

Working with the strategic platform (1).

Macro drivers and macro segmentation.

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Imagine the following situation: your solid position in the market is being threatened. Sales are declining. Your cash cows are entering the poor dog stage. Your competitors' market shares are growing in exactly those segments, where you would like to be the leading player, and even your most loyal customers are looking for alternatives. Your sales force is demotivated and dissatisfied, and your R&D department is using most of its time on customization. In short: you have a burning platform.

Is that a scary picture? Nevertheless it is reality for a lot of companies which may work intensively with their business platform, but neglect to focus on long-term strategies.

In this article we will focus on the first steps towards working with the strategic platform: identification and segmentation of macro drivers.

The strategic platform.

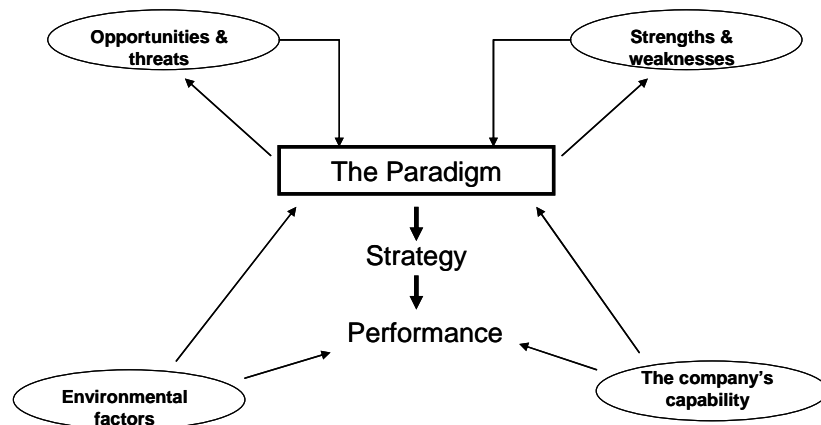
What exactly is "the strategic platform"? The strategic platform shows if a company with its current actions and development direction is built on a sustainable foundation. It comprises working with drivers which influence the company's location and position in the future. Knowledge about direction and speed of movement of these drivers is essential in order to predict the rise of new markets and the decline of others. An analysis of the effect of macro drivers on industries and markets is absolutely crucial to be able to work with a company's strategic and business direction.

Competency- and marketwise a company must try to utilize the effects and the movements caused by the identified macro drivers in order to create a sustainable platform. In practice this means that the company should base its development on those markets (externally focused activities) and demand areas (internally focused activities) which support a positive development towards the sustainable platform. But how does the company create a usable knowledge base for the strategic work?

The company's paradigm.

When working with strategy, it is important that the company is aware of the significance of its strategic choices, and thus also for its performance. The paradigm may be a showstopper for innovative thinking and may completely block a focused view, if you cannot free yourself of its boundaries.

A change in paradigms and a new choice of strategy is then only possible if the company can handle and look further than the limitations of the existing paradigm. Therefore, objectivity and liberation from current ways of thinking and acting based on the company's present capabilities, strengths, weaknesses, opportunities and threats are important factors in the strategic work.



Macro drivers and macro segmentation.

If a company has focused primarily on its current position in the market, compositions of its business portfolio and its current capabilities and value chain over a longer period of time, chances are that the company has implemented many improvements and optimizations leading to a short-term increase in financial and operational results.

But the work shouldn't stop here, if the target is to avoid a scenario as described in the introduction: burning platform. Through optimizations and improvements the company is well equipped to work with long-term strategic decisions. An identification of macro drivers and trends from a helicopter perspective, as well as an analysis of their future impact on markets and industries are the first steps in the right direction.

How are macro drivers selected?

Macro drivers are forces present in a company's macro environment, which may impact its choice of strategy. They are identified through a PESTLE analysis:

P-olitical factors

E-conomic factors

S-ocio-cultural factors

T-echnological factors

L-egislative factors

E-nvironmental factors

When selecting the most important macro drivers there are a number of essential criteria which apply:

1. **Range.** A driver must influence one or more end-user markets, but not necessarily in the same way.
2. **Degree of impact.** A driver has an impact on a company's internal environment, its micro environment and its macro environment.
3. **Maturity.** A driver's impact must occur within the next 10-15 years. A driver does not necessarily have to impact all countries, but it must have a significant effect on several countries.
4. **Probability.** En drivers indflydelse på en branche skal være sandsynlig, selvom den indebærer en række af mindre eller ubetydelige trends. The impact of a driver on an industry must be probable, even if it means a number of smaller or less significant trends.
5. **Opportunities/barriers.** A driver is characterized by the fact that a company cannot control it, but must be able to actively benefit from it.

When macro drivers have been identified and selected, they can be grouped to analyze their possible combined effect. Hereby, a number of macro segments is born, each one implying a series of possible changes to the company, its industry, its customers and the rule of the game on the market.

As the whole purpose of mapping and segmenting the macro drivers is to create a foundation for the strategic platform, a prioritization of the macro segments based on attractiveness and future growth is extremely important.

A practical example from Deutsche Bank

In order to be able to predict changes in customer demands, -behavior and game rules on the market, Deutsche Bank (DB) identified a number of macro drivers and mega trends through a long-term PESTLE analysis in 2005. The target was to work out a sustainable strategy and to develop new profitable products and services. DB identified 21 drivers and trends, which were analyzed thoroughly and then grouped according to their probable impact on the market; in short: macro segmentation.

As a result, the bank ended up with six macro segments under the following headlines:

- Opening of work and society
- Process virtualization in networks
- Restriction of growth
- Enlarging scope of life
- Global networking in business and politics
- Conquest of smallest structures

Based on the results from the analysis on the macro segments' **degree of impact** on the banking sector and their **degree of change probability**, DB chose the most important segments for the further work: developing a business portfolio based on a sustainable platform. This resulted – among others - in the following opportunities for products and services: demographically based asset management, business intelligence services and services to improve data security.

(Source: "Key Trends of the Next Decades – Massive Opportunities for the Services Industry" of Stefan

Schneider, Chief International Economist, Deutsche Bank Research).

The next steps – what to do with the segments next.

When working with the chosen segments, they are broken down further into more concretely defined micro segments. The purpose is to secure the company's strategic position through delivery of **customer value**.

Micro segmentation and prioritization of these are based on the following criteria:

- Time horizon (10 years) and risk of reversibility
- Growth in relation to direct and indirect drivers
- Size and potential
- Structure and entry barriers
- Position in the life cycle model
- The Company's opportunity to deliver value

Another strong toll in working with securing the strategic platform on a long-term basis is the "customer hearing". The hearings are described in the article: 'Working with the strategic platform (2): Customer hearings.'