Strategy today

- What is strategy?
- Some strange strategic terms and what they mean
- Strategy as a way of behaving

Strategy today has developed from being an analytical process into something that is far more fluid and dynamic. This chapter explores that shift, and provides you with a context and language for the rest of the book.
Touching

What is strategy?

To enable you to really benefit from this book, you need to have an understanding of the core components of strategy; but that doesn’t mean that you need to become skilled in all tools and language that academics, consultants and some business people seem fascinated by. So if you want to delve into the detail of the jargon then this book isn’t you. However, if you want to understand the key issues that drive organizational performance, the success of high performing organizations, and if you need an understanding of the context in which your IT function has to operate, then this is the book for you.

Firstly, strategy is not the tools that carry names such as PEST Analysis, SWOT Analysis, Resource Analysis, Competitor Analysis, Five Forces Analysis, Scenario Analysis, etc. These are tools that help business people to understand the environment in which they are operating. And there are all sorts of debate over whether these tools remain appropriate in today’s very unpredictable business environment. We won’t have that debate here.

More importantly, strategy today has a broader and deeper meaning that allows organizations to operate in an environment where the competitive pressures are greater and more varied than ever before; where customer expectations are increasing both in terms of the speed of change and the degree of change; and where the expectations for an uplift in performance increase almost exponentially. And these pressures come from investors, marketplace commentators (e.g. the press and analysts), customers and staff.

Strategy today has developed from being an analytical process into something that is far more fluid, and if working well, central to organizational success. Indeed, strategy is now more akin to a way of acting and thinking within an organization. When doing its job, strategy is evident everywhere in a business by the way the people, systems and processes are operating in alignment with the organizational goals. In this way strategy permits (indeed facilitates) a decision-making ability, a speed of responsiveness, and a desire to deliver that enables the business to operate in a more entrepreneurial manner, pursuing and taking advantage of opportunities as they occur and are spotted.

Is it timebound?

Strategy is traditionally considered to be a medium or long-term issue because strategic plans were those set for 5 or 10 year periods of time. This is no longer the case. Strategy is no longer time bound in that narrow sense. Yet it does force us to look into the future and determine what sort of business we will be at some point in time, though that time span may
be as short as 12 months or as long as 10 years. However, in practice the timescales have become shorter over the last 15 years, and the key role of strategy is one by which today’s activities are linked to the development of tomorrow’s capabilities and the delivery of tomorrow’s results and performance.

This change of emphasis reflects the fluidity of the marketplace and the fact that many organizations change their strategies more often than many would consider healthy. Indeed, you may today be working in an organization that has recently changed CEO, been visited by consultants, or carried out yet another strategy review, and if so, you will know what I mean. But this is reality and there is no point pretending or hoping that this pattern will change; you might as well live with it and make the most of it.

Perhaps this is the first lesson from this book. This fluidity demands a great deal of flexibility in the organization to enable it to cope. Have you built the necessary flexibility in your team? And I don’t just mean in terms of systems, I also mean in terms of culture, people skills and leadership capabilities.

Strategy is also about growth. It is about building a bigger organization in one or a number of domains; turnover, profit, capability, customer base, brand value, market awareness, market perception, customer loyalty, processes and systems, sustainability, resources, market share, and many, many more.

Who cares?
For anyone in IT, this is an important issue to remember, because the board cares, your CEO cares, and your finance director cares. And on top of that, your investors and your customers care. Everyone of them is looking to see your organization achieve more, and they see IT as an integral player in the delivery of that success. So that you can achieve and support their strategic goals, there should be no doubt in your mind that you need to understand where the business is pointing, what it is trying to achieve and what your role is in that success. To do this you need to understand how the business mind works, especially when thinking strategically.

How does it work?
Wonderful stuff, you may say, but what does it mean on the ground; what are the key components?

In this section I am going to cover only a few of the main components, but don’t feel that this is too simplistic a view. Each aspect is critical in its own right and provide the core understanding that will enable you to have a meaningful dialogue with the business regarding its
strategy. Indeed as a result of reading this, many of you will find that your thinking will have leapfrogged that of other members of your board; if so, enjoy the moment.

**A simple view of strategy**

When a business decides upon its strategy, where does it start and what would it be trying to achieve?

In respect of what it is trying to achieve, the following diagram provides a useful understanding of the key questions we are trying to answer.

<table>
<thead>
<tr>
<th>The Why</th>
<th>Why are we doing this?</th>
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<tr>
<td>The Who</td>
<td>Who should we target as customers?</td>
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<td>The What</td>
<td>What products and services should we be</td>
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<tr>
<td>The How</td>
<td>How can we do this in an efficient and</td>
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**Figure 1: A simple view of strategy (Markides, 1999)**

In other words, if somebody were to explain their strategy to you, then you should be able to quickly understand why they exist, who they serve, what they offer them and how they do it.

Regrettably, many business strategies fail to answer these core questions, or wrap them up in such convoluted language that as a result only a very few people really understand the strategy, let alone deliver the sort of results the directors had hoped for when they set the strategy in the first place.

**Focus and simplicity**

Therefore, there are big issues here regarding focus and simplicity. If you always remember that a good strategy is one that delivers rather than one that looks good on paper, you will start to measure the quality of strategies on their ability to focus and align the activities of large numbers of people so that organizations can achieve more as a unified force. Complex
strategies, whilst well meaning, often serve to confuse and dissipate the energy and effectiveness of staff and organizational resources.

Indeed, unnecessarily complicated strategies also manage to confuse customers. In this respect there is an old retail adage which says that “confused customers don’t buy”. I am sure that you will recognize this in your own shopping behaviour. Think of the stores and shops from which you buy regularly and repeatedly and those that you have visited infrequently or only once. There is a strong chance that those that you visit regularly have made very clear to you what it is they do, what they sell, and which customers they want to serve. Indeed, you may have noticed how strange it is that there are a lot of customers just like you in that shop. Alongside, I bet you find yourself spending more in those shops and also feeling comfortable about recommending them to your friends and neighbours because you can predict how they will perform. Thus, clarity of purpose shines through to the customer. It must also shine thorough in a strategy and not confuse.

Returning to my four questions (why, who, what and how), this is not to say that you should see simplicity as representing a lack a depth of thought and understanding. Indeed, very often, a great deal of analysis, debate, argument and discussion is required to distil a clear strategy from the complex environment in which most businesses operate. As Winston Churchill once said, “I am afraid that you will have to put up with a long speech, as I have not had the time to prepare the short one.”

The difficulty you may have as a CEO is that you may be working in one of those businesses where the strategy is unnecessarily complicated. As you will see later in the book, this maybe just because the directors haven’t properly understood or agreed it, or perhaps the business is just making things too complicated. Whatever, you will have to extract the wheat from the chaff so that your staff can make sense of the strategy and can develop and deliver an IT strategy that is suitably aligned. This means that you will need to become adept at extracting the core themes and issues that exist within the business strategy and explaining them to your staff so that they can understand them and transact against them.

To enable you to be able to do this, it is worthwhile taking a quick look at some of the issues underpinning the four questions I highlighted above.

**The Why**

Every business must understand why it is in existence. For a large multinational corporate, it may be the delivery of shareholder value through the returns it delivers to its investors. For the public sector provider it will be the delivery of certain services or products to a particular part of the community (not for financial gain, but for the well-being of that community). And
for the entrepreneur running a small business it may simply be the pride and the desire to work on their own, or to balance their home and business lives.

Whatever, the answer to the ‘why’ question has massive implications on the strategic choices that are subsequently taken. In other words, the solutions that you identify as a result of the other three questions have to jointly deliver the returns that you have identified in this section.

For example, if you are the entrepreneur, working in a home office, you can select and choose a narrow range and a small number of customers with whom you do business. You can offer them a personalized service, build close relationships with them and custom-build every product and service that you deliver. It may not be very efficient, and it may not even be very profitable, but the personal rewards may be great.

On the other hand, you may be the chief executive of Tesco serving large swathes of the United Kingdom and Europe, and having to provide a return of something like 20% to investors on their investment each year. To achieve this, you have to reach a lot more customers and deliver your products and services very efficiently indeed.

Or, you may be the chief executive of a town council. Here you have little choice over your customers and your reason for existing has little to do with individual well-being or financial rewards for investors. But you must still be very efficient, and increasingly effective.

**The Who**

Once you understand why you are in business, you can start to think about your target market. Clearly the returns you want from the previous question (The Why) will impact on your choice of customer.

In this regard, strategists have all sorts of tools to enable them to ‘slice and dice’ the world into little bits and pieces (segments) that they can serve, sell to, and hopefully satisfy. For the purpose of this book, it is sufficient to know that we don’t have to serve everyone in the world. But that we do need to make sure we know who we are serving and that we understand their needs aspirations intimately so that we can focus our energies on satisfying those desires.

“Oh, I forgot about the customer”

One point of caution here: many businesses don’t understand who they are serving and neither do they understand the needs of those markets. As a result, they offer a service or
product that has limited benefit to that bit of the marketplace that it reaches. It has been proven by many failed and underperforming organizations that sustainability and long-term success does not flow from such muddled thinking.

This implies a need for the organization to be able to gain proximity to, sense and understand the markets in which it operates and the customers it serves. Companies that do this effectively are called ‘market oriented’, and this is one of four high level descriptions that is used to classify companies:

**Product focused**

To these organizations the product itself, innovation, improvement and product features are everything. Here you will be surrounded by engineers, techies, and generally people who are excited by what the product or service can do, how it operates and its technical features. However, these people may not have considered whether or not the customer really wants all the features they have introduced, or whether they are willing to pay for them at a price that makes a profit.

**Process focused**

In these companies, the process of making the product is the most exciting thing on earth. The operations team dominates and spends its life improving production processes, using techniques such as total quality management, business process reengineering and Kaisen, and gets really excited when a ‘root cause analysis’ shows up a previously undetected fault. These types of businesses can produce their high quality products on time, at a lower cost, and in greater quantities than others. However, it is this last feature, which often causes these organizations problems. So good are they at producing in volume that the system produces more than the market wants and then oversupply occurs and a fall in prices results. One only needs to look at car manufacturing to get a flavour of this problem. If like me, you have driven past enormous car parks of new cars waiting months to be distributed to showrooms, you can tangibly see the problem of oversupply. Further, one look at a profit and loss account of the Ford Motor Company will show you what oversupply in the industry has done to their profit margins.

**Sales driven**

These are organizations whose focus and energy is driven into sales processes and getting the customer to buy, whether or not the product and service really meets their needs. In its extreme form, this can be seen as hard selling. You will recognize this place of work, because the sales function will be the dominant team, and this is where power resides.
Market oriented

And so we come back to market orientation. Here products and services are designed, made and sold as a result of a deep understanding of the marketplace, the company’s customers and their evolving needs and desires. In the extreme form, companies such as these have the customer at the centre, with everything from organizational structure to team meetings focused around their requirements. Marketers and strategist have proclaimed this as the ideal company and what we should all be striving for. However, problems reside here too; product proliferation, mass customization, reactivity, all of which can lead to poor profit performance are common. Often smaller enterprises find it much easier to achieve this state, because of their greater proximity to the customer.

In reality, very few organizations evidence a single trait; most have a mix of two or three of these cultures. The challenge is determining which type is appropriate to a company and its market in order to maximize performance. Without doubt, the marketing orientation should be evident in all companies, but Wal-Mart would not succeed if it did not also benefit from a process orientation. That enables it to operate the logistics capability that keeps it competitive through stocked shelves and low distribution costs, and hence prices.

So what?

You need to be conscious of the approach or approaches that dominate in your company, as each type places different demands on the IT function.

Product focused organizations need systems that support the innovation process, the sharing of information and knowledge about technological breakthroughs. They need a system architecture which supports approaches such as multidisciplinary teams and project management.

In the process driven organization, it is the efficiency of manufacturing systems that is critical. So, the IT team needs to provide reporting and analysis on issues such as process speed and reliability, and capacity planning. They need to provide systems to run the main manufacturing processes, cope with preventative maintenance systems and deliver visibility of performance.

In the sales oriented organization, on the other hand, performance management systems are central to the way of working. IT must provide performance reports, sales information, profit figures, etc., and at all levels of the organization, very quickly, in various levels of detail, and with tools that facilitate interrogation. Also, they must be able to collate and analyse data regarding competitor performance.
The marketing oriented organization needs support and information regarding the marketplace and its customers and how they are behaving. These systems need to gather and share large quantities of information from a wide range of sources and in widely differing formats, making it accessible and usable by managers and staff, so that decisions can be readily taken. Scenario planning, product launches, performance, and organizational learning will also need to be enabled by the IT team.

Therefore, even at this very high level, we start to see influences on IT arising out of the orientation of the company and you and your team need to be able to recognize the demands that arise as a result.

The What

Having determined why we are here, and who we serve, we are now in a position to identify the products and services that we will offer to our chosen customers. As noted above, many businesses are product driven and this tends towards a habit to first design a product and service and then try to find a market to sell into. This can work in the short-term, but over the long-term the thinking has to be reversed; we need to understand the customer first and then build and deliver products and services that meet their needs. Given this proviso, what do we see organizations doing?

Doing it again, better and differently

In endeavouring to determine ‘The What’, companies tend to adopt a mix of three approaches.

Doing it again

“This is what we’ve always done, so we will continue to do it.” This may be a bit harsh, but I am sure you will recognize that the history of the organization (what it was set up for initially, and what it is skilled at doing) will dominate when choosing the ‘What’. However, this can be constraining and if the market moves on because of technological advances or replacement products and services, or evolving customer needs, there is a risk that you may be left making something that nobody wants any more. You need only to speak to the manufacturers of video recorders and video tapes to see this happening in front of our eyes today. Of course, many of these companies will progress and start to manufacture DVD machines and the discs themselves, but their existing reliance on their current product range and skills set may slow their entry into new markets with the result that they miss the best opportunities. Of course, they may not see the change coming at all, in which case they are likely to go out of business. Also, the shift may be so substantial that they simply do not have the skills nor resources or capabilities to respond. For example, there has to be a good chance that we
could receive all films in the near future by way of a download through broadband. If this was the case, then what is the role of DVD, let alone videos in the world such as this?

**Doing it better**

Some companies simply copy existing products and services delivered by other organizations and seek to do it better. They focus on incremental improvements, enhances to distribution processes, wrapping new services around the core product, and linking with other partners to provide greater value.

**Doing it differently**

Other companies set out to find new products and services to bring to market in order to satisfy the evolving needs and changing behaviours of their customers. This demands the ability to innovate, be creative, and above all understand what it is that customers want and what they are likely to value in the years to come. Often, it can mean trying to guess what it is that customers will want, even when those customers haven’t recognized the need themselves. For example, I am sure that you didn’t know that you needed a Blackberry when you first started receiving and sending e-mails. However, someone at RIM clearly spotted the behavioural shift towards a need for immediacy of information, availability and response and created a global product on the back of this shift.

Once again, these high level strategic issues have an impact on the IT director. If your company is one that seeks simply to do things better, then the system and information demands will be in the area of efficiency, control and process development. On the other hand, if your organization seeks to do things differently you will be asked to support an organization that will be hungry for knowledge and will need to use information in a variety of ways. They will have a need to manipulate it, whilst trying to determine and identify new opportunities for income generation. Therefore, your IT team needs to be established in a way that can respond to these differing demands.

**Product or service?**

Additionally, you will need to recognize that your company will either be providing a product or service, and most likely, a mix of the two. In most mature economies these days, about 70% of the gross domestic product arises from services, and this represents a complete reversal from some 30 years ago.

Such is the shift that it is unusual now to see a product that does not have some kind of service attaching to it, and even more common is the stand-alone service. Even if your company is primarily a manufacturer or producer of a product, it is likely that you will be providing
support services such as call centres, internet support, knowledge sharing with partners, combined distribution chain management, point of sale support materials, etc. All these elements demand IT systems support and information management.

If you are a service company, then the need for information is arguably even greater, especially with the move into providing an enhanced experience in addition to the delivery of the core service. We all know that the Walt Disney Company runs theme parks, and as a consequence we appreciate that we are being taken through a service process, both in the park generally and on each ride. But for Disney this is only the core product. What makes them different from other theme parks is their ability to provide an experience throughout the day and your stay. The rides themselves may not be particularly spectacular, but the overall experience is. This trend is only echoed through venues such as Nike town.

It will be clear to you whether your company is focused on products or services, but you may not have considered the implications of this for your IT strategy. As I noted earlier, these big strategic issues impact on the way in which you focus and run your team and the sorts of tasks that they undertake. Product based companies need you to support the manufacturing and distribution processes, whereas service companies need your help in managing the most complex part of the service, namely, the people. In other words your staff, and your company’s customers. In a service, the mix of people in the delivery process adds all sorts of complexities and unexpected behaviours which conspire to undermine your best intentions. A member of staff who has been poorly treated by their manager, or a customer who had a bad experience in the shop next door, and suddenly that planned experience the customer was meant to enjoy is gone forever. IT has a massive role in minimizing the risks of failure in a service, as well as supporting the experience and management of information and knowledge that derives from processing each customer.

The How

The challenge now is to make sure we serve our customers in a way that provides us with the returns that we want. It is no good a multinational company offering products and services in a way which results in them making a loss or just breaking even. If they do, they won’t be able to provide the required returns to their investors. However, for the small entrepreneur, breaking even may be acceptable.

So, what are the strategic issues that we need to consider and be aware of when determining how we are going to deliver our products and services in an efficient and effective manner? Clearly, the choices made here will be strongly influenced by the decisions already taken in the preceding three questions. Once you know what you want to achieve, who you
want to serve and what you want to offer them, all you need to do is to find a way of pulling it altogether, so that you can do it consistently and sustainably.

**Doing it better, doing it differently – again**

Once again, the choice between doing things better and doing things differently will feature. If your company believes success will be won through doing things better, they will pursue process efficiency, management controls, and approaches such as lean manufacturing and continuous improvement. System simplicity, speed and dependability will be key areas of focus as well as the need to drive down the cost of production. Alongside will be a desire to benefit from economies of scale which can be achieved through organic growth, entry into new markets and acquisition.

Each of these poses challenges for IT, but there it is clear from this list that there is a thrust and focus which your IT strategy must support. Additionally, if growth is going to be achieved through entering new countries, you will need an ability to cope with cross-border issues such as languages, systems, culture and the differing timescales. Acquisitions will demand an ability to integrate systems or roll out your existing systems in the acquired companies.

Alternatively, doing things differently may be the solution adopted by your organization. In the technology driven age, IT will be at the centre of the development of options and possibilities, and in turn delivery. Can you imagine Amazon without an IT function and IT strategy that could support and develop its business model. If you can, you are probably visualizing a traditional bookshop. At Amazon, IT was not just a support function, but the key player in the developmental process.

And in these ‘doing it differently’ companies, IT is not just involved in the creative processes, but also in the delivery of the products and services in conjunction with the marketing and operations teams.

**Reuters, knowledge and resources**

Apart from these core considerations, new strategic developments have occurred over recent years, which make even greater demands on the IT function. In this respect, competing through the provision of knowledge or by using knowledge to find new opportunities has been accelerated by the availability and capability of information systems. You only need to consider roles of Bloomberg’s and Reuters in providing information to the investment banking community and stock markets of the world to see the influence of knowledge on the commercial world. On a smaller scale, every university sees itself as a knowledge base supporting a global learning community. Accountants compete by providing tax updates and
information and avoidance schemes, and no self-respecting lawyer would open for business if they couldn’t readily access and utilize the latest case law and legislation.

Finally, IT has a role in maximizing the utilization of the company’s resources. Perhaps this is a rehearsal of the long-running debate regarding productivity about which much has been written already. Or perhaps it is about our role in maximizing the use of all the company’s resources, including physical (buildings, plant and machinery), people (their well-being, pay and reward and motivation), and intangible assets (intellectual property, copyright, knowledge, and the brand). In any of these areas, IT has to reach across the functional boundaries, and sometimes organizational boundaries to create, use and maintain systems that support, make available and maximize the performance of each resource.

So what?

From the issues outlined in this chapter you will have seen that the choices companies have to make are many and varied. There is not a single answer, and all companies are subject to the whims of the market, the changing tastes of your customers and the actions of your competition. Indeed, it would seem that the range, variety and scale of those challenges increases all the time and the general nature of the business environment becomes increasingly unpredictable. To protect yourself you need to be able to respond flexibly and fluidly to these challenges.

In such an environment, traditional analytical tools have a smaller part to play, whereas there is a greater demand for senior management, and perhaps the whole organization, to be able to think strategically, flexibly and with a more entrepreneurial mindset. This demands that information can be gathered and used more quickly to make decisions that are delivered with great pace and precision.

Thus, it is clear from this discussion that IT has a central role in the strategic choices your organization makes and its subsequent performance. Therefore, it is incumbent on you to understand strategy in its generic format, its evolution, and its core components so that you and your function can respond to the needs of the market place and your company.

We can now see that this demands that you and your team clearly understand what it is your organization is trying to achieve, who it is serving, what it is offering them, and how it operates.

- This means that you clearly understand what those plans are, and also the implications for the IT function.
– It means that you appreciate the implication of the organization choosing between doing things better of doing things differently, or doing both.

– It means that you understand the implications of pursuing economies of scale, of choosing to provide services rather than products, or choosing to be a sales driven organization, rather than a marketing oriented one.

– It means that you understand how companies compete using knowledge.

With the benefit of that level of understanding you can appreciate the challenges and opportunities that are presented to you and your team and you can start to identify the role that IT has in the future performance of your organization in response to your business’ strategy.

More attractive still is the picture of IT taking a leading role in the development and delivery of your company’s aspirations. And perhaps in reality this is the essence of this book:

– It is about IT leading not following

– It is about IT, enabling not blocking

– It is about IT presenting opportunities and possibilities, not constraining.

So, this is the focus of the rest of this book. Now that you have an understanding of some of the core principles of strategy, we need to delve much more deeply into what this means specifically in your company and how you make sure that your IT function can align its activities, projects, thinking, behaviours, and performance behind your company’s strategy, and in turn deliver outstanding results.

So that, IT moves from following, through enabling, to leading.
Looking

In the Looking section of each chapter I will provide examples, short case studies and analogies that help you to see how the topics discussed in the chapter come alive in the world around us. In other words, this section is about helping you to visualize and engage with the issues that will challenge you as you establish an IT function that is aligned with and delivering your business’s strategy.

What has IT got to do with anything anyway?

“The trouble with IT departments is that they have so little understanding of the world in which our business operates and the challenges we face. Therefore, their role in the delivery of strategy is vastly diminished which leaves me feeling that as long as they put machines on desks, then I have to be satisfied.”

These were the words of Andy Chapman, Chief Executive of Pioneer (www.pioneer-friendly.co.uk), an award winning insurer established in 1888 which is entirely dedicated to providing market leading income protection products and putting its customers’ interests first. Andy’s director level experience across a wide range of companies in the financial services sector provides him with vast experience of why there is such conflict between the business units and IT.

Andy went on, “The trouble is, IT in many companies pretend that they know what’s going on. Their lack of understanding causes other managers mirth at the outset. But then, it quickly translates to frustration and frustration is followed by conflict. From there the relationship just breaks down, IT falls down the pecking order and simply becomes a support function which we could easily outsource.”

“So” I asked, “what are the big issues and what could IT be doing?”

“That’s easy,” he said. “There are four big issues that stretch my business at the moment and I know that they also apply to my colleagues around the world. These things are:

– Having an intimate knowledge of our customers, and being able to use information about them,

– An increasing need for organizational flexibility,
– Having the ability to coordinate a wide variety of partners, and

– Exercising ever tighter cost controls on the business.

In each of these areas, I believe IT has a key role to play, but often they really don’t understand the issues or the principles, and neither can they see the opportunities available to them to really add value to my business.”

“Could you expand?” I asked.

“Yes, let’s look at each in turn.”

An intimate knowledge of customers

“If we start with a need to have a much greater understanding of our customers, I think the real issue is about being able to recognize how their behaviour is changing and then being able to respond and provide services in a focused way that meet those needs.

Wal-Mart are doing this well at the moment in the way they are using their website. Like everyone else, they recognized that their customers were increasingly using the web to buy things, and therefore they were exposed to the risk that they would lose out on income. This could be income lost either by way of people not coming into the store or because their customers started using other providers, who could supply over the Internet. What they also noticed through their research into customer behaviour was the customers were increasingly confused by the multiplicity of products and services available to them, and in many cases, the technology involved in those products. You just think of buying a digital camera, and there are so many options that it is easy for the customer to say ‘Oh, I just won’t bother.’

Separately, Wal-Mart had noticed from their customers’ in-store behaviour that if they were provided with information guides about products and services, customers were not only more likely to buy, but also were likely to up trade to a higher model.

So they pulled this information together when deciding upon their website strategy. They decided to:

– Target existing customers, rather than new ones,
– With the aim of drawing increasing numbers into their store, rather than less, and

– Getting them to spend more as a result of being more informed.

Their website does two main things. Firstly, it provides information regarding products and services so that their customers are better informed. Yes, their customers can buy online, but it also encourages them to come into the store to purchase or collect. And when they are in the store, they spend on other goods and services.

Separately, there are other triggers that draw those same customers into the store, so that they can spend more money when they get there. For example, you can upload your digital photos from your digital camera and within a few hours you can go to your local store to pick up the pictures. And whilst there, why not pick up a bottle of wine and some snacks so that you can enjoy your pictures with your family and friends.”

“To me” said Andy “this is a great example of a business understanding how customers behave and using that knowledge to achieve more. And there are other examples around us all the time. Look at the last election, both in the US and United Kingdom. All the political parties in both these countries have recognized that voters increasingly want a dialogue with their service providers. And they expect to be an important part of the sales process, whether it is buying banking services, designing the interior of their house or voting in an election.

What we saw was political parties and their leaders engaging in that dialogue. From John Kerry, running his fundraising and election campaign through his blog, to Tony Blair making sure that he was seen talking to patients in hospitals, to voters in town halls, and to teachers and parents and children in schools. Very rarely did he carry out any one-to-one interviews with reporters, and when he did make speeches they were in town halls, with him wherever possible standing in the centre carrying out a dialogue with the voters around him. This conversational approach was echoed through the dialogue that was encouraged through the website, by text messaging and advertising. Both Bush and Kerry increasingly used voter segmentation tools to target their messages and methods of delivery to respond to the expectations and needs of their chosen groupings.

On the other hand, Kodak didn’t see the shift in customer behaviour; or if they did they were unable to respond quickly enough. Their customers moved rapidly from film to digital cameras and Kodak struggled to keep up with them. They are doing it now, but along
the way, that failure to see the seismic shift early enough prevented them from responding quickly enough. As a result, they lost out.”

**Flexibility**

“The Kodak story really also serves to highlight the second issue I raised regarding the need for increased organizational flexibility,” continued Andy, now getting into his stride. “In other words it is not only necessary for business to have the knowledge of their customers, they also need to be able to respond quickly to catch the opportunities that arise as a result. Kodak couldn’t and over time they missed out.

Sony have been another company that has not been able to respond. In this respect, you only need to look at the iPod story to see how Sony have missed a massive opportunity. Surely, Sony were much better placed to launch the iPod than Apple?

For years, Sony had developed a capability and reputation for miniaturization, by shrinking the size of everything from camcorders to televisions, and so surely they had to be the ideal candidate to launch in a mini-sized music player.

Not only that, but Sony had the content too. Robbie Williams is under contract to Sony and so are many of the world’s leading artists, and they own 50% of the rights to all the Beatles songs. And on top of that, they own a film studio. On the surface it would appear that they had everything in their grasp to create a video iPod. But they didn’t; or perhaps, they couldn’t. They couldn’t because of their structures and hierarchies, and their inability to coordinate software development and focus their research, and their ability to recognize changes in customers’ habits. Sir Howard Stringer, the new CEO, is trying to change these constraints on their performance, and in some ways I bet this feels harder than launching the PS3.

Similarly, you only need to look at the history of acquisitions around the world to see organizations that have failed to deliver value from their purchases, because they have been unable to respond to the changes wrought on the whole organization by a major purchase.”

**Coordination**

Andy continued:
Increasingly” he said, “we can only deliver in partnership with others. The resources in our own company are insufficient alone, and we need to link with other companies around the world. Not only to achieve cost savings, but more importantly, to improve the offer we make, develop our capabilities and also to be much more innovative in the services that we provide.

Take Li & Fung Ltd in Hong Kong. They provide clothes, handbags, footwear, toys, and fashion accessories to the Western world. They don’t have a manufacturing capability of their own, but what they do is combine the resources of thousands of manufacturers across the world. In other words, they combine the world’s manufacturing capabilities and resources to respond to the needs of the developed nations shoppers. They rely on their ability to create a massive network, and hence massive capacity. And they don’t just use that network to act as an outsourced provider, they are now moving beyond the manufacture to design, and then using that network to innovate in the area of new materials and manufacturing processes.

Cisco do much the same. They link with partners globally, to provide their products and services (with Cisco at the centre) using standard tools to loosely couple and connect all the players. And by using standard tools and stipulating the methods by which partners can join this network, Cisco make massive operational cost savings, as well as being able to offer such a competitive range of services.

To me the problem is not about technology. In all these examples, it is about being able to link and connect suppliers and providers, managers and businesses, and IT systems and infrastructure. And to do this we need IT functions that can cope with this sort of complexity.”

Cost management

“The last big strategic issue facing us today relates to the need to manage our costs.

My problem is that operating in a global world means that my costs go up. I have to provide different packaging and labelling; I have to use a wide variety of distribution channels and sales forces, and need to respond to different regulatory environments. All this increased complexity, potentially increases the cost of doing business. So I have to find ways of managing my business better so that I can either reduce cost or improve my margin. Also, I have to cope with the complexity of managing costs in the service sector, rather than the relative simplicity of cost control in manufacturing.
So what are we doing?

Increasingly, I am seeing a move away from individual product and service profitability to customer profitability, and we try to manage our business on this basis. It means that we have to be even better at segmentation, so that we understand which groups of customers generate profits, and which don’t. For example, you may recently have noticed the Cable & Wireless, the UK telecoms Company has decided to shed 30,000 of its smaller customers to focus its energy and resources on its top 3,000 customers. This is seen by some as being very risky, but what I know is that it reflects the fact that Cable & Wireless don’t believe they make any profit from those smaller customers.

And it’s not just the profitability of customers on a transaction by transaction basis that I am interested in. No, we have to focus on the lifetime value of our customers. In my sector the acquisition costs of winning a customer for an insurance policy is very high, and I need to keep that customer and make them profitable over the long-term if I’m going get the sort of return that satisfies my shareholders.

Increasingly, I also see more and more of my peers managing their businesses from the balance sheet rather than the profit and loss. It’s no good for a distributor to improve turnover at the expense of increased stock holding and longer credit terms. Such an approach is only likely to weaken his cash position, and most probably would also hit their margins. On the other hand, if he reduces his stockholding too much or manages it poorly it means he won’t have the goods on the shelves and the customers cannot buy. So, he has to be much more sophisticated in the management and utilization of his limited resources.

To me, IT has a key role in helping me manage effectively in this world of cost containment and profit maximization. They can provide me with the tools to control lifetime customer (not product) profitability, and they can deliver the logistics systems that make sure the right stock is on the right shelf at the right time.”

So what?

“I believe therefore, you will now understand my frustration with IT functions”, said Andy. “The big strategic issues with which we struggle across the industry demand that we gather more information, and use it more quickly and effectively to make decisions and deliver greater results for the shareholders.

This means:
– I need IT to help me gather that information
— I need them to help me play with the information and understand what it means

— I need them to provide the tools by which we can manipulate it

— I need them to provide the cross-organizational view

— I need them to provide the systems by which we deliver and compete not only today but in the future, and

— I need them to tell me how we’re doing.”

“Thank you,” I said “that poses quite a challenge.”
Doing

In this final section of each chapter I will focus your thoughts on what you need to get on and do. So this part of each chapter is for those of you who learn best by practical application.

Throughout this chapter, you will have seen that strategy is a living and breathing activity that sustains, focuses and energizes an organization. It is also fluid and dynamic, and that there are many options and possibilities for organizations to pursue, and many issues to consider. To be effective, you need a strong understanding of the breadth of issues and how they impact on your own organization. Therefore, the actions proposed below focus on broadening your experience and providing you with a wider range of perspectives.

Going shopping

I do not believe that you can gain this type of understanding from reading alone. You need to go out into the marketplace and to see what people are up to, how they are competing and how customers are behaving. Accordingly, I would like you to go into a bit of shopping. By this, I don’t mean some form of random stroll along your local mall, but something a little more structured and educationally rewarding.

How do our emotions get excited when shopping?

In the earliest stages of sensing and feeling the market, you can learn a lot from just looking at companies in a wide assortment of sectors and identifying how they are seeking to excite and stimulate their customers. Every business approaches this in different ways, not only because company histories vary, as do their staff, location and ownership, but most importantly it is the enormous breadth of customer types, and their behaviours and emotions that presents so much opportunity.

The exercise you are about to embark on will give you the opportunity to explore and investigate in a way that you will rarely undertake in your busy life. So please open your mind, seek out the sensory pleasures and identify how you are stimulated by the businesses you are going to visit.

This is not an easy exercise, unless you are intent on enjoying yourself – if you are, you will have a great time.
**Where are you going?**

Firstly, you are being asked to consider the differing ways in which the retail shopping sector presents its offering to the market.

So, I would like you to go out into your high street and visit one of the major supermarkets and a convenience store and compare them using the guidance shown below.

**What will you be looking for?**

This exercise is about your senses and emotions.

☑️ I need you to visit the stores and as you move around the store please record the multitude of ways (and yes, there are a great many of them) in which all your senses are stimulated at each store.

☑️ As you note how each sense is stimulated, note the emotion that is aroused as a result. Now, you will recognize that this will entail both positive and negative emotions – make a note of both. In other words, how do you feel?

☑️ Then, why not sit down in the café and watch the world go by! But don’t just watch idly, watch other customers and see how they respond to the stimuli that you have just experienced yourself.

☑️ Look at their emotions and how they change and interact with other people. Consider whether they are doing this of their own volition, or whether this is being encouraged by the retailer.

☑️ Take your time, enjoy yourself and try to spot things that you would normally take for granted.

☑️ Having visited a supermarket, do the same thing in a convenience store and identify how it differs.

☑️ Then move on, and choose another part of the retail environment. Perhaps record stores or clothing retailers or drug stores. Compare once again how different players are seeking to stimulate the senses and trigger different emotions.
**The world of leisure**

In this exercise, I would like you to move on from the high street and indulge yourself in the world of hotels, coffee shops, night clubs, fast food joints, possibly beauty parlours and hairdressers.

**What will you be looking for?**

The services offered by companies in these sectors differ most markedly in terms of the speed of offering. As a result, their whole service design should be tailored towards reinforcing either fast delivery or slowing you down (amongst other things). Record what you see?

☑ In each site that you visit, how do they slow you down or speed you up?

  • Either through the service process through which you are guided

  • The approach and training of their staff

  • The physical layout, colours and feel of the site

  • Through the picture created by their brand image?

☑ What are your main impressions of the companies and how they seek to deliver their service?

  • Do they succeed in their aims?

  • How could they improve?

☑ What type of customers buy from each and why?

  • How do they communicate with and reach those different types of customers – both in-store and externally?

☑ What are the main price points – are there any messages for you here?

☑ What is your overall reaction to the offer being made to you?

☑ Take your time, enjoy yourself and try to spot things that you would normally take for granted.
What are your key observations and insights?

What are the key messages and lessons for your own business?

And please remember, this is not a race and there is no need to rush.

**Some other reading**

One other thing that you can do to broaden your strategic awareness is to read some key columns in the leading business press.

For example, you could read the Lex column on the back page of the *Financial Times* where you will regularly find commentary on the ways in which organizations are adapting their strategies to the world in which they operate.

**Your business**

Your next task is to think about strategy as it relates to your own business.

In this activity, I would like you to explore how the main themes discussed in the Touching section of this chapter relate to your own business.

**The Why**

- What are you trying to achieve and for whom?
- Who are your masters and what do they expect?

**The Who**

- Identify and describe your target customers. Try to put them into groups, and not just by geographic location, but by how they behave, or what they expect or by the benefits they get from what you do as a business.
- Is your company sales driven, process or product focused, or market orientated?

- How do the differences evidence themselves to you?
• If there is a mix of approaches, which one dominates?
• In which bits of the organization does power reside?

**The What**

☑ Are you about being better than others or being different?
  • How do you achieve this?

☑ Do you offer a product or a service?
  • List the products and services that you offer.
  • What are the obvious groupings of these?

☑ Try to group these products and services slightly differently.
  • Group them by way of the benefits that your customers receive from using them. Perhaps you have one group of products that stimulate the emotions of your customers, and another which make their lives easier, and another which makes it the more profitable.
  • When you group them like this, does it alter your view of what your company does?

**The How**

☑ How do you deliver the products and services in your business so that you are both efficient and effective?

☑ Are you trying to be better or do things differently?

☑ Are your operations focused on manufacturing the product, delivering a service or competing through knowledge?
  • How do they do that?

☑ Are you seeking economies of scale, and if so through what means?
  • What are the organizational implications of this?
What are the main resources you use to compete?

- How do you make sure you use them productively?

With the benefit of the opportunity to reflect on these issues, I need you to step back and ask yourself what this means for you and your IT function:

What will the business expect from you?

What do you need to be good at?

What sort of knowledge will you be handling?

What resources do you need to have at hand?

What sort of systems do you need to provide?

As a result of these activities...

**So what?**

As a result of these activities you will have immersed yourself in, and gained a much deeper understanding of how different organizations decide to compete, what they are trying to achieve, who they are trying to serve, what they offer them and how they try to deliver effectively and efficiently. And more importantly, you will have started to develop a strong feel of strategy, what it is and how it works. You will also have gained a strong understanding of the implications for your own business and your IT function.

Therefore, you are now ready to look at how your organization competes in much greater detail and in turn, identify more specifically, what it is you need to be doing so that you can play your full part in your company’s success.