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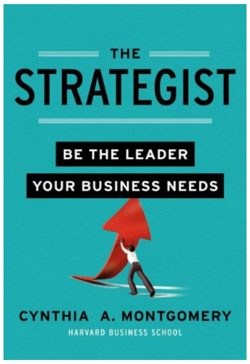


# The Strategist

Be the Leader Your Business Needs

by Cynthia A. Montgomery
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## Focus

- Leadership & Management
- **Strategy**
- Sales & Marketing
- Finance
- Human Resources
- IT, Production & Logistics
- Small Business
- Economics & Politics
- Industries
- Global Business
- Career & Self-Development
- Concepts & Trends

## Take-Aways

- Great leaders must be strategists first – a responsibility they can never delegate.
- Forging strategy requires answering big questions, most notably: “Why does your company matter?”
- A company’s purpose defines what it contributes and what it intends to accomplish.
- Every market has an “industry effect” – that is, a set of competitive forces that restrict or promote profitability.
- The “myth of the super-manager” perpetuates the falsehood that superior management is enough to guarantee profit.
- To thrive, a company must bring something distinctive to a market, yet many managers have trouble identifying what that is for their businesses.
- Compose a succinct, dynamic purpose statement that captures your firm’s uniqueness.
- Use a “strategy wheel” to ensure that every activity aligns with your firm’s purpose.
- While championing a strategy, a leader must remain open to rethinking the basics.
- Leaders as strategists are “guardians of organizational purpose.” Their first job is to make sure that their companies continue to matter. Everything else flows from there.

## Rating (10 is best)

| Overall | Applicability | Innovation | Style |
|---|---|---|---|
| **7** | **8** | **7** | **7** |

## Relevance

### What You Will Learn

In this summary, you will learn: 1) Why strategy must inform every single aspect of running a business, 2) How purpose shapes and directs a company, and 3) What skills a strategist needs.

### Recommendation

Professor Cynthia A. Montgomery, who taught at Harvard Business School for more than 20 years, including six years leading the Entrepreneur, Owner, President (EOP) program, shares her process for learning to create and oversee strategy. Writing in a straightforward, engaging style, Montgomery offers ideas that are not too complex for beginner strategic thinkers but not so simple that experienced professionals cannot benefit from their insights. *getAbstract* recommends Montgomery's case studies and her extensive classroom experience to current and aspiring business leaders.

## Summary

### Beyond SWOT

*"As a strategist, you must be willing to replace virtually every component of your business to extend its relevance and future."*

Anyone who graduated from business school in the past several decades is familiar with using a SWOT model to identify a company's strengths, weaknesses, opportunities and threats. In the 1980s and '90s, managers looked beyond SWOT to consider how forces in their industries affected their organizations. As deeper analytical tools became popular, consultants and analysts became specialists and took over the practice of strategy. However, strategy is not a problem with a fixed solution. Strategy must be fluid, responsive and malleable in response to an ever-changing environment. The leaders who bear responsibility for the overall vitality of a business must decide on its commitments. They cannot outsource strategy

Great leaders are strategists first. They oversee the crafting and recrafting of their organization's strategy to adapt to contingencies, identify relevant opportunities, and respond to changes in the competition and the industry. The strategist chooses a corporation's direction and decides on its best plan of action. All strategists must answer the question: "Does your company matter?" If leaders can't articulate why their firm exists, what needs its products or services fill, what makes it different from the competition or where its business is headed, then they can't make the crucial decisions that drive the organization forward, and their subordinates, customers and other stakeholders all will suffer.

### Masco Corporation

*"Many leaders today do not understand the ongoing, intimate connection between leadership and strategy."*

In the 1980s, Richard Manoogian was CEO of $1-billion-plus Masco Corporation, which produced household products, including faucets, locks and hardware. In 1986, Manoogian eyed a move into the furniture industry. Efficient business practices, sound management and revolutionary technology had made Masco a leader in faucets. Manoogian sought another industry for Masco to transform, modeling its entry on its success in the fragmented faucet market. At the time, brand recognition in the furniture industry was weak, marketing was spotty, and delivery lead times were long and unreliable. Manoogian saw these problems as opportunities to revolutionize the furniture industry. He spent $1.5 billion in acquisitions and $250 million in manufacturing improvements and marketing.

However, Masco's income fell 30%. It took several years for the corporation to regain its footing, and it eventually sold its furniture business. Manoogian claimed, "The decision to go into the home furnishings business was probably one of the worst decisions I've made in 35 years."

*"Strategy is about serving an unmet need, doing something unique or uniquely well for some set of stakeholders."*

Masco wasn't the first company to suffer in the furniture business. Consolidated Foods, Mead, Scott Paper and Ludlow also failed there. Every industry has a set of competitive forces – called the "industry effect" – that restrict or promote profitability. In the furniture industry, rivalry among competitors, textile vendors' inflexibility, low brand loyalty and a plethora of substitute products make it difficult to turn a profit. Manoogian's strategy did not account for the fact that these industry forces were largely beyond his control, and he didn't have a strong plan to counter them.

The "myth of the super-manager," which perpetuates the falsehood that – no matter the obstacles – superior management guarantees profit, can lure CEOs onto the wrong playing fields. Success stories about organizations that buck the odds bolster this myth. However, Starbucks didn't take over the coffee market, Cirque du Soleil didn't revolutionize the circus and Southwest Airlines didn't fill its planes by disregarding the power of industry forces. The leaders of these companies built their strategies around a deep understanding of the competitive forces in their industries. Trying to lead while ignoring the industry effect is folly.

*"Thinking of strategy as a system of value creation, rich in organizational detail and driven by purpose, underscores the point. It's the bridge between lofty ideas and action."*

**IKEA**

Ingvar Kamprad, the founder of IKEA, also took on the furniture business, but with great success. He began with a catalog company that sold to the frugal inhabitants of Småland, his home province in Sweden. When he added furniture to his offerings, he found himself in a price war with other mail-order firms. Kamprad opened a showroom to display his low-cost, quality stock. His success made him a target of Sweden's furniture association, which put pressure on suppliers to boycott IKEA. This "inciting incident" forced Kamprad to confront unattractive forces in the industry and develop a company that could thrive in their midst. IKEA prevailed where Masco failed because it's strategy gave it a "difference that mattered" in its industry, and that difference was at the core of everything the company did. As Kamprad explains, "We are a concept company." "Concept" is synonymous with "purpose," and IKEA's purpose is clear: It provides a "wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them." In doing so, it offers "a better everyday life for the many." In a humdrum industry, IKEA stands out. It has a stunning "firm effect" – "the difference between an individual firm's profitability and the average profitability in its industry." Knowing your purpose, or reason for existence, is essential for numerous reasons:

*"The reality is that it can be hard to put strategic thinking to work in one's own business."*

- **"A good purpose is ennobling"** – Contributing to the greater good through work inspires everyone in a company.
- **"A good purpose puts a stake in the ground"** – It says who you are and directs and aligns everything that a company does.
- **"A good purpose sets you apart"** – It makes you distinctive and gives you a difference that matters in your industry. You must recognize, publicize and exploit the specific aspects that distinguish your product, service and attitude.
- **"A good purpose sets the stage for value creation and capture"** – Your business's purpose – its reason for being – must be of enough consequence to others (customers and or suppliers) that it translates into profit for you.

*"Creating value for others is the surest way to capture some yourself."*

Having a compelling purpose is necessary but not sufficient. It's the first step in a strategist's journey.

*"No matter how hard you and your people work, no matter how wonderful your culture, no matter how good your products or how noble your motives, if you don't get strategy right, everything else you do is at risk."*

### De Sole and Gucci

When Domenico De Sole, a Harvard-educated Italian, took the helm at Gucci in 1993, the once-famous fine-leather-goods company was flailing, and its investors wanted out. In the 1970s, its customers stood loyally at the peak of the "profit frontier," which is "a visual map that weights a customer's willingness to pay a high or low price for particular products against a company's ability to produce those products at a high or low cost." That is, people once were willing to spend to own Gucci products, so Gucci could spend abundantly to produce them. But after a rash of licensing, sales plummeted and mismanagement and infighting took a toll. A strong purpose alone would not solve the company's problems.

De Sole assembled a management and creative team and secured financing. He analyzed sales data, which provided a revelation: Trendy, seasonal items – not classic fashions – were Gucci's bestsellers. De Sole decided to reposition the brand as "fashion-forward, high quality and good value" – a distinctly new purpose. But that was just the beginning. De Sole's signature contribution was building a system of advantage that brought the new purpose to life. This new purpose drove every change, every investment, every activity the company pursued. De Sole lowered production costs and reduced prices by 30%. He implemented a pay-for-performance system and restructured the firm. Gucci's new young designer, Tom Ford, introduced a collection in 1995 that generated huge buzz in the fashion world and appealed to a younger, fashion-conscious audience. Gucci products once again flew off the shelves. The company went public in October 1995, and, by 1998, analysts hailed the Gucci story as one of the greatest turnarounds in the history of fashion. De Sole succeeded because his strategy was more than an idea; it was a "system of value creation, a set of mutually reinforcing parts." As he turned lofty intentions into concrete realities, he built a firm capable of doing "something in particular, particularly well."

*"A clearly defined strategy steers the company, providing a compass for where you want to go."*

*"People in all professions go astray because they're operating on untested assumptions."*

### Write It Down

Reading about strategy, and the successes and failures of other firms, is far easier than putting the ideas to work in your own business. To bridge that gap, you need to wrestle with the purpose of your company, find the differences that matter, define your system of value creation and pull it all together into a defining statement of strategy. To identify the purpose of your business, answer these questions: Who do we serve? With what sorts of products or services? What do we do that's different or better? What enables us to do that? For example, Nike and Google have purpose statements that explain exactly who they are and why they exist. Nike exists to "bring inspiration and innovation to every athlete in the world." Google's statement affirms its raison d'être: "Google is built upon finding ways to do online search better and faster in an increasing number of new places and in ever more efficient ways."

*"Your strategy, if it is well conceived and on point, will guide you through tumultuous markets, competitive challenges and [the] push into new arenas."*

Make sure every aspect of your company aligns with its purpose. To solidify your approach, use a "strategy wheel": Write your business's purpose in the center of a circle. Around the rim, arrange the activities that let you fulfill your purpose – for example, "finance, marketing, sales, manufacturing, procurement, data systems and human resources" and the efforts in each that are tailored to address that purpose. Every firm's strategy wheel will be different, depending on its purpose. Compose a brief, compelling statement that summarizes your strategy. State what your company does and why it's important. All great strategists create blueprints with these aspects:

- **"A clear and compelling purpose"** – Tell the world why your company exists.
- **"Real value"** – Show customers why your product or service matters.
- **"Clear choices"** – Be willing to forego some opportunities in order to succeed at others. Cutting-edge quality comes from clarity, focus and choice.
- **"Tailored system of value creation"** – Translate your purpose into a "system of action." Few firms do this well, but it's the vital link between ideas and execution.
- **"Meaningful metrics"** – Translate your aspirations into achievable, measurable accomplishments and track them diligently.
- **"Passion"** – Make your strategy the animating force in your company. It shouldn't be just an idea; it should be the life-blood of who you are and what you do.

*"For economic development to flourish, leaders must swim against the stream."*

### Subject to Change

Your strategy must be dynamic and adaptable. Between Apple's launch in the late 1970s and its contemporary success with the iPod, iPhone and iPad, inconsistent strategies took the firm from the top to the bottom of the computer market and then back to the top. Its early personal computers' sleek designs and breakthrough technology gave Apple an early strategic advantage. But co-founder and CEO Steve Jobs made several strategic errors. He kept Apple's technology proprietary while IBM made its system open. When Apple introduced the technologically superior Lisa computer in 1983, it was far too costly. And the tepid success of the early Macintosh led to Jobs's eventual ouster from the company.

*"Good strategies are never frozen – signed, sealed and delivered."*

After several CEOs and changes in strategy, Jobs returned to Apple in 1997. He stabilized the company by cutting its product line and introducing the iMac. His prowess as a strategist came to the fore in 2001when he laid out the "digital hub" strategy that redefined the Apple's purpose: Apple would add value to a host of digital devices – from MP3 players to cameras to cellphones – using the iMac as a hub. The iPod and iTunes followed, and then Apple was on to "the next great thing," the iPhone in 2007 and the iPad in 2009. By then Apple had regained its place at the top of the tech industry. Apple's story is testament that strategy isn't static. Even great strategies can unravel and rise again. The quest for a long-run, sustainable competitive advantage misrepresents the strategist's challenge. What endures is not any particular purpose, advantage or strategy, but the ongoing need to add value – to guide and develop a company so that it continues to matter.

*"To develop into a successful strategist you must live the experience."*

### Being a Strategist

Leading strategy is a nonstop responsibility. Leaders need not provide all the answers, but they must guide the process, serve as its champion and bear responsibility for the decisions, day in and day out, that define a firm and make it what it is. The job of the strategist is never finished. Ask questions, challenge assumptions and remain open to rethinking the fundamentals. And when people ask you what you do for a living, tell them, "I'm the guardian of organizational purpose."

*"Articulating and tending to a living strategy is a human endeavor in the deepest sense of the term."*

## About the Author

**Cynthia A. Montgomery** has taught strategy at Harvard Business School for more than 20 years, most recently in its flagship executive program for owner-managed companies. She has served on the board of two *Fortune* 500 companies, numerous nonprofits and a number of BlackRock-managed mutual funds.