A PLAYBOOK FOR STRATEGY:

The Five Essential Questions at the Heart of Any Winning Strategy

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FOR FAR TOO MANY LEADERS, strategy is a struggle. Despite all the different tools available (or perhaps because of them), strategy can seem mysterious and scary, with huge rewards for success, disastrous implications for failure and many unknown dangers lurking along the way.

That needn't be the case. We believe strategy can be defined and created using a simple framework that entails answering five questions — the same five questions, no matter the type, size or context of the organization:

1. *What is your winning aspiration?*
2. *Where will you play?*
3. *How will you win?*
4. *What capabilities must be in place?*
5. *What management systems are required?*

The answers to these questions are the fundamental choices every leader must make to craft a successful strategy. Make no mistake about it, strategy *is* choice; it is a set of choices about *what you will do*, and *what you will not do*, so as to create advantage over the competition. In this article, we will delve into each of the five questions that make up the framework for successful strategy.

What is Your Winning Aspiration?

Most companies have aspirations, usually framed as a mission statement and vision. These corporate artifacts aren't unhelpful to strategy, but too often they are abstract and lack context; they paint a pleasant picture of a possible happy future that makes no reference to competition, to customers or to winning. In order to be sustainable, an organization must seek to win in a

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particular place and in a particular way, translating the abstract happy future into defined winning aspirations.

By way of example, consider **Procter & Gamble**, over the period 2000-2010. In this case, winning was defined as 'delivering market-leading, value-creating brands in every category and industry in which P&G chose to compete'. This aspiration flowed from P&G's statement of purpose, which read: "We will provide products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper." P&G's bold ambition was to create the kinds of products and services that could *improve consumers' lives;* if it could genuinely do so, profit and value creation would follow. This choice of aspirations drove all other choices in the organization.

Of course, winning aspirations for a consumer brand will look different than for a market research department or a community hospital. But every organization can conceptualize what it means to win. Take that market research department, for example. Winning could mean being the service provider of choice for its internal customers (as opposed to the mandated and much-maligned choice.) It might mean becoming a trusted advisor to organizational leaders, or owning the most sophisticated and successful suite of consumer insight tools in the industry. But it should be more than simply 'to serve the needs of internal customers'. That is a recipe for mediocrity. When an organization sets out to *play*, rather than *win*, it doesn't invest appropriately and rarely makes the truly hard choices. Simply put, if you don't set out to win, you rarely will.

Where Will You Play?

This next question determines where the organization will compete—in which markets, with which customers, in which channels, in which product categories, and at which vertical stages of its industry. In short, *where to play* represents the set of choices that narrow the competitive field.

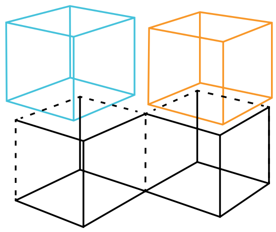
An organization can be narrow or broad in its where-to-play choices. It can compete in different demographic segments (e.g. large manufacturing companies, men ages 18-24, suburban families) and geographies (local, national, international, by regions and countries.) It can choose to compete across any number of services, product lines and categories. It can participate in different channels (like B2B direct sales, online, or mass-merchandise retail.) It can participate in just one stage of production in a given industry, or be vertically integrated. These choices, taken together, represent the strategic playing field for an organization.

At P&G, the challenge on the where-to-play front was to define which choices would give it a sustainable competitive advantage. As a massive multinational company, the very real temptation was to attempt to be in all places at once, to be 'everything to everyone'. But such an approach produces a regression to the mean — an averaging out in which *everything* is a priority, so *nothing* is a priority. It would mean investment so diffuse that there would be no capacity to build on the areas where P&G could truly dominate and win.

It was important to determine where P&G capabilities would be decisive and where they would not — in other words, to understand what was truly *core* to P&G — and to invest disproportionately in those areas. As an organization, it chose to build from its core strengths in order to win: from its core brands (a set of clear industry or category leaders), its core geographies (the ten countries that represented 85 per cent of P&G's profits), its core retail customers and channels (the places consumers expected and wanted P&G to be, including mass merchandisers and discounters, drugstores and grocery stores), its core technologies and innovations (shifting from a pure invention mindset to one of strategic innovation), and its core consumers (those who matter most to the organization, in the most attractive consumer segments.)

The core became the most fundamental where-to-play choice for P&G—and as a result, it chose to divest or de-emphasize those businesses that did not fit within that core: prescription pharmaceuticals and food — both big and profitable businesses — had to go.

Geographically, P&G chose to expand into emerging markets, recognizing that much of the growth in demand for consumer goods would come from these regions: it is estimated that over the next several decades, economic growth in these markets will be four times as high as in OECD developed markets. But how many markets could P&G take on, and in what priority order? It had established strong, strategic leading positions in Russia and China as their economies opened up to all players in the 1990s. It also had a strong position in Mexico. The decision



was to grow from these positions of strength, carefully choosing which emerging markets to target next, and with which products and categories. Baby care in Asia, for instance, was a logical where-to-play choice—since P&G owns the world's leading baby-care brand in Pampers and, for the foreseeable future, most of the world's babies will be born in Asia. P&G began with China, Mexico and Russia, building capability over time to include Brazil, India and others, leveraging the brands and products that made the most sense for each market. The shift was dramatic: in 2000, about 20 per cent of P&G's sales were in emerging markets and by 2011, it was 35 per cent.

The choice of where to play is actually the careful consideration of a set of possibilities together. For instance, a hospital might choose to have a narrow geographic base if it also chooses to offer a broad array of general services to its community. But if it were to choose to specialize — say, in cancer care or pediatrics — it would likely need to have a much broader regional or even national catchment. If the service offered was 'healthcare for rural communities in a wide but sparsely populated area', it is unlikely that choosing to offer all services from a single large building somewhere in that region would work; likely a distributed model of drop-in care across different communities would be worth considering.

How Will You Win?

Where to play and how to win are intimately tied, and together they form the very heart of strategy. While *where* to *play* is about determining the playing field, *how to win* is about defining the method by which you will win on that field. Importantly, how to win must be considered within the context of the where-to-play choice: it is not how to win generally, but how to win given a specific where-to-play choice. The where-to-play and how-to-win choices flow from and reinforce one another. So, if a clothing company chooses to compete for the loyalty of young women aged 16-24, it needs to build a brand, offer products and distribute them in a way that distinctively and powerfully speaks to that demographic. It needs to fit the where-to-play and how-to-win choices together to make the company stronger.

To determine how to win, an organization must figure out what will enable it to create unique value, and how it can sustainably deliver that value to customers in a way that is distinct from its completion. This is what constitutes competitive advantage: the specific way in which a firm leverages its advantages to create superior value for a customer and superior returns for the firm. Choosing how to win is about finding and building on sources of competitive advantage.

To be successful, how-to-win choices must be appropriate to the specific organizational context and must be very difficult to copy. P&G's competitive advantages are its ability to understand its core consumers and to create differentiated brands on the basis of this understanding. No company in its industry outpaces P&G along these dimensions. On the playing field it has selected, P&G wins by relentlessly building its brands and by producing distinctive, innovative products and services. It leverages global scale and deep partnerships with suppliers and channel customers to deliver distinctive retail distribution and consumer value in its chosen markets.

Of course, P&G's choices aren't appropriate for every context. Every organization must find a combination of where-to-play and how-to-win that is appropriate, doable and decisive for it, within its unique context. With where to play, there is a specific set of considerations that apply across contexts (geography, customer segments, channel, product categories and stages of production); while with how to win, the set of considerations is less structured and categorical.

There is no checklist from which to select a plausible way to win. Selecting entails matching a firm's advantages (both existing and potential) against its where-to-play choices. But determining how to win does begin with a single, crucial choice: will the organization win on the basis of having lower costs than the other players in the industry (like **Walmart** does in retail, or like **M&M/Mars** does in confectionary), or on the basis of brand differentiation (like **Apple** or **Starbucks** do)? In a low-cost strategy, as the name suggests, profit is driven by having a lower cost structure than competitors. In a differentiation strategy, on the other hand, profit is driven by a price premium, derived because the company's products or services are perceived to be distinctively more valuable to customers than competitive offerings. Both cost leadership and differentiation can produce a sustainable winning advantage.

Cost leaders and differentiators behave very differently on the basis of very different ways to win. With cost leaders, managers work to understand cost drivers, remove costs from the system, standardize and rationalize. At a differentiator, Every organization must find a combination of where-to-play and how-to-win that is appropriate, doable and decisive for it, within its unique context.

managers work to deepen their understanding of customers, build the brand with them in mind, delight current customers and create new ones. Both work towards a specific kind of competitive advantage, a particular way to win.

Which Capabilities Must Be in Place?

Organizations do many things, but there is a subset of activities that truly matter, that make the difference between winning and losing. These are an organization's core capabilities — the map of activities that, when performed at the highest level, enable the organization to bring its where-to-play and how-to-win choices to life.

Determining core capabilities is not about asking what you are really, really good at now. It is about asking what the organization would need to be distinctively good at in order to play where it wants to play and win how it wants to win. These capabilities may map well to your current activities, or they may represent capabilities you need to build in order to deliver on the chosen strategy.

Even at a company the size of P&G ($190 billion market cap, over $80 billion in annual revenue and more than 100,000 employees worldwide), just a few capabilities are absolutely fundamental to winning in the places and way that it has chosen. In fact, there are five:

1. **DEEP CONSUMER UNDERSTANDING:** This is the ability to truly know consumers better than any competitors do, to uncover unarticulated needs, and to see opportunities before they are obvious to others.
2. **INNOVATION:** This is the capacity to translate deep understanding of consumer needs into brands, products and services, relationships, distribution models, businesses and systems.
3. **BRAND BUILDING:** This is about building and deploying a distinctive heuristic for creating strong consumer trial and lasting consumer loyalty. P&G trains and develops brand leaders and marketers in this discipline effectively and efficiently.
4. **GO-TO-MARKET ABILITY:** This capability concerns channel and consumer relationships. P&G thrives on reaching its customers (i.e. retailers) and consumers (i.e. the families who buy and use P&G products) at the right time, in the right place, in the right way. It invests in building partnerships with retailers to consistently deliver more value to P&G, to retailers and to consumers in the store.
5. **GLOBAL SCALE:** This capability relates to the power of hiring together, learning together, buying together, researching and testing together, and going to market together across multiple categories around the world, to capture the global benefits of scale.

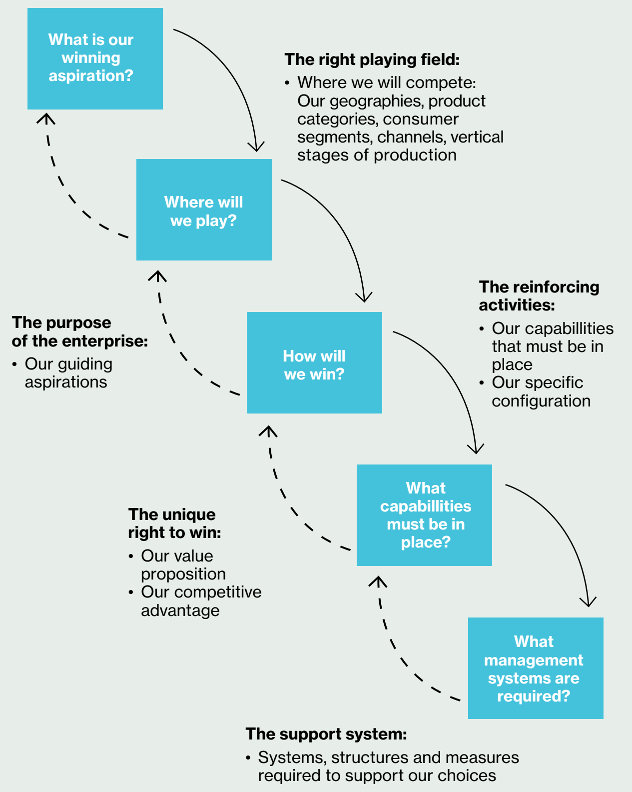
Taken together, these five capabilities set P&G apart. In isolation, each capability is important, but not sufficient to generate true competitive advantage over the long term. Instead, it is the way all of the capabilities fit with the others that generates enduring advantage. For instance, a consumer-driven innovation from P&G labs can be effectively branded and marketed around the world at scale in relatively short order. Such a combination of capabilities is hard for competitors to match. As **Michael Porter** first noted, powerful and sustainable competitive advantage is unlikely to arise from any one capability (e.g., having an unparalleled sales force or the best technology in the industry), but rather from a reinforcing set of capabilities.

What Management Systems Are Required?

The last of the five essential questions is about management systems — the systems that build, support and measure a strategy. This last question is typically the most neglected, but is no less crucial to effective strategy than the others. Even if the other four questions are well answered, a strategy will fail if management systems that support the choices and capabilities are not established as well. Without supporting structures, systems, and measures, the strategy will simply be a 'wish list' — a set of goals that may or may not ever amount to anything. To truly win, an organization needs systems in place to support and measure the strategy. It needs a robust process for creating, reviewing, and communicating about strategy; it needs structures to support its core capabilities; and it needs specific measures to determine whether the strategy is working (or not.)

At P&G, critical management systems included strategy dialogues, innovation-program reviews, brand-equity reviews, budget and operating plan discussions, and talent assessment development reviews. From the year 2000 onwards, every one

FIGURE ONE: AN INTEGRATED CASCADE OF CHOICES



of these management systems was changed to reflect the organization's strategic choices. For instance, it was important to build specific systems to support P&G's core capabilities. While brand building had always been at the heart of its endeavours, the company had not traditionally done a good job of capturing, cataloging, and systematically learning from its successes and failures. Brand building was largely learned by osmosis — from watching leaders, from individual trial and error and from the oral history passed down from brand manager to brand manager. Now, P&G has formally codified its approach in a brand-building framework. Beginning with this comprehensive document, marketers can learn the trade more quickly and leaders have an organized resource to guide their efforts. The brand-building framework is a management system that nurtures and enhances a critical core capability, and it represents the kind of system every company needs to deliver effectively on its strategy.

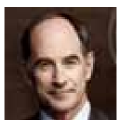
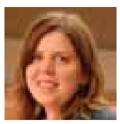
Reinforcing Choices: A Choice Cascade

The five strategy questions and the relationship between them can be understood as a reinforcing 'choice cascade', with the choices at the top of the cascade setting the context for those below, and choices at the bottom influencing and refining the choices above (see **Figure One**).

Making your way through the choice cascade isn't a one-way, linear process. You don't simply create and articulate aspirations, then move on to where-to-play and how-to-win choices, then consider capabilities and systems. Rather, strategy is an iterative process in which all of the moving parts influence one another and should be taken into account together. For instance, an organization must understand its existing core capabilities and consider them when deciding where to play and how to win in the future. And it may also need to develop new core capabilities to support important forward-looking where-to-play and how-to-win choices.

In closing

Developing a dynamic feedback loop between all five choices isn't simple, but it is doable. The intent of the strategic choice cascade is to provide a clear and powerful framework for thinking about winning choices, a shared language for thinking about strategy within an organization and a playbook for developing that strategy. The good news is that strategy needn't be the purview of a small set of experts. It can be demystified into a set of five important questions that can (and should) be asked at every level of an organization. The answers to these questions can be captured on a single page, creating a shared understanding of an organization's strategy and what must be done to achieve it. ***R***

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