Strategy Burnout

And how to avoid it

The word "strategy" is overused, misused and misunderstood. Why the confusion and how can managers identify and gain from genuine strategic opportunities?

It's a word that gets dropped into every business conversation. Put "strategy" or "strategic" next to something and it sounds really important. So we have IT "strategy", manufacturing "strategy", "strategic" human resource management.

But are we in danger of losing the plot? Of using it excessively while confusing ourselves about what strategy really is? Of kidding ourselves that we're developing strategy when, in reality, we're not?

So, what is competitive strategy?

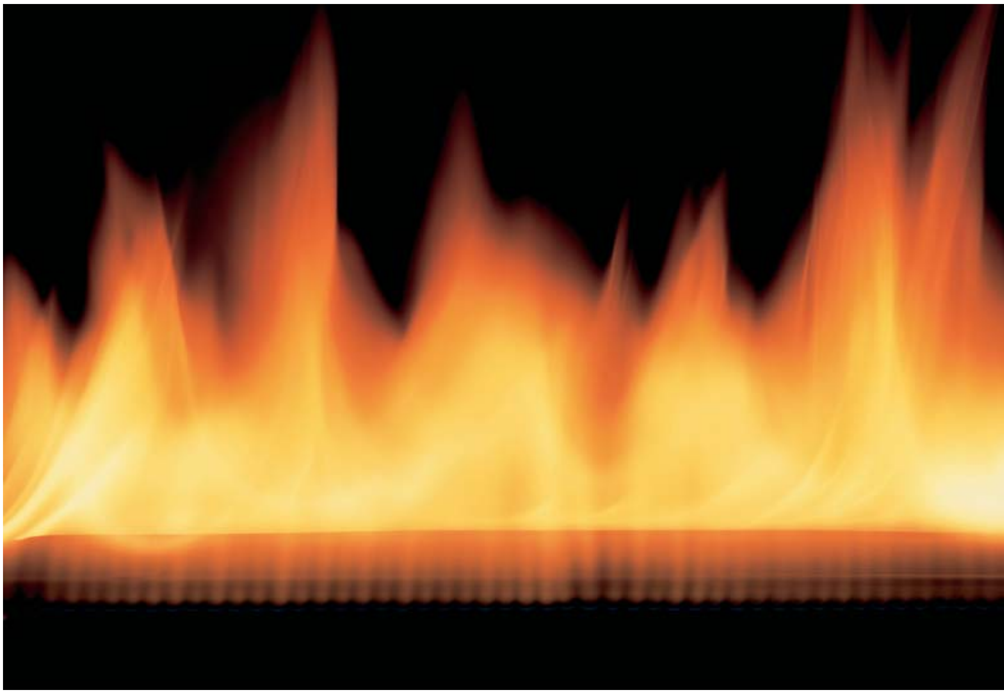
And it is an important question. Without a clear answer, managers will continue to struggle, and their organisations will continue to underperform. Evidence from our research shows that Australian and New Zealand organisations typically only achieve 15 percent of their competitive potential. This is largely due to their inability to develop strategy that really is competitive.

Here's a fresh view on the subject based on our 16 years of consulting experience.

Just ops in fancy dress?

Many managers are confused and infuriated by discussions of strategy. At a recent seminar, one delegate, a CEO, when asked to list his learning needs, wrote: don't use the word "strategy" or "strategic".

That's a bit difficult when you're conducting a seminar on strategic planning!



"Over the years," he said, "strategic planning has been taken and clouded with mystery. We now need an industry to unravel the mystery."

As he saw it, the terms had been overused to such an extent (both in literature and in his workplace) that they'd become meaningless. The worry is that without clarity regarding what strategy really is, his organisation will be unable to produce an effective strategic plan.

Another case concerns an organisation whose management had "given up on strategy and gone back to tactics". Its management had become burnt out by the failure of their strategic considerations to produce anything of value for their organisation. My concern was that in focusing on "tactics", as they called them, they'd merely be returning to a focus on operations and thus be outmanoeuvred by their strategically focused competitors.

In my role as facilitator, assisting organisations to develop strategic plans, I noticed in their previous plans a focus on the activities of such departments as marketing, finance, human resources and corporate services – rather than on the organisation's key stakeholders. This operations focus fails to produce a strategic plan – it's just an operational plan in masquerade.

What is competitive advantage?

It's important to return to basics. In his various publications, Harvard Business School professor Michael Porter distinguishes between "two basic types of competitive advantage: lower cost and differentiation".

Lower cost, he explains, "is the ability of a firm to design, produce, and market a comparable product more efficiently than its competitors. At prices at or near these competitors, lower cost translates into superior returns."

Porter contrasts this type of competitive advantage with differentiation. In terms of product quality, for instance, the basis of strategy is special product features and service. A combination of such features allows a firm to command a premium price, yet still provide superior value to the buyer.

This framework has influenced many managers' thinking and can be found in many textbooks. But has Porter got it right? What is competitive advantage? There are important practical implications that flow from answers to both questions.

To define competitive advantage effectively, we must take an external frame of reference. We'll choose that of customers here, but could just as easily use other stakeholders, such as employees or shareholders. It's a reference point we describe as "outside-in": viewing an organisation from the outside looking in, not from the inside looking out.

Customers are not interested in operations – activity within an organisation. They're not concerned with how efficient a company is. But they are interested in how internal operations impact on them – in terms of price, customer service, delivery and product quality, among other factors.

It's this outside-in view that raises the issue of differentiation. It's by differentiating itself on items such as the above that a business achieves a competitive edge. We call these items strategic factors, and a different set exists for each of an organisation's key stakeholders – its customers, suppliers, employees, shareholders and so on.

Competitive advantage is achieving superior performance on the strategic factors relevant to key stakeholders.

For customers of a car manufacturer like Ford, these include product quality, product features, customer service, product availability and price. When, as customers, we weigh up price with all the other strategic factors like product features – an indication of what we'll receive for our dollars, we determine value. In other words, value is determined by balancing strategic factors. It follows, then, that competitive advantage becomes equivalent to delivering value on strategic factors superior to that of our competitors.

Approaching competitive advantage and differentiation in this way makes it impossible to see lower cost as anything but a change in the frame of reference. Through the lower-cost lens, we're looking at competitive advantage not from the outside-in, as we do with differentiation, but from the inside-out – not from the customer's point of view, but from the organisation's. In doing so, we've converted competitive advantage into an internal operations concept. And operational efficiency, while important and capable of improving profits by cutting costs, is not competitive strategy.

If we equate "lower cost" to "lower price" – which wasn't Porter's original intention but which many commentators do – then this becomes just another form of differentiation: differentiation on price.

To sum up, an organisation achieves competitive advantage by differentiating itself on strategic factors relevant to its key stakeholders. It takes a position on these factors and delivers superior value.

However, it can only sustain its position through operational efficiency, one form of which is cost containment.

To maximise long-term profit, a firm must produce effective competitive strategy and achieve lower cost. But lower cost is not competitive strategy.

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David Jones – a struggle with strategy

Let's take a look at that great Australian icon, David Jones. It has 35 department stores across Australia and is a household name. Most Australians and many New Zealanders know it as a "quality" store, with all that that conveys.

David Jones' last five years have involved a wonderful success story. You wouldn't guess it from its recent press, because its department store success has been overshadowed by its Foodchain and online website failures. Both the success and failure stories are based on competitive strategy and strategic factors. The department store got it right; Foodchain got it wrong.

The department store's competitive

strategy is focused on a target customer: a 30- to 54-year-old high-income woman. David Jones has built competitive advantage on the strategic factors relevant to her.

These include:

- image, through its in-store product brands and advertising;
- customer service, which it monitors vigorously via a mystery-shopper programme;
- store presentation, by having clear lines of sight, by not being overstocked and by general ambience; and
- product range – many of the branded products are exclusive to David Jones. This combination of strategic factors allows David Jones to be competitive on price, but it doesn't aim to be a "discounter".

Peter Wilkinson, until last year the CEO, laid out his and his company's thinking on competitive strategy at a presentation. We can see Porter's influence here.

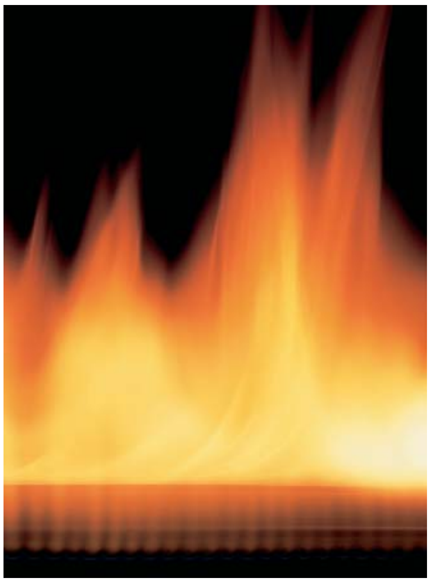
Wilkinson described how management queried "whether you should go for price leadership, differentiation or for a very focused programme". What he's really asking in our terms is: how should we differentiate ourselves on the strategic factor, price, or on other strategic factors such as product range and customer service? And should it be for a broad target market or a narrow one? They got the answers right for David Jones' core business.

Foodchain was established by David Jones about three years ago to overcome the cyclical nature of department-store retailing and achieve growth ambitions. These stores are standalone gourmet food outlets. Several were opened in Australia's major capital cities, and leases were signed for others yet to be developed.

The *Sydney Morning Herald* weekend edition, 21-22 September 2002, provides a review by the commercial property editor of David Jones' venture into Foodchain. What's interesting about the article is that, without ever using the term "strategic factors", the writer evaluates Foodchain precisely on its ability to obtain competitive advantage on those factors.

Among the ones listed are location, product range, hours of operation, price and store presentation. David Jones misread each of these for Foodchain and suffered the consequences. Its competitive strategy left much to be desired, since it failed to address effectively Foodchain's position on each.

The result, as the *Sydney Morning Herald* of 18 September 2002 announced, "The



meagre net profit [of David Jones] did not reflect the continued improvement in the core department and credit businesses, which increased earnings before interest and tax by 20.5 percent to $17.4 million".

At that time, David Jones had to write down $19.5 million on Foodchain. It has since decided to exit the Foodchain business entirely and has taken a "$78 million hit" on its venture (*Australian Financial Review*, 4 June 2003).

Why businesses don't reach potential

Asking what is competitive strategy appears on the surface to be an academic question. Yet not distinguishing between strategy and operations is the source of many business failures. It trips managers up time and again, as they get sucked into operations and operational thinking.

And they know it. At a recent public seminar of mine on strategy planning, I asked the managers to introduce themselves and express their learning needs. Fifteen of the 20 present said they wanted to understand the difference between strategy and operations.

This distinction lies at the heart of David Jones' success in its department-store business and its failure in the gourmet-food business.

Knowing precisely what competitive strategy is has far-reaching implications for other Australian and New Zealand organisations as well. Our research shows that they are not reaching their competitive potential – on average, they're achieving only 15 percent of it.

This happens for two reasons. Firstly, they don't develop strategy that is truly competitive – strategy that will give them a competitive advantage. Secondly, they don't implement whatever competitive strategy they do develop.

If, as we've found, only 30 percent of their strategies are really competitive, what are the other 70 percent? The answer is operations – individual activity and organisational programmes. Managers habitually mistake operational improvements for competitive strategy. The results? A persistent miscalculation of competitive advantage and a serious overlooking of strategic opportunities.

Hopefully, through the framework presented here, managers will be better able to develop clear and precise competitive strategy and assist their organisations to achieve their competitive potential. **M**

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