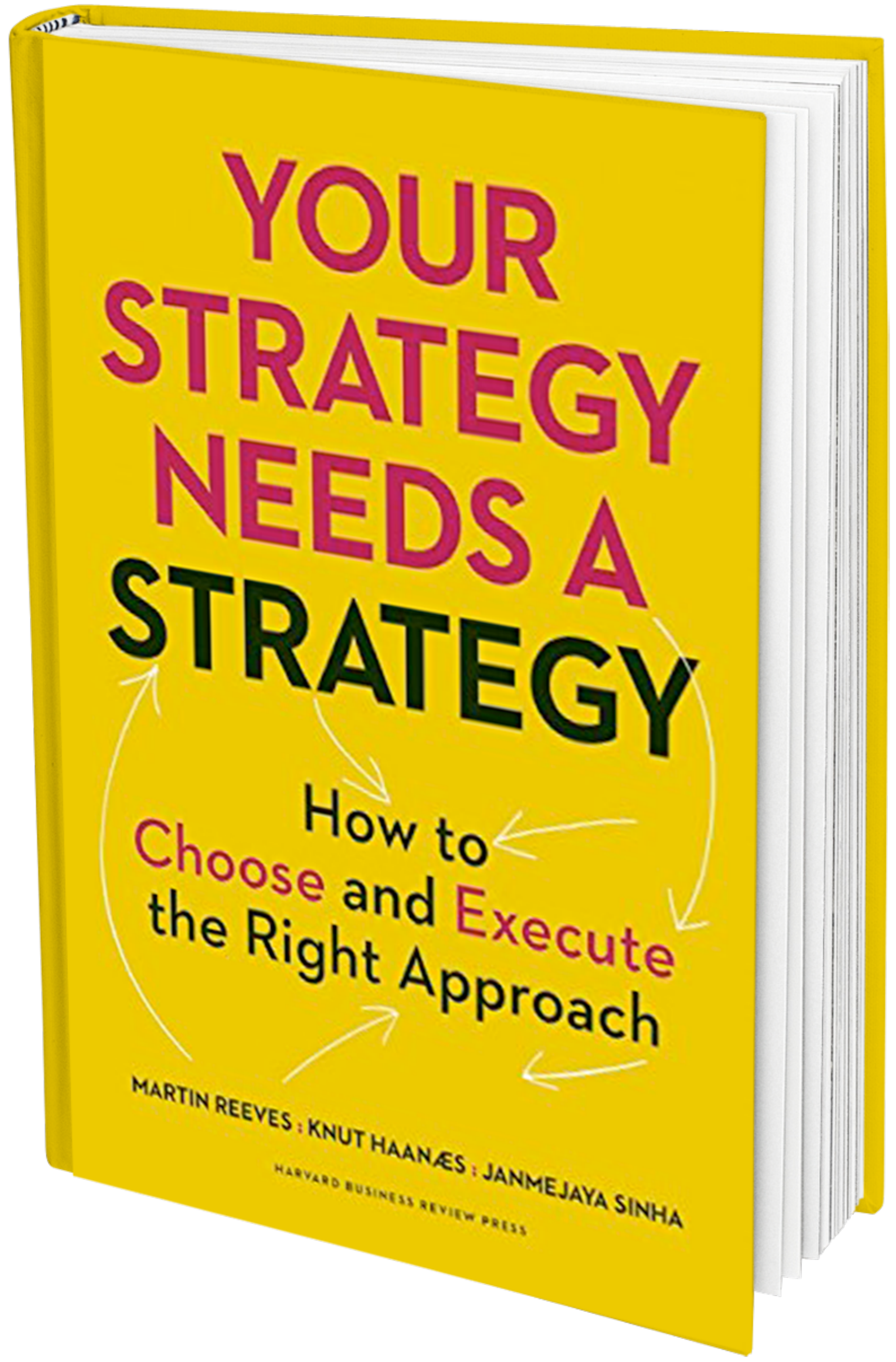
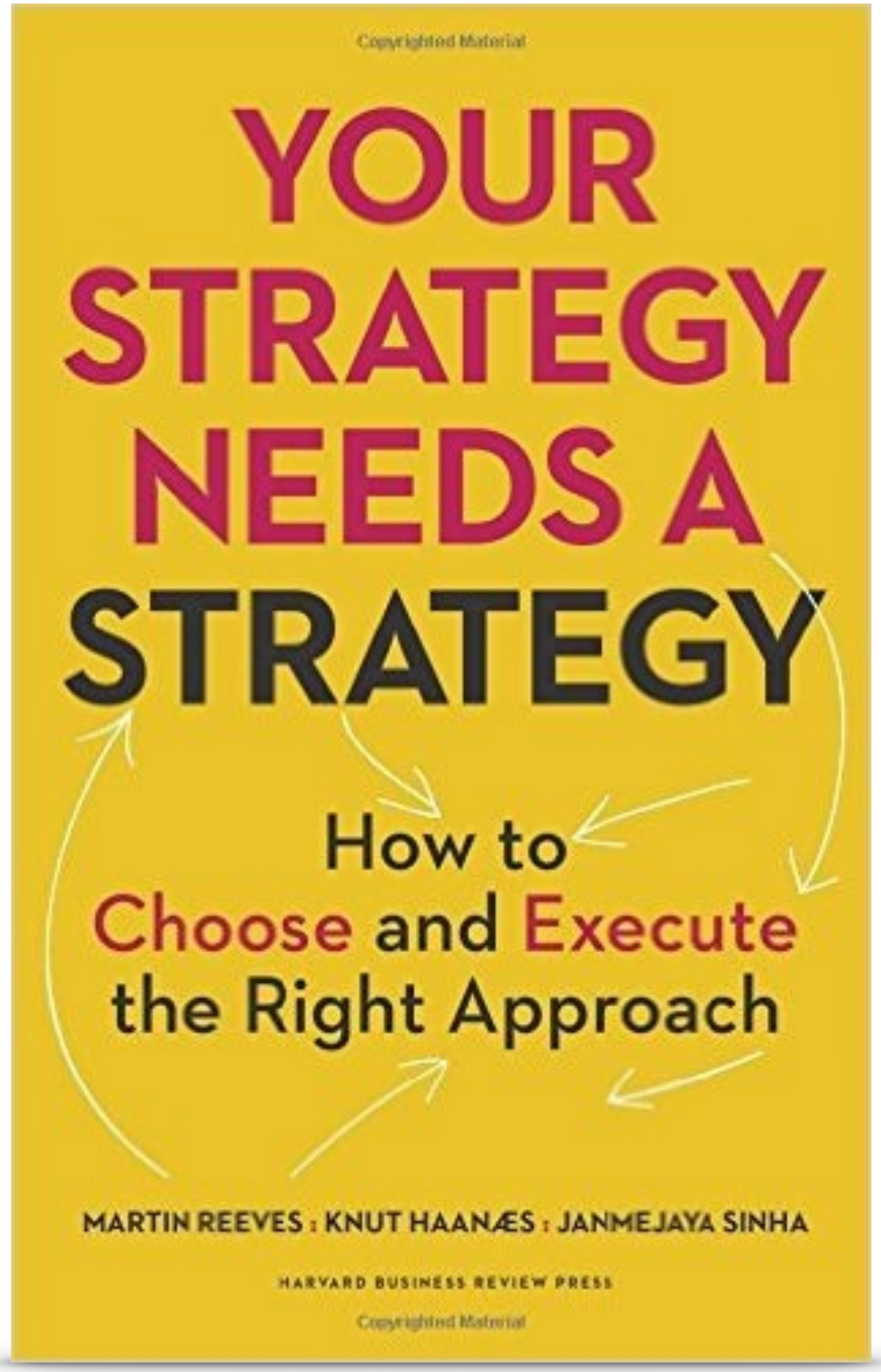
2.
strategic approach



EXPLORE APPROACHES TO STRATEGY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YOUR STRATEGY NEEDS A STRATEGY
How to Choose and Execute the Right Approach
MARTIN REEVES : KNUT HAANÆS : JANMEJAYA SINHA
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A book from BCG global strategy experts Martin Reeves, Knut Haanæs, and Janmejaya Sinha

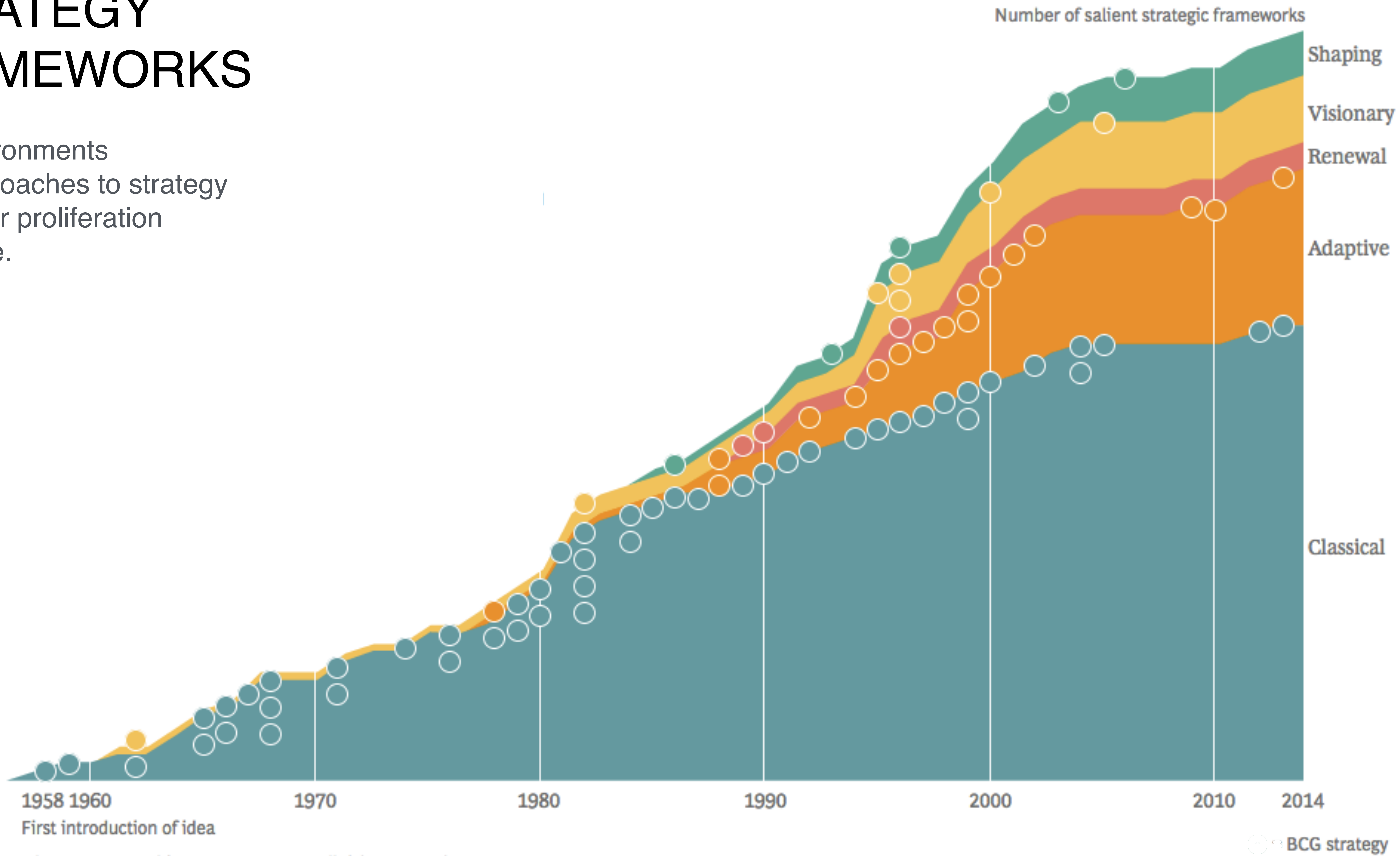
FOR ANYONE LEADING A BUSINESS or charged with developing a winning strategy, this book is for you. The world of strategy is thick with ideas and frameworks; *Your Strategy Needs a Strategy* will help you cut through the noise and find clarity regarding which approach, or combination of approaches, is your best bet.

EXPLORE APPROACHES TO STRATEGY SHARE

CLASSICAL ADAPTIVE VISIONARY SHAPING RENEWAL AMBIDEXTERITY

STRATEGY FRAMEWORKS

five environments
and approaches to strategy
incl., their proliferation
over time.



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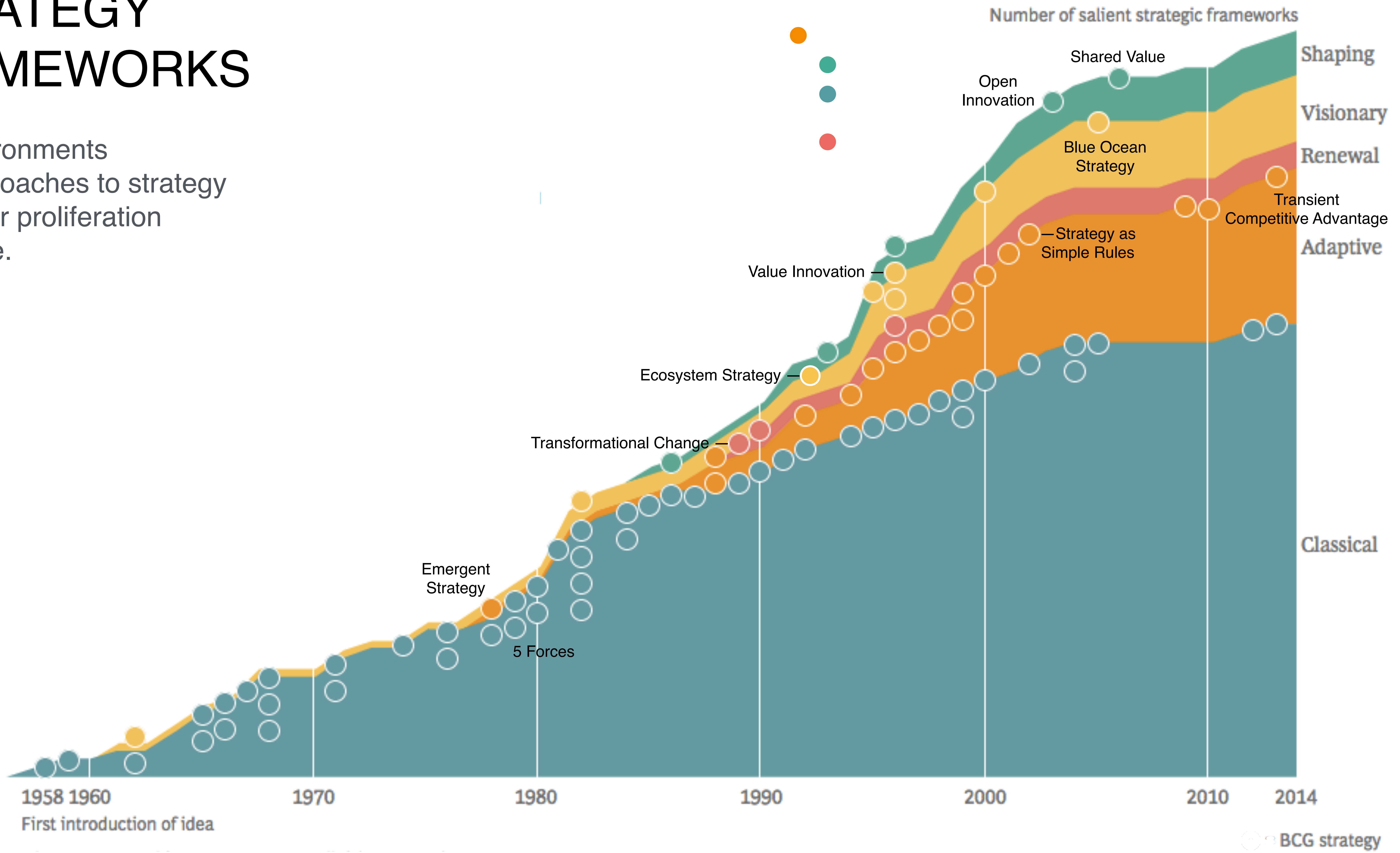

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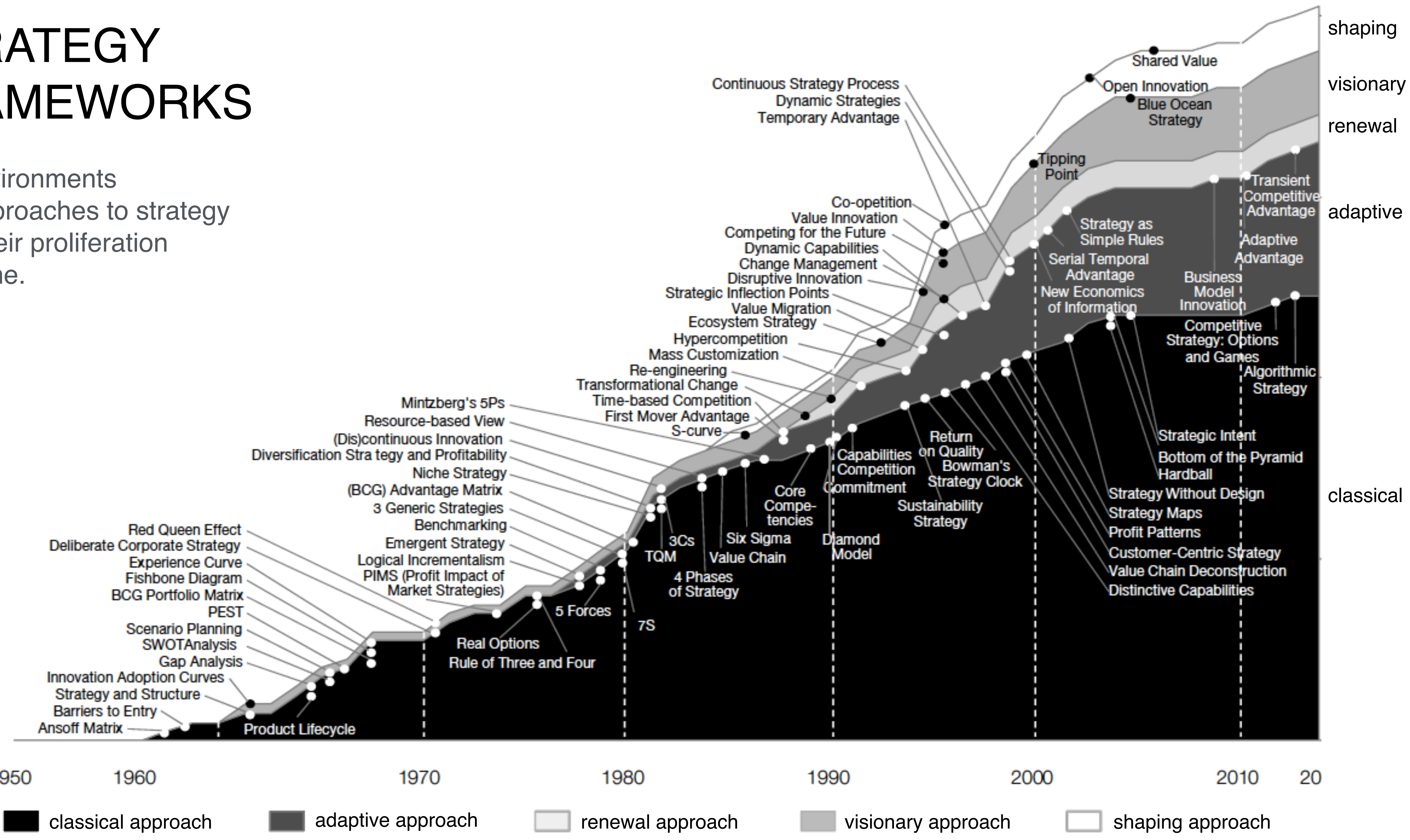
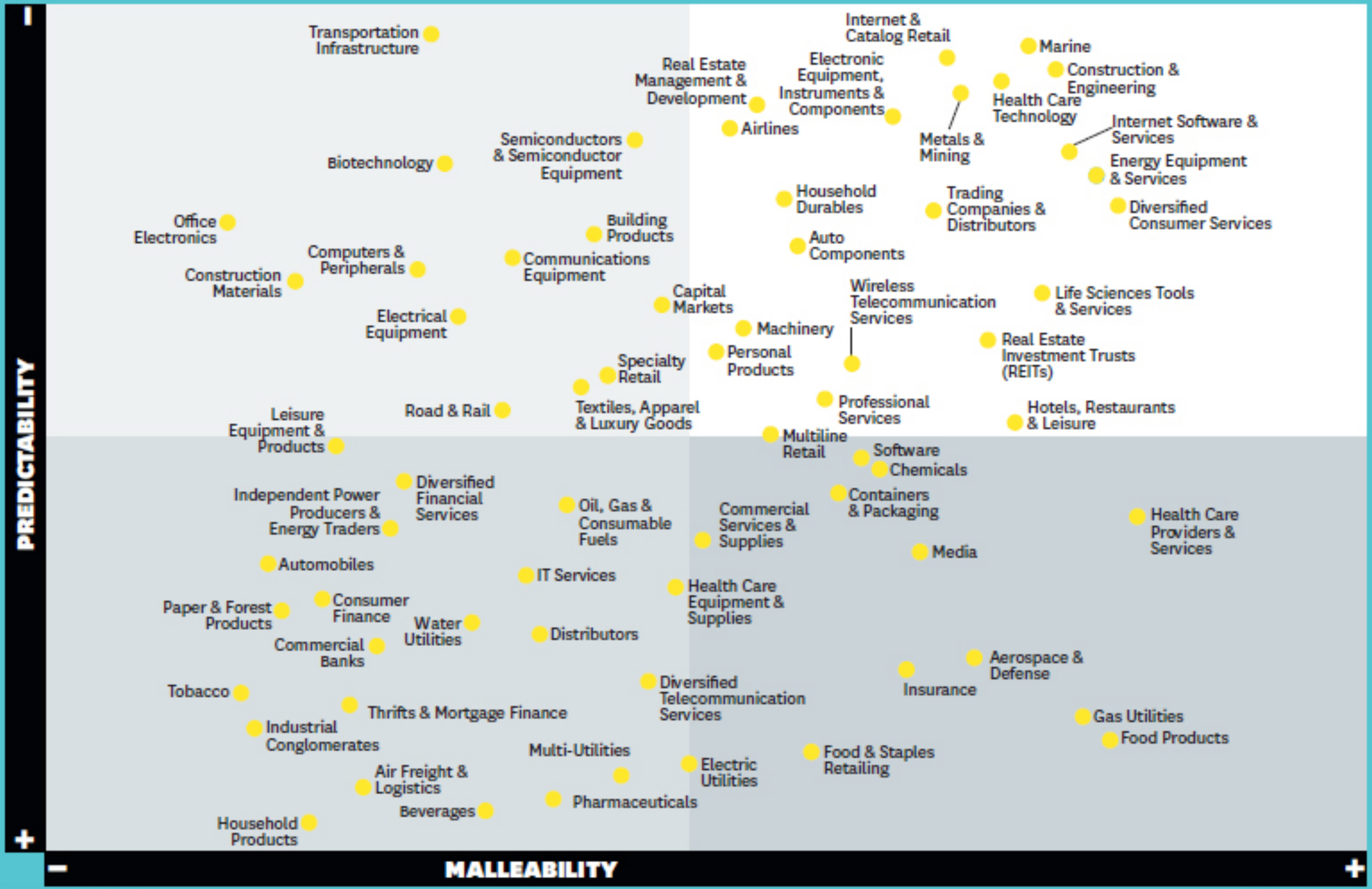


ADAPTIVE
If your industry is unpredictable and you can't change it

SHAPING
If your industry is unpredictable but you can change it



CLASSICAL
If your industry is predictable but you can't change it

VISIONARY
If your industry is predictable and you can change it

SOURCE BCG ANALYSIS

Classical Strategy

WHAT

Classical strategy is based on achieving sustainable competitive advantage by positioning a firm optimally in an attractive market. Since the basis of competitive advantage in these environments is known and nonmalleable, advantage can be based on superior scale, differentiation (or, equivalently, scale within a narrower market segment), or superior capabilities.

WHEN

Firms should deploy a classical approach in relatively stable and predictable markets with established, fixed bases of competition. In these nonmalleable markets, there is limited imminent risk of disruption, and industry conditions can be considered as given. Among the environmental signs that a classical approach can thrive are well-established industries with high returns to scale; stable, homogeneous business models; and modest growth rates.

HOW

Classical strategizing is a three-part process that consists of analysis, construction of a plan, and rigorous execution. The analysis is focused on the attractiveness of a market, the basis of competition, and a firm’s competitiveness. The resulting plan forecasts those factors, articulates the targeted position, and maps the steps to achieve it. Classical firms implement their plan exactly.

Adaptive Strategy

WHAT

Unlike the classical approach of sustainable competitive advantage, an adaptive approach to strategy rests on the idea of serial temporary advantage. In unpredictable and nonmalleable environments, the emphasis is on continuous experimentation and real-time adjustment rather than on long-term analysis and planning. Since advantage is temporary, the focus is on means, not ends.

WHEN

An adaptive approach works when the business environment is hard to predict and to shape, and when advantage may be short-lived. Ongoing, substantial changes in technologies, customer needs, competitive offerings, or industry structure may all signal the need for an adaptive approach. Business environments increasingly require this mind-set: today, roughly two-thirds of all industry sectors experience high volatility in demand, competitive rankings, and earnings, making long-term plans obsolete more quickly.

HOW

Strategizing in the adaptive context requires a process of watching and responding to changes in the environment by capturing change signals and managing a portfolio of experiments. Adaptive firms continuously vary the way they do business by trying many novel approaches and then scaling up and exploiting the most promising before repeating the cycle. Successful adaptive firms outperform rivals by iterating more rapidly and effectively than their competitors.

Visionary Strategy

WHAT

Rare but incredibly effective, a visionary approach empowers a firm to create or re-create an industry with some degree of predictability by seeing an opportunity and pursuing it single-mindedly. Being first confers the advantage of superior size that comes with being ahead of rivals and allows a firm to set industry standards, influence customer preferences, develop a superior cost position, and determine the direction for an entire market. Even though visionary approaches are most frequently associated with entrepreneurial start-ups, large firms increasingly need to familiarize themselves with the approach as well.

WHEN

Deploy a visionary strategy when there is an opportunity to create or re-create an industry—when a firm sees the outcome as predictable and the environment as malleable, even if others don't share that vision. Visionary circumstances can arise when a firm spots an emerging megatrend before someone else sees or acts on it, when technological change opens up the possibility to reshape an industry, or when unaddressed customer dissatisfaction with the dominant offering creates the possibility of a new market.

HOW

Timing is critical: successful visionary firms capitalize on gaps—among the emergence of an opportunity, the recognition and acceptance of an idea, and the reaction by established players—by envisaging, building, and persisting. First, envisage an opportunity by tapping into a megatrend early, applying a new technology, or addressing customer dissatisfaction or a latent need. Second, be the first to build a company and a product that realize this vision. Finally, persist in pursuing a fixed goal while being flexible about the means to overcome unforeseen obstacles.

Renewal Strategy

WHAT

A renewal approach to strategy refreshes the vitality and competitiveness of a firm when it is operating in a harsh environment. When circumstances are so difficult that the current way of doing business cannot be sustained, changing course to preserve and free up resources—and then later to redirect toward growth—is the only way to not merely survive but to eventually thrive again. Hence, the renewal approach is characterized by two distinct phases: survival and pivot to growth.

WHEN

Harsh conditions can pose a threat to the survival of a firm. These conditions can arise from a protracted mismatch between a firm's approach to strategy and its environment or by an external or internal shock. Though a firm may not notice the distress signals immediately, protracted competitive underperformance in terms of margins or sales growth, sharp drops in free-cash flows, and reductions in available capital are all indicators that the long-term survival of the firm may be at risk.

HOW

A company must first notice and react to the deteriorating environment as early as possible. Then, the firm needs to economize to decisively address its immediate impediments to financial viability or even its very survival. To do so, the company must focus the business, cut costs, and preserve capital while also freeing up resources to fund the next part of the renewal journey. Finally, the firm needs to reset its strategic compass and pivot to one of the four other approaches to strategy.

Ambidextirity Strategy

WHAT

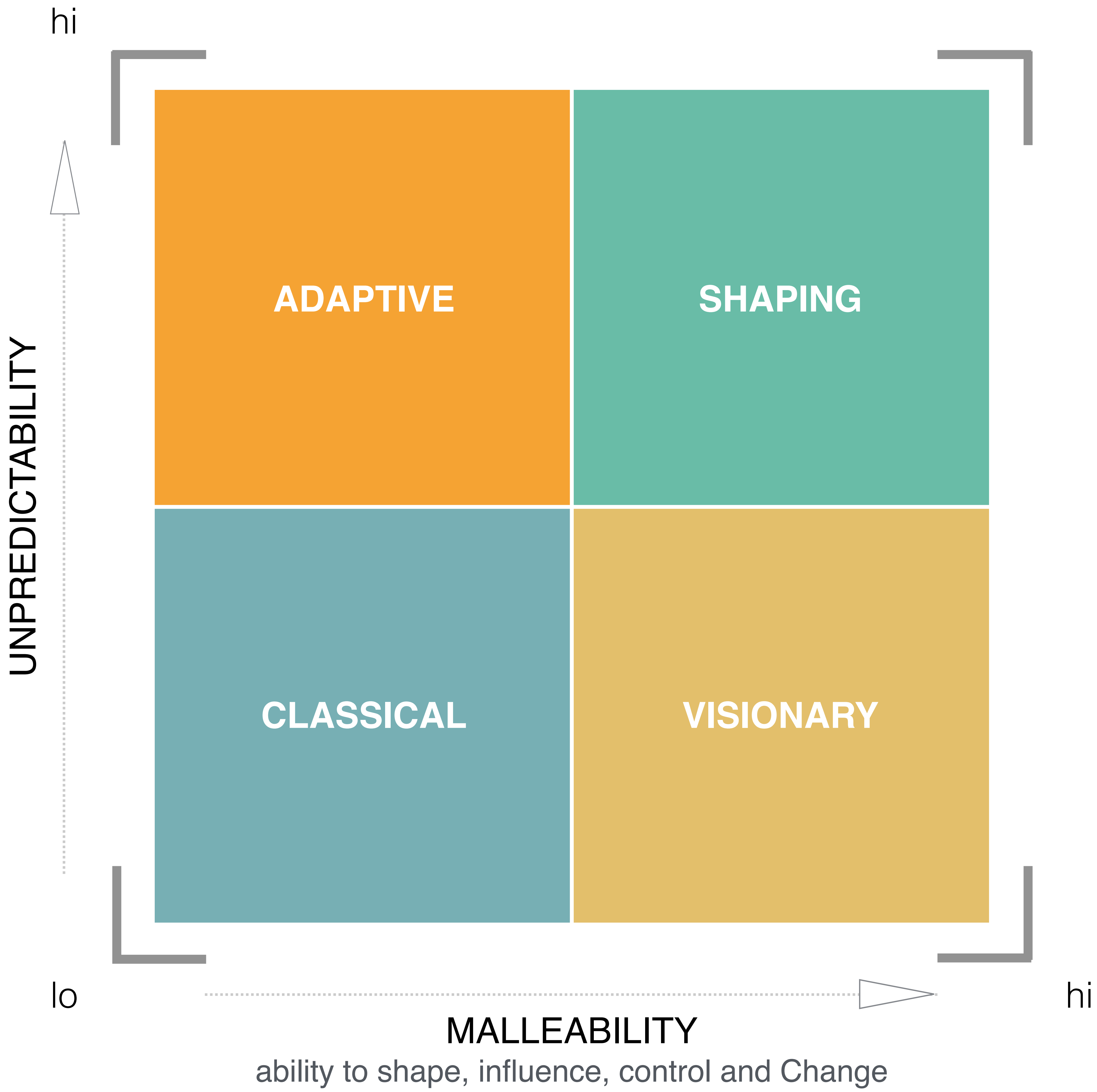
Ambidexterity is the ability to apply multiple approaches to strategy either concurrently or successively, since many firms operate in more than one strategic environment at once. Ambidexterity is not another color on the strategy palette; it is a technique for using the five approaches to strategy in combination with one another. The four approaches to ambidexterity —separation, switching, self-organization, and external ecosystems—depend on the degree of diversity and dynamism of the environment.

WHEN

Most large businesses operate in multiple environments that change quickly over time—spanning many increasingly diverse geographies and product categories—and that are supported by a wide range of enabling functions. This diversity requires firms to be ambidextrous, because no single approach to strategy is applicable to a large firm in its entirety and over time.

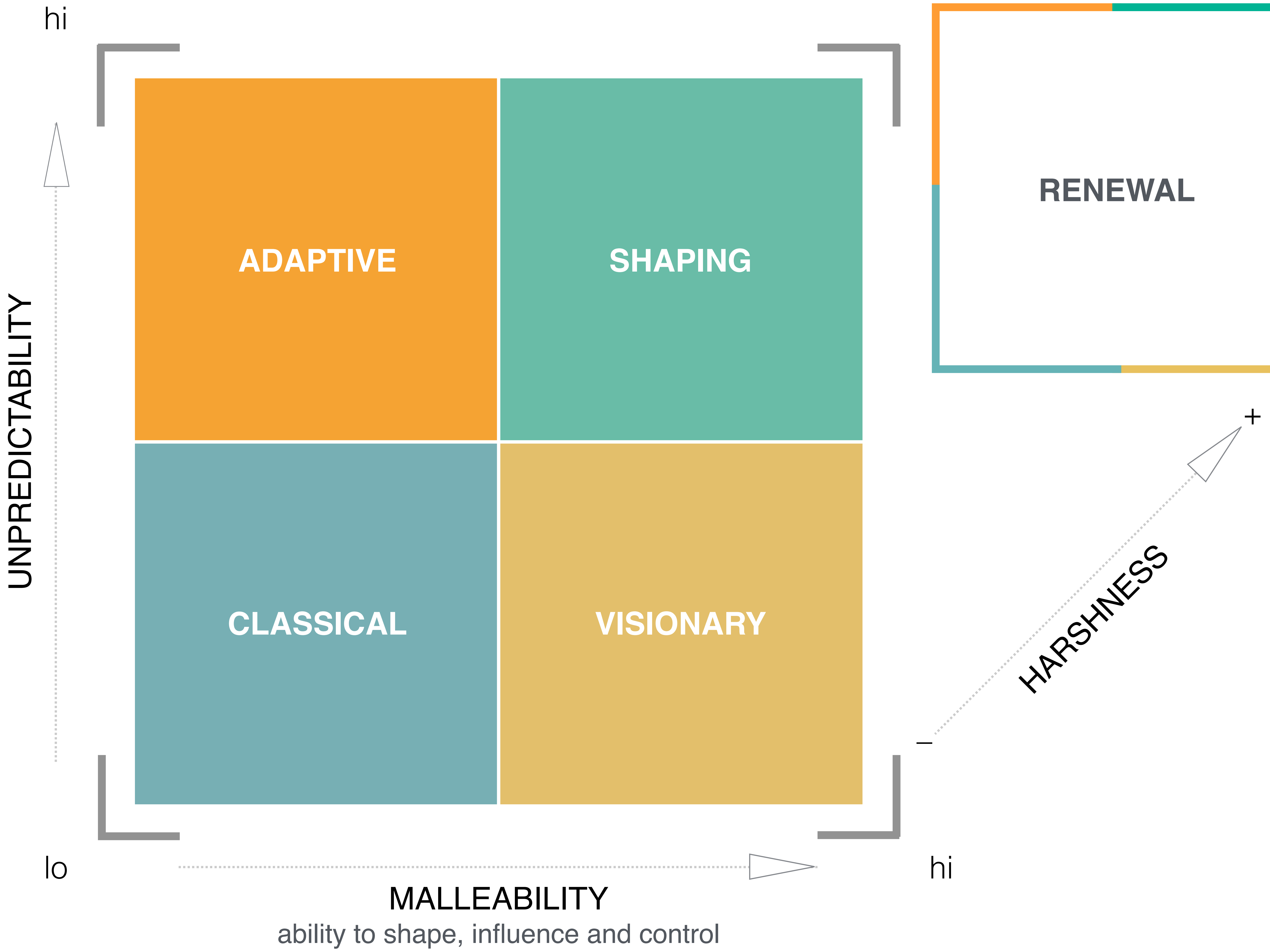
HOW

The right approach to ambidexterity depends on how many different environments the firm faces (diversity) and how often those environments change (dynamism). A separation approach means that different approaches to strategy are managed top-down and are run independently from one another in different divisions or geographies. Firms applying a switching approach manage a common pool of resources that switch among the five approaches to strategy. Self-organization means that each unit chooses the best approach to strategy. In an ecosystem approach, firms source different approaches to strategy externally through players that specialize in the needed approach.



the STRATEGY PALETTE

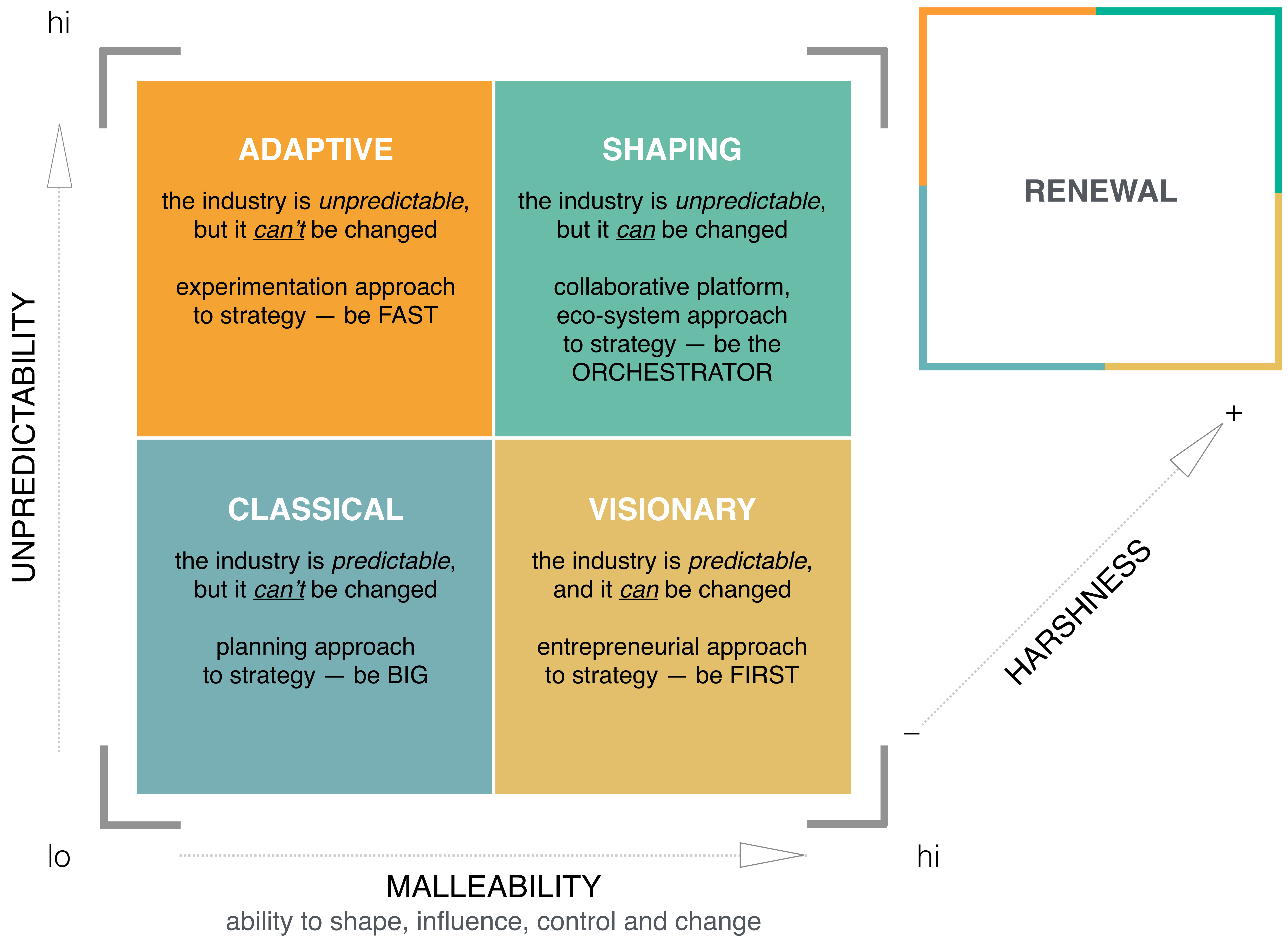
five environments
and approaches to strategy



the STRATEGY PALETTE

five environments
and approaches to strategy


ONE APPROACH
TO STRATEGY
DOES NOT FIT ALL
100% COTTON



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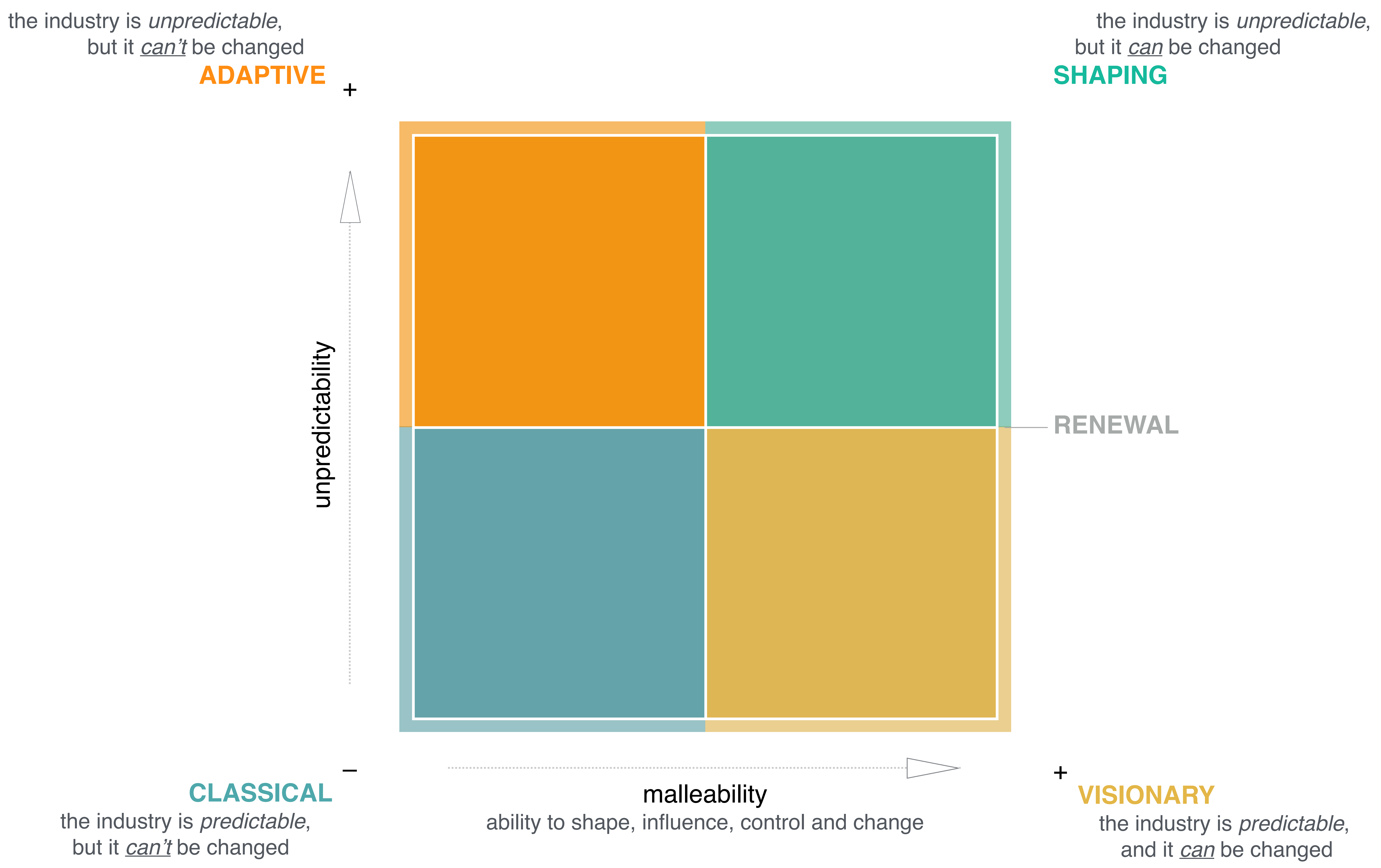
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+
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but it can be changed
SHAPING
unpredictability
RENEWAL
–
CLASSICAL
the industry is predictable,
but it can't be changed
malleability
ability to shape, influence, control and change
+
VISIONARY
the industry is predictable,
and it can be changed

Shaping Strategy

WHAT

Shaping firms mold or reshape an industry by influencing the development of a market in its favor through coordination with other players. A shaping approach both permits and requires a firm to collaborate with others in a diverse ecosystem that distributes risk, supplies complementary capabilities and resources, and builds the market quickly through strength in numbers. A shaping firm operates with a high degree of unpredictability because it faces an early stage of industry evolution and because of the participation of multiple stakeholders that it must influence but cannot control.

WHEN

Deploy a shaping strategy when there is an opportunity to write or rewrite the rules of an industry at a nascent stage of its development. Highly fragmented, young, dynamic industries; freshly disrupted industries; and emerging markets are all ripe for shaping. The opportunities are intrinsically unpredictable regarding size, growth rates, and profitability, and are malleable because of low barriers to entry and the unfamiliarity of regulators with new products. Timing and positioning are key. Shaping strategists must seize an inflection point in the early development of a market or in the disruption of an existing one and must also have enough influence to attract other powerful stakeholders to its ecosystem.

HOW

Shaping firms engage other stakeholders to create a shared vision at the right point in time, to **build a platform** through which they influence and orchestrate collaboration, and, finally, to evolve the **platform** and **eco-system** by scaling it and keeping it flexible. Therefore, the way to win is through co-development of the market and industry by **multiple players**. As with the adaptive approach, the shaping strategy eventually emerges from continuous iteration of three elements: repeated engagement, orchestration, and evolution of the ecosystem.

BCG Presents

The Strategy Palette

Comparing When, Where, and How to Use the Different Approaches to Strategy

	CLASSICAL	ADAPTIVE	VISIONARY	SHAPING	RENEWAL
Core idea, or what it takes	• Be big	• Be fast	• Be first	• Be the orchestrator	• Be viable
Type of environment	• Predictable, nonmalleable	• Unpredictable, nonmalleable	• Predictable, malleable	• Unpredictable, malleable	• Harsh
Industries where approach is most visibly applicable	• Utility • Automobile • Oil and gas	• Semi-conductors • Textile retail	• Not industry specific (create new, disrupt existing)	• Some software • Smartphone apps	• Financial institutions in the 2008–09 crisis

Indicators of the approach	• Low growth • High concentration • Mature industry • Stable regulation	• Volatile growth • Limited concentration • Young industry • High technological change	• High growth potential • White space, no direct competition • Limited regulation	• Fragmentation • No dominant player, platform • Shapable regulation	• Low growth, decline, crisis • Restricted financing • Negative cash flows
How	• Analyze, plan, execute	• Vary, select, scale up	• Envisage, build, persist	• Engage, orchestrate, evolve	• React (or anticipate), economize, grow
Measures of success	• Scale • Market share	• Cycle time • New product vitality index (NPVI)	• First to market • New user customer satisfaction	• Ecosystem growth and profitability • NPVI	• Cost savings • Cash flow

Related approaches	• Experience curve • BCG Matrix • Five Forces • Capabilities	• Time-based competition • Temporary advantage • Adaptive advantage	• Blue Ocean • Innovator's dilemma	• Networks • Ecosystems • Platforms	• Transformation • Turnaround
Key examples	• P&G under Lafley • Mars under Michaels	• Tata Consultancy Services under Chandrasekaran • 3M under McKnight	• Amazon.com under Bezos • Quintiles under Gillings	• Apple under Jobs • Novo Nordisk under Sørensen	• Amex under Chenault • AIG under Benmosche
Key traps	• Overapplication	• Planning the unplannable	• Wrong vision	• Overmanaged ecosystem	• No second phase

SOURCE BCG SYNTHESIS