

eStrategy Pure and Simple

Chapter One

Strategic Fuzziness

For the last 20 years we have worked with over 400 companies in dozens of industries and countries helping them, with a process we have developed called Strategic Thinking, formulate and deploy a successful business strategy. The main reason that CEO's have used our process is to overcome a phenomenon we call strategic fuzziness.



In any company, the strategy and direction of that organization should be set by the CEO with the help of the top management team. The strategy should be clear and explicit so that employees understand and can use it as a filter or target to make intelligent and consistent decisions on behalf of the company over time. Unfortunately, in most companies, the strategy is implicit and resides in the heads of a few people at the top while the rest of the staff have to guess and grope as to what the strategy is every time they make a decision.

Another element that adds to the difficulty of understanding the strategy of the business is that most people cannot distinguish between strategy and operations. In other words, they cannot separate strategy and strategic thinking from operations and operational thinking. Although both types of thinking go on simultaneously in every organization, we have observed that these are practiced with different degrees of proficiency.

One simple way to illustrate the difference is to look at it this way: strategy is *what* and operations is *how*. In other words, strategy is the kind of thinking that is what we want to be in nature, while operations is the kind of thinking that is how to get there in nature. Graphically, the difference can be explained by the following illustration.

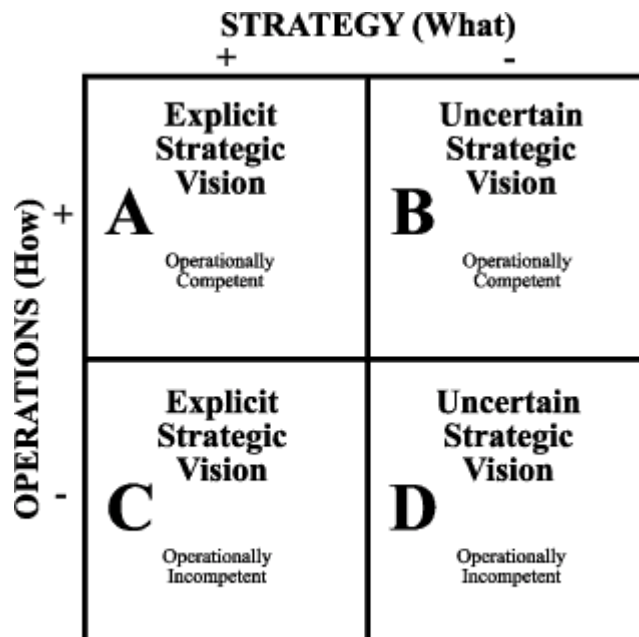


Figure 3-1: The strategic thinking matrix

In quadrant A, we find companies that have a well articulated strategy, well communicated and well understood by everyone in the organization. They know what they want to become. Furthermore, they are very competent operationally. They know how to get there.

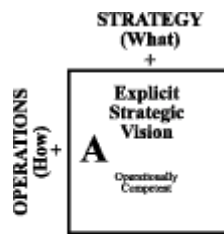


Figure 3-2: Companies in quadrant A of the matrix.

Examples of such companies are IBM and Lou Gerstner's recent formulation and deployment of his "co-centric computing" strategy. Other companies with clear strategies are Disney under Michael Eisner, Dell Computer under Michael Dell, Wal-Mart under Sam Walton and David Glass, and Home Depot under Bernie Marcus and Arthur Blank.

In quadrant B, we find companies that are operationally effective but strategically deficient. Many of the companies pursuing a me-too strategy fall into this quadrant.



Figure 3-3: Companies in quadrant B of the matrix.

In quadrant C, we find companies that have a clear strategy; their difficulty is making it happen operationally. A good example recently has been the PC industry with its 130 to 140 competitors all trying to be the best "wintel" clone they can be. Clear strategy, but unfortunately, most of them have been unable to execute well operationally and the winners and losers change almost every day.

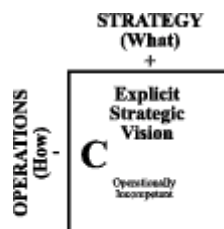


Figure 3-4: Companies in quadrant C of the matrix.

In quadrant D we find the worst of both worlds. Unfortunately, the list of examples is not very long because if you find itself in this quadrant, you are not around long enough to talk about it.

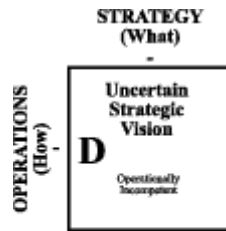


Figure 3-5:
Companies in
quadrant D of the
matrix.

Which quadrant do you think most companies find themselves? I have asked this question to more than 3000 CEOs all over the world and the answer is always the same. Eighty to ninety percent of these CEOs tell me that most companies reside in quadrant B: operationally competent but strategically deficient. Many CEOs even include their own company in this observation. In other words, most executives can keep the "numbers" coming out right quarter after quarter, but they don't have a shared understanding of what the company will look like as a result of all that churning. I call this the "Christopher Columbus School of Management":

- When he left, he did not know where he was going;
- When he got there, he did not know where he was;
- When he got back, he couldn't tell where he had been!

Do you belong to this school? To help you answer this question, you may want to go through the following assessment.

What is the Strategic Quotient Of Your Organization?

The following survey is designed to have you assess the Strategic I.Q. of your organization and to determine which quadrant you fall into. The survey is designed to be answered by the CEO and the Management Committee. The respondents should answer the questions individually, without consulting each other, and their answers compared afterwards. If you wish to have an objective assessment of these answers, DPI will gladly do it for you and do an "audit" of your strategy.

1. Do you have a well-articulated, clear statement of strategy?

Yes [Score 10] No [Score 1]

2. Could each member of your management team write a one-or-two sentence statement of that strategy without consulting each other?

All could 10 Some could 5 None could 1

3. Do you have your strategy in written form?

Yes 10 No 5

4. Do you and they use this statement as a guide for the choices you make together when deciding which future products, customers, and markets your company pursues?

Use frequently 10 Use sometimes 5 Never Use 1

5. Do you and they use this statement as a guide to decide which products, customers and markets your company does not pursue

Use frequently 10 Use sometimes 5 Never use 0

6. Do you use this statement as a tool to decide how resources are allocated within your company?

Use frequently 10 Use sometimes 5 Never use 1

7. Do you use this statement as a tool to choose which opportunities your company pursues and which ones it doesn't?

Use frequently 10 Use sometimes 5 Never use 1

8. Have you ever sat down as a management team to try to obtain consensus as to the future direction of the organization?

Regularly 10 Once in a while 3 Never 1

9. Was consensus obtained or are there still different visions of *what* the organization is trying to become?

One vision 10 Several visions 1 No vision 1

10. Do you have a *separate* process of strategic thinking to determine *what* you want to become as opposed to *how* you get there?

Formal, codified process 10 No process 1

Total Score: _____

If all the answers are similar and each statement is identical, then you are in good shape. The wider the discrepancies in their replies compared to yours, the less clear or understood your strategy is to them and you may want to entertain taking your management team through the process described in the remainder of this book.

Scoring Your Strategic I.Q.

If you wish to get a numerical assessment of your Strategic Quotient, simply add up the scores next to each question you responded to. The following is our assessment of your score;

Score:100

You're perfect. There is no need for you to read the remainder of this book unless you don't know why you are so good.

Score:70-99

There is some degree of ambiguity over strategy among the management team with periodic disagreements over direction, particularly on significant issues. You are on the cusp of great success if this ambiguity can be removed. Your batting average is a few more wins than losses but this average could be substantially improved by the removal of this ambiguity. Exposure to a good strategic process would bring considerable value.

Score:40-69

You are suffering from a severe case of "fuzzy" vision. There are very differing views over strategic direction among the management team which results in erratic operational performance. There are frequent disagreements over strategic issues and you are probably frequently surprised by competitive tactics. Failure to clear up this ambiguity will eventually lead to even worse operational results. Time to bring a process into play to relieve the organization of this ambiguity and stop the bickering.

Score:1-39

A score in this range indicates too much focus on operational issues and short-term results. Decisions are made on an event-by-event basis as opposed to being made within a set of strategic parameters. There is little agreement among the management team over direction with continuous, and heated, debates. As a result, decisions are frequently arbitrated and dictated by the CEO in order to break the stalemate. The company is in a me-too strategy mode and is frequently surprised by competitive tactics. Most actions are taken as a reaction to competitive initiatives. Time for a re-think.

Amplification Of The Fuzziness

And then, along comes the Internet! Is your business strategy Internet-ready? Or, will you suffer from strategic fuzziness² ?

Last year close to 50% of the capital investments made in this country were on information technology, or IT, as it referred to in its vernacular. This number is projected to increase 10 to 15% per year for the next several years.

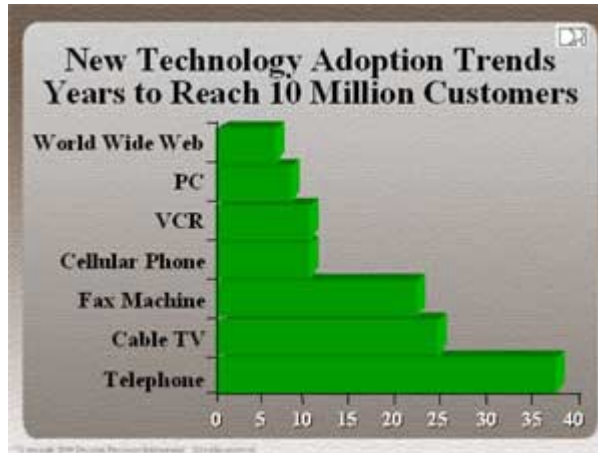
The New Economy

This represents an enormous shift in the country's resources away from the traditional investment in so-called "bricks and mortar" to IT. This shift is creating what has become known as the "new economy". We are swiftly becoming a "wired" economy.

The cause of this increasing dependency on information technology is the Internet. Here are some statistics that demonstrate the rapidly growing influence of the Internet on businesses and consumers. In the last five years, the amount of transactions conducted on the Internet jumped from a negligible sum to over \$600 billion and this number is projected to increase at a double digit pace for several years. To date, 80% of these transactions are business-to-business (B2B) whereas only 20% is business-to-consumer (B2C).

The business-to-consumer portion, however, is projected to increase as the following charts indicate.





The Transformation Of Business

As we have discovered in our strategy work with over 400 clients, a good strategy stays in place and works for company over a long period of time. This strategy is usually deployed through four mechanisms which are distinctive to that company. These can be considered the "cornerstones" of that strategy and consist of:

- The organization structure put in place to support the strategy
- The processes and/or systems used to deploy the strategy
- The skills and competencies that are nurtured to execute the strategy
- The compensation programs that reward people for executing the strategy

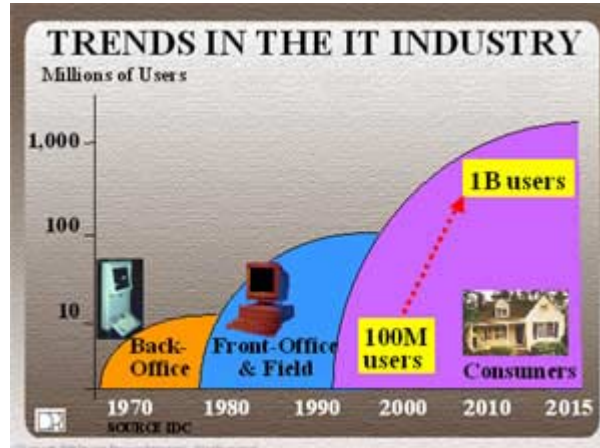


These four cornerstones of a business do not change frequently and form the basic foundation of any company's Business Model. Most Business Models can accommodate a constant stream of changes over time. In fact, that is the sign of a successful strategy. There are some changes, however, that are of such a magnitude that they will impact the structure, or genetic code, of the enterprise and will cause a CEO to rethink that Business Model.

The Internet falls in this category. The shift to a new economy, brought upon by the advent of the Internet, will cause the CEO of every company on this planet to rethink its Business Model. The

reason is simple: the Internet will have an impact on every product, every customer, in every market, in every industry, in every country on this planet.

To illustrate this point, the following graphic shows the migration of IT since its inception in the late 60's to the projection that, by 2015, over one billion homes will be "wired" through the Internet.



The Internet will be to this century what electricity was to this past century and what steam power was to the previous one. Over the next 50 to 75 years, the Internet will infiltrate every nook and cranny of society...and *business*. And like electricity and steam, it will overpower the traditional ways to live and do business

In every strategy session we have facilitated in the last three years, the Internet has shown up everywhere - as a threat, as an opportunity, as a vulnerability or as a Critical Issue. Most CEOs, therefore are conscious to the fact that the Internet will impact their business. The dilemma that they all share, however, is: "What do we do about it?" This question is not about whether they should do something or not, but rather about what to do.

The Key Difficulties

To most CEOs, the Internet is an *enigma* - they simply don't understand it. And there are not many sources available to them to educate themselves. There are three reasons for this:

- There are no history books. No one has written any books of their experiences with the Internet. It is a change that is happening now - in real time - and it is morphing into something different each day.
- There are no experts. In spite of their claims to the contrary, no consultant has enough experience to claim to be an expert. They are all learning with each new project, usually at some client's expense.
- There are no proven models. In spite of the sky high valuations given to the Internet start-ups, the fact remains that none of them have yet withstood the test of time.

The Internet is a "change in progress" and, as such, has four features that make it very difficult to understand;

- It is intangible. Unlike "bricks and mortar" which can be seen and even touched, the Internet cannot. No one can see it or touch it and, as a result, it is seen as something fuzzy and difficult to understand.
- It is a moving target. The internet is happening in real time with a constant flow of new applications being found for it every day.
- It is evolving each day. Because of the flood of new uses being made of it each day, the Internet is in a constant state of flux with an ever-changing profile which will continue to evolve for many years to come
- It is in a beta mode. As stated above, every application being tried on the Internet is in a laboratory setting where everyone is experimenting with none of these yet completed.

Although there is no history, no experience and no proven models regarding the Internet, the fact is that a CEO has **no choice!** The reason is simple: the Internet is a *one-way street*.



The Dilemma: Strategic Focus

The Internet features described above bring with them a major dilemma for the CEO of the enterprise which we call *strategic focus*. Strategic focus is brought to an enterprise through our Strategic Thinking Process which enables a CEO to determine the nature of the products the company will offer, the nature of the customers it will pursue, the nature of the markets it will seek as well as those it will not. This profile becomes the target of the enterprise's business strategy and gives the organization strategic direction and focus.

The Internet, with its intangibility and lack of understanding by most CEOs, can challenge and put into jeopardy, the business strategy of an enterprise. The following matrix can illustrate this phenomenon.

CLEAR BUSINESS STRATEGY CLEAR INTERNET STRATEGY	CLEAR BUSINESS STRATEGY FUZZY INTERNET STRATEGY
FUZZY BUSINESS STRATEGY CLEAR INTERNET STRATEGY	FUZZY BUSINESS STRATEGY FUZZY INTERNET STRATEGY

Strategic Fuzziness³

Which quadrant are you in? Our experience of over twenty years of working with organizations all over this globe helping them formulate and deploy a business strategy, is that most organizations do not have a clear and explicit one. We suspect that the same is true of an Internet strategy. Which means that you have *fuzziness squared* ! Not an appealing situation to be in. Which brings us back to the question: "What do we do about it?".

The dilemma for a CEO turns out to be a Catch-22. He's damned if he does and he's damned if he doesn't. In other words, he asks himself: "I know that I have to do something about something I don't understand. Therefore, what is that something I must do?"

To determine where your company falls on the above matrix, you may wish to answer another survey.

The Internet Strategy Quotient

1. Do you have an overarching Business Strategy that guides Management decisions?

Yes [Score 10] No [Score 0]

2. Do you have an Internet Strategy that is fully integrated and supports your Business Strategy?

Yes 10 No 0

3. Do you have an overall "blueprint", designed by your own people, which will determine *where* and *how* the Internet can best serve your organization?

Yes 10 No 0

4. Is your Internet strategy seamless across all functions of the business?

Totally 10 Partially 5 No linkage 0

5. Is Management on a "crusade" actively promoting your Internet strategy?

Yes 10 Sometimes 5 No 0

6. Do all your employees understand your Internet strategy and their role in it?

All do 10 Some do 5 None do 0

7. Are all your key suppliers tied into your internet strategy?

All are 10 Some are 5 None are 0

8. Are all your key customers tied into your Internet strategy?

All are 10 Some are 5 None are 0

9. What level of Internet capability do you have?

- Fully transactional, interactive & database analytical capability 10
- Some off-the-shelf, business transactions 6
- None-functional Web pages 2
- No capability 0

10. Are your Internet capabilities fully integrated with your traditional IT systems?

Fully 10 Partially 5 None 0

Total Score: _____

Interpretation of Scores

SCORE: 75-100

You are in the forefront of management thinking and technological leadership. There are two concerns that you should have:

- Since there are no models yet, will ours work?
- Will our competitors learn from us and try to duplicate and improve upon it?

Advice: In order to benefit from your pioneering efforts, ensure that:

- The implementation plan has been screened for potential problems, and actions to prevent these problems have been taken.
- You learn as you implement each piece and reintroduce what you learn into the system to widen your advantage.

SCORE: 50-75

You have recognized the advent of the Internet and how pervasive it will become throughout society and the impact it will have on business. You have decided to try to exploit its use but not under the umbrella of a coherent corporate Internet strategy. Programs have been attempted on a piecemeal basis and there has been a lot of trial and error and several unpleasant surprises. One of these surprises might be that the experimentation that is going on does not support the overall Business Strategy of the organization.

Advice: This "piecemeal" approach will probably evolve into an incompatible system that will require a lot of costly "retrofitting". The sooner you develop a coherent, integrated Internet strategy that fully supports your corporate strategy, the better off you will be.

SCORE: 25-50

Your organization has recognized the significance of the advent of the Internet together with the corresponding threats and opportunities it brings. However, you have been reluctant to do anything about it, probably because there are some components of your business model whose role might be negatively altered and you are agonizing over their reaction.

Advice: Do not let this element of your business become an "albatross" and paralyze your decision-making. It is during this period of paralysis that your competitors will take market share away from you. Remember that the Internet is here to stay and if you do not figure out how to exploit it, it will exploit you.

SCORE: 0-25

You have been so preoccupied with everyday operational issues that you haven't had time to think about what to do about the Internet although, in the back of your mind, you know it will someday hit your business. You hope, however, that this day is far off. Surprise! It will be sooner than you think.

Advice: If you are engrossed in operational issues, it's probably because your corporate strategy is not working and it might be time for a rethink. Or, maybe it is just too late.

Interpretation Of The Matrix

Depending where one locates himself on the matrix will demand a different management solution.

Fuzzy Business Strategy, Fuzzy Internet Strategy

This is fuzziness to the second power. Overlaying a fuzzy Internet strategy on top of an already fuzzy business strategy amplifies the ambiguity over direction, thoroughly confuses the employees and breeds decisions that will cause the organization to meander all over the map. To extract yourself from this situation, you will need both processes described in this book.

Fuzzy Business Strategy/ Clear Internet Strategy

This is almost an impossible position to be in since it is inconceivable to think that one can develop a coherent Internet strategy without a clear Business strategy to begin with.

Clear Business Strategy/ Fuzzy Internet Strategy

Experts who study the fusion of two elements will tell you that the stronger party eventually inherits the other party's weakness and both parties are brought down to the lowest common denominator. To avoid this situation, you need a catalyst such as the e-Strategy Process described later in this book.

Clear business Strategy/ Clear Internet Strategy

This is the best situation to be in. There are, as we noted earlier, very few companies in this privileged position.

In order to get to this position, however, requires disrobing the Internet e-nigma! To find out how to begin to do that, read Chapter 2 in two weeks!

For a complimentary Executive Overview of DPI's eStrategy Process, call 1-800-336-7685 (in CT 1-203-454-1286),