



## Do we have enough attention on the strategic challenge?

### Why has the need to work strategically changed?

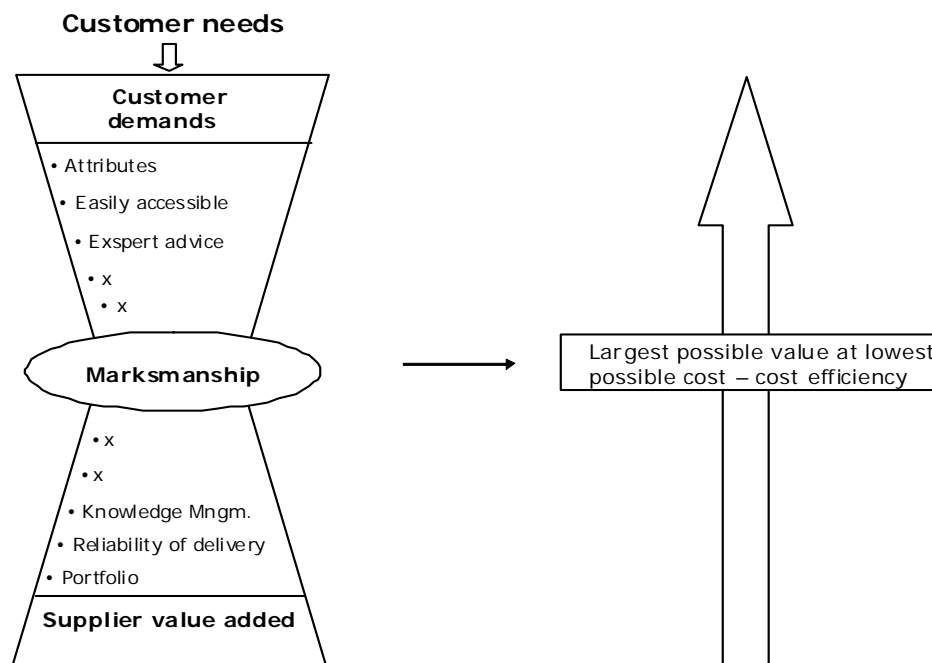
Within the past years, changes have occurred in largely all sectors. Changes, which are of an adequate size and character to be defined as an industrial slide leading to new business structures.

This phenomenon has resulted in a different predictability, turbulence and complexity level when developing the platform and position of a given company.

The cause of these industrial slides can be found in some distinctive macro drivers, which will also impact all sectors in the future. Important drivers are: increasing globalization, technological quantum leaps, liberalization, homogenization of legal issues and consumer habits across geographical borders.

Several large, super-branded companies have been surpassed by new competitors – in a very short period of time. These new competitors have been able to utilize the drivers to establish a completely new business position, and they have managed to establish a significantly improved matching of market needs. This means a higher cost efficiency combined with a higher added value for the customers. The improvements are based on totally new, competitive business models. The companies have based their approach on a different, more creative angle with regards to evaluating value for the customer, as well as a whole other creative approach when evaluating the opportunities over the complete value chain.

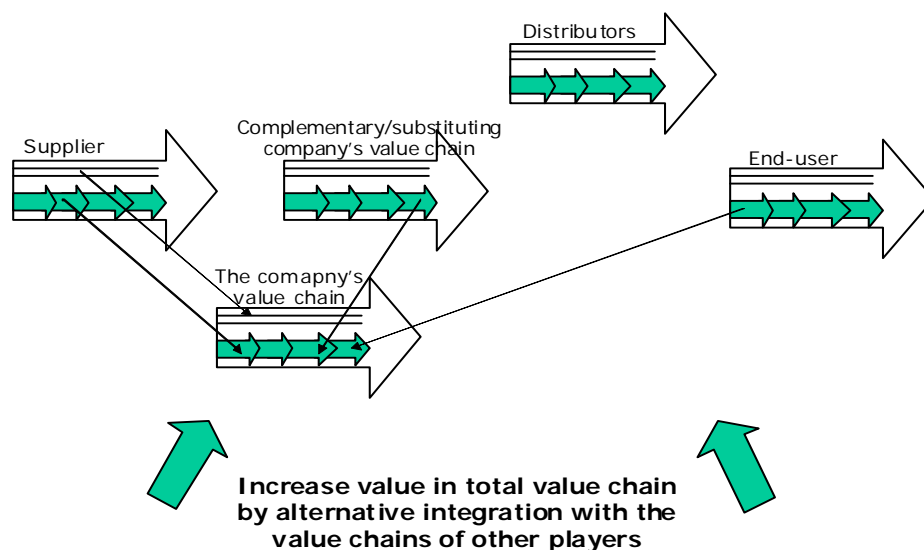
### Matching degree



Thus, where previously the picture of the largest companies in various industries was rather fixed, lately you can observe large movements within the top-ten list.

A good example of these dynamics are the movements within telecom and data industries, where Dell as a new company was able to gain large market shares from supertanker IBM just through a different view on added value and the value chain system.. Dell chose a new business model, in which technological advancement in connection with internet and increasing accept of it among consumers was used to by-pass the distributor link. The added value from the distributor link was not only replaced by the internet, but completely new opportunities were brought to use at a much better cost efficiency. Dell's direct connection to the end-users, and the customers' possibility to configure an optimal solution for their concrete needs, lead to extensive opportunities for Dell to improve their competitive strength. The alternative approach to utilization of the value chain system as well as marksmanship in production according to customer demands had a large effect on the total value chain system. These effects resulted in significantly reduced lead times throughout the value chain as well as decreased stock values. Additionally, Dell's time to market was shorter with regards to introducing new key components from sub-suppliers, which caused an optimization of the value added by their solutions. A range of new opportunities can be mentioned to increase to competitive strength, last but not least the customers own configuration of his solution contributes distinctly to the optimal matching degree. They, themselves, prioritize the features they want within the frames of their budget, and achieve a product with a high added value compared to its price. With a different angle on working with added value of benefit and value chains, Dell placed itself in a very different position compared to the remaining industry. Dell managed to move large market shares along with developing a strong financial performance.

## Value Chain System

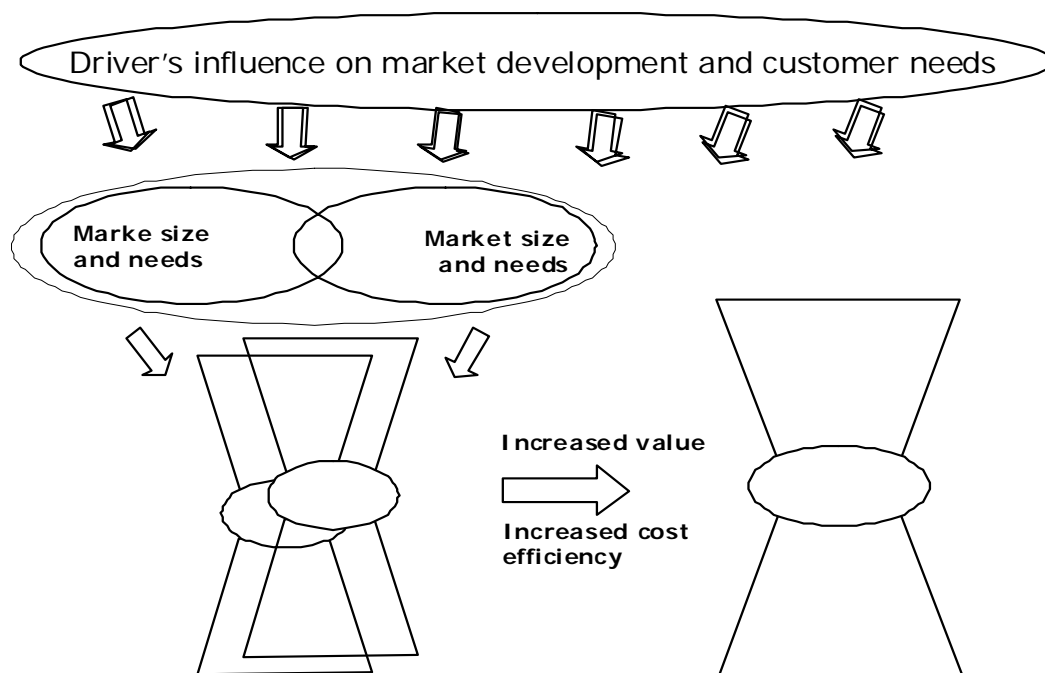


By looking at examples of developments of changed industrial structures, we can observe how several of the macro drivers had a vital influence on e.g. the fact that the postal- and the telecom sector are now part of the same industry with regards to electronic communication. Before, each sector covered its own area of generic value of benefit for long-distance communication. The telecom companies covered the value of direct long-distance communication through phone connection. The postal sector covered the part of the value of long-distance communication where the communicating parties didn't have to take part in the communication at the same time through distribution of written correspondence.

Initially the telecom sector took over big parts of the total market in connection with using the spreading and acceptance of the internet. Subsequently, the establishment of the messaging services by the telecom sector opened up a whole new market, and at the same time again attacked the postal sector as written communication now became independent of the physical access to the internet. The postal sector – seeing its strategic and business platform crumbling away – took the consequence by developing new products and services which also included using the possibilities of the internet.

Similar structural changes, where new players use a technological opportunity to enter a new market, can be observed in the developments of the mobile phone. The name of the product does not cover the many added values related with it. It is an example of a product where its values are integrated as part of a new competitive structure for many traditional suppliers within various electronic media, such as suppliers of electronic games, palms, modems, cameras, discmen, alarm clocks, 12V TV's, beepers, dictaphones etc. Additionally, the messaging feature in mobile phones has created a new demand with a large significance for the value of benefit of especially the younger generation with regards to covering social needs.

### Utilization of drivers for an increased matching degree



Turbulence, unpredictability, and increased complexity naturally put other demands on companies, which are now forced to constantly act strategically in order to ensure a sustainable business platform. Also, other methods are required for working with strategic perspectives. The changed approach for evaluating the value of benefit creates a much larger and not very straight-forward picture of competitive- and market structures. Companies in industries where – traditionally - there is no access to a given market. must therefore often take part in analyses to evaluate the possible substitutes which fullfil the same value of benefit. The same may apply when traditional entry barriers are overcome by changing the utilization of the complete value chain system and opening the market up to new competitors. On the other hand, the individual company can also contribute to creating a new strategic

position by using a different approach to working with strategic perspectives for value of benefit as well as for value chain systems.

Business development has become a tough strategic discipline with a high degree of complexity. Lots of homework, a good overview, and a focused effort are vital issues for long-term survival. As a benefit, however, the possibilities for making quantum leaps in the strategic position have increased significantly – an issue which of course is also valid for the competitors.

### **What is the difference between the business platform and the strategic platform?**

In connection with a “health check-up” in a company it is important to focus on conditions for both the business – and the strategic platform.

The business platform is defined as the platform which makes out a company’s current position and situation. Included are the present market position, the configuration of the business portfolio, as well as the company’s present capabilities and value chain. Quite often a large potential for improvement can be identified in connection with a thorough analysis of the business platform. The improvement potential may create an immediate, short-term improvement of financial and operational performance and facilitate the freeing of resources. Hereby, the company has strengthened its basic foundation and is better armed for handling the strategic challenges.

The strategic platform must be analyzed in order to find out if it is sustainable. Knowledge about drivers influencing the company’s future position is essential. A company’s position are the markets and demand areas, where the company is located. The location is the competitive situation of the company. In addition, a knowledge about the movement and the speed of movement for the drivers is required. What today is a solid business foundation, may become fragile in the future. The platform may become hollow if the drivers lead to the rise of new markets and the fall of others. Also, the movement of the drivers make it possible for other players to add more value of benefit with a different set of competencies, a new business model or by creating new demands. This situation was what developed the new platform of the postal sector. The telecom companies used technological drivers to cover the same generic needs with higher value of benefit and better cost efficiency. The postal sector only developed its store concept, but this change held no contribution to the establishment of a sustainable platform, only an increased utilization of existing capacity costs and thus an adjustment of the business platform.

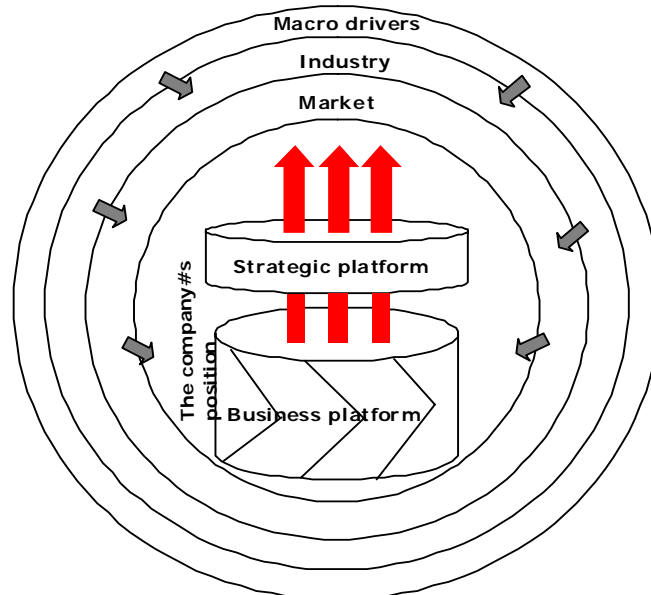
An important factor when evaluating the strategic platform is the establishment of a view of the generic value of benefit sought by the company’s market. In some cases a different, far larger, picture of the company’s real market is created, as well as view of the real competitive structure. Therefore, the effect of the identified drivers should be mapped for what has been identified as the extended customer base for the real and future market- and competitor picture.

As a rule a check-up and an analysis of the strategic platform opens up for a change. A change, which should be based on the company trying to utilize the effects and movement created by the identified drivers with regards to markets and competition. In this way it is ensured that the future strategic development is sustainable. This means that the company should build and develop those markets and demand areas, which support a positive development towards a sustainable platform. Also it is ensured that the constant development in the company’s resources and competencies is based in those resource - and competency areas, which support a sustainable platform.

The above, however, cannot stand alone as there are constant movements in the pre-conditions and influences on the strategic platform. Therefore all efforts should be supplemented with constant strategic monitoring and readiness, so that developments and

movements of factors and drivers can be quickly used. Additionally, an on-going evaluation of new opportunities, which may arise in connection with the optimization of the complete value chain, must be set up.

## Influences and development of the strategic platform



The business platform describes the company's performance and position and forms the basic foundation of the company.

The strategic platform describes whether a company – considering its current action and direction of development – is based on a sustainable platform.

It is essential to work with both elements. If we work solely with the business platform, there is a risk of taking off from a platform, which cannot survive, even if we perform optimally. On the other hand, if we work only with the strategic platform, we risk moving in the right direction towards the right position, but with the speed of a snail and with a performance too fragile to ever reach the right position.

## How do you work with tools?

As within most work areas, you can have a good toolbox, a good understanding of your tools and how to use them and still not be able to achieve good results when using them. This may be true either because you are not using the optimal tool for the given task or situation, or because you do not use the tools in the most optimal way, or it could be that the work is simply not being done with the right degree of precision.

It is non-negotiable that working with strategic development is complex and requires a very large toolbox. However, the starting point should always be a strategic diagnosis. The diagnosis is decisive for establishing the right basis for making decision about the coming process. In order to make a strategic diagnosis, a picture covering all relevant factors must be created. This requires using the right tools in the right order, tools which are exactly optimal for a given situation. Whether or not the tools belong to one or another "school of strategy" is secondary.

The tools must be used to uncover factors, which are important for answering those questions, which are important for the strategic diagnosis. How are the company's general - and "health conditions? What do the perspectives for development look like? How hard can we go in with the continued work so that both the readiness and the need for development and change are considered? Do we at all have a foundation and a potential which are sufficient to gain from the improvement – and development efforts? Or are we talking about a situation where the most optimal solution would be to start liquidation or a phase out?

The target is to achieve the most optimal result of the planned work. The risk is that the efforts cause more harm than good, if the efforts are not correctly aligned, or tools are used wrongly or in the wrong order. A surgeon does not immediately use scalpel no. 7 just because the patient is complaining about kidney pains. First, a thorough examination is done, then a diagnosis, which is the base for the structure of the most optimal treatment.

When working with a company's survival and existence, a similar thorough diagnostic work is required to form the base for structuring the optimal treatment.

The reason for emphasizing these factors so strongly is clearly the implicit realization, that it is not possible to work optimally with the company's strategic development based on fixed models, recipes or concepts. If the tools have been selected before the pre-examination and diagnosis, a treatment procedure may even be harmful. In any case the procedure will be strongly limiting for achieving the optimal result.

A set procedure may of course be necessary in situations, where the executor does not have adequate depth and broadness in his experience, and therefore needs to follow a fixed process. Something which may rightly apply to a medical student. But in most cases such a procedure is not appropriate. If no expertise or experience has been accumulated, or if the set procedure is not put away over time, it will clearly be a limiting factor for the development of performance and results.

We can compare it to an experience with a Michelin-star restaurant or a cooking course for haute cuisine. In the restaurant the experienced, trained chef acts without the use of recipes, yet optimizing his processes and mixtures by using the best ingredients in a given raw material situation. The preparation of the food is based on an optimal use of ingredients in relation to their condition. The cooking is supposed to create the best total experience with regards to courses, which are part of the menu. The cooking course participants, however, are inexperienced in this discipline and are therefore forced to follow a detailed recipe. Thus, the possibility to create an even better result with a bigger perspective and a more situation-based approach is not an option.

Therefore the large toolbox is not enough. It must be used differentiated and to a different extent in relation to a given situation in order to achieve the best result – for the strategic diagnosis as well as for the strategic development process. As a note it must be added that a strategic development process must never be started without a prior diagnosis.

### **Why continue to work with this never-ending challenge?**

Working with strategic development has a high degree of complexity, and one must often work on establishing new and non-traditional business structures and positions. The need for external sparring has never been bigger. The challenge in working with innovation leads to additional demands for handling the company's paradigm. Some company's are so caught in their paradigm that their rear view mirror becomes so big that it blocks the view out the front window.

When that is said, it is vital to point out that any strategic development process will involve the company's employees. There are several good reasons for this involvement. Quite often

intermediate managers and new employees are excellent contributors in a strategic development process.

One argument for involving intermediate managers is that they often possess an important and detailed knowledge within their areas, and about the external factors linked to them. This knowledge must enter a symbiosis with the collection of essential knowledge from other management areas. Evaluation of the categories of knowledge and the level of detail, depth and width of knowledge collection happens as the analyses included in the strategic diagnosis are performed. The analysis are constantly running and the results are essential for decisions concerning the next knowledge collection.

After the strategic diagnosis, the remaining process can be structured, and the mentioned employee groups can be involved with a positive effect on results.

Another argument for involving employee groups are the results of the development, which they will automatically be a part of. Through the strategic collection and structuring of knowledge, insight into results of analyses, and attention on the effect of the results on the following process, the involved parties will go through a significant personal development process. This process enables them to be a part of the strategic readiness team, when the initial process is finished. Through the process they have established commitment and strategic focus. This gives them personal drive and the pre-conditions for monitoring and acting strategically. Thus, the development process may continue with sufficient speed on a qualified level.

A third argument for involvement is the fact that we are really talking about a regular un-freezing process. Automatically, the paradigm barriers, which block desired development and change, are dissolved. Through the process a new culture is created. The involved are carriers of the new culture, and through the process they achieve a status, which enables the new culture to knock out the old culture. Thus, those factors of the paradigm, which block the continued development of the company, are removed. An effective process, which does not cost the company many resources.

This means that the structure and design of the process for the strategic diagnosis as well as for the development process and subsequently the change process, have vital influence on the capabilities developed in the company. A development which is necessary for securing a sustainable strategic platform.

### **How many companies really act on a sufficient, strategic level?**

Initially, the question was raised, if the strategic challenge receives enough attention. As mentioned, attention only is not enough to establish a strong foundation for the future existence of a company. The development in industrial- and competitive structures, the constantly growing speed of change as well as increased complexity, are all factors leading to significantly higher requirements on *how* to work with strategy.

The requirements are especially high for companies with a Danish background. Partly, the small size of the home market makes the "home" advantage negligible. Partly, the Danish welfare model has caused a situation, where conditions for companies have lead to a reduced need for employees with a short or no education. A continued development of the welfare state plays an important role in business development and vice versa. These factors put an increasing pressure on industries to work strategically with created higher added value and innovation on a strong competitive base.

All in all, a picture of a starting point is painted, where it is essential that companies constantly act strategically on a highly qualified level, which accounts for the real current challenges. The extent, complexity and speed of the strategic challenges will increase over time. So when asked how many companies truly act on a sufficient strategic level, the answer should be seen

in the light of the fact that strategic business development has changes drastically. The conditions have changed drastically. The need to work strategically has never been bigger; not only because of the threats, but also because of the implied opportunities.