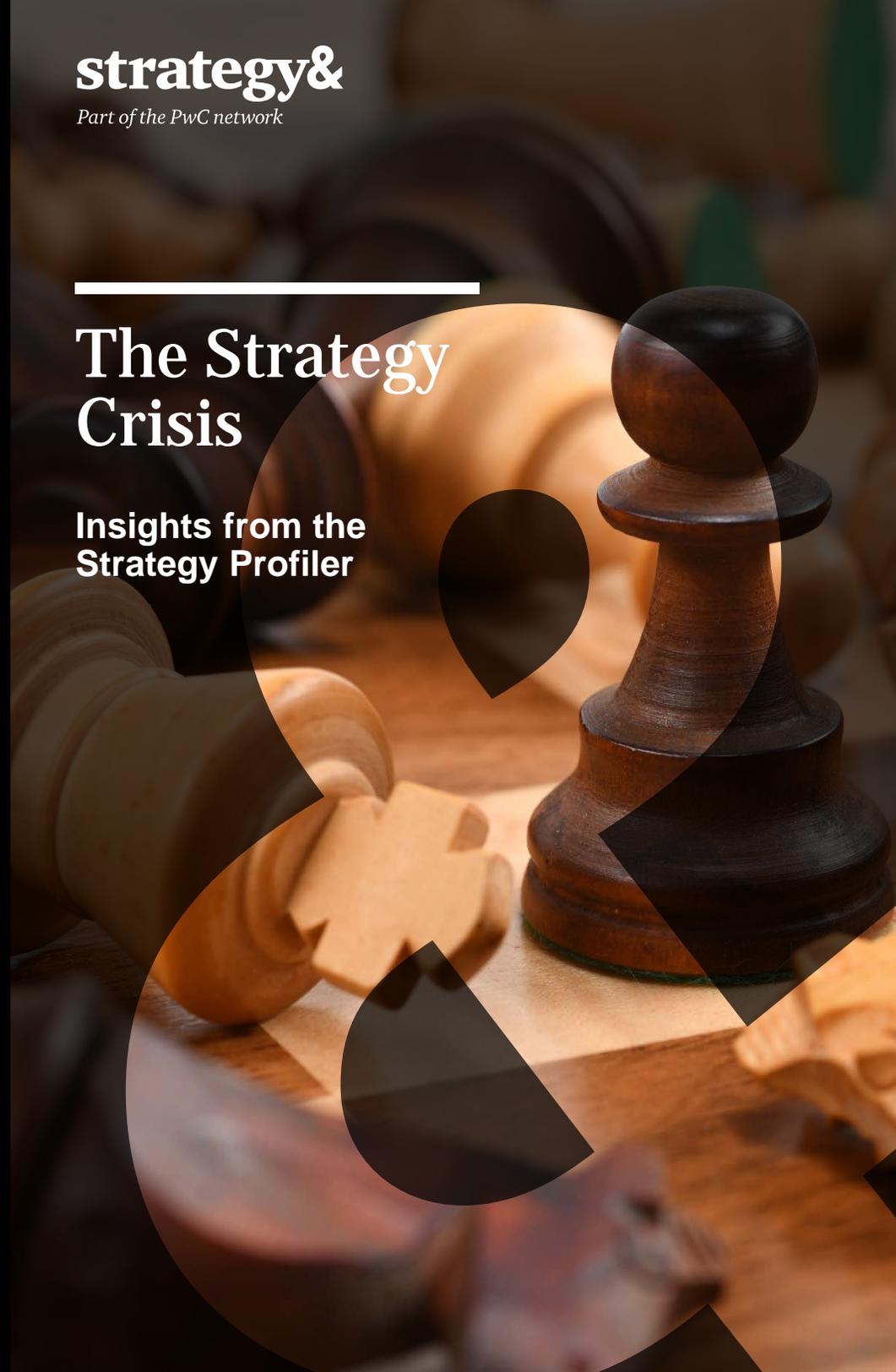


strategy&

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The Strategy Crisis

**Insights from the
Strategy Profiler**





What's the state of strategy?

Does strategy still matter? Or is it an expensive, irrelevant, time-consuming exercise? In a time of volatility and disruption, can organizations afford to commit resources to long-term strategic planning?

And on the other hand... if companies abandon strategy, what do they lose? What's the real cost when organizations fail to develop and execute a winning strategy?

How confident are leaders about their company's strategy? What are they most concerned about?

To find out the answers to these and other questions, Strategy& developed the Strategy Profiler, an easy-to-use online tool that helps executives assess how well their company is positioned for success.

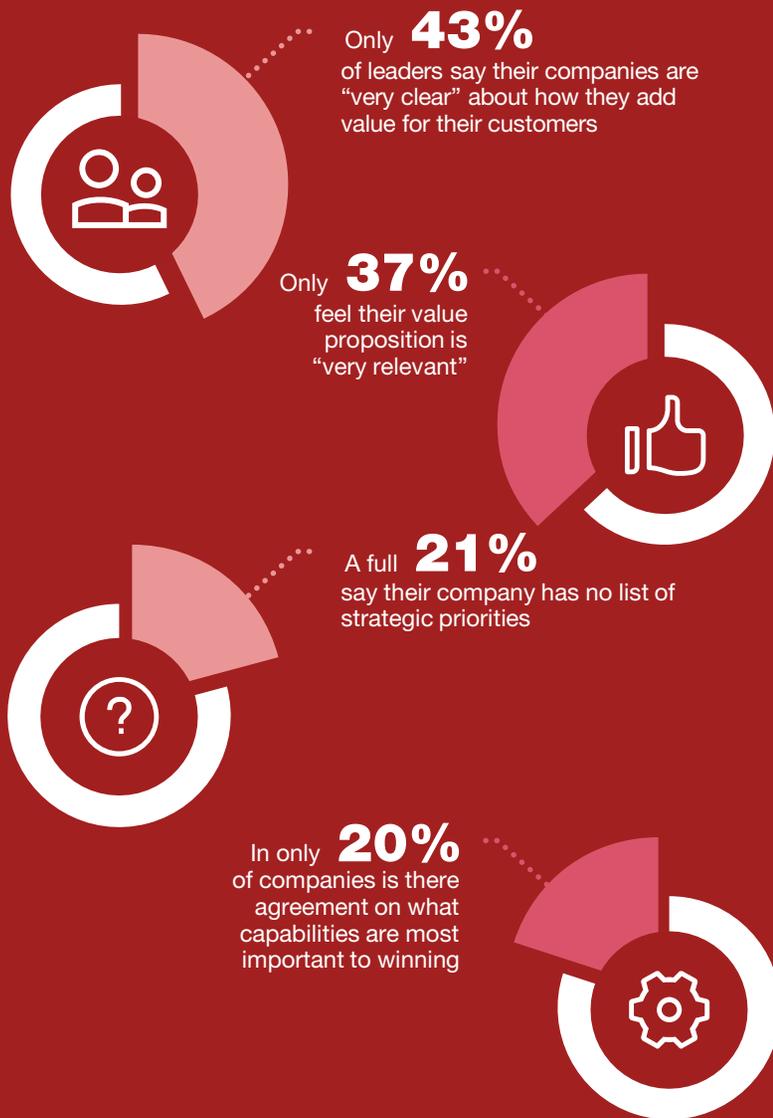
What did we learn?

1

Strategy in crisis

Many business leaders today question the value of strategy—they say it's too slow or impractical to be of value in this fast-changing business environment.

Companies don't address their most important strategic questions



Glossary

Strategy:

According to Alfred Chandler (1962),* "strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

In our view, strategy needs to answer the fundamental questions of "Who are we as a company?" and "Why do we exist?" and while doing so, must address the following three dimensions: (1) the company's way to play or the value it is creating for customers, (2) the capabilities that are required to create value, and (3) the products and services it offers.

Capabilities:

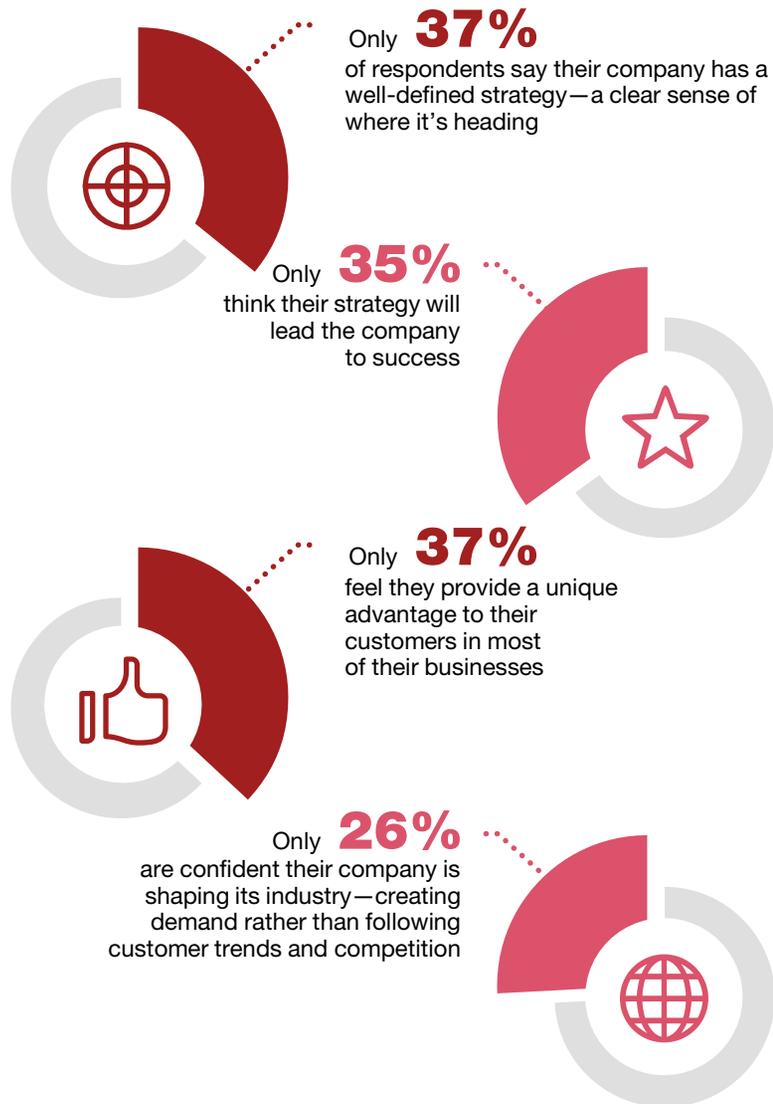
A capability is a combination of processes, tools, people, and structures that allows a company to achieve a specific outcome. A few differentiating capabilities are at the heart of most companies' success. These are key strengths of the business that customers value and competitors can't beat. They're not a long list of generic activities, but a few very specific things that allow these companies to deliver on their way to play better than anyone else.

Coherence:

Coherence is the tight match between the three major components of a company's strategy: its way to play, its differentiating capabilities, and its portfolio of products and services. A perfectly coherent company has one unique value proposition (way to play) it offers to the market, one set of differentiating capabilities that enable this way to play, and a range of products and services that are all aligned to its way to play and that thrive in its capabilities system. Being perfectly coherent is unrealistic for most large companies — what matters is relative coherence compared with your competitors. Coherence, according to our research, is what enables companies to deliver on their strategy, because it connects the company's strategic direction to the limited and well-defined set of capabilities that enable it.

* Source: Alfred Chandler, *Strategy and Structure: Chapters in the History of Industrial Enterprise* (Doubleday, 1962)

Leaders lack confidence in their own company's strategy



The research concludes that nearly four in 10 companies (38%) are “adrift” —lacking a valid direction that guides where the company is going.



Methodology

The Strategy Profiler report includes the survey results of more than 6,000 corporate leaders and senior managers. More than one-third (35 percent) of respondents are in the C-suite. The online survey asks 24 questions on the topic of strategy development and execution. Using respondents' answers, the tool determines the company's coherence score—a measure of how aligned its key strategic dimensions are—and the company's archetype, which indicates the major hurdles it needs to overcome. The Profiler can be found at www.strategyandcoherence.com.

Leaders struggle to make the connection between strategy and the things their organization does every day—their capabilities



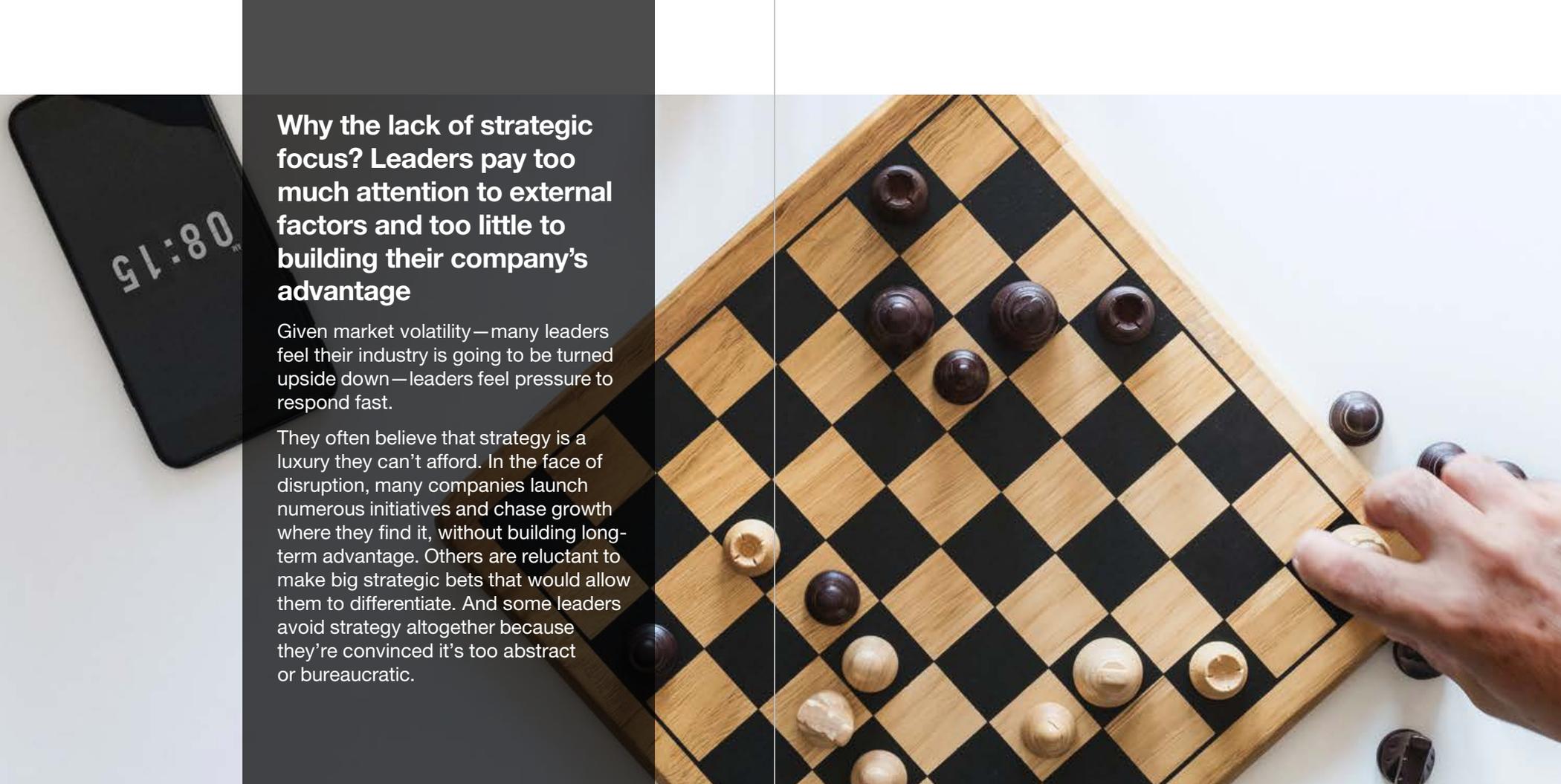
Only **20%** of leaders say there's agreement in the company on which capabilities are key for success, with people across the organization being aware and bought in



Only **16%** say they have a thoroughly managed program in place to build and scale up the organization's most important capabilities



Only **13%** say that the few most important capabilities are reflected in the company's management processes (reflected in budgets, leaders taking on responsibility for building those capabilities, and management team reviewing progress in building them)



Why the lack of strategic focus? Leaders pay too much attention to external factors and too little to building their company's advantage

Given market volatility—many leaders feel their industry is going to be turned upside down—leaders feel pressure to respond fast.

They often believe that strategy is a luxury they can't afford. In the face of disruption, many companies launch numerous initiatives and chase growth where they find it, without building long-term advantage. Others are reluctant to make big strategic bets that would allow them to differentiate. And some leaders avoid strategy altogether because they're convinced it's too abstract or bureaucratic.

Many leaders mistakenly think that...



... disruptions need to be addressed quickly. Long-term planning is a luxury they can't afford.



... they need to deliver performance in the short term—thinking about the long term won't help them with that.



... strategy is too theoretical—it's “thinking,” not “doing”— and it takes too much organizational effort.



More often than not,
disruption gets the blame

There are four common myths about disruption

MYTH 1

Disruption is something new and unprecedented

Fact is: Disruption has always been a force in the business environment. The automobile disrupted the horse-drawn carriage, and the buggy whip industry failed—because it didn't have a strategy, it didn't adapt.

MYTH 2

Business disruption equals technology disruption

Fact is: There is no question we are living in a time of unparalleled technology changes. But not every new technology shakes up the profit pools of an industry. Technology disruption and business disruption are two different things, and it's important to understand when technology can be leveraged for competitive advantage.

MYTH 3

Disruption hits every industry— and it's getting faster

Fact is: Some industries are being highly disrupted, but in others disruption is a much smaller factor. And overall, there hasn't been a change in the pace of disruption over the past decade.

MYTH 4

Everyone is in danger of being disrupted and agility is the only remedy

Fact is: The companies most in danger of being disrupted are those that don't have a real advantage. Just think about taxis in many cities: Were they consistently customer-friendly? Did they always provide a unique experience? After GPS made it easy for everyone to find their way in crowded cities, there wasn't much left in terms of advantage, and the industry was ripe for disruption.

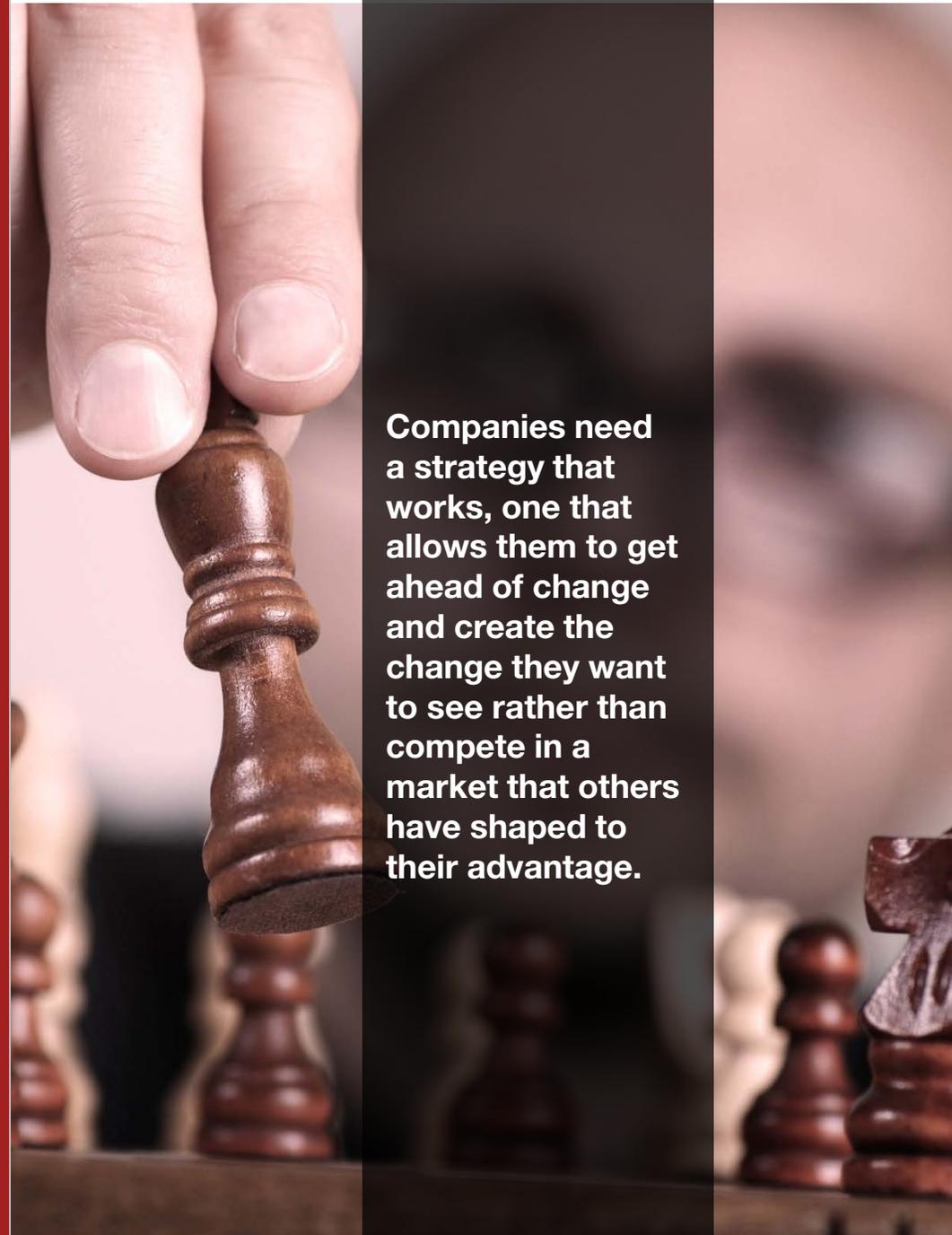
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The value of strategy

The failure to commit to and execute strategy has real consequences: Performance suffers when companies get strategy wrong. Companies with strong strategy, however, tend to outperform.

In these turbulent times, companies need strategy locked down as never before. Just “existing” — launching initiative after initiative to seek growth where it can be found, or chasing quarterly targets — won’t work.

Companies need to make tough choices about how they’re going to compete and what allows them to win. They need to build a real advantage, rooted in the few things the company does better than anyone else — its differentiating capabilities. This requires leaders to make big decisions about where to invest and stick to those decisions over time. That is strategy.



Companies need a strategy that works, one that allows them to get ahead of change and create the change they want to see rather than compete in a market that others have shaped to their advantage.



Getting strategy right pays off

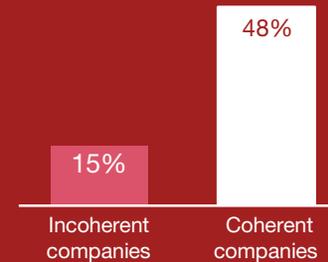
Faster-than-average growth and profitability were strongly in evidence at companies where executives said they:

- have clearly stated how they add value for customers.
- have clearly defined their differentiating capabilities—the few things they need to do better than anyone else in order to win with their strategy.
- focus their organization on building out those capabilities to world-class level.
- compete in only those businesses where they are set up to win.

Companies that get strategy right...

... grow faster

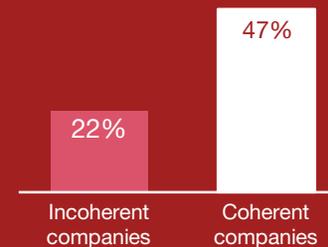
% companies growing faster than industry average



They are three times as likely to report above-average growth

... are more profitable

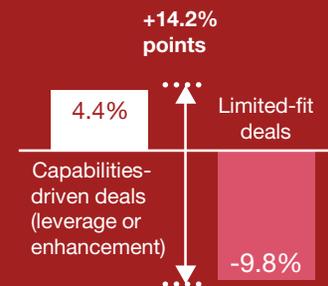
% companies more profitable than industry average



They are twice as likely to report above-average profits

... make better deals

Annual total shareholder returns (TSR) vs. market index



Capabilities-driven deals generate annual TSR that are 14.2 percentage points higher than those of deals with limited capabilities fit.*

* Source: "Deals That Win," by J. Neely, John Jullens, and Joerg Krings (strategy+business, July 2015).

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How to make strategy work: getting started

Leaders who want to make their strategy work should not just pay attention to market trends and competitors, but focus on building their company's advantage.



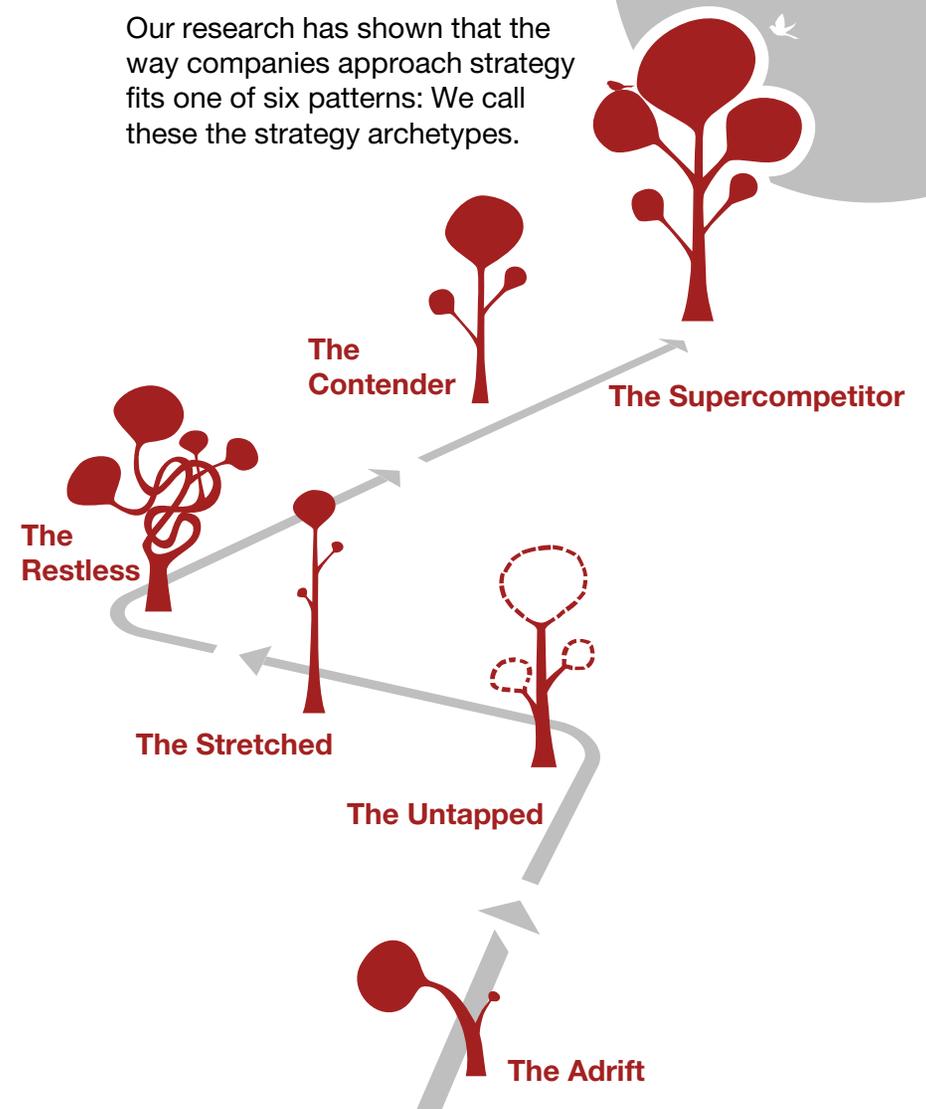
The essential first step making a company's strategy work is to identify what value the company is going to offer to customers considering where the market is headed and considering the things the company is already great at doing. Then, leaders should determine the few capabilities that will allow their company to excel at its value proposition. Finally, companies need to commit to living their strategy every day and ensuring that it permeates every aspect of their day-to-day operations.

The Strategy Profiler identifies six "archetypes," types of companies that face a common set of challenges when it comes to developing and executing a winning strategy.

To make real strides toward an effective strategy, it's essential to know your organization's "state of play."

Strategy archetypes

Our research has shown that the way companies approach strategy fits one of six patterns: We call these the strategy archetypes.



Your archetype helps determine the steps you should take to get your strategy to work. Find out which archetype fits your company by taking the Strategy Profiler (www.strategyandcoherence.com), then consider the following recommendations.

The Supercompetitor is a customer favorite and seemingly unstoppable force in the industry

Supercompetitor companies

- have a powerful value proposition and the differentiating capabilities that allow them to excel at that value proposition; they have aligned their portfolio of products and services so it leverages and supports those two elements.
- focus day in and day out on executing that strategy and building out their competitive advantage in the marketplace.
- use their coherence to shape their own future by applying their capabilities to a broader range of challenges. These companies are not just playing the game of business well—they're changing the rules.

Examples of supercompetitors: Amazon, Apple, Danaher, IKEA, Walmart



The Contender is on the path to success and requires continuous focus and commitment to fully get there

Contender companies

- have a winning strategy, but they struggle to fully execute and build the advantage that will lead to sustained success.
- often have trouble finding the required funds to execute their strategy. Building differentiating capabilities is difficult and expensive, and many think their financial situation does not allow them to make the bold moves that are required.



What the Contender can do:

Take a strategic look at costs: What resources are spent on capabilities that are not at the heart of your identity? Are you trying to do too much in those areas? Are you building functional excellence in areas where it's not needed?

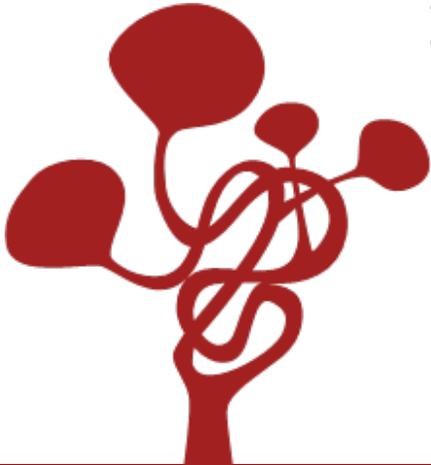
Take a *Fit for Growth** approach to free up significant funds from areas that aren't differentiating and reinvest those funds in what truly matters to your strategy.

* *Fit for Growth* is a registered service mark of PwC Strategy& LLC in the United States. For more information, see the *Fit for Growth* microsite.

The Restless needs to focus and channel its energy

Restless companies

- have difficulty focusing because their fear of missing out means they follow too many directions and chase too many opportunities.
- often struggle to translate their strategy into a narrow set of strategic priorities, resulting in a long list of opportunities to pursue and capabilities to build.



What the Restless can do:

Identify the very few things that truly make a difference for customers and that your company is able to do better than anyone else. Then double down on execution: Translate the strategy into what it means for every part of the organization; define clear deliverables, time lines, and responsibilities; monitor progress in executing the strategy.

The Stretched needs to tackle some fundamental issues that prevent it from realizing its aspirations

Stretched companies

- often have a portfolio that is so broad that they can't agree on company-wide priorities. Their businesses are so diverse that there's no common way in which they add value for customers. Their functions and business units may be busy building capabilities, but those efforts probably aren't very effective and haven't helped them build a real company-wide advantage.
- may have defined a coherent identity for the company, but that identity is so far from the company's current status that they can't successfully execute it.



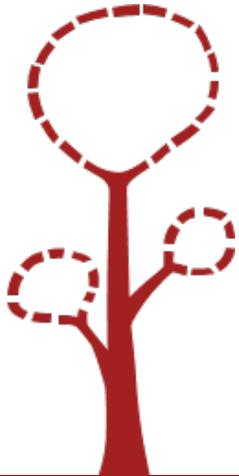
What the Stretched can do:

Assess the value proposition and differentiating capabilities in each business. Which of these are connected to your core business? Make those businesses coherent first. If you've already defined a coherent identity but have reached too far, assess which value propositions are likely to win in the future and what capabilities each requires. Combine that with an identification of your company's strengths to select an attractive value proposition that is within reach from where your company is today.

The Untapped has had some success but has not built the advantage to sustain it

Untapped companies

- may have launched good products, built deep relationships, or enjoyed a protected status, but don't have a coherent strategy and therefore run the risk of losing their competitive advantage to new and more focused competitors.



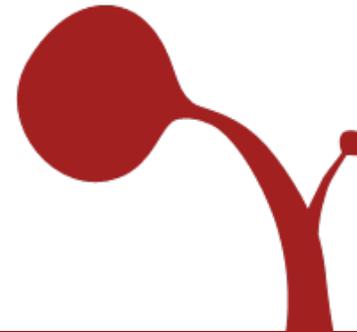
What the Untapped can do:

Assess whether, by applying your great execution track record to a more coherent strategy, you could build on your success and truly dominate the market. You are doing many things right, but may need to take this next step.

The Adrift lacks a clear direction that could guide it to success

Adrift companies

- lack a clear and relevant strategy, which makes the present a matter of survival and offers the looming prospect of a disadvantaged future.
- are often not clear about how they're adding value to customers, or market trends have made their value proposition increasingly irrelevant.



What the Adrift can do:

Identify what truly drives advantage in this hypercompetitive world. Determine where the market is heading, which value propositions are likely to succeed five years down the road, and what capabilities are required to win with each of those value propositions. Identify your own company's strengths, then select an attractive value proposition that is within reach from where you are today.

4

Additional resources

To build a strategy that works, consider these books and tools.

The Strategy Profiler



Is your company adrift, restless, or on the way to becoming a supercompetitor?

Find out in a few minutes how well your company is positioned for success. This short survey will help you identify potential areas for improvement based on your unique starting position.

Take the Profiler at www.strategyandcoherence.com

The Capabilities Assessment Tool

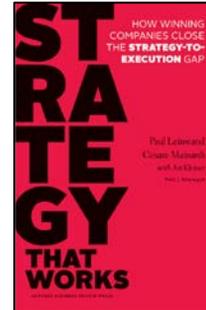


Is your company aligned on the few things that really matter to its success? How good is your company at those most important capabilities?

The Capabilities Assessment Tool can help you identify, build, and monitor the capabilities that are at the heart of your success. We can help you customize the tool so it optimally fits your company.

Learn more at www.strategyand.pwc.com/cds/capabilities-assessment

Strategy That Works



Based on original research, our book *Strategy That Works* reveals five practices used by today's winning companies for closing the strategy-to-execution gap. Packed with tools executives can use to help build these five practices into their organization, it is a powerful guide to connecting where enterprises aim to go and what they can accomplish.

Learn more at www.strategyand.pwc.com/strategythatworks

The Essential Advantage



The conventional wisdom about strategy may be leading your company astray. In *The Essential Advantage: How to Win with a Capabilities-Driven Strategy*, Paul Leinwand and Cesare Mainardi maintain that success in any market accrues to firms with a coherence premium—a tight match between their strategic direction and the capabilities that make them unique.

Learn more at www.theessentialadvantage.com

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Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you.

As a part of PwC, every day we're building the winning systems that are at the heart of growth. We combine our powerful foresight with this tangible know-how, technology, and scale to help you create a better, more transformative strategy from day one.

As the only at-scale strategy business that's part of a global professional services network, we embed our strategy capabilities with frontline teams across PwC to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that gets an organization through the changes of today and drives results that redefine tomorrow. It's the strategy that turns vision into reality. It's strategy, made real.

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