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# Why Has Strategy Become Irrelevant? Understanding the Complete Strategy Landscape

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## WHY HAS STRATEGY BECOME IRRELEVANT?

## UNDERSTANDING THE COMPLETE STRATEGY LANDSCAPE

**D**eveloping the firm's strategy was once seen as the most important task facing a CEO. Yet in the last twenty years, the practice of strategy has been relegated to a routinized function - part of the annual planning process, like performance management and succession planning reviews – necessary and useful, but neither vitally important nor the focus of CEO attention. Why has strategy lost its primacy and relevance? And can it recover its exalted position in C-suite discussions?

One way to judge the diminished role of strategy in your company is to ask, what keeps you awake at night? Is it a worry that your business "strategy" is incorrect or inappropriate? Or is it rather a fear that the organization will not react to the opportunity/threat posed by big data, block-chain, cybersecurity, or some other hot topic that you just heard about? I suspect that most readers' nightmares concern the latter, not the former.

Another, perhaps more pointed, question is to ask when your strategy process last generated a truly breakthrough idea, like peer to peer ride sharing or mobile money, rather than belatedly reacted to the success of an innovator with a unicorn valuation!

I believe the problem strategy faces is rooted in its very success in two important ways.

First, strategy became overly concerned with **value capture** and ignored the more essential task of **value creation**.

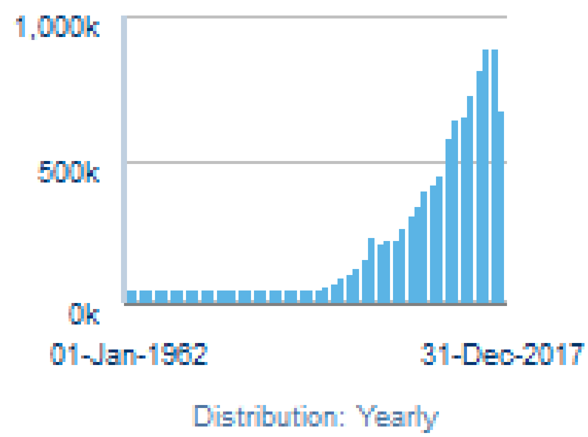
As strategists' refined their understanding of competitive advantage to more precisely explain differential firm performance, they lost their grip on the larger purpose of strategy in a dynamic and uncertain world. Worrying about market share and relative cost might be important in a stable and predictable environment – particularly when the competitive threat is, as it was at the end of the last century, from companies doing the same thing as you, just a little bit better - but it is entirely inadequate when competition comes from those who set about things a very different way, exploiting very different technologies and asset bases, and satisfying a very different set of customer needs. Yet the evidence is that discovering and exploiting new business models that satisfy hitherto unmet, unexpressed, or even unknown customer requirements in unique ways has been where the action has been for at least twenty years.

We only have to look at the list of most valuable companies in the world to see that the incumbent giants of yesteryear have been supplanted by emergent upstarts (Exhibit 1). Yet none of these new companies collectively created trillions of dollars of value by out-positioning their rivals. When they started they simply did not have rivals. Indeed, the businesses they created did not exist in any real sense when they began operation. The fact that most of these companies now refer to themselves as "platforms" – a term that, other than referring to railroad stations, was almost unknown twenty years ago (Exhibit 2) – only proves the point.

Top five publicly traded companies by market capitalization (in billions USD)

| | | | Blue = Tech, Grey = Other | | Founded | Platform |
|---|---|---|---|---|---|---|
| 2001 | ❶ | GE | | $406 | 1882 | |
| | ❷ | Microsoft | | $365 | 1975 | (★) |
| | ❸ | Exxon | | $272 | 1870 | |
| | ❹ | Citibank | | $261 | 1812 | |
| | ❺ | Walmart | | $260 | 1962 | |
| 2019 | ❶ | Microsoft | | $765 | 1975 | ★ |
| | ❷ | Amazon | | $747 | 1994 | ★ |
| | ❸ | Alphabet | | $730 | 1996 | ★ |
| | ❹ | Apple | | $680 | 1976 | ★ |
| | ❺ | Facebook | | $389 | 2004 | ★ |

Number of Internet References to Platforms




Source: Factiva

The second dimension on which strategy lost its relevance is with regard to its practice. Strategy focuses on the **formulation** of a beautifully crafted plan and has abdicated responsibility for its **execution**. In congratulating itself for answering the question “what is a strategy?” as an integrated set of activities which produce a competitive advantage, the strategy process inside most companies gives short shrift to management of the initiatives necessary to make the required changes in those activities. And yet it is only in these actions that the value inherent in the proposed strategy is actually realized.

Indeed, with nearly all firms pursuing some form of strategic planning, it is rare to find a company today without some version of a “strategy” - however implicit or imprecise that might be. With the current strategy in place - at best, perhaps,  subject to a rote reexamination of how to play the same old game - the real challenge becomes not crafting a full blown and novel strategy, but in identifying and executing entrepreneurial initiatives that adapt existing operations to respond to a new threat or opportunity[1].

Consider a hamburger chain clearly pursuing a low cost strategy for high consuming younger men. Perhaps, the immediate concern is how to capitalize on mobile technologies? What starts as an IT project quickly becomes a "strategic" issue as implications of any proposed actions spill over into nearly every firm activity. Do we redesign the menu so that every item can be prepared in advance? Should we change the restaurant layout to accommodate a separate pickup and payment point? It is in these many micro-battles[2] that strategy plays out each and every day, not in its initial grand design. The way most managers experience strategy is, therefore, through incremental and ongoing adaptation, not as holistic redesign of the firm's competitive position. Yet strategy is notoriously silent on this issue.

In essence, strategy became overly concerned with **value capture** and **formulation** of a complete strategy, and ignored the essential tasks of **value creation** in a new business model and **value realization t**hrough **execution** of the chosen strategy. As a result it failed to identify, and so capitalize on, many of the greatest opportunities of the last thirty years, while simultaneously failing to provide useful oversight of the decisions managers make to actually drive change. No wonder it has lost its Boardroom preeminence!

It is true that some strategists achieved prominence by describing aspects of the broader challenge and advocating partial solutions. The fact that ideas like Blue Ocean strategy, Lean Startup, and Disruption (now, surely the most overused term in the entire language !) have been widely embraced only illustrates how raw was the nerve they touched, and how desperate companies were for ideas to address those concerns[3]. Yet none fully addressed the fundamental weakness of traditional strategy – its narrow concern with industry structure and competitive positioning - over a broader awareness of its precursor - value creation - and its successor – value realization.

In fact, it was the field's very success in providing analytic tools and theoretical frameworks for understanding those classic phenomena that led us into a dead end. It is the old story of looking for the lost keys under the lamppost. Since we have analytic tools and theoretical frameworks for understanding certain phenomena, we will use them, even if they do not address 80% of the problem!

**COMPLETE STRATEGY LANDSCAPE**

What can restore strategy to its previous illustrious role in the executive's toolbox is to broaden its domain to incorporate those aspects that have driven recent performance in a volatile, uncertain, complex and ambiguous (VUCA) world. This article will provide an overview of all elements of the complete strategy landscape and demonstrate that mastering all three is critical to successful performance (Exhibit 3). Two accompanying articles will elaborate on the twin elements that have been missing from classic strategy – the inherent value creation potential offered by business model innovation, and the equally important realization of value, and even the creation of competitive

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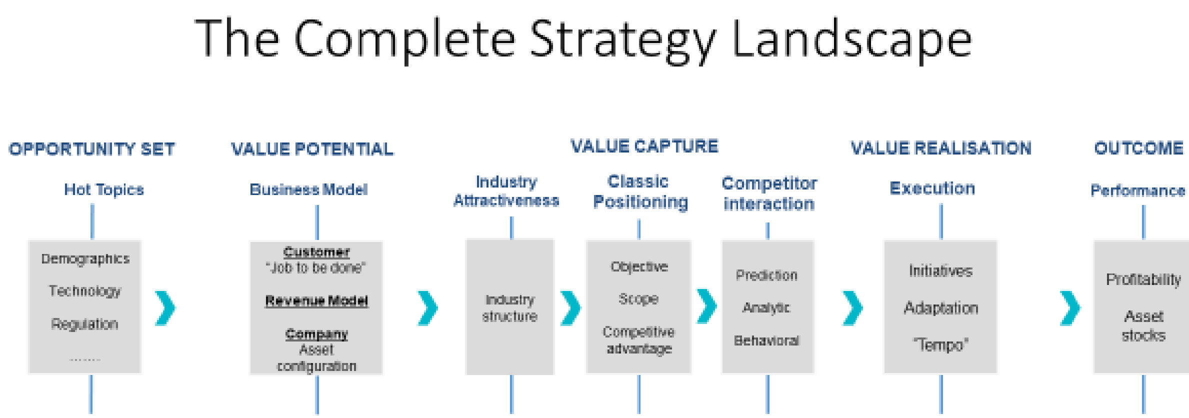
[1] Indeed, since it superceded the old SWOT analysis, strategy has not had much to say about the opportunities and threats (OT) part of the framework

[2] Bain & Company' term.

[3] Chan Kim and Rene Mauborgne, Eric Reis and Clay Christensen

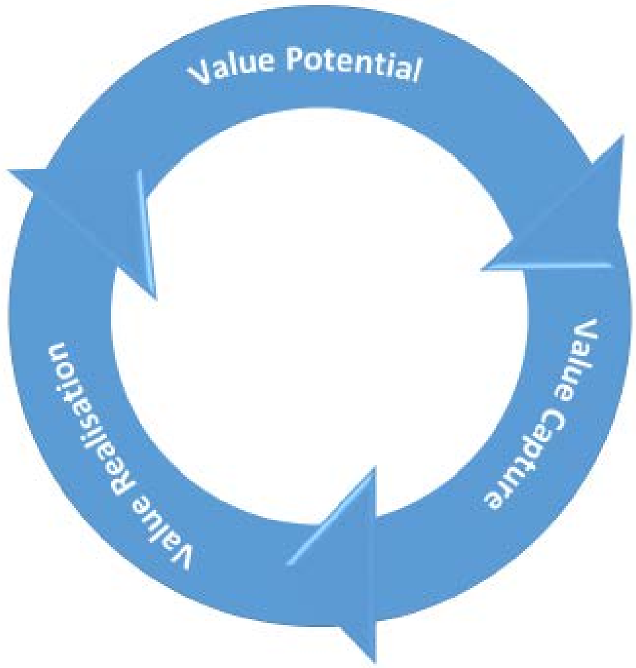
advantage, through effective and continuously adaptive execution.




So what is the broader landscape that firms need to consider – the unlit spaces on the pavement? At the highest level this begins with the external environment that shapes the playing field for every firm and concludes with the performance outcome for the particular firm. In between are the firm's strategic choices that determine its ongoing results. These can be broken into three components – the **value creation potential** arising from the specific business model which the firm pursues; the **value captured** by the firm which depends on the attractiveness of the industry structure that emerges around that business model, and the competitive advantage the firm possesses that determines its relative performance within the industry; and the actual **value realized** by the firm as it adapts its operations within the bounds of the strategy to continuously and incrementally update activities in light of the shifting opportunity set.

Note that the three analytical frameworks in the middle of the landscape concerning value capture - industry structure, classic positioning, and competitive interaction – are those that strategy has done much to reveal in the past. Nothing written about the complete strategy landscape in this article, in any way invalidates traditionally accepted notions about strategy more narrowly and classically defined. Everything written here builds on those foundational ideas. They are not incorrect. They merely need to be located in a broader landscape.

Each step along the landscape acts as a filter for the next stage. The opportunity set determines the plausible range of business models. Any given business model will generate a certain industry structure (at least in equilibrium), and allow competitors to pursue an array of feasible positionings. Once the strategy has been set, initiatives to change operational activities have to be consistent with, and constrained by, the overall strategic direction. Thus we can, in principle, imagine the landscape as a narrowing funnel from left to right. We can also represent it as a circle since performance outcomes establish a firm's capabilities that in turn determine its ability to respond to changes in the external environment (Figure 4).




**IMPORTANCE OF ALL THREE VALUE ELEMENTS**

All three elements are critical to firm performance. The easy one to illustrate with many vivid recent examples, is the danger to entrenched incumbents posed by new business models. Taxis have been decimated (literally, as the value of a New York City taxi medallion has crashed from $1 million to $100,000) by the appearance of ride sharing services like Uber and Lyft. These offer nothing different in terms of service, but exploit an entirely different asset base to offer, typically, lower cost rides that have captured nearly three quarters of the on-demand transportation market in many cities[4]. The problem for taxis is nothing to do with the economic structure of the licensed cab industry or the competitive positioning of each taxi firm, and everything to do with the appearance of a novel business model.

The demise of bricks and mortar retailers, like Sears and ToysRus and the pressure on surviving department stores, like Macys, is directly due to the success of the new online business model. Reliant on a legacy asset base of bricks and mortar stores and distribution centres, perhaps the only adaptations such retailers can pursue is to fiddle with layout and merchandising, or add loyalty programs. Yet those strategic moves are as unlikely to succeed as rearranging deck chairs on the Titanic when the underlying business model has been “holed” by the fulfillment centres, online ordering and home delivery of Amazon’s model.  These, and numerous other examples, like publishing, of the physical being replaced

[4] “Uber and Lyft are gaining even more market share over taxis and rentals” W. Richter Wall Street Journal 7/30/2018 at https://www.businessinsider.com/uber-lyft-are-gaining-even-more-market-share-over-taxis-and-rentals-2018-7

by the digital, illustrate the threat posed by fundamentally different approaches to serving a given customer need.

But before we get carried away with the appeal of new business models and berate ourselves for missing their enormous value potential, let us not forget other elements of the landscape. Consider two of the most highly valued (and for many observers, overvalued) companies around today – WhatsApp and Netflix. Each identified an incredibly valuable business model, but their market capitalization cannot just be driven by that potential!

At least half the world's population are using some mobile phone messaging app, only ten years after the business model originated. This is unbelievable value created for consumers in an incredibly short time! Online streaming of video entertainment is a similarly blockbuster idea. It is the low cost way to distribute content, and dominates other forms of distribution - mail order and bricks and mortar – from a customer perspective by allowing immediate access on any device anywhere, anytime to a huge catalogue of media.

Yet regardless of the value potential of their business models, it is unclear that either WhatsApp or Netflix will ever realise any of that value - which is why Netflix is one of the most shorted stocks, and why many observers believe that Facebook was at fault paying $22 billion to acquire WhatsApp in 2014! For both, the industry structure resulting from slews of competitors pursuing the same business model, like HBO, Hulu and Amazon in online streaming, and Telegram, WeChat, and Line in messaging apps, makes it hard to capture much of the, admittedly huge, value created for consumers in the business model, particularly when consumers of both services multi-home and can switch costlessly.

Finally, if we need an example of a company that will struggle to perform because of execution problems, we need look no further than Tesla (another of the most shorted stocks). Again, the electric vehicle business model has a huge value creation potential. No-one now doubts that.

There is a real question whether any firm will capture much of that value since the future electric vehicle industry structure will look remarkably similar to the current auto industry - with the possible exception that lower entry barriers that allowed Tesla to break into the industry, will allow many others into the business. Even vacuum cleaner company, Dyson, is investing a billion dollars in a Singapore production facility for its electric car! And Tesla's ability to capture whatever value is left in the industry will be in doubt as its premium position is threatened by the entry of the traditional performance manufacturers, like BMW and Mercedes.

But what might well be that the nail in the coffin for Tesla is its inability to achieve sustained volume production of at least 400,000 vehicles pa - necessary to have the scale economies and accumulated learning to be cost competitive - without producing the current nine models in one facility, and without resorting to manual labour to fix production problems. The simple inability to execute quality car production at volume could be the ultimate cause of Tesla's failure to make adequate returns with a business model that certainly does create huge amounts of consumer value.

**DETAILS OF THE COMPLETE STRATEGY LANDSCAPE**

Having established the importance of mastering all three elements of the landscape under the control of the strategist, we can dive into a more detailed description of each component.

*Opportunity Set:* We can all debate whether the pace of change is faster than at any time in history. But most would accept that we are now in a VUCA world. As an interesting thought experiment, imagine what a child born today might never know or do in the future – the odds are they will never have to learn to drive a car (autonomous driving vehicles) or type (voice recognition), or learn a foreign language (real-time digital translation), or use cash (mobile money) ….. And as a reminder of how fast the world can change, the ubiquitous smart phone that you cannot now live without was only introduced to the world twelve years ago!

Developments in technology, demographics, politics etc[5], represent the shifting tectonic plates of the business landscape. Their evolution throws up an ever-changing list of current "hot topics" confronting executives, such as cybersecurity, block chains and bitcoins….. This context is the raw material that a strategist has to work with because it generates the set of production possibilities firms can exploit.

*Value Creation Potential:* The first step in translating the opportunity set into a firm strategy is to define a business model and assess its inherent value creation potential. Value creation comes from a combination of increasing customer willingness to pay; satisfying, even if inadequately, a previously unmet need; or reducing cost with a monetization scheme that makes sense to those in the ecosystem. Thus the business model describes the" job to be done" – which determines the willingness to pay and potential market size – and the asset configuration – which determines the cost to deliver the product or service, as well as the pricing mechanism – which determines how all of this is paid for. Novel business models deliver on one or other of these dimensions (see second article).

*Value Capture/ Industry Attractiveness:* Regardless of the value created, a critical question is whether the industry structure that results from the competitive pursuit of a particular business model allows participants to earn decent returns – to capture some of the value they create. This was the contribution of Michael Porter and the "Five Forces" framework. Porting over from industrial organization economics the insight that all industries were not created equal, and that the determinants of long term differences in inter-industry profitability could be identified, was his early strategic insight.

Note that value creation and capture are far from the same thing. Health clubs create a huge amount of value – how much would you be prepared to pay for the benefits they provide of fitness, health, weight control, social interaction and so on? And yet many companies, like Bally, have foundered in the business, some multiple times[6]. In contrast, Pepsi and Coke have been two of the most profitable companies in the world for decades selling carbonated soft drinks - a product that can hardly be claimed to create a vast amount of social welfare: dirty brown sugar water that no one can tell the difference between!

*Value Capture / Competitive Positioning:* Regardless of industry structure, one or more firms may be able to achieve a competitive advantage within the business and so earn superior returns. And it is here that the classic value of strategy as competitive position pays off (See "Can You Say What Your Strategy Is?) since you can always outperform the industry average rate of return,  if you have a great

[5] These can be categorized in the PESTLE framework - Political, Economic, Social, Technological, Legal and Environmental.

[6] Bally, for example, one of the larger players in the industry, has gone bankrupt three times in the last fifteen years. CHECK

strategy. Identifying a unique value proposition for a defined customer group, and a distinctive configuration of activities is still the way to build competitive advantage, even if others are pursuing the same business model.[7]

Note that an important part of competitive positioning is continuous improvement to cost position and customer willingness to pay. Competitive advantage is all about widening the gap between those two, and a strategy that ignores ongoing value creation is bound to fail. Such operational improvements are the product of ongoing entrepreneurial initiatives that must be occurring throughout the organization and which are described in the execution element of the landscape (see third article).

*Competitive Interaction:* Competitive positioning is a static phenomenon. To add dynamics into the picture to assess the long term sustainability of any competitive advantage, we have to understand how the interaction among competitors will play out over time. To this end, game theoretic approaches have been widely adopted as a way to effectively map both the behavioural and rational aspects of competitor prediction.

*Value Realisation (Execution):* To realize value, every firm must be continuously implementing a series of initiatives that change operational activities in response to the ever-shifting environment. Companies rarely, if ever, do a complete volte face and throw out the entire past strategy. Occurrences, like Compaq shifting from being high end to low cost in personal computers, are so few and far between that they are the exception that proves the rule. Rather, companies incrementally alter aspects of the strategy to adjust to new realities. Execution of a strategy is therefore less about holistic reformulation, and more about incremental change – what part of the value proposition, and which activity choices should be changed? – and how top management oversee those changes while still empowering entrepreneurial teams to make specific choices, such as how exactly to improve a product's reliability (see third article).

*Performance:* The outcome of the firm's strategy and its interaction with competitors determines its financial performance and, importantly, the accumulation of assets and capabilities that form the stock of resources for its future moves.

Note that while represented as a linear progression, in reality the strategy landscape described here is a continuous and iterative process. Outcomes, whether financial or strategic, will drive the search for new opportunities and reactions to new threats just as much as changes in the external environment, so that feedback loops are implicit at each stage of what is really a circular process.

**IMPLICATIONS**

To apply the complete strategy landscape, I turn to Edward Jones, the subject of a previous HBR article. The firm continues to perform extraordinarily well (OUTCOME) – achieving above average industry profitability, while becoming the largest firm in North America by number of brokers with over $1 trillion in assets under management, and always featuring among Fortune's "best companies to work for". And yet the firm is undergoing dramatic change. Why?

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[7] A fourth article clarifies the role played by mission, vision and values in any organization and their distinction from strategy and strategic objectives.

The problem is not with the firm's CLASSIC POSITIONING. The target customer – a conservative individual who wants to delegate investment decisions to a trusted advisor– has not gone away. If anything, information overload and increasing time demands have only increased those consumers – traditionally 27% of the market – who value this service. Nor is the value proposition of a trusted personal relationship any less "priceless" to those customers. The security and peace of mind that comes from knowing your investments are in safe hands, is still the same.

Nor is the problem competitive imitation (COMPETITOR INTERACTION). No company has been able to replicate Edward Jones' 17,000 offices throughout North America.

The problem is that the value captured by the industry in performing the simple traditional job of portfolio management (INDUSTRY ATTRACTIVENESS) has been eroded by exogenous environmental changes (OPPORTUNITY SET). Entrants with new business models enabled by new technologies; a demographic shift as the baby boom generation moves into the distribution phase of their lives; regulatory changes requiring more attention to smaller accounts, and investing preferences for passive asset management, have all limited the ability of the industry to capture any of the value it creates. Today completing a transaction costs $4.95 online (or free if bundled with a bank account). Portfolio allocation according to individual risk preference costs 0.2% when offered by a robo-advisor. Index fund management fees are as low as 0.02%. Merely performing these functions for a client, while still incredibly valuable for customers, does not now support an industry structure that allows providers to capture that value.

The solution is not to change the strategy. What if Edward Jones changed its customer scope by serving day-traders? This would not work since this is the most price competitive part of the market. What if Edward Jones altered its activity set, perhaps by putting three FAs in on office? The firm would lose its entrepreneurial culture. The only solution to escape the commoditization of the current industry is to create more value in a new business model. Once value capture has eroded, only a move to increase value potential can help. Strategy as competitive positioning to maximize value capture is not the solution. Business model innovation as value creation is the only hope.

The challenge for Edward Jones is therefore not to refine its strategy to extract the tiny margin left in the traditional business model but to shift from a product or "transactional" business model to a "solutions" business model that creates even more value for customers, the details of which are described in the second article (BUSINESS MODEL).

The way Edward Jones is addressing the shift in business model while adhering to the existing strategy is through a series of initiatives, each of which will adapt a particular activity or process to accommodate the new "job to be done" (EXECUTION). The firm has about twenty teams working on these initiatives and all are cognizant of the interaction among their various recommendations. How is this achieved? Partly through the oversight by a top management team which understands the must-win battles they confront (See third article), but also because the strategy is so well inculcated in the firm that each team is aware of how changes they might implement will interact with and affect the rest of the organization.

Notice that we need the whole strategy landscape to really understand the change. First, it is shifts in the opportunity set – demographics, regulation, capital markets performance, etc. - that are throwing up threats and opportunities. Second, it is the reduction in value capture for the industry that is undermining the old business model. Third, the business model itself now needs to be reexamined to create more value even if the "strategy" is unchanged, and fourth, that will be effected through a set of initiatives that amend but do not invalidate the previous strategy. This illustrates that attention has to be paid to all parts of the landscape to craft a resilient strategy.

So what can strategy do to address its failings and regain its dominant role in C-suite discussions?

First, it must not forget the progress made in understanding value capture, in particular strategic positioning. Knowing what game you are playing and how you are going to win, to take perhaps the most succinct approach to classic strategy[8], is still critical for communicating a clear direction and aligning the organization.

Second, any strategy process must begin with a creative, divergent and open-ended discussion of the value potential of alternative business models. The second article in the series achieves this by building on the definition of a business model. This part of the strategy process, by definition, has to be somewhat blue sky and approaches, such as "Why Not,"[9] can be valuable. During Internet 1.0 a useful exercise was asking executives to "destroy yourself.com" - "If you were to launch an online company that attacked your business, what would it look like?" and this was a fruitful way of challenging management to imagine an alternative, in this case, digital, business model. Such brainstorming techniques, analogies, and the thought process of framing the strategic objective in a completely different way can always stimulate novel ideas[10].

Third, there needs to be a strategic approach to execution that guides the ongoing experimentation and operational adaptations that bring strategy to life. This the subject of the third article.

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[8] AG Lafley and R Martin "Playing to Win"

[9] Nalebuff and "Why Not"

[10] Brandenburger HBR, Rivkin HBR.