Do you have a Strategy? If yes, which one?

How to formulate and successfully implement a business strategy in 7 steps

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How to formulate and successfully implement a business strategy in 7 steps.

Can you say, in one sentence, what your company´s strategy is?

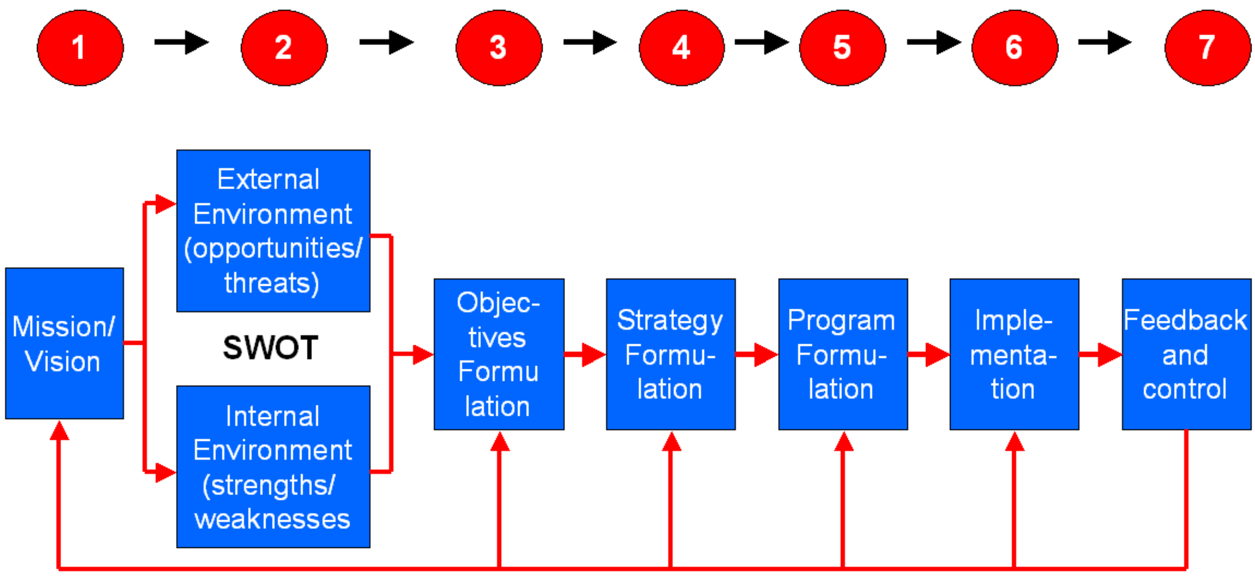
In an increasingly complex business environment, many CEO´s and managers have difficulty describing in which direction their company is heading.

The crucial point is: If there is no clarity about strategy in leaders´ minds, there will be no clarity in communicating the strategy, either. This can lead to wrong decisions, frustration and, ultimately, to losses in productivity. E.g.: Imagine a salesperson making a big effort to gain business with a customer he considers import. Then he learns from his boss that this customer has no high strategic priority at all and that he should focus on a completely different customer group…

Corporate strategies are developed by key managers in a systematic process. This requires analytical thinking, creativity and the courage to think out of the box. What is decisive is that those responsible for strategy implementation are actively involved in the strategy-making process and that they fully identify with the outcome. Only then will the strategy´s execution have their full commitment.

The process of developing and implementing a business strategy is shown in fig. 1.

Fig 1: The process of strategy development and implementation.



Step1: Mission/Vision
In its mission, a company describes why it exists: Example: ´We want to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life´ (global pharmaceutical concern).

The vision describes the company´s mid-to-long term objectives: Example: ´We want to have one million online customers by the end of the decade (Online Bank).

While the mission is often quite general, the vision provides a clear (and sometimes quantified) statement about a desired future state.

Step 2: Strategic Analysis
Strategic analysis includes a systematic audit of the company´s external environment and its internal situation. The external environment can be subdivided into the macro- and micro-environment. The macro-environment includes the political, economic, social, legal and technological influences impacting the business. They include megatrends which might have far-reaching consequences for the business. E.g. the two megatrends ´Ecology´ and ´Sustainability´ are prompting many companies to modify and improve their products to remain competitive.

The micro-environment includes the company´s target market, customer segments as well as current and potential competitors. In this context, the following questions should be answered:

- How is the current target market developing? Where are new markets forming?
- What needs do our customers have? How do they buy?
- What is the competition doing? Which new competitors are likely to enter the market?

In the next step, the results of the macro- and micro analysis can be categorized as opportunities and threats for the company. Whether an external influence represents an opportunity or a threat depends on the perspective being taken and on a company´s capabilities. Example: The megatrend ´ecology´ is clearly an opportunity for companies which have offered ecological products in the past and developed the required competences.

In the internal analysis, the company´s strengths and weaknesses are identified.

Finally, the external opportunities and threats and the internal strengths and weaknesses are listed in a SWOT (strengths-weaknesses/opportunities-threats) matrix (comp. fig. 2). It shows, in a structured way, where the company currently stands and which strategies can be derived.

Fig. 2: SWOT Analysis for a car manufacturer

	Opportunities (+ outside influences) 1. Higher density of urban traffic requires new compact cars 2. Purchasing power of main target group is continuously decreasing	**Threats (- outside influences)** 1. Increasing fuel costs 2. Increased sensitivity for ecological problems in modern society
Strengths (internal) 1. Product quality has been improved by 10% 2. Flexible manufacturing capability 3. Company is growing faster than the competition	**Strengths/Opportunities Strategies** • Introduce new compact class into the market • Leverage flexible manufacturing capability to introduce additional product variants	**Strengths/Threats Strategies** • Launch energy-efficient car model • Build ecological image
Weaknesses (internal) 1. High wages compared to foreign manufacturers 2. Company only has one brand 3. Company only participates in few strategic alliances	**Weaknesses/Opportunities Strategies** • Introduce new brands • Build strategic alliances in the development field	**Weaknesses/Threats Strategies** • Purchase competitor x to have know-how in energy efficiency quickly available

Step 3: Definition of strategic objectives
Strategic objectives are quantified and time-specific. Example: ´We want to become the most profitable company in our industry within 3 years.´ Profitability can be measured by metrics such as return on sales or EBIT (Earnings before interest and taxes). A company´s strategic objectives have a far-reaching influence on its operations and related decisions. E.g. a firm which wants to become the most profitable business in its industry has to strictly monitor its costs and resource allocation. Also, it will avoid winning low-profit business by granting rebates only to buy market share.

If the strategic objective is, however, ´We want to become the biggest company in our industry´, the strategy will be completely different. A company with this strategic objective will probably try to grow through acquisitions and to win market share by offering attractive rebates.

Step 4: Formulating the strategy
A winning strategy answers the following questions:

- Which customer groups will we address? Which ones will we not address?
- What products and services will we offer our customers?
- In which markets and geographical regions do we want to be present?
- How do we position ourselves? Do we want to be a price or a quality leader?

Companies pursue two fundamental goals with their strategy: Profitable growth and a sustainable competitive advantage. The latter is based on the unique selling proposition (USP) of the company´s offering. The decisive question is: ´Why should a customer buy from us and not from the competition´? A USP can be based on the characteristics of a product, but also, e.g., on the particular process of producing and providing it (e.g. online, not via the traditional retail trade).

Step 5: Action programmes
To implement the strategy, action programmes have to be defined. They include, e.g. increasing production capacity, searching alliance partners to enter new markets, developing and introducing a new product line, etc.

To align the whole company with its overall strategy, managers´ and employees´ personal objectives have to be linked to the strategic objectives. Appropriate incentive systems should be introduced to reward strategy-driving behaviour.

Step 6: Implementation
Experience shows that, in most cases, strategies fail in the implementation phase, not in the formation stage. Strategy implementation is a change process with often far-reaching consequences for people and the organization.

Critical success factors in strategy implementation include:

- A clear strategy
- Professional management of the change process
- Overcoming power structures which obstruct change
- Effective communication among the leadership team
- Clarity concerning roles and responsibilities

Step 7: Feedback and Control
Based on a comprehensive system of metrics (key performance indicators), digressions from the stated objectives will be detected and corrective measures be taken at short notice.

Summary
Business strategies are developed and implemented following a systematic 7-step process. The biggest challenge is not strategy formulation, but strategy execution and the resulting change process.

No strategic advantage lasts forever: Sooner or later any strategy will be copied by the competition - and the next round starts.