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Can You Say What Your Strategy Is?

by David J. Collis and Michael G. Rukstad

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Can you summarize your company's strategy in 35 words or less? If so, would your colleagues put it the same way?

It is our experience that very few executives can honestly answer these simple questions in the affirmative. And the companies that those executives work for are often the most successful in their industry. One is Edward Jones, a St. Louis–based brokerage firm with which one of us has been involved for more than 10 years. The fourth-largest brokerage in the United States, Jones has quadrupled its market share during the past two decades, has consistently outperformed its rivals in terms of ROI through bull and bear markets, and has been a fixture on *Fortune*'s list of the top companies to work for. It's a safe bet that just about every one of its 37,000 employees could express the company's succinct strategy statement: Jones aims to "grow to 17,000 financial advisers by 2012 [from about 10,000 today] by offering trusted and convenient face-to-face financial advice to conservative individual investors who delegate their financial decisions, through a national network of one-financial-adviser offices."

Conversely, companies that don't have a simple and clear statement of strategy are likely to fall into the sorry category of those that have failed to execute their strategy or, worse, those that never even had one. In an astonishing number of organizations, executives, frontline employees, and all those in between are frustrated because no clear strategy exists for the company or its lines of business. The kinds of complaints that abound in such firms include:

- "I try for months to get an initiative off the ground, and then it is shut down because 'it doesn't fit the strategy.' Why didn't anyone tell me that at the beginning?"
- "I don't know whether I should be pursuing this market opportunity. I get mixed signals from the powers that be."
- "Why are we bidding on this customer's business again? We lost it last year, and I thought we agreed then not to waste our time chasing the contract!"

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- "Should I cut the price for this customer? I don't know if we would be better off winning the deal at a lower price or just losing the business."

Leaders of firms are mystified when what they thought was a beautifully crafted strategy is never implemented. They assume that the initiatives described in the voluminous documentation that emerges from an annual budget or a strategic-planning process will ensure competitive success. They fail to appreciate the necessity of having a simple, clear, succinct strategy statement that everyone can internalize and use as a guiding light for making difficult choices.

Think of a major business as a mound of 10,000 iron filings, each one representing an employee. If you scoop up that many filings and drop them onto a piece of paper, they'll be pointing in every direction. It will be a big mess: 10,000 smart people working hard and making what they think are the right decisions for the company—but with the net result of confusion. Engineers in the R&D department are creating a product with "must have" features for which (as the marketing group could have told them) customers will not pay; the sales force is selling customers on quick turnaround times and customized offerings even though the manufacturing group has just invested in equipment designed for long production runs; and so on.

If you pass a magnet over those filings, what happens? They line up. Similarly, a well-understood statement of strategy aligns behavior within the business. It allows everyone in the organization to make individual choices that reinforce one another, rendering those 10,000 employees exponentially more effective.

What goes into a good statement of strategy? Michael Porter's seminal article "What Is Strategy?" (HBR November–December 1996) lays out the characteristics of strategy in a conceptual fashion, conveying the essence of strategic choices and distinguishing them from the relentless but competitively fruitless search for operational efficiency. However, we have found in our work both with executives and with students that Porter's article does not answer the more basic question of how to describe a particular firm's strategy.

It is a dirty little secret that most executives don't actually know what all the elements of a strategy statement are, which makes it impossible for them to develop one. With a clear definition, though, two things happen: First, formulation becomes infinitely easier because executives know what they are trying to create. Second, implementation becomes much simpler because the strategy's essence can be readily communicated and easily internalized by everyone in the organization.

Elements of a Strategy Statement

The late Mike Rukstad, who contributed enormously to this article, identified three critical components of a good strategy statement—objective, scope, and advantage—and rightly believed that executives should be forced to be crystal clear about them. These elements are a simple yet sufficient list for any strategy (whether business or military) that addresses competitive interaction over unbounded terrain.

Any strategy statement must begin with a definition of the ends that the strategy is designed to achieve. "If you don't know where you are going, any road will get you there" is the appropriate maxim here. If a nation has an unclear sense of what it seeks to achieve from a military campaign, how can it have a hope of attaining its goal? The definition of the objective should include not only an end point but also a time frame for reaching it. A strategy to get U.S. troops out of Iraq at some distant point in the future would be very different from a strategy to bring them home within two years.

Since most firms compete in a more or less unbounded landscape, it is also crucial to define the scope, or domain, of the business: the part of the landscape in which the firm will operate. What are the boundaries beyond which it will not venture? If you are planning to enter the restaurant business, will you provide sit-down or quick service? A casual or an upscale atmosphere? What type of food will you offer—French or Mexican? What geographic area will you serve—the Midwest or the East Coast?

Alone, these two aspects of strategy are insufficient. You could go into business tomorrow with the goal of becoming the world's largest hamburger chain within 10 years. But will anyone invest in your company if you have not explained how you are going to reach your objective? Your competitive advantage is the essence of your strategy: What your business will do differently from or better than others defines the all-important means by which you will achieve your stated objective. That advantage has complementary external and internal components: a value proposition that explains why the targeted customer should buy your product above all the alternatives, and a description of how internal activities must be aligned so that only your firm can deliver that value proposition.

Defining the objective, scope, and advantage requires trade-offs, which Porter identified as fundamental to strategy. If a firm chooses to pursue growth or size, it must accept that profitability will take a back seat. If it chooses to serve institutional clients, it may ignore retail customers. If the value proposition is lower prices, the company will not be able to compete on, for example, fashion or fit. Finally, if the advantage comes from scale economies, the firm will not be able to accommodate idiosyncratic customer needs. Such trade-offs are what distinguish individual companies strategically.

Defining the Objective

The first element of a strategy statement is the one that most companies have in some form or other. Unfortunately, the form is usually wrong. Companies tend to confuse their statement of values or their mission with their strategic objective. A strategic objective is *not*, for example, the platitude of "maximizing shareholder wealth by exceeding customer expectations for _______ [insert product or service here] and providing opportunities for our employees to lead fulfilling lives while respecting the environment and the communities in which we operate." Rather, it is the single precise objective that will drive the business over the next five years or so. (See the exhibit "A Hierarchy of Company Statements.") Many companies do have—and all firms should have—statements of their ultimate purpose and the ethical values under which they will operate, but neither of these is the strategic objective.

The mission statement spells out the underlying motivation for being in business in the first place—the contribution to society that the firm aspires to make. (An insurance company, for example, might define its mission as providing financial security to consumers.) Such statements, however, are not useful as strategic goals to drive today's business decisions. Similarly, it is good and proper that firms be clear with employees about ethical values. But principles such as respecting individual differences and sustaining the environment are not strategic. They govern how employees should behave ("doing things right"); they do not guide what the firm should do ("the right thing to do").

Firms in the same business often have the same mission. (Don't all insurance companies aspire to provide financial security to their customers?) They may also have the same values. They might even share a vision: an indeterminate future goal such as being the "recognized leader in the insurance field." However, it is unlikely that even two companies in the same business will have the same strategic objective. Indeed, if your firm's strategy can be applied to any other firm, you don't have a very good one.

It is always easy to claim that maximizing shareholder value is the company's objective. In some sense all strategies are designed to do this. However, the question to ask when creating an actionable strategic statement is, Which objective is most likely to maximize shareholder value over the next several years?

A Hierarchy of Company Statements

Organizational direction comes in several forms. The mission statement is your loftiest guiding light—and your least specific. As you work your way down the hierarchy, the statements become more concrete, practical, and ultimately unique. No other company will have the same strategy statement, which defines your competitive advantage, or balanced scorecard, which tracks how you implement your particular strategy.

MISSION
Why we exist

VALUES
What we believe in and how we will behave

VISION
What we want to be

STRATEGY
What our competitive game plan will be

BALANCED SCORECARD
How we will monitor and implement that plan

The BASIC ELEMENTS of a Strategy Statement

OBJECTIVE = Ends

SCOPE = Domain

ADVANTAGE = Means

(Growth? Achieving a certain market share? Becoming the market leader?) The strategic objective should be specific, measurable, and time bound. It should also be a single goal. It is not sufficient to say, "We seek to grow profitably." Which matters more—growth or profitability? A salesperson needs to know the answer when she's deciding how aggressive to be on price. There could well be a host of subordinate goals that follow from the strategic objective, and these might serve as metrics on a balanced scorecard that monitors progress for which individuals will be held accountable. Yet the ultimate objective that will drive the operation of the business over the next several years should always be clear.

The choice of objective has a profound impact on a firm. When Boeing shifted its primary goal from being the largest player in the aircraft industry to being the most profitable, it had to restructure the entire organization, from sales to manufacturing. For example, the company dropped its policy of competing with Airbus to the last cent on every deal and abandoned its commitment to maintain a manufacturing capacity that could deliver more than half a peak year's demand for planes.

Another company, after years of seeking to maximize profits at the expense of growth, issued a corporate mandate to generate at least 10% organic growth per year. The change in strategy forced the firm to switch its focus from shrinking to serve only its profitable core customers and competing on the basis of cost or efficiency to differentiating its products, which led to a host of new product features and services that appealed to a wider set of customers.

At Edward Jones, discussion among the partners about the firm's objective ignited a passionate exchange. One said, "Our ultimate objective has to be maximizing profit per partner." Another responded, "Not all financial advisers are partners—so if we maximize revenue per partner, we are ignoring the other 30,000-plus people who make the business work!" Another added, "Our ultimate customer is the client. We cannot just worry about partner profits. In fact, we should start by maximizing value for the customer and let the profits flow to us from there!" And so on. This intense debate not only drove alignment with the objective of healthy growth in the number of financial advisers but also ensured that every implication of that choice was fully explored. Setting an ambitious growth target at each point in its 85-year history, Edward Jones has continually increased its scale and market presence. Striving to achieve such growth has increased long-term profit per adviser and led the firm to its unique configuration: Its only profit center is the individual financial adviser. Other activities, even investment banking, serve as support functions and are not held accountable for generating profit.

Defining the Scope

A firm's scope encompasses three dimensions: customer or offering, geographic location, and vertical integration. Clearly defined boundaries in those areas should make it obvious to managers which activities they should concentrate on and, more important, which they should not do.

The three dimensions may vary in relevance. For Edward Jones, the most important is the customer. The firm is configured to meet the needs of one very specific type of client. Unlike just about every other brokerage in the business, Jones does not define its archetypal customer by net worth or income. Nor does it use demographics, profession, or spending habits. Rather, the definition is psychographic: The company's customers are long-term investors who have a conservative investment philosophy and are uncomfortable making serious financial decisions without the support of a trusted adviser. In the terminology of the business, Jones targets the "delegator," not the "validator" or the "do-it-yourselfer."

The scope of an enterprise does not prescribe exactly what should be done within the specified bounds. In fact, it encourages experimentation and initiative. But to ensure that the borders are clear to all employees, the scope should specify where the firm or business will not go. That will prevent managers from spending long hours on projects that get turned down by higher-ups because they do not fit the strategy.

For example, clarity about who the customer is and who it is not has kept Edward Jones from pursuing day traders. Even at the height of the internet bubble, the company chose not to introduce online trading (it is still not available to Jones customers). Unlike the many brokerages that committed hundreds of millions of dollars and endless executive hours to debates over whether to introduce online trading (and if so, how to price and position it in a way that did not cannibalize or conflict with traditional offerings), Jones wasted no money or time on that decision because it had set clear boundaries.

Similarly, Jones is not vertically integrated into proprietary mutual funds, so as not to violate the independence of its financial advisers and undermine clients' trust. Nor will the company offer penny stocks, shares from IPOs, commodities, or options—investment products that it believes are too risky for the conservative clients it chooses to serve. And it does not have metropolitan offices in business districts, because they would not allow for the convenient, face-to-face interactions in casual settings that the firm seeks to provide. Knowing not to extend its scope in these directions has allowed the firm to focus on doing what it does well and reap the benefits of simplicity, standardization, and deep experience.

Defining the Advantage

Given that a sustainable competitive advantage is the essence of strategy, it should be no surprise that advantage is the most critical aspect of a strategy statement. Clarity about what makes the firm distinctive is what most helps employees understand how they can contribute to successful execution of its strategy.

As mentioned above, the complete definition of a firm's competitive advantage consists of two parts. The first is a statement of the customer value proposition. Any strategy statement that cannot explain why customers should buy your product or service is doomed to failure. A simple graphic that maps your value proposition against those of rivals can be an extremely easy and useful way of identifying what makes yours distinctive. (See the exhibit "Wal-Mart's Value Proposition.")

The second part of the statement of advantage captures the unique activities or the complex combination of activities allowing that firm alone to deliver the customer value proposition. This is where the strategy statement draws from Porter's definition of strategy as making consistent choices about the configuration of the firm's activities. It is also where the activity-system map that Porter describes in "What Is Strategy?" comes into play.

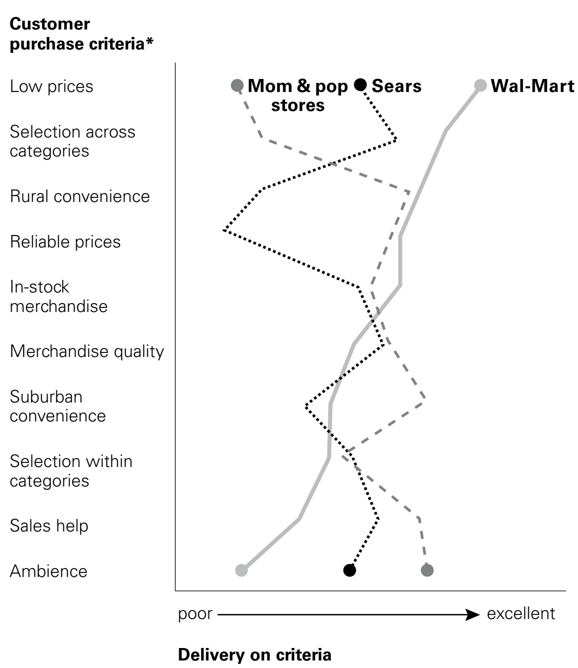
As the exhibit "Edward Jones's Activity-System Map" shows, the brokerage's value proposition is to provide convenient, trusted, personal service and advice. What is most distinctive about Jones is that it has only one financial adviser in an office, which allows it to have more offices (10,000 nationally) than competitors do. Merrill Lynch has about 15,000 brokers but only 1,000 offices. To make it easy for its targeted customers to visit at their convenience—and to provide a relaxed,

Wal-Mart's Value Proposition

Wal-Mart's value proposition can be summed up as "everyday low prices for a broad range of goods that are always in stock in convenient geographic locations." It is those aspects of the customer experience that the company overdelivers relative to competitors. Underperformance on other dimensions, such as ambience and sales help, is a strategic choice that generates cost savings, which fuel the company's price advantage.

If the local mom-and-pop hardware store has survived, it also has a value proposition: convenience, proprietors who have known you for years, free coffee and doughnuts on Saturday mornings, and so on.

Sears falls in the middle on many criteria. As a result, customers lack a lot of compelling reasons to shop there, which goes a long way toward explaining why the company is struggling to remain profitable.



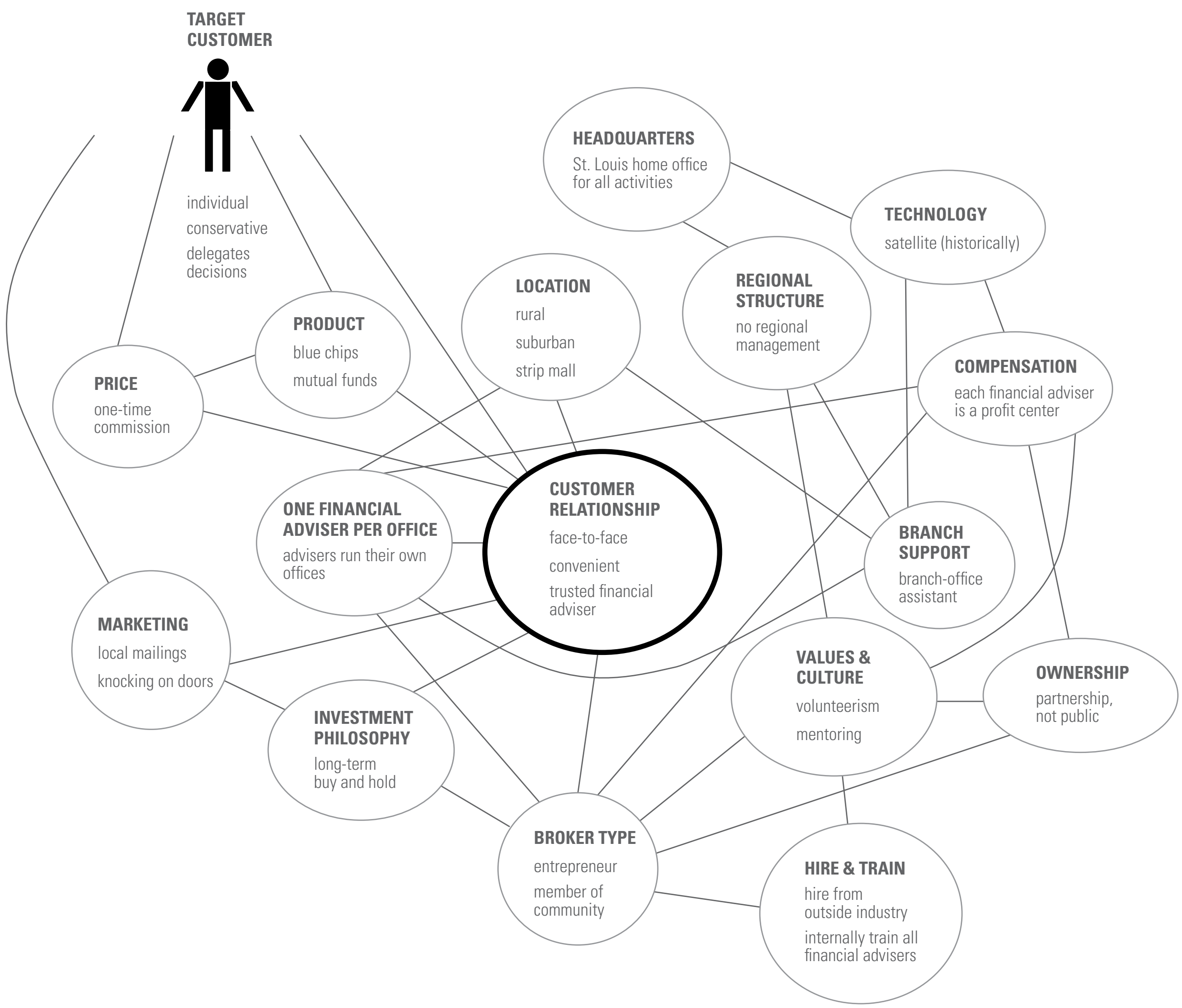
*in approximate order of importance to Wal-Mart's target customer group

Source: Jan Rivkin, Harvard Business School personable, nonthreatening environment—Jones puts its offices in strip malls and the retail districts of rural areas and suburbs rather than high-rise buildings in the central business districts of big cities. These choices alone require Jones to differ radically from other brokerages in the configuration of its activities. With no branch-office management providing direction or support, each financial adviser must be an entrepreneur who delights in running his or her own operation. Since such people are an exception in the industry, Jones has to bring all its own financial advisers in from other industries or backgrounds and train them, at great expense. Until 2007, when it switched to an internet-based service, the firm had to have its own satellite network to provide its widely dispersed offices with real-time quotes and allow them to execute trades. Because the company has 10,000 separate offices, its real estate and communication costs are about 50% higher than the industry average. However, all those offices allow the financial advisers who run them to deliver convenient, trusted, personal service and advice.

Other successful players in this industry also have distinctive value propositions

Edward Jones's Activity-System Map

This map illustrates how activities at the brokerage Edward Jones connect to deliver competitive advantage. The firm's customer value proposition appears near the center of the map—in the "customer relationship" bubble—and the supporting activities hang off it. Only the major connections are shown.



and unique configurations of activities to support them.

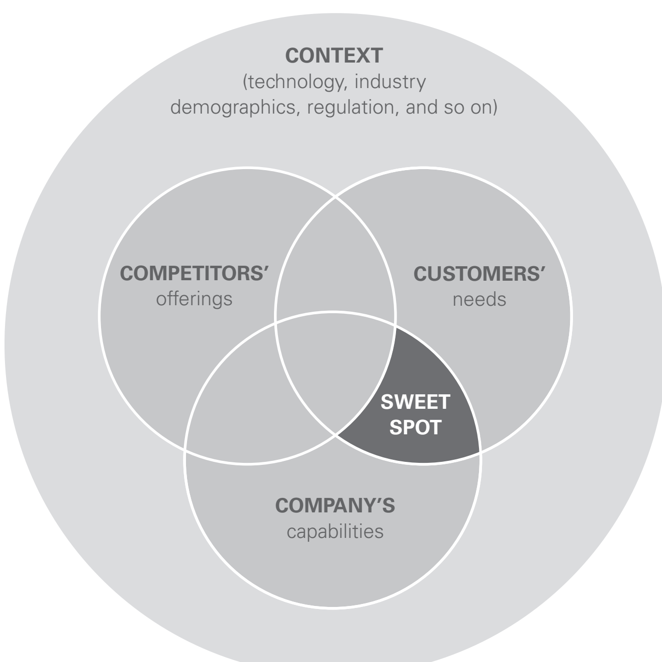
Merrill Lynch. During the five-year tenure of former CEO Stan O'Neal, who retired in October 2007, Merrill Lynch developed an effective strategy that it called "Total Merrill." The company's value proposition: to provide for all the financial needs of its high-net-worth customers—those with liquid financial assets of more than $250,000—*through retirement*. While a lot of brokerages cater to people with a high net worth, they focus on asset accumulation *before retirement*. Merrill's view is that as baby boomers age and move from the relatively simple phase of accumulating assets to the much more complex, higher-risk phase of drawing cash from their retirement accounts, their needs change. During this stage, they will want to consolidate their financial assets with a single trusted partner that can help them figure out how to optimize income over their remaining years by making the best decisions on everything from annuities to payout ratios to long-term-care insurance. Merrill offers coherent financial plans for such customers and provides access to a very wide range of sophisticated products based on a Monte Carlo simulation of the probabilities of running out of money according to different annual rates of return on different categories of assets.

How does Merrill intend to deliver this value to its chosen customers in a way that's unique among large firms? First, it is pushing brokers—especially new ones—to become certified financial planners and has raised internal training requirements to put them on that road. The certified financial planner license is more difficult for brokers to obtain than the standard Series 7 license, because it requires candidates to have a college degree and to master nearly 100 integrated financial-planning topics. Second, Merrill offers all forms of insurance, annuities, covered calls, hedge funds, banking services, and so on (unlike Edward Jones, which offers a much more limited menu of investment products). Since several of these products are technically complex, Merrill needs product specialists to support the client-facing broker. This "Team Merrill" organization poses very different HR and compensation issues from those posed by Edward Jones's single-adviser offices. Merrill's compensation system has to share income among the team members and reward referrals.

Wells Fargo. This San Francisco bank competes in the brokerage business as part of its tactic to cross-sell services to its retail banking customers in order to boost profit per customer. (It aims to sell each customer at least eight different products.) Wells Fargo's objective for its brokerage arm, clearly stated in a recent annual report, is to triple its share of customers' financial assets. The brokerage's means for achieving this goal is the parent company's database of 23 million customers, many of them brought into the firm through one particular aspect of the banking relationship: the mortgage. Wells Fargo differs from Edward Jones and Merrill Lynch in its aim to offer *personalized*, rather than *personal*, service. For example, the firm's IT system allows a bank clerk to know a limited amount of information about a customer (name, birthday, and so on) and appear to be familiar with him or her, which is quite different from the ongoing individual relationships that Jones and Merrill brokers have with their clients.

The Strategic Sweet Spot

The strategic sweet spot of a company is where it meets customers' needs in a way that rivals can't, given the context in which it competes.



LPL Financial. Different again is LPL Financial, with offices in Boston, San Diego, and Charlotte, North Carolina. LPL sees its brokers (all of whom are independent financial advisers affiliated with the firm) rather than consumers as its clients and has configured all of its activities to provide individualized solutions and the highest payouts to its brokers. This means that the vast majority of the activities performed by the corporate headquarters staff are services, such as training, that brokers choose and pay for on an à la carte basis. As a result, LPL's headquarters staff is very small (0.20 people per broker) compared with that of Edward Jones (1.45 people per broker). Low overhead allows LPL to offer a higher payout to brokers than Jones and Merrill do, which is its distinctive value proposition to its chosen customer: the broker.

By now it should be apparent how a careful description of the unique activities a firm performs to generate a distinctive customer value proposition effectively captures its strategy. A relatively simple description in a strategy statement provides an incisive characterization that could not belong to any other firm. This is the goal. When that statement has been internalized by all employees, they can easily understand how their daily activities contribute to the overall success of the firm and how to correctly make the difficult choices they confront in their jobs.

Developing a Strategy Statement

How, then, should a firm go about crafting its strategy statement? Obviously, the first step is to create a great strategy, which requires careful evaluation of the industry landscape.

Leaving No Room for Misinterpretation

Executives at Edward Jones have developed a detailed understanding of every element of the firm's strategy. Here is an example.

Edward Jones's Strategy Statement

To grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to **conservative individual investors who delegate their financial decisions,** through a national network of one-financial-adviser offices.

"conservative"

Our investment philosophy is long-term buy and hold. We do not sell penny stocks, commodities, or other high-risk instruments. As a result we do not serve day traders and see no need to offer online trading.

We charge commissions on trades because this is the cheapest way to buy stocks (compared with a wrap fee, which charges annually as a percentage of assets) when the average length of time the investor holds the stock or mutual fund is over 10 years.

"individual"

We do not advise institutions or companies.

We do not segment according to wealth, age, or other demographics. The company will serve all customers that fit its conservative investment philosophy. Brokers will call on any and every potential customer. Stories abound within Jones of millionaires who live in trailers—people all the other brokerages would never think of approaching.

"investors"

Our basic service is investment. We do not seek to offer services such as checking accounts for their own sake, but only as part of the management of a client's assets.

"who delegate their financial decisions"

We do not target self-directed do-it-yourselfers, who are comfortable making their own investment decisions. We are also unlikely to serve validators, who are merely looking for reassurance that their decisions are correct.

This includes developing a detailed understanding of customer needs, segmenting customers, and then identifying unique ways of creating value for the ones the firm chooses to serve. It also calls for an analysis of competitors' current strategies and a prediction of how they might change in the future. The process must involve a rigorous, objective assessment of the firm's capabilities and resources and those of competitors, as described in "Competing on Resources: Strategy in the 1990s," by David J. Collis and Cynthia A. Montgomery (HBR July–August 1995)—not just a feel-good exercise of identifying core competencies. The creative part of developing strategy is finding the sweet spot that aligns the firm's capabilities with customer needs in a way that competitors cannot match given the changing external context—factors such as technology, industry demographics, and regulation. (See the exhibit "The Strategic Sweet Spot.") We have found that one of the best ways to do this is to develop two or three plausible but very different strategic options.

For example, fleshing out two dramatically different alternatives—becoming a cheap Red Lobster or a fish McDonald's—helped executives at the Long John Silver's chain of restaurants understand the strategic choices that they had to make. They had been trying to do a bit of everything, and this exercise showed them that their initiatives—such as offering early-evening table service and expanding drive-through service—were strategically inconsistent. (Competing on the basis of table service requires bigger restaurants and more employees, while drive-through service requires high-traffic locations and smaller footprints.) As a result, they chose to be a fish McDonald's, building smaller restaurants with drive-through service in high-traffic locations.

The process of developing the strategy and then crafting the statement that captures its essence in a readily communicable manner should involve employees in all parts of the company and at all levels of the hierarchy. The wording of the strategy statement should be worked through in painstaking detail. In fact, that can be the most powerful part of the strategy development process. It is usually in heated discussions over the choice of a single word that a strategy is crystallized and executives truly understand what it will involve.

The end result should be a brief statement that reflects the three elements of an effective strategy. It should be accompanied by detailed annotations that elucidate the strategy's nuances (to preempt any possible misreading) and spell out its implications. (See the exhibit "Leaving No Room for Misinterpretation.")

When the strategy statement is circulated throughout the company, the value proposition chart and activity-system map should be attached. They serve as simple reminders of the twin aspects of competitive advantage that underpin the strategy. Cascading the statement throughout the organization, so that each level of management will be the teacher for the level below, becomes the starting point for incorporating strategy into everyone's behavior. The strategy will really have traction only when executives can be confident that the actions of empowered frontline employees will be guided by the same principles that they themselves follow.

• • •

The value of rhetoric should not be underestimated. A 35-word statement can have a substantial impact on a company's success. Words do lead to action. Spending the time to develop the few words that truly capture your strategy and that will energize and empower your people will raise the long-term financial performance of your organization.

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