Questions About Strategy

Idea In Short

Strategy is a set of self-reinforcing activities that creates sustainable competitive advantage. It requires tradeoffs, uses best practices as tools rather than goals, and builds an economic moat. Strategic planning is not strategy. Know where to compete, commit deeply and execute consistently.

A Conversation With Executives

A recent session with 20 executives explored strategy in depth. The conversation was thought-provoking and courageous. Executives face enormous pressure to maintain their day job while also developing strategies to leapfrog the competition. They must ensure uptime, eliminate risk, ensure customer satisfaction, reduce costs, drive insights and recruit talent simultaneously. The discussion that follows summarizes key questions and responses.

What Is Strategy?

Four icons provide a good foundation for understanding strategy. First, strategy is a set of self-reinforcing activities that gives you a sustainable competitive advantage. It is not a vision, goal, plan or culture. It is what you do to provide unique value to stakeholders and customers that they could not get elsewhere or outsource. It is the totality of your business model working together to differentiate you. You have smart people, a great technology roadmap, a go-getter culture and responsiveness. These things working together reinforce each other. 1

Second, strategy requires tradeoffs. It is impossible to be all things to all people. Peter Drucker, the grandfather of management, famously said that defending yesterday is far more risky than making tomorrow. You need to meet customer requirements, but you also need to be thoughtful about what truly delivers value. Saying yes to everything gets you in

trouble. A good part of strategy is thinking through what you need to be uniquely awesome at, and what you can accept as good enough.

Third, use best practices as a tool, not a goal. Learn from the mistakes of others. Do the easy, necessary things consistently. Be smart and efficient. But best practices are table stakes, not differentiators. They keep you in the game but do not win it.

Finally, create an economic moat around your business. Know your deep, embedded strengths, your core competencies. Seek out customers who will love you and your quality work. Become the default choice so customers call on you for new problems, raising switching costs and customer lifetime value. Keep the founder's mentality alive.

What Is Sustainable Competitive Advantage?

Sustainable means not just today or tomorrow, but through multiple business cycles. Think of an economic moat deep enough to protect your profits long-term. Competitive advantage means not just matching others or surviving, but thriving. 2

Most companies lose money. Two-thirds of publicly traded companies in the United States, including American Depositary Receipts, are unprofitable. You do not want to be average because being average is bad. If you are consistently more profitable than your rivals, it means you deliver great value to customers who are willing to pay for your services. It is sustainable because it is not a fad, luck or profits from a waning inherited brand. You are in the market and winning at your specific game. Average profitability varies dramatically by industry.

Who Exactly Is the Competition?

Your everyday rivals are definitely competition. Coca-Cola versus Pepsi. Boeing versus Airbus. Cisco versus Huawei. These competitors poach your customers, copy your products, recruit your good employees and deconstruct your value proposition.

The reality is much worse. Every time your suppliers raise prices, allocate supply or reduce service levels, they chip away at the value you keep. Every time a customer asks for a discount or does not renew a contract, they are your competition. Every time a new startup enters your market with a cheaper, disruptive service, they are your competition. Everyone

is your competition. A strategist's job is to cope with competition from all directions.

Is Strategic Planning the Same as Strategy?

Most people say no. Architectural designs are not a house. A recipe is not a pasta dish. Strategy takes time to do well. A planning process helps trickle strategy down to tactical, front-line implementation. Cross-functional communication is tough and requires a structured annual process. Everything must eventually filter through financial planning and analysis to set budgets. Strategic planning can be bureaucratic, which is exactly why it is not the same as strategy. 3

Planning is a useful process, offsite workshop and document. Strategy is something different. Strategy is about winning, not about filling in templates and reducing risk.

Path or Endpoint?

Strategy done well is a continuous process for several reasons. Strategy takes time and reinvestment because it is a set of activities, not just one thing. No strategy is evergreen because rivals and new entrants are too smart and hungry to leave you alone. There is enormous volatility from weather, pandemics, regulation and technology shifts. Customer expectations and preferences change constantly. There is a huge gap between strategy and execution, and most strategy never sees the light of day.

Start, Stop or Continue?

When evaluating whether to start, stop or continue an activity, ask five questions. Does this activity differentiate me from competition, creating higher customer willingness to pay? Does it lower my cost structure, giving higher margins at competitors' prices? Does it fit my resources and capabilities so well that only I should do it? Does it make me look great because I am doing well easily? Does it provide learning and a longer-term economic moat?

Think of your work as a portfolio of stocks. You buy more of some, sell others and hold the rest. For new activities, consider the business environment. How are profits? Does this align with corporate strategy? What budget is involved? Do you have executive support? Can this help you leapfrog competition, or is it a me-too proposition? What is the risk profile? What if you do not do this, could you deploy resources better elsewhere?

Underscoring Strategy for Tactical Thinkers

In the daily sprint for results, metrics and performance reviews, who has the luxury of slow thinking? It is not easy to think about long-term strategy when the marathon of sustainable advantage feels distant. Several practices help. Write down what winning looks like for your company, department, function and career. Do you have a board of directors to nudge, motivate and question you?

Think backwards from the customer. Who is she? What does she value? How well do you know her? Are you making tradeoffs? When did you last say no productively and use that freed time for something useful? Who else can do this work? Are you hoarding it instead of delegating to juniors who need the opportunity? If you could invest 20 hours a week for five years to become the best 5 percent in the world at something, what would that be? As Nike says, yesterday you said tomorrow.

- 1Sustainable Competitive Advantage
- 2Porter's Five Forces Analysis
- 3The Big Lie Of Strategic Planning

Summary

Strategy demands continuous reinvestment because no advantage is evergreen. Rivals, new entrants, technology shifts and changing customer expectations erode moats. Treat your activities as a portfolio. Invest in what differentiates, stop what does not, and maintain conviction over multiple business cycles.