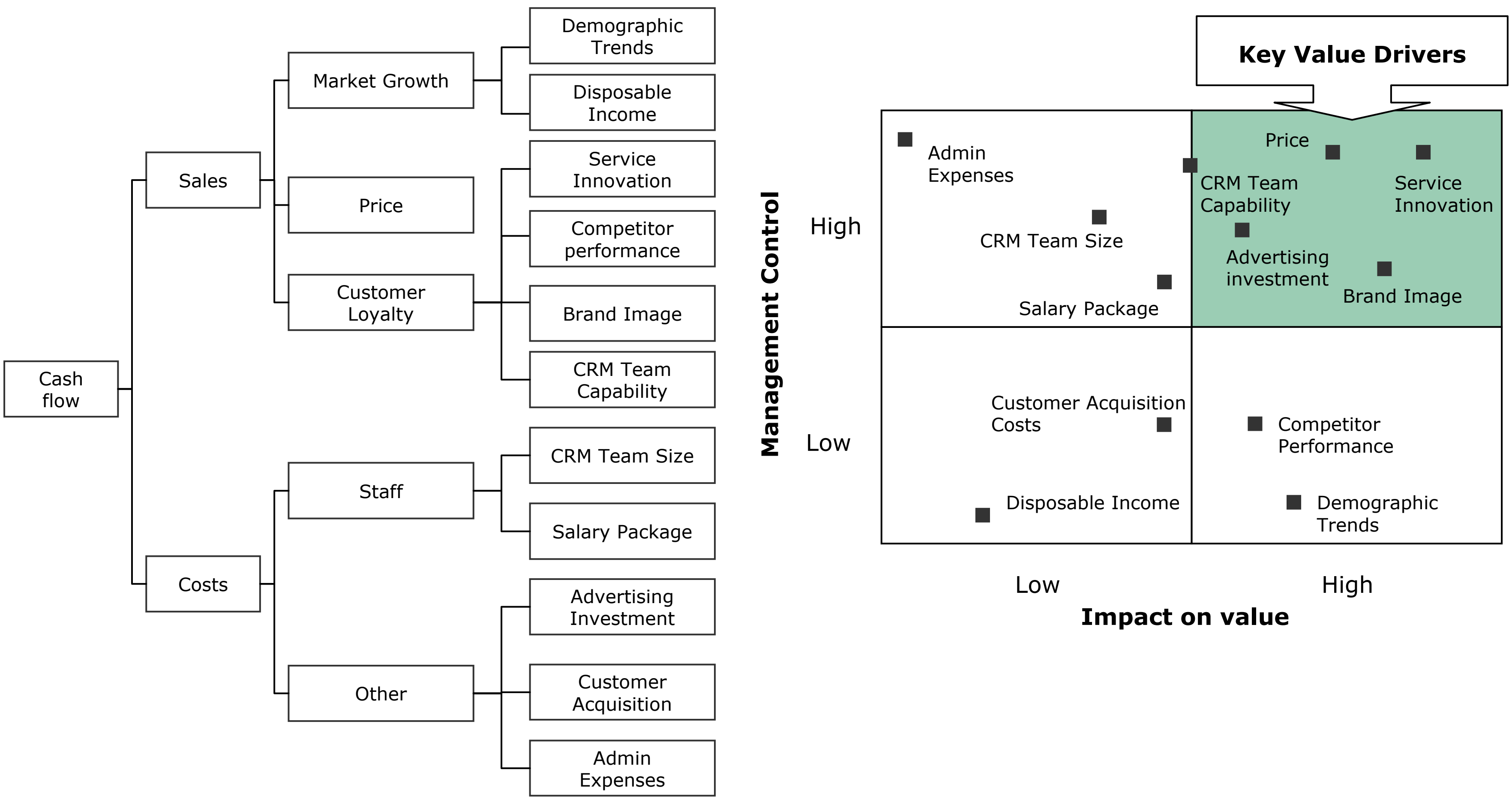
Illustrative Value Drivers Analysis



2. Value Driver Analysis

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What is this?

A value driver is a factor which has a significant impact on the future performance of the business, and which can be controlled by management.

Value Driver Analysis is the way in which managers understand their key value drivers.

How to use it

There are two steps to the analysis:

1. Creating a value driver tree
2. Mapping the value drivers onto a chart to assess their impact on value/performance and their ability to be controlled by management.

To create a value driver tree, start with value (or profit or cash flow) on the left of the chart and break it down into its key elements (eg sales, costs, capital). Continue to do this until the underlying manageable driver is identified. This may take three or four sub-divisions.

By then mapping the results onto the matrix, you can identify those drivers which should form the focus of future strategy development and management attention.

When to use it

When seeking to understand how your economic model works. It should form an early stage of your strategy assessment as it provides the foundations for future focus. – for example by identifying KPI's.

Why is it so good?

Value Driver Analysis allows you to get to grips with the factors for future focus that will drive the performance of your business.

You can often be confused by the complexity of your organisation, and it can be hard to know where to spend your time. Value Driver Analysis allows you to set out the key factors which, if positively managed, will drive your future growth and performance.

It also allows you to link high level strategy to front-line operations. You can help your teams see their role in driving the business, and set Key Performance Indicators (KPI's) which underpin this connection.

What to watch out for

First, it is not always obvious what is driving what. It is important not to jump to conclusions and to support initial conclusions with further evidence. For example, use customer research to show that service innovation really is a key driver of sales.

Second, do not ignore those drivers which impact on value but cannot be controlled by management. They need to be monitored in order to manage risks and develop performance contingency plans.

3. Portfolio Analysis

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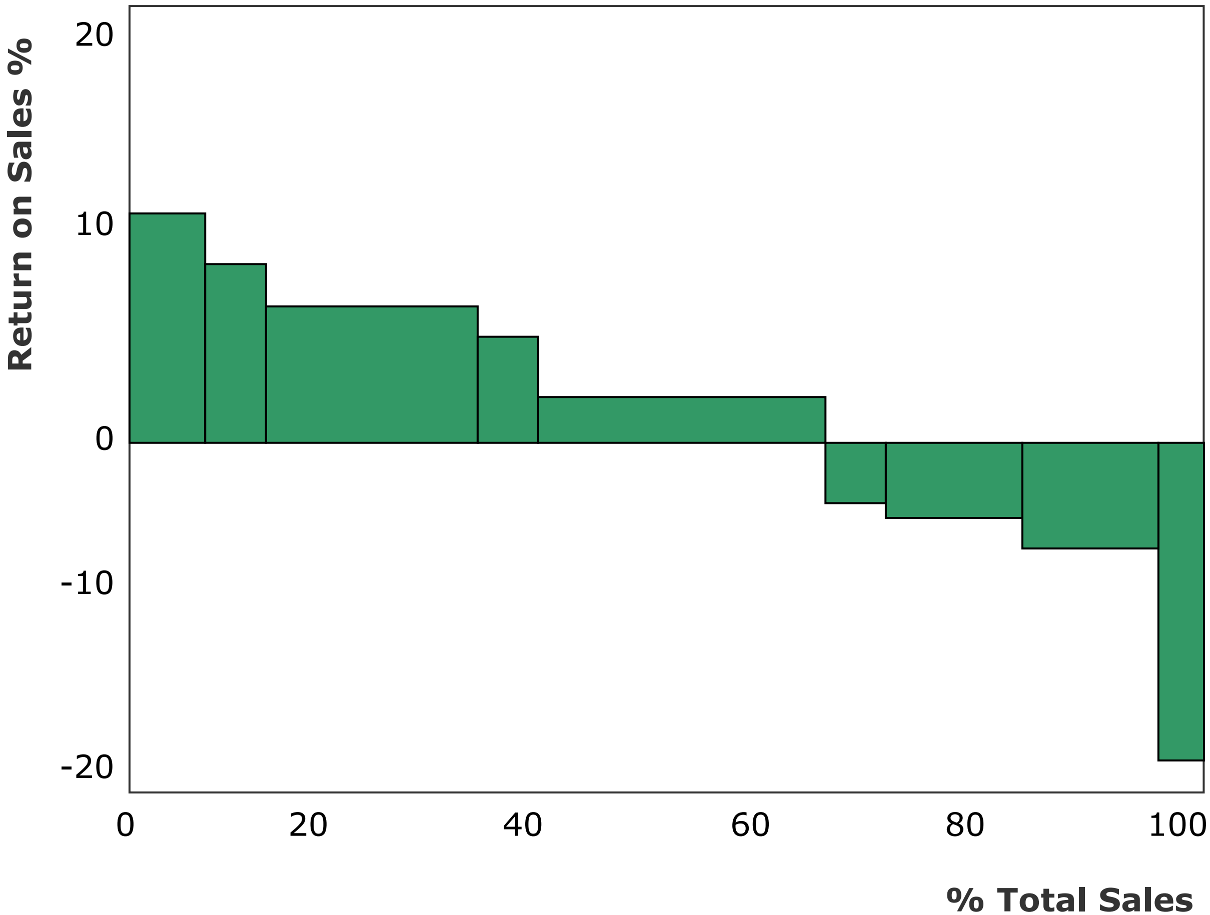
Illustrative Portfolio Analysis example



Each bar on the chart represents a different competitive segment of the business.

The area of each bar represents the total profit generated by that competitive segment.

3. Portfolio Analysis

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What is this?

Portfolio Analysis enables a review of profit performance at the sub-business level.

How to use it

The analysis is often a starting point in the strategic assessment phase of strategy formulation.

It requires the following steps

- Disaggregating the business into discrete segments (ie different business areas, product groups or geographical markets)
- Identifying and plotting the total sales of each segment (the horizontal axis)
- Assessing the total profitability of each segment – at a net profit level, not just gross profit. This may include making assumptions about how different operating costs are consumed by different business segments.

By mapping the results onto the chart, you can identify winners and losers.

Typically, the pareto principle emerges, where 80% of profits are delivered by 20% of sales. This allows subsequent focus on the longer term sustainability of the remaining 80% and leads to questions about how to grow sales further in the most profitable areas.

You can also link the results of these charts to comb chart analysis (see pages 8-9), to understand if specific segments are failing to meet customer needs, and the growth share matrix (see pages 14-15), to understand how market growth and relative market share are affecting segment performance.

When to use it

When seeking to understand the current performance of your various business areas and activities.

Why is it so good?

The analysis delivers an objective assessment of current performance, allowing you to build consensus on where you are making and losing money.

The allocation of costs commonly leads to new insights for managers.

What to watch out for

Ensure that the allocation of costs is grounded and reasonable.

Ensure that the business is sufficiently disaggregated – you may need to disaggregate beyond your currently recognised business units.

4. Comb Chart Analysis

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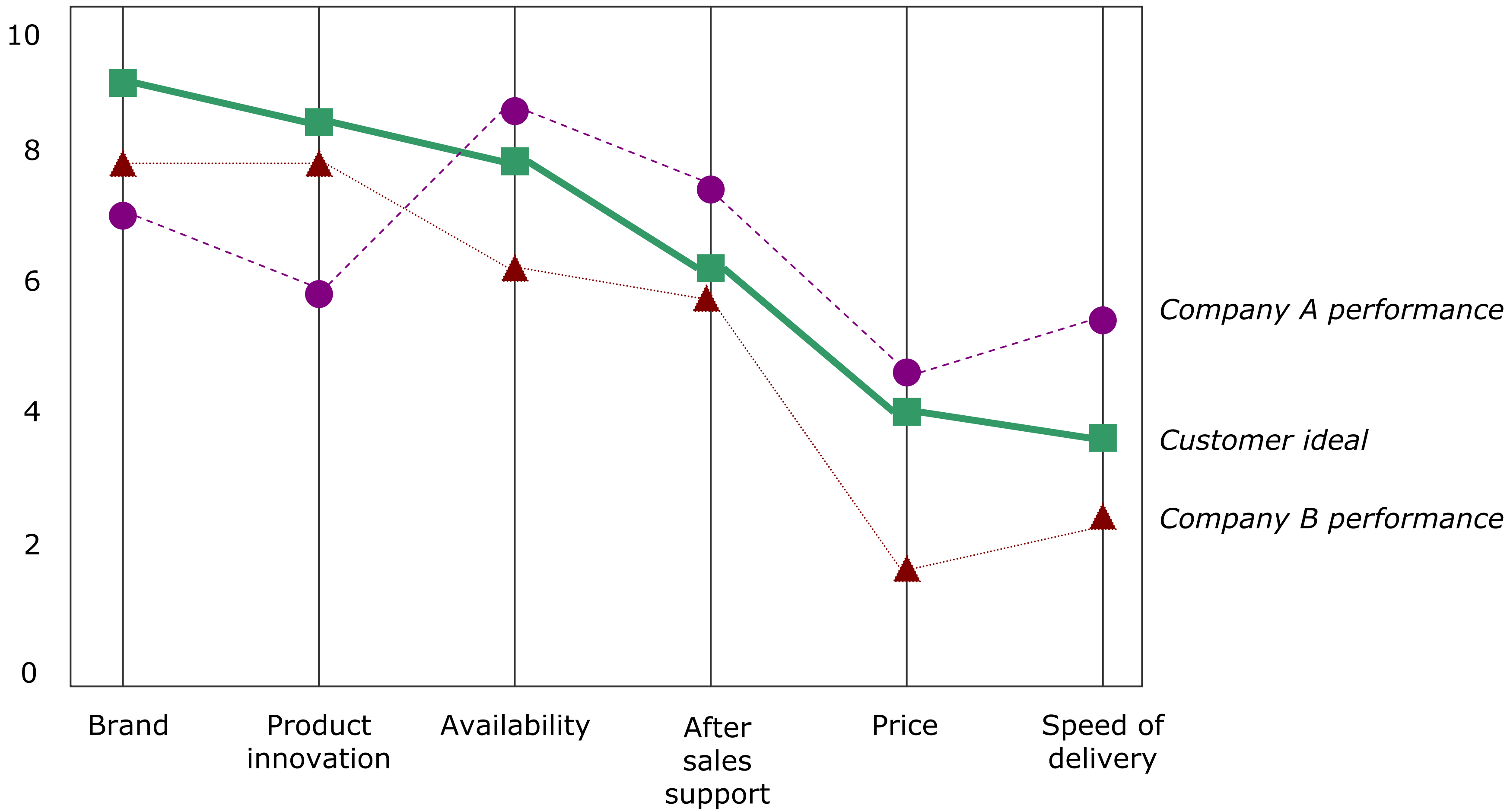
Illustrative Comb Chart example



4. Comb Chart Analysis

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What is this?

Comb chart analysis allows managers to assess what's important to customers, how well their customer offer meets those needs and wants, and how they stack up against their competitors.

Using available data it plots the key customer requirements against the performance of your company and your main competitors.

How to use it

The chart should ideally be based on specific customer research (although internal assessments may still yield useful insights) that identify

- The main attributes customers use when buying
- The relative importance of each attribute
- Your performance in meeting each attribute
- The performance of your top 3-4 competitors.

By mapping the results onto the chart, you can identify areas for further focus, and areas for potentially reduced focus.

For example, using the illustrative example on the chart, Company A may wish to reduce its focus on speed of delivery and after-sales service (where it over-delivers), and redirect investment into brand image and product innovation (where it fails to meet customer requirements).

You can also link the results of these charts to assessments of value discipline (see pages 2-3) and capability assessments (see pages 10-11).

For example, if reliability, price and product consistency are the most important factors to customers, it is likely that an "operating excellence" value discipline will be most appropriate in your market. By focusing resources and effort on building an appropriate organisation you are likely to improve your competitive position.

When to use it

When seeking to understand how strong your customer offer is compared to your competitors. Often undertaken within a broader competitive position assessment.

Why is it so good?

This is a conceptually simple tool that enables managers to quickly focus in on areas to increase and reduce investment.

Commonly, it allows a more objective discussion on the importance of price versus other dimensions of customer offer.

What to watch out for

You may need to perform the research, and analyse the results, by customer and business segment rather than looking at the market as a whole.

5. Core Capability Assessment

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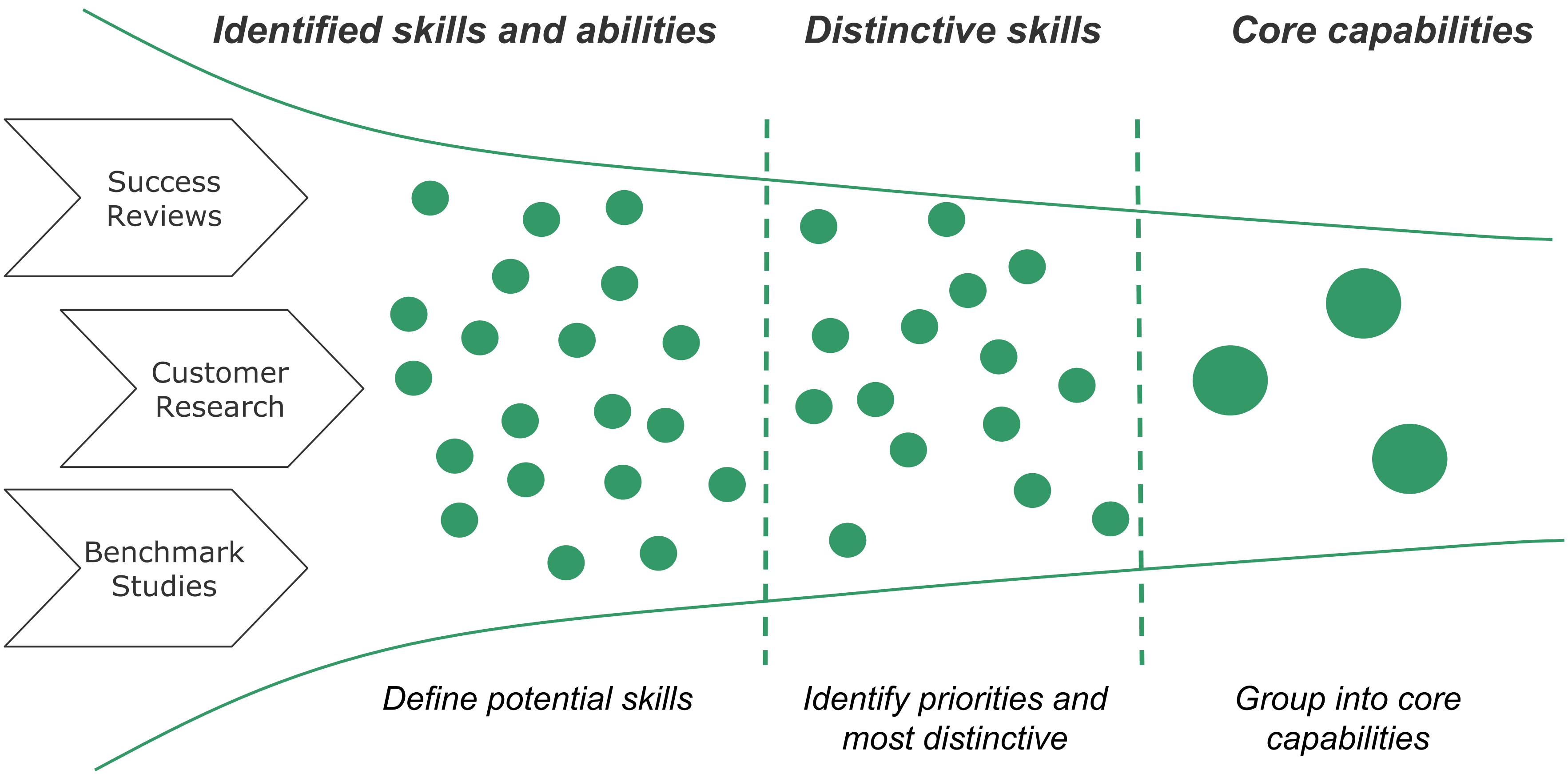

5. Core Capability Assessment

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What is this?

Understanding how you succeed is equally as important as understanding where you succeed. Identifying your core capabilities enables you to focus investment on the factors that will give you a distinctive competitive position.

How to use it

There are four broad stages to identifying and assessing your core capabilities.

First is to understand your core skills. In order to be objective, you may

- Review recent successes to understand the skills underlying them
- Use customer research to identify why customers choose you rather than competitors
- Benchmark various quality attributes against your competitors

The second stage is to refine the list and critically assess whether each skill is truly distinctive. This may involve internal team reviews. Typically you may find you have 5-25 such skills.

Thirdly, group skills together into specific capabilities. A capability is a combination of skills that enables you to create real value for your customers and business. Again, team reviews will be useful. Expect no more than 3-6 core capabilities.

The final stage is to review your core capabilities. You should ask yourself questions such as

- Is the capability becoming more or less important to customers?
- Is the capability strengthening or weakening versus competitors?
- What emerging capabilities are we lacking?
- What new capabilities do we need to exploit emerging and adjacent markets?

When to use it

When seeking to identify the real reasons for your level of success and your competitive position. It will act as the basis for future investment, and can guide decisions as to the best value discipline to pursue (see pages 2-3)

Why is it so good?

If you know why you win, as well as where you win, you are more likely to be able to sustain and exploit your success.

What to watch out for

The key is to ensure that you avoid developing a wish-list, and that the skills and capabilities are developed in an objective and critical way.

Want to know more?

The Core Competence of the Corporation, CK Prahalad and Gary Hamel, Harvard Business Review, 1990

6. Strategic Position Assessment

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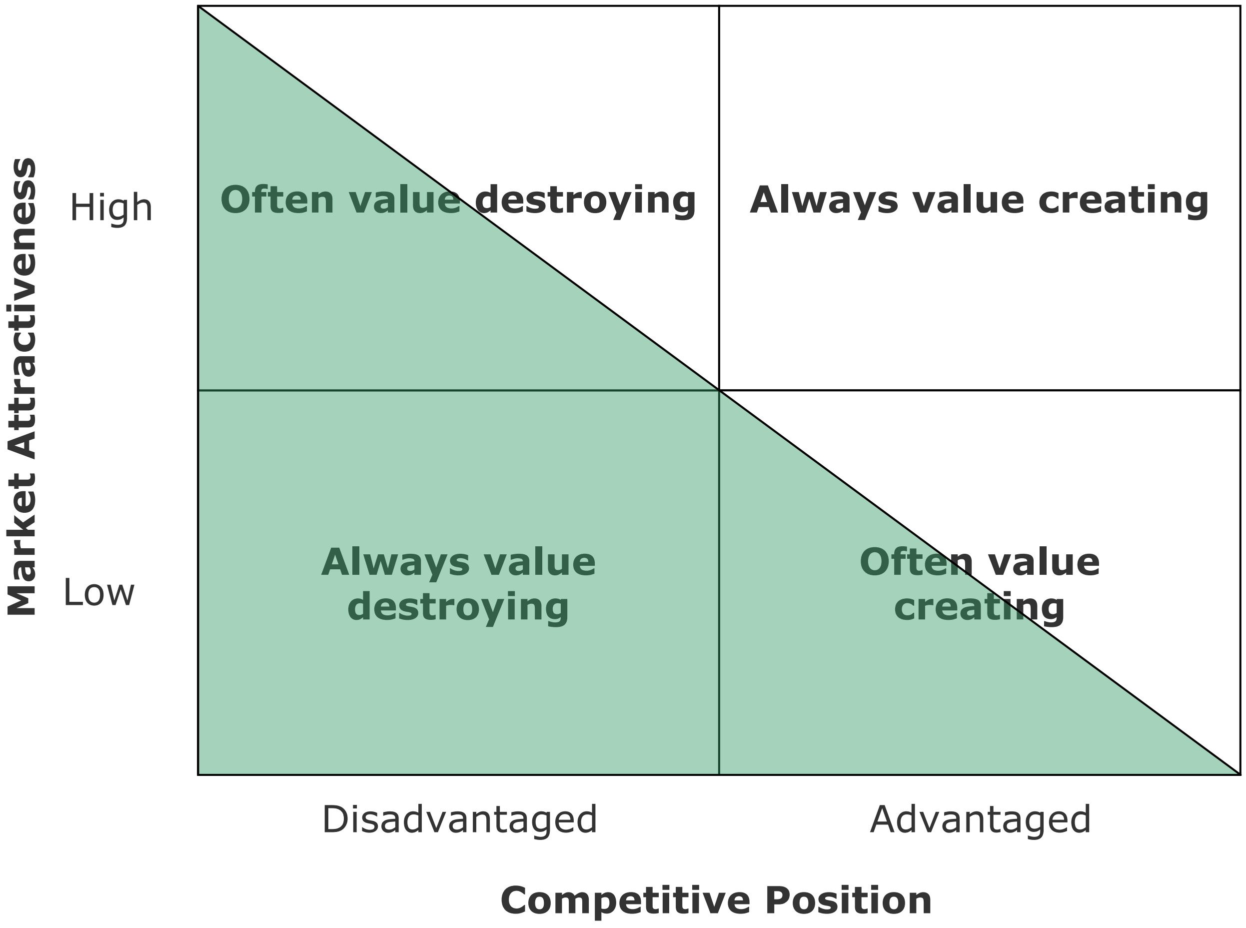

6. Strategic Position Assessment

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What is this?

The strategic position assessment (SPA) brings together the analysis of the internal and external forces shaping your company's performance.

There are two aspects to this

1. Market attractiveness.

In general markets are more attractive if they are large, growing and profitable with significant barriers to entry.

2. Competitive position.

This is an assessment of how well you are able to make profits from the market. There are there elements determining your competitive position

- Your differential advantage to customers. How well you meet customer needs (see comb chart analysis pages 8-9)
- Your pricing advantage - how well you match value to price.
- Your relative cost advantage - how well you maximise returns from sales and invested capital.

How to use it

Because there are several factors that comprise market attractiveness and competitive position, it can be difficult to find objective measures.

A scoring system for each factor can be used as a staring point. Alternatively, proxy measures can be used (for example, overall profitability of the market for market attractiveness, and your share of the profit pool for competitive position).

Map your business segments onto the chart. The quadrants chart the potential for you to create real value.

Being advantaged in an attractive market always creates value, and being disadvantaged in an unattractive market always destroys value.

However, it is far more common to make money by being advantaged in an unattractive market than it is to be second-rate in an attractive market.

When to use it

The SPA provides a summary of your position, and is a useful starting point to highlight the key issues faced by your business segments, and the options available to improve or exploit your situation.

Why is it so good?

Rather than just understand financial performance, the SPA enables you to understand your strategic value drivers (see pages 4-5). By assessing your sources of advantage (customer, price and cost), you will have a sound basis for future investment priorities.

What to watch out for

You must ensure that your scoring of market attractiveness and competitive position is robust, and not just geared to give you the answers you want.

Want to know more?

The Value Imperative, McTaggart, Kontes, Mankins, 1994

7. Growth Share Matrix

Market Growth Rate	Greater than 1.0 *(ie market leader)*	Less than 1.0 *(ie not market leader)*
High	**Stars** *Moderate cash flow- may be positive or negative*	**Question Marks** *Strong negative cash flow*
Low	**Cash Cows** *Strong positive cash flow*	**Dogs** *Moderate cash flow- may be positive or negative*

Relative Market Share

7. Growth Share Matrix

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What is this?

The growth/share matrix is a famous tool also called the Boston (or BCG) Matrix. It seeks to understand the attractiveness and value of a company's business segments/units by mapping:

- Their relative market share (that is their market share as a proportion of their next biggest competitor); and
- The projected volume growth in the market over the next 3-5 years

By plotting all the company's segments/units on one chart, managers can start to understand where to invest and where to divest.

The chart is based on the insight that relative market share is correlated with profitability, and that high growth markets will be more valuable in the future.

How to use it

After mapping each business unit on the chart it will appear in one of the four named boxes.

Cash Cows are market leaders in a low growth market. They are usually highly profitable, and don't typically consume huge investment.

Stars are the leaders in a high growth market. Although you should be profitable, the business will require (often significant) investment for continued growth.

Question Marks are in high growth markets but do not enjoy market leadership. They may be valuable in the future, if you become market leader, but otherwise may consume investment for little future payback.

Dogs are where you lag in a low growth market. Depending on your market position they may or may not be good businesses. However, investment should be strictly controlled for profitable businesses, and where they are loss-making they should be sold or shut.

When to use it

When seeking to understand competitive positions in a multi-business organisation, and identifying priorities for future investment

Why is it so good?

Although slightly out of fashion, the tool enables you to quickly understand the longer term potential of each of your business segments, and identify your priorities for investment.

What to watch out for

The results should not be used in a "black and white" way. In particular, dogs may still be a reasonable investment which, if managed well will deliver significant positive cash flows.

Want to know more?

Simply Strategy, Richard Koch and Peter Nieuwenhuizen, 2006