



# Strategy formulation and design

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October 2020

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## The basics

Hometown: Kemijärvi →  
Kauniainen

School: Atlantic College,  
Helsinki School of  
Economics

Pre-Bain: McKinsey,  
Accenture

## Bain roles

Joined Helsinki 2016  
Lead Tech & Telco in  
the Nordics  
Bain Helsinki office  
lead

## Passions

Family  
Archipelago / boating  
Cars & motorsports

## Spare time

Exercise (from SUP to  
weightlifting)  
Movies and Netflix  
Taking care of the yard



**A new standard of  
excellence**



**Insurgents  
with impact**



**Culture is  
who we are**

# What does “extraordinary” look like?

Talented people on a winning team

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1	HubSpot	BAIN & COMPANY	facebook.	BAIN & COMPANY	airbnb	Google	BAIN & COMPANY	facebook.	BAIN & COMPANY	facebook.	SOUTHWEST.COM
2	BAIN & COMPANY	zoom	BAIN & COMPANY	facebook.	BAIN & COMPANY	BAIN & COMPANY	twitter	McKinsey & Company	McKinsey & Company	SOUTHWEST.COM	GENERAL MILLS
3	DocuSign	IN-N-OUT BURGER	BCG	BCG	Guidewire	Nestlé Purina PetCare	LinkedIn	riverbed	facebook.	BAIN & COMPANY	slalom
4	IN-N-OUT BURGER	PROCORE	IN-N-OUT BURGER	Google	HubSpot	f5	EASTMAN	BAIN & COMPANY	MITRE	GENERAL MILLS	BAIN & COMPANY
5	SAMMONS FINANCIAL GROUP	BCG	Google	World Wide Technology	facebook.	BCG	facebook.	THE UNIVERSITY OF TEXAS MD Anderson Cancer Center Making Cancer History*	Google	Edelman	McKinsey & Company

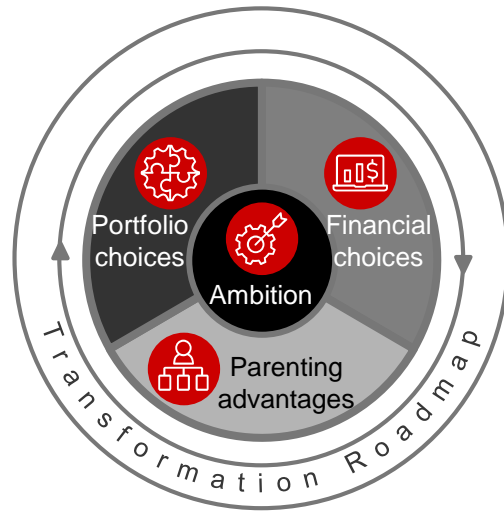
**Now, let's talk about developing corporate strategy!**

# Corporate strategy builds on strong BU strategies, and provides guardrails to them

## P R E F A C E

### Focus of today

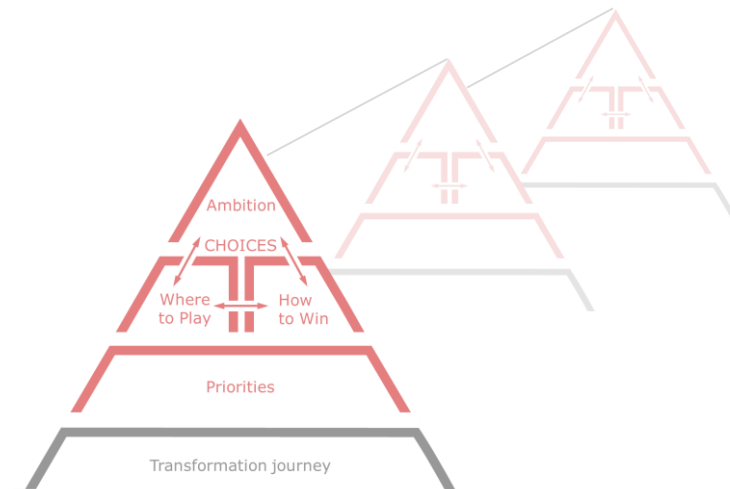
Corporate Strategy is a proprietary set of actions that enables a **group** to create long term, sustained value (more than the sum of its parts)



- **What** types and levels of **value creation** do we aim for?
- **Which** business **assets** should be in (and out of) the portfolio?
- **How** do we **deploy capital** and **build a portfolio that meets** strategic and shareholder **requirements**?
- **How** do we **add value** in the development and management of the portfolio?

VS.

Business Unit strategy is a proprietary set of actions that helps a **business** to out-earn, out-invest, and out-grow its competitors in a sustainable way



- **What** is the **right ambition** for each business unit, in order to achieve strategic sustainability?
- **What** are the right **strategic choices** on which markets to pursue and how to create competitive advantage?
- **What actions** are we taking to translate our strategy in **priorities**, differentially **allocate resources**, and **mobilize** the organization **to deliver results**?

# Bain

## Beliefs on Strategy

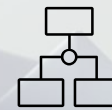


**Success in business is not evenly distributed** – Few companies sustainably outperform; the rest struggle to delight customers, employees, investors



**The pace of disruption has hit a higher gear** – We are entering a new era of business, and few companies are ready for the required transformation

**1** There are **few bad businesses but many bad strategies** – outperformance is driven not by market selection but by leadership and ‘spikiness’



**2** **Today-Forward, Future-back** – a future-back view of the industry clarifies what you have to live with and what you have to construct with



**3** **You can't win on the outside if you're losing on the inside** – the best strategies unlock discretionary energy, passion, speed and commitment of the organisation



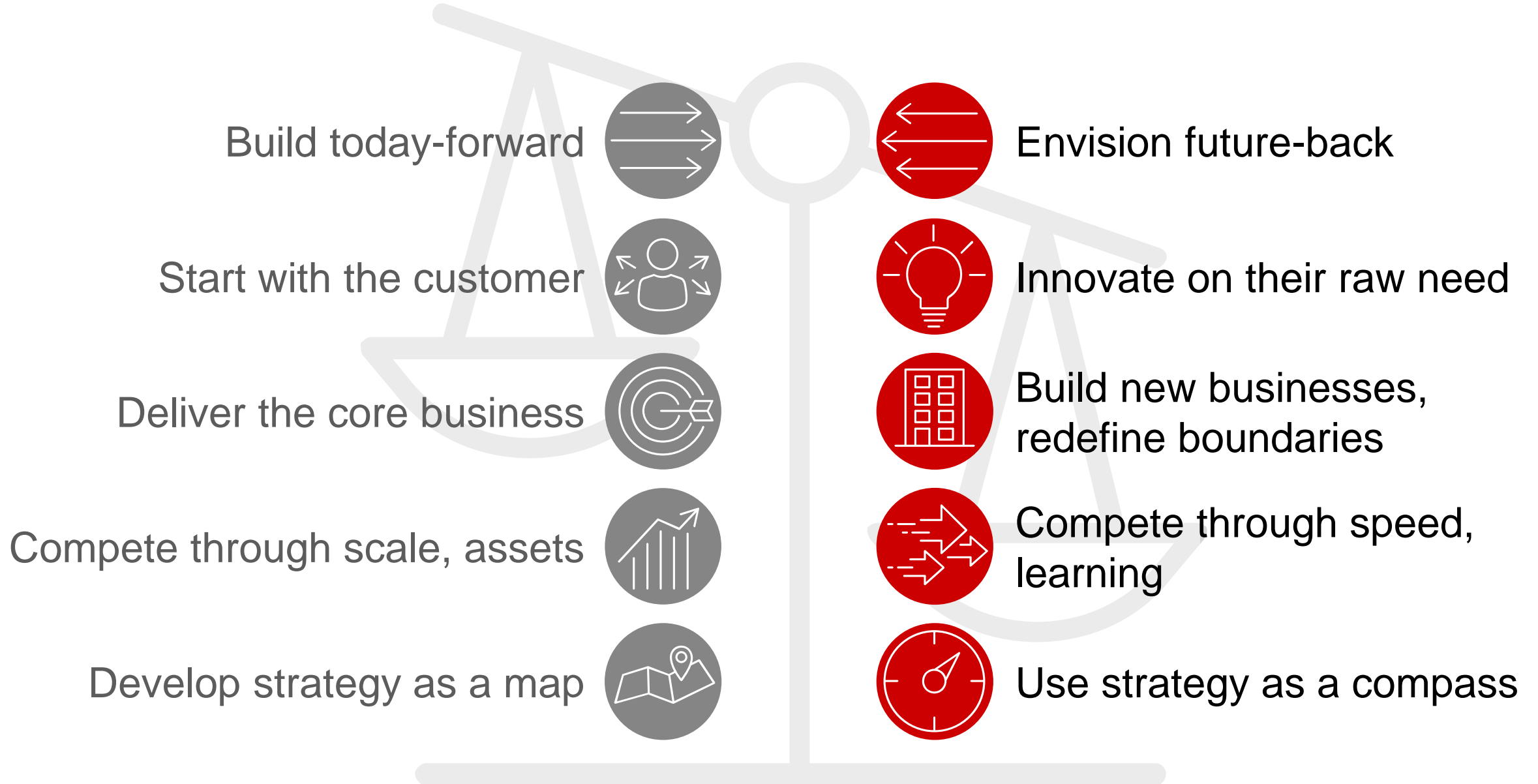
**4** **Business building has determined winners and losers** – the ability to learn, adapt and scale innovation at speed is a source of competitive advantage in its own right



**5** **Winners solve the strategic dilemma** – balance of focus and execution across core growth and reinvention, and building new growth engines



# In this environment, the balance of strategy is shifting





# Main triggers for corporate strategy review – why do this now?

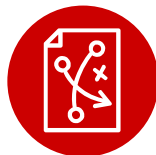


## Perspective on ambition is changing

- New shareholders, new perspectives
- Influences from capital market and analysts
- Board and/ or management set new direction
- Broken growth perspectives



**Current ambition is questioned**



## Battleground is changing

- Technology opens new opportunities or risks
- Disruptive players enter and change the market
- Competitors perform game-changing moves
- Regulatory changes require action

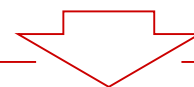


**Strategic sustainability of assets is questioned**



## Financial guardrails are changing

- Portfolio is underfunded with too high leverage
- Portfolio is overfunded with unclear capital utilization options
- One asset requires and deserves significantly more capital



**Capital deployment is questioned**



## Role of the parent is changing

- Assets are growing apart; the gap between their needs and the role of parent is widening
- Assets are growing together, offering new synergies across



**Best owner & best fit is questioned**

**Where will your future growth come from?**

# Typical mistakes made on corporate strategy

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**Tilted on assets you own vs. those you should own**

- Thinking skewed towards current **business perimeter**, ignoring **outside opportunities**
- Holding on to **existing businesses vs. asking ‘best owner’** question

**Leaning on today’s management routines**

- Assessment based on **reporting structure vs. real business boundaries**
- Constrained by incremental **management plans vs. true full-potential**

**Too much “today forward” not enough “future back”**

- Linearly extrapolating **future from the past vs. thinking in scenarios** of industry disruption
- Assessment within **current market landscape vs. understanding shifts** of ecosystems

**Allocating resources democratically**

- **‘Peanut-butter’ spread approach** to capital allocation **vs. clear priorities**
- Management attention on **protecting downsides vs. realizing upsides**

**Ignoring the value-creation lens**

- Narrow focus on **topline and margin** vs. other value creation lenses
- Underexploited **capital structure** and **valuation levers** (i.e. equity story)

**M&A viewed as an end, not as a mean**

- Deal fever vs. trading the **right assets** at the **right valuation** and **capturing the value**
- Single deal perspective vs. multi-step journey with **M&A as catalyst for transformation**

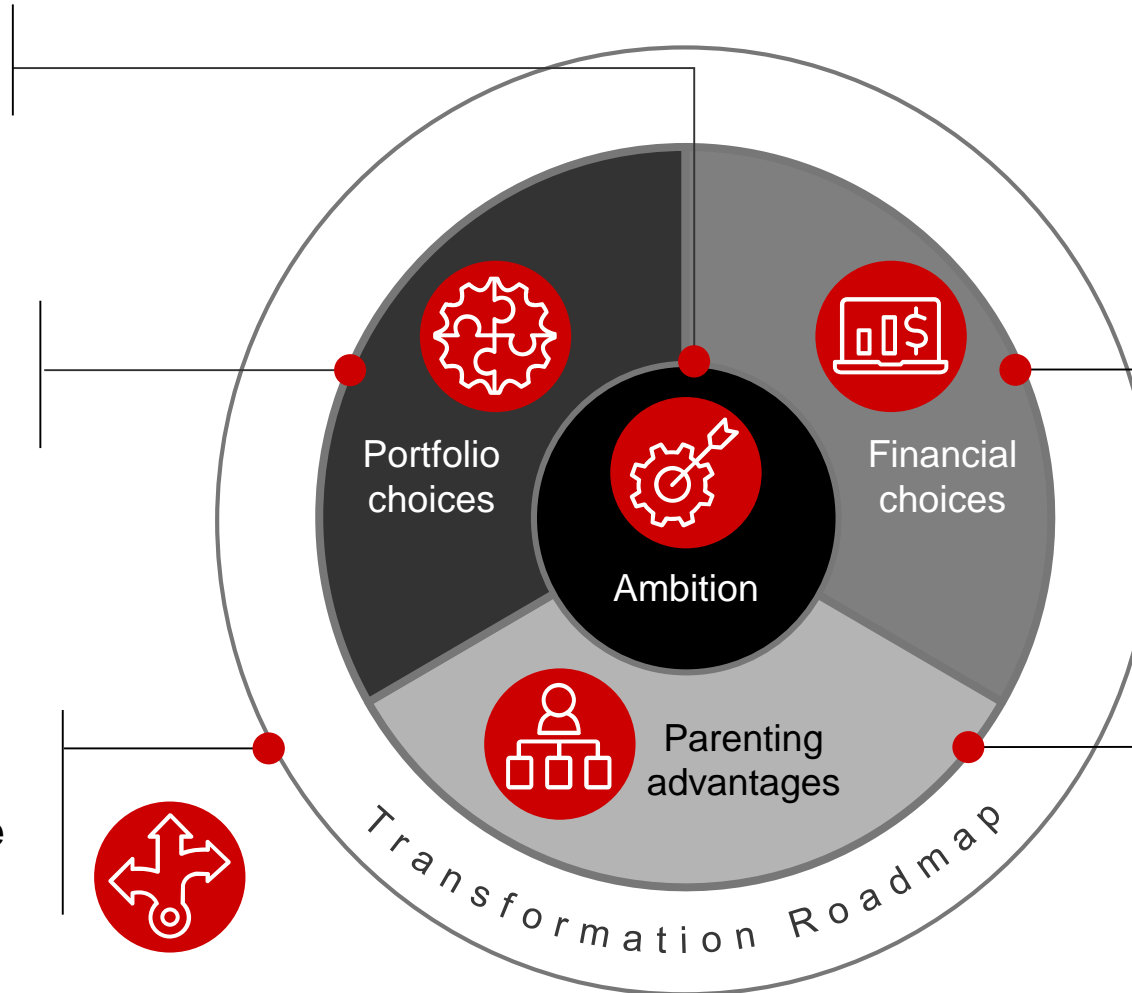
# Bain's integrated perspective on Corporate Strategy

## FRAMEWORK

What and how much should you aim for?

Which business assets should be in (and out of) your portfolio?

What is your corporate target picture; and how do you adjust over time to get there?

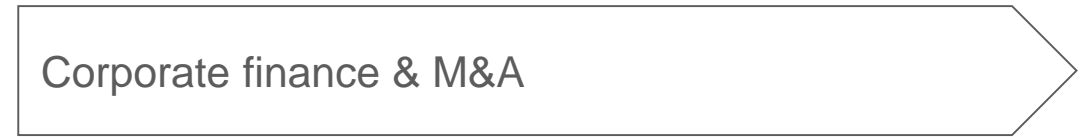
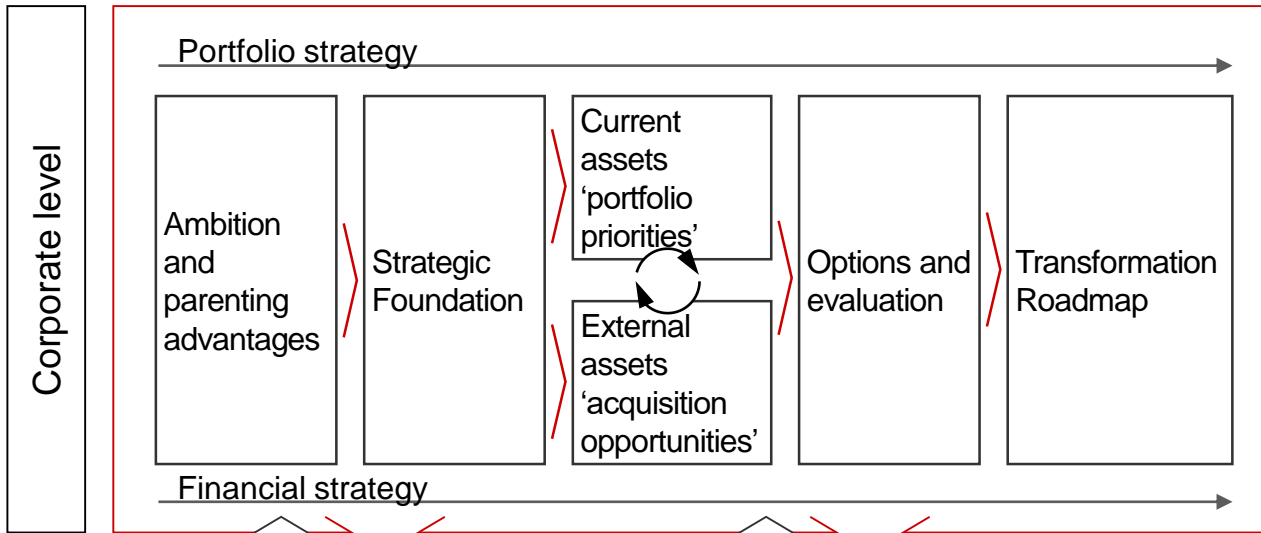
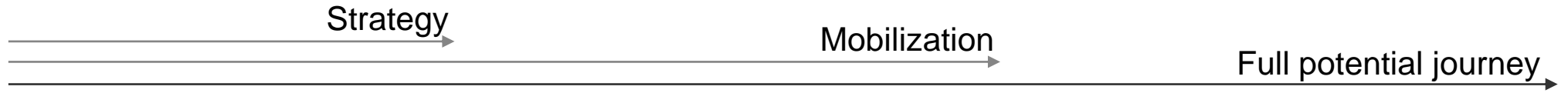


How do you trade-off **business** needs and **shareholders** requirements, and best deploy capital **across assets**?

How do you add value in the development and management of the portfolio?

# Corporate strategy is about creating an integrated roadmap for long-term sustained value creation

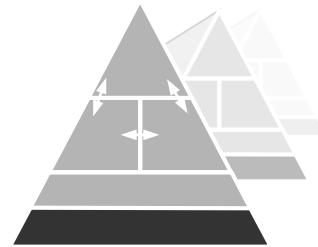
## PROCESS



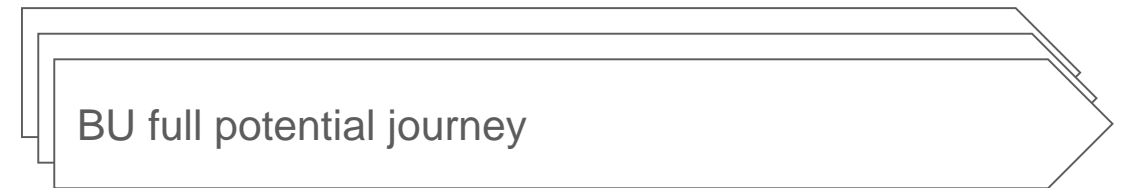
## Business level



BU full potential view



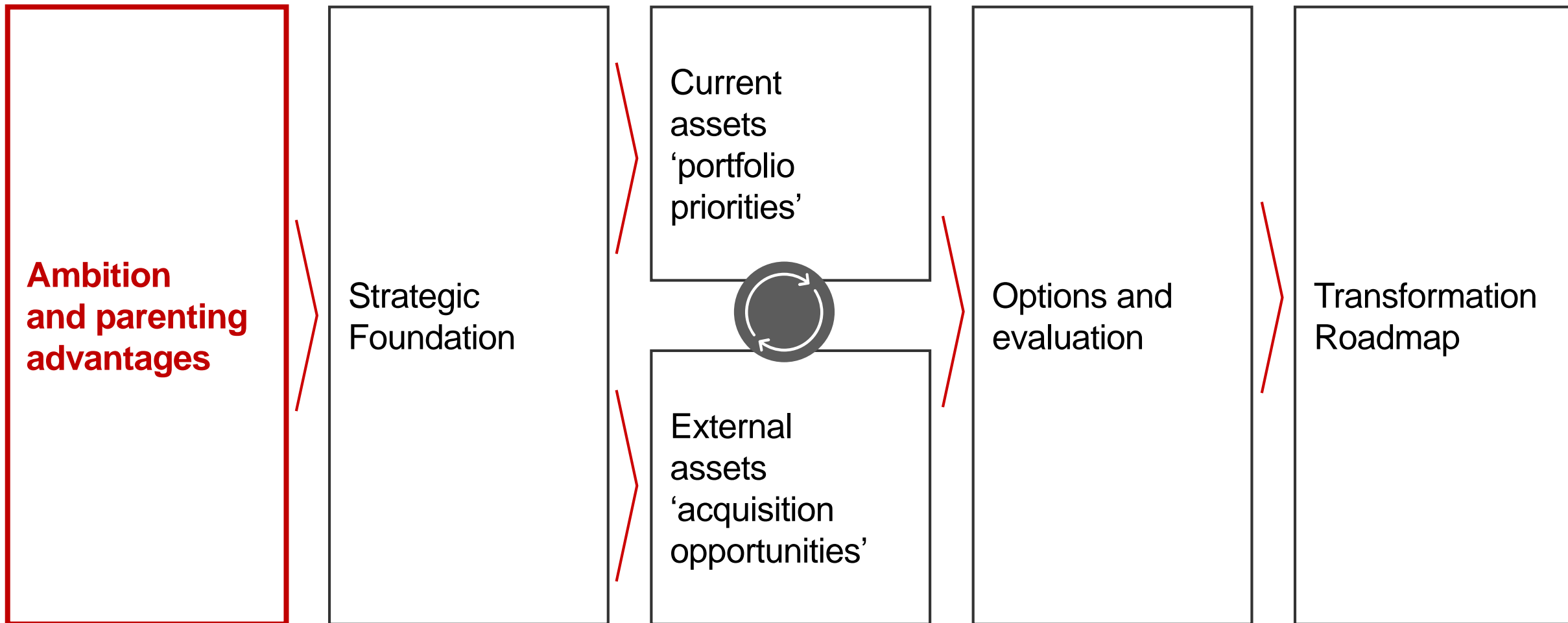
BU full potential plans



# Bain approach to corporate strategy

PROCESS

AMBITION AND PARENTING ADVANTAGES



Financial strategy

# Defining value creation can take different forms

PROCESS

AMBITION

Quantitative goals + “Undisputed mission that energizes and aligns stakeholders”



## Selection of value creation models and levers for

- Sustained value growth above competitors to full potential, based on market expectations
  - Earnings/revenue growth
  - Multiple growth
  - Cash flow
  - Capital structure
- Provides focus areas for target portfolio as response to shifting ecosystems
- Conveys societal objectives (e.g. Industry impact, wider social impact)
- Insurgent mission – answers “why we exist” and guides long term direction



**The best corporate ambitions lay out specific full potential goals, are realistic and display self-awareness**

# Quantitative dimension of the ambition helps to create concrete performance goals

PROCESS

AMBITION

## Financial

### Key metrics, e.g.:

- **TSR**
- **Sales:** sales, share of revenue from tier 1 customers, # of customers
- **Position:** competitive position, market share
- **Profit:** EBITDA growth, EPS growth
- **Capital returns:** ROIC/ WACC

## Operational

### Key metrics, e.g.:

- NPS
- eNPS
- Equip. Utilization
- Mgmt. Credibility
- Avg. Time to market

## Other

### Key metrics, e.g.:

- Sustainability index
- Share of female employees
- Share of energy used from natural resources
- Share of revenue investment in CSR related activities

## Characteristics of a good metric

### Drives TSR:

Close correlation to shareholder value

### Stretching:

Sufficiently ambitious to stretch mgmt's thinking and encourage outside-the-box options

### Achievable:

Not beyond the grasp of the business

### Motivating:

Measured and communicated in an encouraging way



**Quantitative ambitions provide long-term guidance on selected financial, operational and other metrics**

# Example: BMW

PROCESS

AMBITION EXAMPLE

## Quantitative goals:

Market-derived definition of what good looks like, opening the gap towards full potential value creation



## Qualitative goals:

Company-driven articulation of key elements of the target portfolio, to align and energize stakeholders

### Minimum level from market expectations

- (Activist) Investors
- Banks & analysts
- Competitors' performance

### Full potential ambition to outcompete peers

- **#1** premium provider of individual mobility
- **>2X** market growth
- **>10%** EBIT-Margin



### ACES as vision for portfolio: Autonomous/ Connected

- End-to-end platform for automated driving through strong partnerships

### Electrified

- Non-dedicated platform to transition to e-mobility

### Shared/services

- Leader in mobility services

### Response to shifting ecosystem

- Technology ecosystem (e.g. self-driving collaboration)
- Competitive action (e.g. Tesla entry)
- Customer preferences (e.g. shared economy)



**Periodic reshaping of ambition to reflect changing market expectations and shifts in ecosystem**



# A well-defined ambition can provide guidance at inflection points

PROCESS

AMBITION EXAMPLE

## Quantitative goals

- Be the leader in innovation and market-derived definition of what good looks like



## Qualitative goals

- Reinvent productivity
- Build the intelligent cloud
- Make computing more personal

Minimum level from market expectations

(Activist) Investors

Banks & analysts

Competitors' performance



Full potential ambition to outcompete peers

**3x** stock price

**+10%** revenue growth

**Surpass** Apple's market cap



Each goal ties directly to a Microsoft product(s)

Reinvent productivity

> Office 365

Build the intelligent cloud

> Azure

Make computing more personal

> Windows 10, apps, games



Response to shifting ecosystem

- Technology trends (e.g., shift to cloud)
- Competitive action (e.g., AWS)
- Customer preferences



**Periodic reshaping of ambition to reflect changing market expectations and shifts in ecosystem**

# Parenting advantages help determine the appropriate strategic role of the center

## PROCESS

## PARENTING ADVANTAGES

### Parenting advantages as RoC considerations

#### Portfolio composition/ business linkages

- How are our businesses defined?
- How related are businesses along cost, customer, capability and strategic value driver sharing?

#### Corporate capabilities

- How is competitive advantage created? (mgmt and operating capabilities, proprietary assets)
- How does the parent add value through interventions?

#### Management philosophy, talent and culture

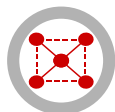
- Does corporate leadership have a bias for autonomy or control?
- How does corporate culture and availability of talent impact RoC choices and vice versa?

### Role of the Center archetypes



#### Portfolio manager

...structuring balance sheet, deciding businesses to enter/exit, setting strict financial targets, placing the best people to run each business, holding leaders accountable



#### Challenger

...actively challenging BUs' strategies, setting more ambitious targets, ensuring strong talent allocation for all key managers (not just BU heads), structuring best practice sharing



#### Integrator

...seeking opportunities to drive scale and/or effectiveness across BUs by controlling certain key functions, more involved in BU decision making



#### Operator

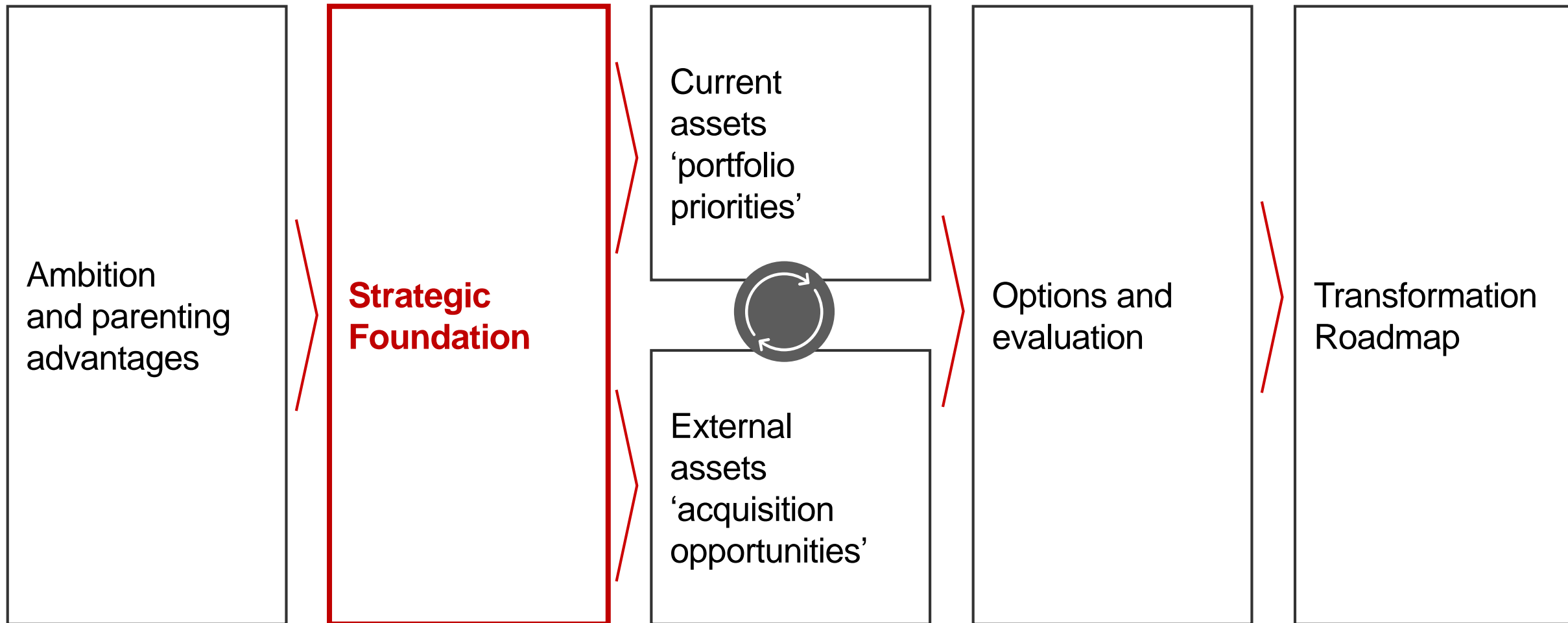
...supporting many aspects of the business – in a single business, the center is the business unit general manager

### Center adds value by...

# Bain approach to corporate strategy

PROCESS

STRATEGIC FOUNDATION



Financial strategy

# Strategic Foundation helps build the case for change

PROCESS

STRATEGIC FOUNDATION

What is the  
Battleground?

Who are your  
customers?

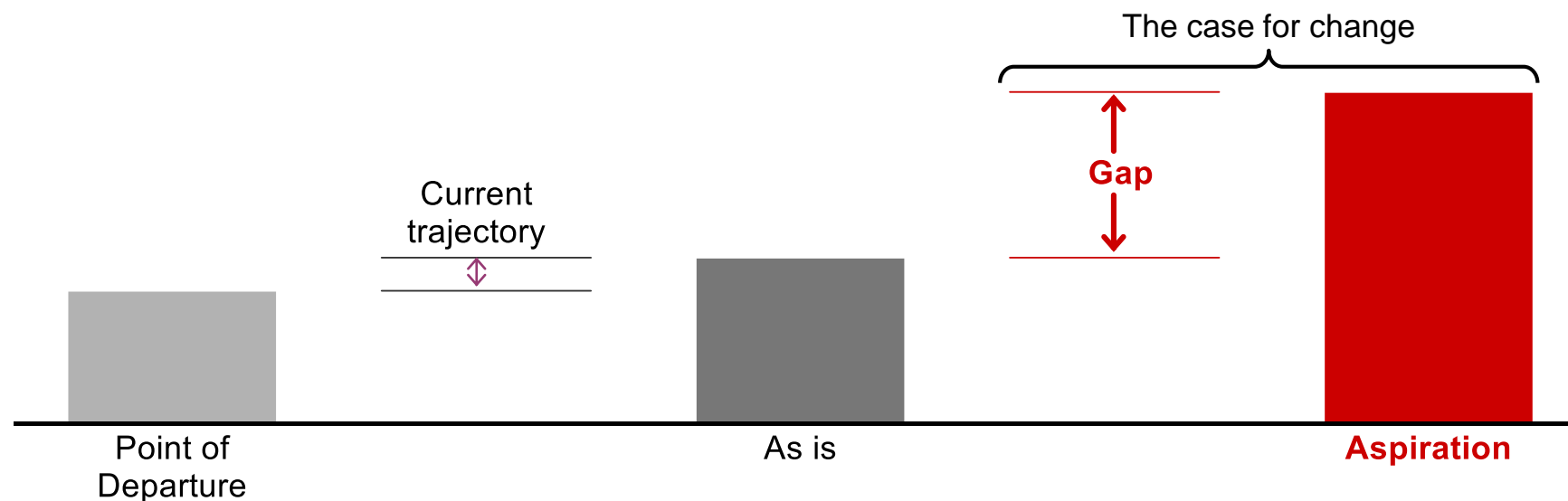
What role does  
technology play?

Who is winning  
and why?

What is the gap  
to full potential?

Given these inputs, what is the full potential of our current strategy?

What is the gap vs. required performance? Is there a case for change?



# Setting portfolio direction requires 'Today forward' and 'Future back' perspective

PROCESS

STRATEGIC FOUNDATION



## Today Forward

**"Where are our businesses today on their path to full potential?"**

Today's battle-grounds and ability to win

Most attractive customers

Technological possibilities

Rules of the game and winning models

## Future Back

**"How might industry scenarios affect the strategic position of our businesses?"**

Shifting ecosystems and profit pools

"Customer of the future"

Disruptive technologies

New competitors and business models



# Future Back: Multiple Bain perspectives to assess the future outlook of the industry

PROCESS

STRATEGIC FOUNDATION



## Macro Trends

- **Spatial** economics
- Widget to **digits**
- Rise of **platforms**
- **Bell curves** to barbells
- Rediscovering **the middle**
- Capital **superabundance**
- Ages and stages of **life**
- Post **globalization**
- Two-frontier **growth**

## Industry Trends

- **Technology:** end-user, infrastructure, platform & software, network
- **Ecosystem:** Regulatory, Competitor, Supplier
- **Customer:** Customer profile, purchase criteria, buying habits, Inter-action
- **Regulatory**

## Industry Future & Digital Direction

- Shifting **ecosystem**
- Untapped **assets**, mobilized
- Your data and the **world's data**
- **Cost and technology** to take it out
- Old and new **competitors**
- **Customer** pain points and technology to delight

## The Firm of the Future

- Scale and **customer** intimacy
- **Professional managers** vs. mission-critical roles
- **Assets vs. ecosystems**
- Capital gets a **reset**
- **Engine 1 & Engine 2**



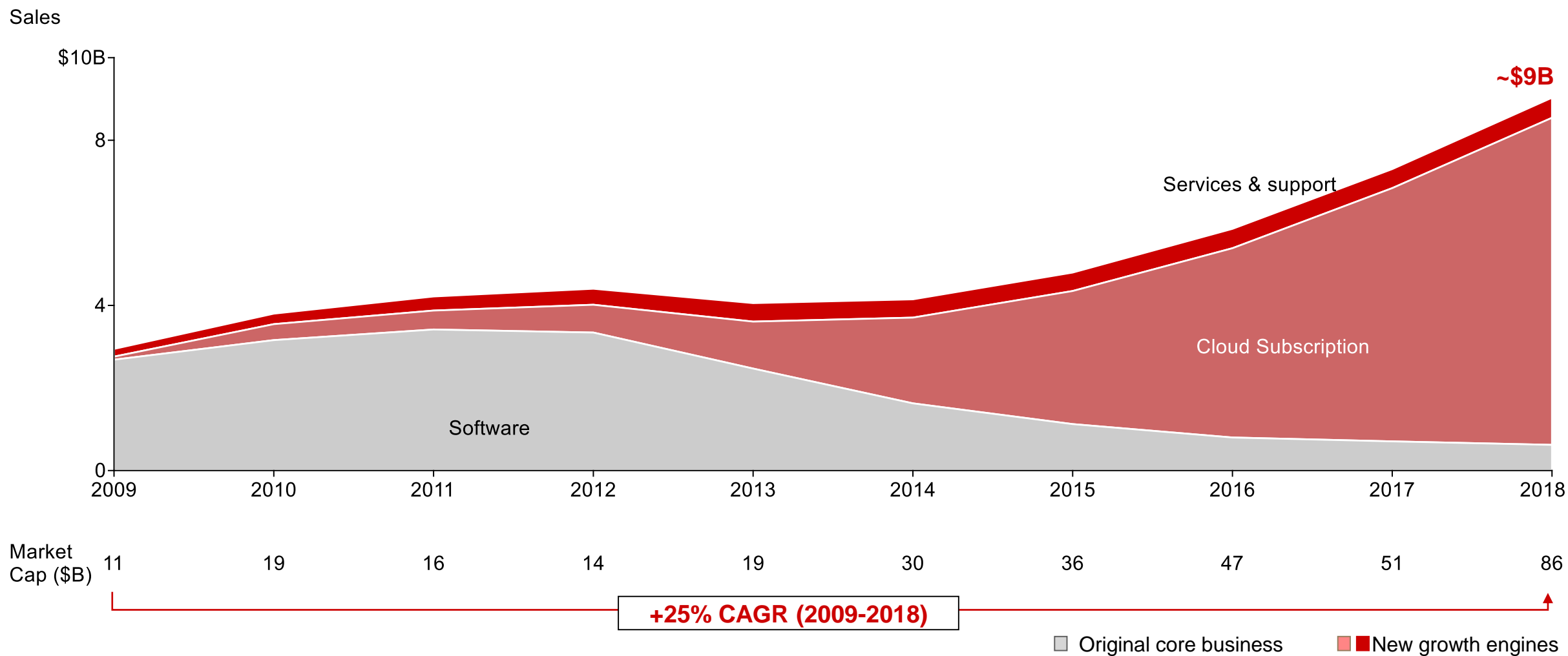
**What impact will these future trends and phenomena have on current business portfolio?**

# Example: Adobe successfully transformed itself from a product-oriented software company to a subscription-based provider of cloud services



PROCESS

STRATEGIC FOUNDATION EXAMPLE



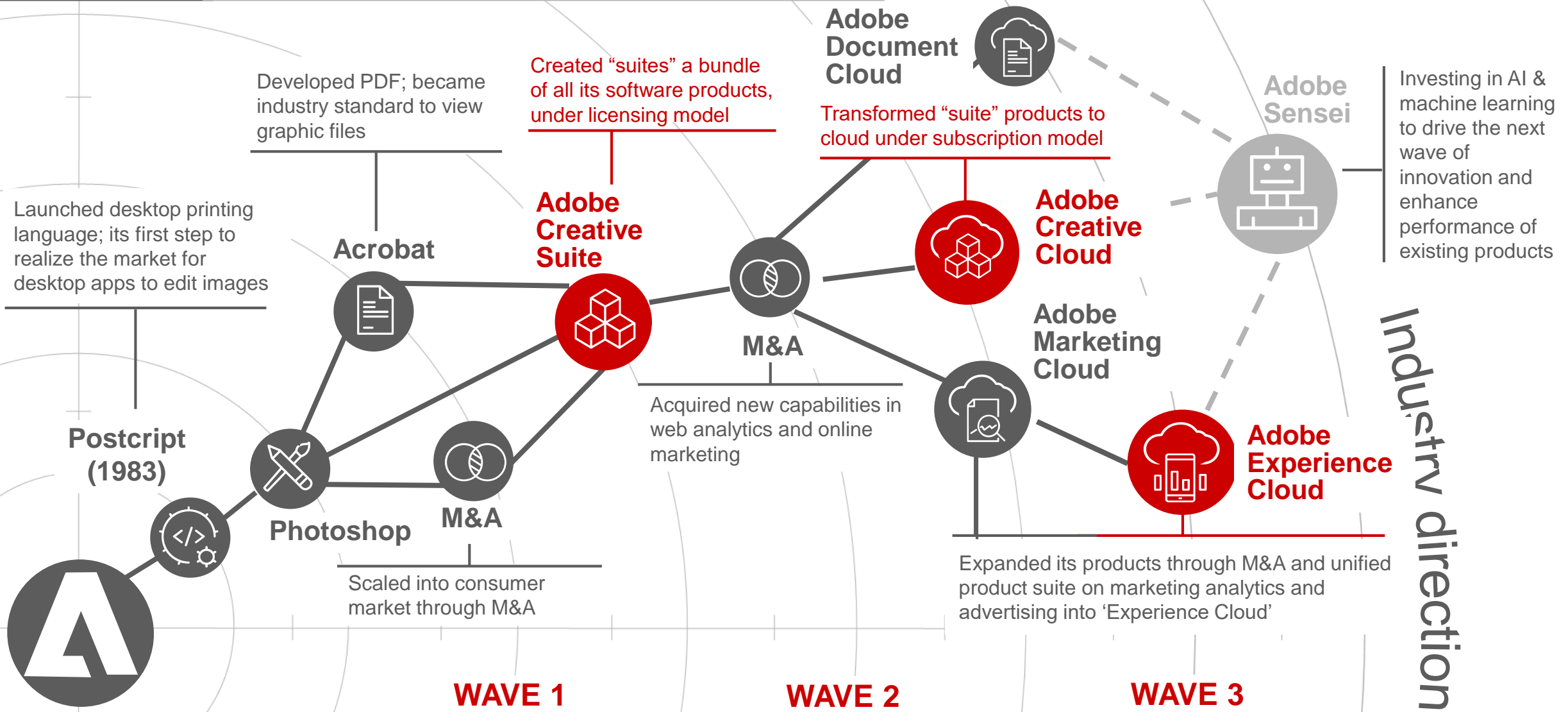
Source: Annual reports; Lit search

# Example: Adobe's transformation was achieved through waves and stepping stones



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STRATEGIC FOUNDATION EXAMPLE

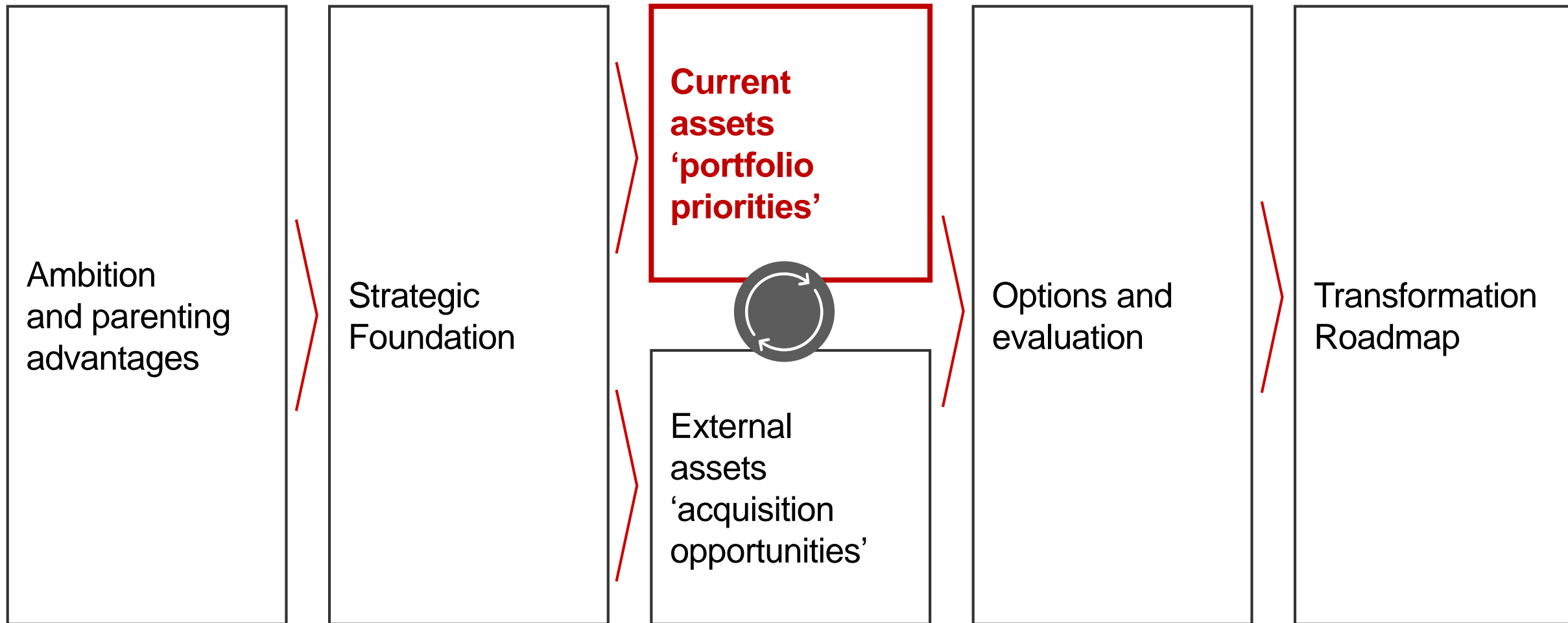




# Bain approach to corporate strategy

PROCESS

PORTFOLIO PRIORITIES



Financial strategy

# Based on criteria, each portfolio position is categorized into portfolio priority segments

PROCESS

PORTFOLIO PRIORITIES

/EXAMPLE

## Portfolio pillars

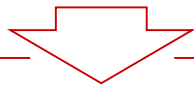
- **Top performers in scoring model**
  - Most attractive markets
  - Strong, sustainable positions
  - Attractive risk-return profile
- **Clear portfolio role**
- **May still have full-potential upside**



**Invest** to maintain/expand in growth markets and **Sustain** in established markets

## Borderline positions

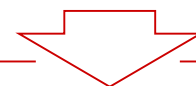
- **Lower performance in scoring model**
  - Market attractiveness, sustainability unclear
  - Weaker position, sustainability uncertain
  - Risk-return tradeoffs
- **Role uncertain, full-potential view** required



**Invest/Restructure** for full-potential to move to pillar and **Divest** underperforming assets

## Restructure or divest candidates

- **Lowest performance in scoring model**
  - Low market attractiveness and recovery potential
  - Sub-scale positions, limited sustainability
  - Risk-return profile unfavorable
- **Divest** now or after restructuring



**Divest/Trade Now** or restructure and **Restructure** to divest in time

## Complexity drivers

- **Small positions** that consume resources disproportionately
  - Overhead
  - Management resources



**Divest/Trade Now** to reduce complexity

# Critical to understand if assets have a path to full-potential and sustained value creation

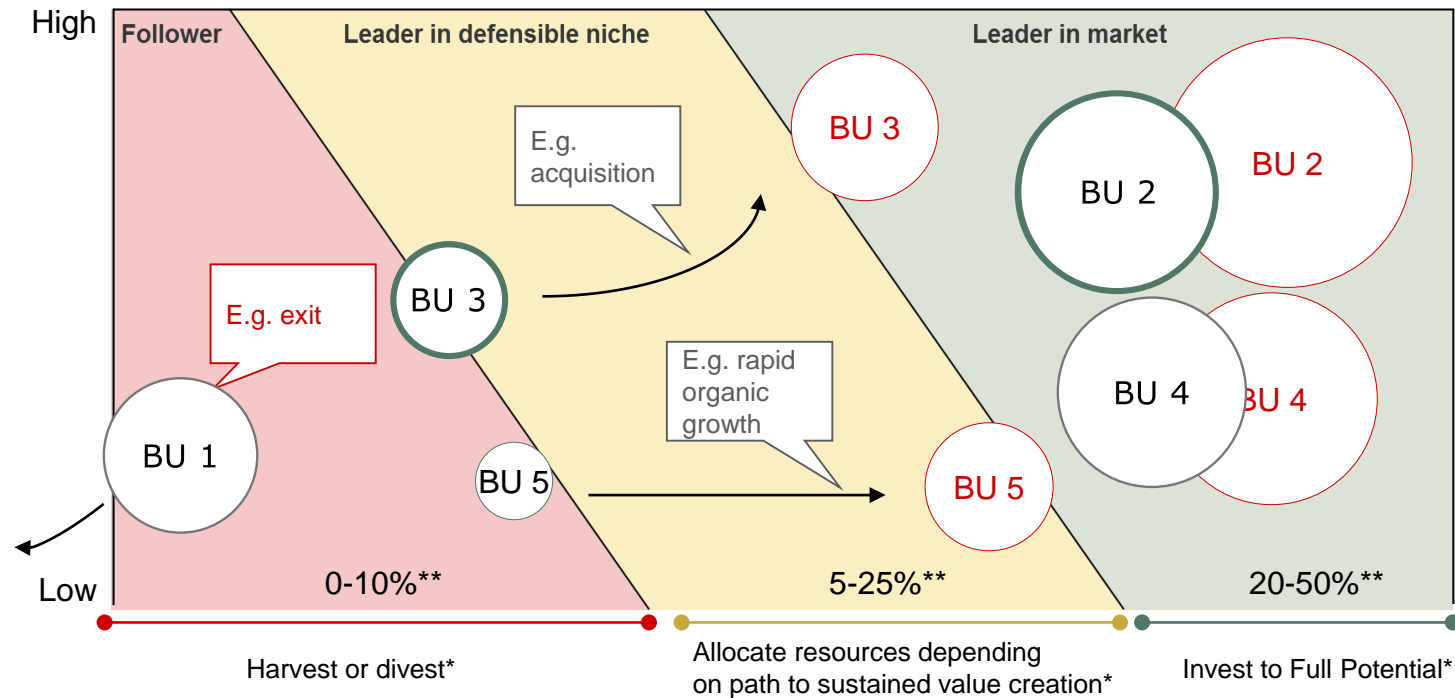
PROCESS

PORTFOLIO PRIORITIES

Exact criteria vary by industry

## Market attractiveness

- Size
- Growth
- Profitability
- Uncertainty



## Ability-to-Win

Exact criteria vary by industry

- Largest share of the market profit pool
- Differentiating capabilities (as input factor)

○ Today's strategic position of asset (each is a correctly defined business)

● Priority BUs

○ Future full potential of business/asset

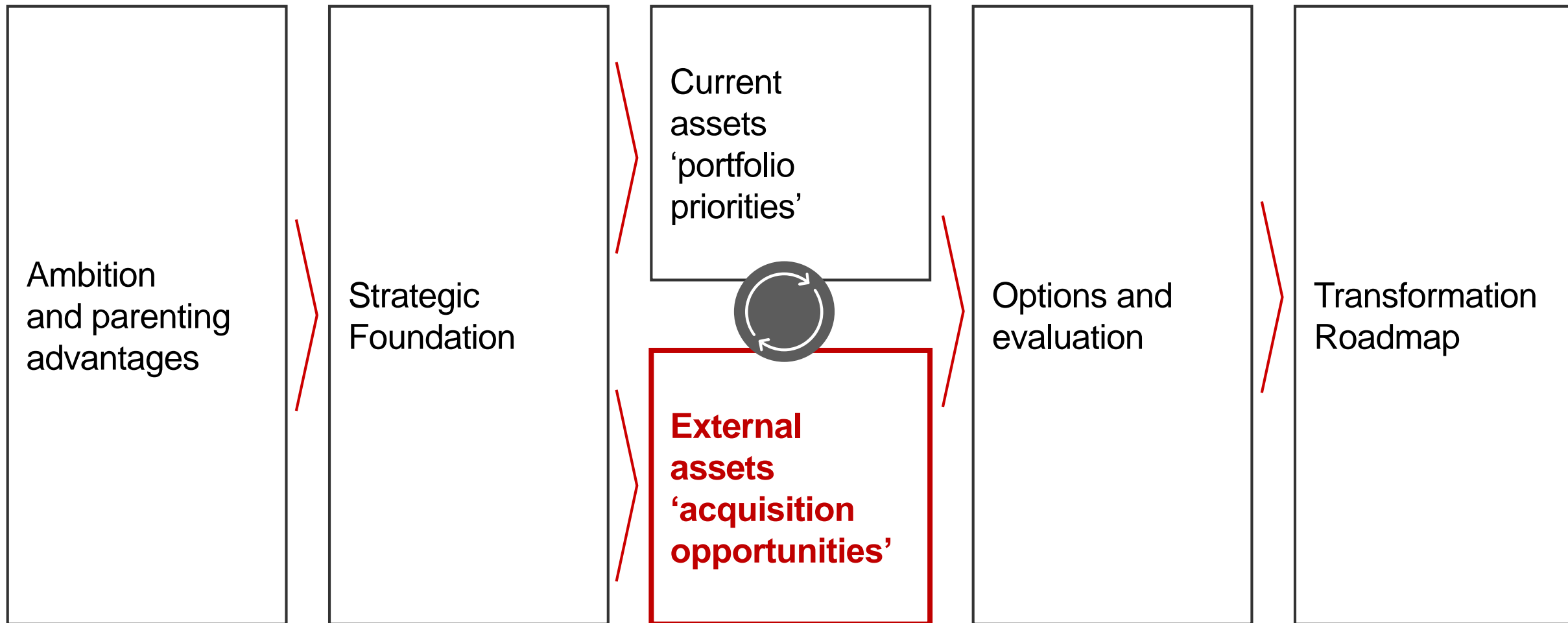
\* Norm strategies depend on the competition for resources between BUs (i.e. position of the "red bubbles" and capital required to get there)

\*\*Bain analysis on share of firms with sustained value creation (profit from core study of 1,850 companies over 10 years)

# Bain approach to corporate strategy

PROCESS

ACQUISITION OPPORTUNITIES



Financial strategy

# Three distinct approaches to identify expansion opportunities

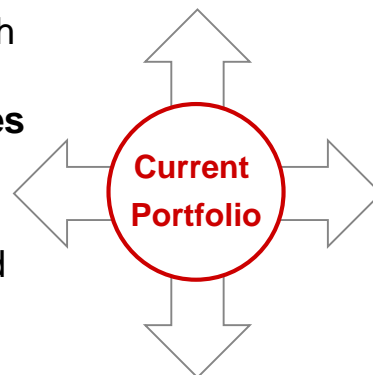
PROCESS

ACQUISITION OPPORTUNITIES

## Proactive Approach

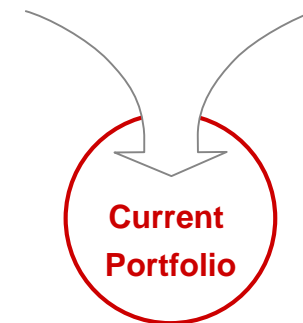
### Inside-out

- **Approach**
  - Systematic/repeatable approach to identify **expansion of the core and into near adjacencies**
- **Outcome**
  - **Concrete ideas to expand and grow existing companies** in portfolio



### Outside-in

- **Approach**
  - Ideation and search to identify **growth opportunities outside of the current portfolio**
- **Outcome**
  - **Few, highly attractive business models** to explore for the current portfolio



## Reactive Approach

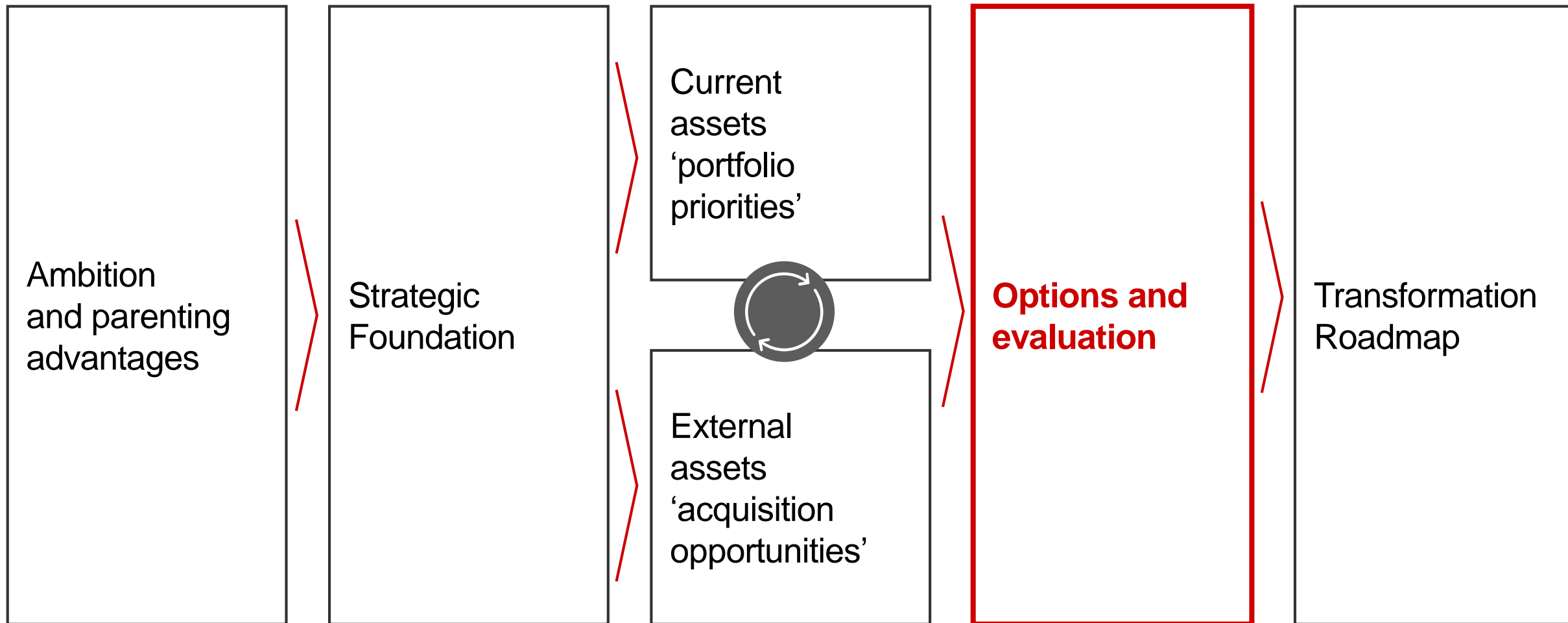
- **Approach**
  - Constant **exchange with financial and strategic investors, corporates and intermediaries** (i.e. banks, consultants)
- **Outcome**
  - **Frequent assessment of deal opportunities**, available on the market



# Bain approach to corporate strategy

PROCESS

OPTIONS AND EVALUATION



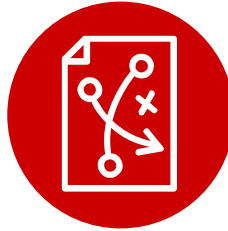
Financial strategy

# A equity story needs to convey the strategy and its value creation upsides to maximize valuation

PROCESS

OPTIONS AND EVALUATION

## Strategy



### Definition

- **Definition of strategic direction and concrete** 'where to play' and 'how to win' levers
- Broken down into **actionable initiatives**

### Target Audience

- **Internal** – i.e. board of directors and management teams

### Objective

- Clarity on **strategic priorities** and **implementation roadmap**
- **Link strategy and initiatives with financial outcomes, focus on EBITDA**

## Equity story



- **Communication** of the company's **business model and strategic direction**
- **Link** between **strategy and value creation**, i.e. growth, margin and cash

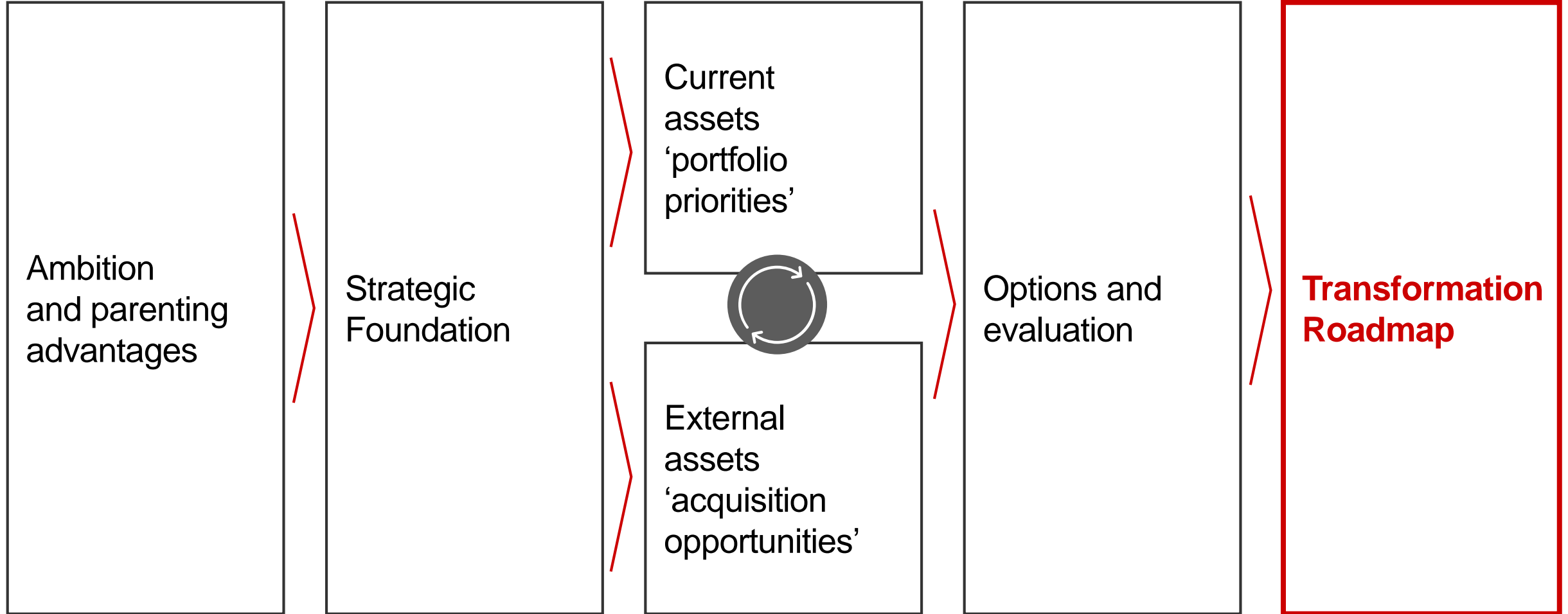
- **External** market community – i.e. analysts and investors

- **Communication** of an ambitious, yet realistic **strategic and financial plan**
- **Maximize valuation multiple at listing, sustain valuation over time**

# Bain approach to corporate strategy

PROCESS

TRANSFORMATION ROADMAP



Financial strategy



# The performance dialogue between corporate and BUs is a critical driver to manage assets to full potential

PROCESS

TRANSFORMATION ROADMAP

## Shared performance ambition Rooted in a view of the future

- **Bold, purposely stretched view of full potential**
- Forward-looking perspective on the **biggest trends and uncertainties**

## Portfolio choices & Guidance to businesses

- **Portfolio choices and growth roadmap** (organic & inorganic)
- **Clarity on roles of businesses** in future portfolio
- Input to BU plans to **stretch BU management's thinking**

## Aligned targets & Performance management

- Targets and Incentives **aligned with** outcomes of portfolio strategy
- Ongoing dialogue with **rapid and visible** performance management

## Common understanding of business value drivers

- Common factbase on **individual business growth expectations**
- Shared view on **largest value creation levers** to focus on

## Bu full potential roadmaps linked to implementation plans

- **“Better plan thinking”** to reach full potential
- Clarity on **capabilities to be built** to sustain competitive differentiation

BU full potential view

BU full potential plans

## Ongoing engagement that builds a culture of mutual trust & respect

- **Frequent and open discussions around the biggest risks** and performance challenges; solutions to address these
- **Deeply connected to the front line and customer:** builds organizational will and capacity to execute

# Six traits of successful corporate strategies

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- 1 Take a **long-term view** with a clear understanding of the **full potential of each asset** in the portfolio; **their path and resource needs** towards strategic sustainability
- 2 Willingness to make bold bets and allocate **resources differentially** to shape a **coherent portfolio**, combining internal and external assets along strategic thrusts
- 3 Leverage the **Founders' Mentality** and tailor the **parenting advantages and operating model** to the portfolio requirements, to capture full value across assets
- 4 Provide **guardrails** and establish a **performance dialogue** with the right **interventions**, so that each asset is managed to its full potential
- 5 Secure the **true commitment** of the **Board and Leadership team** to embark on a **multi-year transformation journey**
- 6 Create a compelling **equity story** articulating credibly all **value creation levers** required to reach the ambition

# Q&A



