CHAPTER 5

ISSUES AND OPTIONS

WHAT IT'S ALL ABOUT

- The power of framing
- Generating new frames
- Narrowing the frame
- Generating new options
- Evaluating options
- Iterating the framing-options cycle

You have done much of the heavy lifting. You have analysed the situation and how it might evolve. The next step is to identify the most attractive options and choose between them.

Occasionally this is an easy task. The issues are self-evident and there is an obvious and practical option for the organisation to achieve its objectives. More commonly, things are not so clear. It may be that there are too many options, or widely varying views on what the best options are. These can be overwhelming for a team to analyse, and lead to arguments and friction.

In other cases it can appear that there are too few options. Perhaps none of the options are very attractive, or none really address the underlying threats and problems. Or else the team seems to be thinking too narrowly about what is possible. There may be attractive short-term options but no clarity about where to go over the long-term, or plenty of ideas about where to go in the long-term with no suitable pathways available in the short-term.

In short, you sometimes need to generate more options and sometimes to constrain them to a more manageable and focused number.

To *generate more options*, the most direct approach is to conduct a brainstorming session. For example, if your organisation is suffering from flat sales and profits, you could simply ask everyone to come up with at least three ideas for growing the business. Another approach – less direct but often more potent – is to redefine or reframe the situation in such a way that opens up new options.

'Framing' involves defining an issue in a way that defines a boundary for the options to be considered. For example, instead of framing the issue as 'What are the opportunities to grow?' you could frame the situation as 'How do we double the value of the company?' This alternative widens the boundaries on the options that can be considered, generating a broader range of ideas than the initial frame – for example, ways to increase profitability by cutting costs as well as ways of growing sales.

To *focus the generation of option*s you could specify options of a particular type – for example, 'Ways to redesign core products', or frame the situation more narrowly, such as asking 'How do we increase sales of our core product lines by 20% within a year?' or 'Which new countries could we expand into?'

Developing a strategy often requires you to do a bit of broadening and a bit of narrowing – generating more ways to frame the situation and more options at some stages, and narrowing down at others. How to do so is the main topic of this chapter. The emphasis will be on how to generate more frames and options, because this is typically more difficult than narrowing down.

It is important to emphasise that the process of framing the issue, generating options, evaluating them and then picking one should not be practiced as a sequence of discrete activities. Instead it should be an *iterative cycle* of framing, generating and evaluating options and re-framing to generate new and improved options – a topic that we will return to at the end of the chapter.

THE POWER OF FRAMING

Framing is often the crux of a strategic decision, but its importance is frequently overlooked. It will determine the options that you consider and the criteria that you use to select between options. Conversely, inappropriate framing is likely to lead to the wrong option. But framing is often done without enough thought and debate. Indeed, it often occurs at an unconscious level – people do not even realise that they have automatically framed the situation in a particular way. Therefore it can be helpful to have some tools to help you generate and evaluate alternative frames.

To illustrate the importance of framing, imagine that you were the head of the NATO military mission in Afghanistan in 2010. The issue facing you could be framed in various ways, e.g.:

1. How to defeat the Taliban and al-Qaeda.
2. How to create a stable Afghanistan.
3. How to make a graceful exit within two years.

A team of military officers might naturally focus on options for securing a military victory, because they will intuitively frame the issue as 'How to defeat the Taliban and al-Qaeda'. Only if they re-frame the issue as 'How to create a stable Afghanistan' might they begin to think about options that do not rely purely on a military victory. Switching frames (or, to use another related metaphor, thinking outside the box) is notoriously difficult but also very powerful.

For a business example of the power of framing and re-framing, consider a story told by Jack Welch, former CEO of General Electric, a major US company. He had insisted that the heads of all the business units within GE make their businesses number 1 or 2 in their industry. Unfortunately, a side effect was that the business heads framed the boundaries of their industry narrowly to maximise their market share, allowing their businesses to be defined as the industry leader. This led them to be overly conservative and ignore options that required them to grow in new markets where they could not immediately be a market leader.

Welch then asked all the business heads to re-draw the boundaries of their businesses in such a way that they had less than 10% market share. By doing so, he made them re-frame the boundaries of their industry and the growth options available. The business heads had originally framed their objective as 'Become number 1 or 2 within a narrowly defined industry.' Welch encouraged them to re-frame the goal as 'Grow my business to become number 1 or 2 in a much larger industry.' As a result, '. . . over the next five years, we doubled our top-line growth rate at GE with the same yet newly energized portfolio of businesses.'

GENERATING NEW FRAMES

As already discussed, it is natural for the brain to select a particular frame and thus a narrow set of options. One way to broaden the set of options considered is to generate a range of alternative frames – each of which triggers its own set of options. How do you do this?

Most frames consist of a suggested strategic objective, such as 'Defeat the Taliban', and sometimes a constraint such as 'Within two years'. So, one way to generate alternative frames is to list alternative objectives and constraints, and then create different strategic questions by combining the two lists – for example, 'Defeat the Taliban within two years' could become 'Create a stable Afghanistan within two years' or 'Defeat the Taliban within 10 years' or 'Create a stable Afghanistan within 10 years' – each of which has a different set of associated options.

Another way of coming up with alternative framings is to think of ways of making the current framing of the issue broader or narrower. So, for example, consider the framing 'How to defeat the Taliban, with acceptable losses.' This could be made *broader* by stating the objective as 'How to maintain peace in the Near East while maintaining popular support back home', or *narrower* by asking 'How to get control of Helmand province without losing more than 200 troops.' Surprisingly, narrow frames can actually generate new options because the narrow frame can require more creative options. For example, the narrower framing above, requiring the loss of no more than 200 troops could lead to new ideas about how to limit the need for armed confrontation by negotiating with the Taliban.

New frames can also emerge by probing whether you have got to the real issue, using the '5 Whys' technique. Switching to a business example, suppose you have a problem employee who is failing to perform. You might ask 'Why are they failing to perform?' and come back with the answer 'Because they have too much to do.' Why do they have too much to do?': 'Because you have allowed the business to grow without adding enough staff.' Now the strategic issue becomes 'How to add staff' – rather than 'How to fire the problem employee.' To delve into the root cause of a problem you need to ask 'Why' five times – at which point you will either have got to the true issue or have exhausted everyone's patience.

Another way to generate more frames is a scenario-planning exercise, creating several alternative future environments. Each will yield different issues for the organisation and varying frames – for example, 'being ready to take advantage of a growing market' or 'fighting off new competitors'.

NARROWING THE FRAME

It might seem that generating new frames and options is always desirable. In reality, it is hard for any one individual or group to handle too many ideas. Narrowing down can focus the strategy process. This can be useful early on in a project if you are in danger of 'boiling the ocean' with excessive analysis, or later, when you are running out of time and need to focus in on a shortlist of options.

The challenge is how to narrow the frame without blinding yourself to potentially attractive options.

WHO SAID IT . . .

"Each man should frame life so that at some future hour fact and his dreaming meet."
– Victor Hugo

As the quotation suggests, a valuable frame typically has two characteristics. It is grounded in the facts, while also reflecting the overall mission or – as Victor Hugo so eloquently put it – the 'dream'. This suggests that a sensible way to narrow down the range of frames is to select ones that reflect both the mission/objective of the organisation and the realities of the pathways available (what Hugo meant by 'fact').

For example, the mission of NATO is to maintain the security of Europe and North America. The framings 'How to defeat the Taliban' or 'How to create a stable Afghanistan' are both consistent with this. In contrast, 'How to get out within two years' appears not to be consistent because it will lead to potential insecurity in the future.

Having narrowed the frames down to a choice of two, now consider which best reflect the pathways available. Unfortunately, neither looks very achievable. Defeating the Taliban requires flushing out an enemy from notoriously rugged terrain; creating a stable Afghanistan appears no easier. Perhaps they could be combined to frame the issue as 'How to contain the Taliban, allowing Afghanistan to enjoy some economic development and the rule of law' – a formulation that is aligned with the mission and potentially achievable. In summary, you have now narrowed down the frame to one that will encourage a focused search for interesting options.

GENERATING OPTIONS

It is one of the paradoxes of strategy that it requires both the critical faculties to analyse the situation and weigh alternative strategies *and* the creative flair to generate insights and options. This does not mean that analysis is dispensable to the process, it's just that coming up with the insightful option that solves the strategic issue also requires some magic dust. A good option will almost always need to come partly from a creative insight.

With that proviso, the next sections of this chapter present some ways to stimulate your creativity. You will certainly not want to use them all – so there is also some guidance as to when they are most useful. They should be viewed as complementary rather than alternatives.

GENERATING OPTIONS FROM THE BOTTOM UP

As discussed earlier, a strategy consists of an objective or goal, and the pathway to achieve that objective – with the pathway defined by a combination of a commitment of resources, a general sense of the opportunities to be targeted along with any constraints on how resources can be deployed.

You can build a strategy option from the bottom up by simply combining alternative objectives and pathways using the analysis you have done to date and the various framings you have generated. But which should you focus on first? Should you start with a list of alternative objectives and then work out pathways to those objectives, or look at the pathways available and select objectives based on which are feasible? The answer is to use both in an iterative process so that the resulting options include the best combinations of desirable goals and feasible pathways.

One approach is to start with an objective and then think through what pathways might be available to achieve that objective – sometimes described as 'ambition driven' options. Alternative objectives can be drawn from the alternative framings you have generated; then, define alternative pathways. For example, suppose you have framed the objective in Afghanistan as 'To defeat the Taliban.' Start creating alternative pathways such as 'Use 150,000 NATO troops and cooperation with the Pakistan army (resources) to cut off the supply lines for the Taliban while systematically sweeping the Taliban out area by area (the general direction of the pathway) and minimising civilian casualties (a constraint).'

In the early stages of generating options you will want to keep the description of the pathway at a fairly high level. However, as you narrow down the range of potential strategies, there is a benefit to planning things in depth to really test out how realistic your option is (remember Seneca's advice that 'luck is what happens when preparation meets opportunity').

However much detail you decide to plan to, those responsible for implementation should be heavily involved, as they have the insight and motivation to ensure that the pathway is realistic.

Instead of starting with an objective, you could start with a feasible pathway in what is sometimes called a 'condition driven' approach – because it starts from a consideration of the current situation or condition. This can be a more pragmatic approach but tends to lead to incremental options. For example, observing the situation in Afghanistan you might consider a pathway such as 'Use the existing 100,000 US troops to gain control of some of the major Taliban controlled areas – forcing them into the mountains.' You would then need to consider the strategic objectives that would serve – such as 'Encouraging the Taliban to come to the negotiating table', and decide whether that was consistent with the overall mission.

The ambition and condition driven approaches are useful complements to each other and will typically deliver quite different sets of options.

GENERATING OPTIONS USING STRATEGY TOOLS AND FRAMEWORKS

The most viable strategy options are often incremental expansions from the existing position, as demonstrated by Chris Zook's studies of successful growth strategies.

WHO YOU NEED TO KNOW

Chris Zook

Zook holds degrees from Williams College, Harvard, and Oxford University and leads the Global Strategy Practice at Bain & Company, managing a project on growth that started in 1990. *The first book from this project, Profit from the Core,* found that nine out of ten companies that had sustained profitable growth for a decade had focused on their core businesses rather than diversification. Subsequent books looked at how to grow beyond the core, but Zook's main message is clear: In most situations, it is safest to look at options that build on the core business and sources of advantage (something he claims companies do not do rigorously enough).

In later work, Zook considered how to redefine the core and go beyond it by expanding what he describes as 'undervalued business platforms, untapped customer insights and underexploited capabilities', using a process similar to the one in this book.

Zook's research has the advantage of being based on the many case studies that are available to a large management consulting firm. It offers practical wisdom based on real examples rather than theory – albeit from a consultant who makes his living selling large projects to large companies.

The strategy concepts and tools described in earlier chapters, which describe the *current* situation, can be useful as a starting point for thinking about potential *incremental* options. This is particularly helpful when you want to narrow the focus down to pragmatic options. The following are brief descriptions of how the tools described earlier might be used:

- *Creating new value propositions for customers.* For this you could use customer segmentation to think of new combinations of customer needs you might target. You might, for example, segment coffee shop customers to come up with a design that served the needs of a particular group such as parents with toddlers who want a break while shopping, or people who want to grab a coffee and go as soon as possible, Or you could use the value curve tool – starting with today's value curve for a coffee shop and trying to innovate new value curves to provide superior products or serve new customer segments.

- *Building on existing sources of advantage.* You might use the attractiveness/advantage matrix, the value chain, or the idea of building on existing capabilities and positions. You can then think about ways to use today's capabilities and sources of advantage to target new opportunities. This is useful when you have a strong advantage which could be stretched into new areas – for example, if you are Tesco or Starbucks, looking at expanding into new formats, products or countries.
- *Improving the attractiveness of your current markets* – using the five forces framework to think through ways you might weaken forces such as rivalry and buyer power, which reduce profitability. For example, you could use this as Starbucks to think of ways of making customers more loyal and thus less susceptible to competitors – perhaps with a loyalty card, or giving regular customers the chance to choose the music played while they are in the store.

Other frameworks that can be helpful for stimulating new options are briefly discussed here:

- *Multiple horizons* – a simple but powerful way to stretch your thinking. By generating options that would be appropriate for different time horizons you will be forced to arrive at quite different ideas. For example, a 12-month horizon might stimulate thinking about options to reduce manufacturing costs, a three-year horizon about building market share to become a leader in your local market, and a longer term horizon to consider whether an international or global position might eventually be required.
- The *Ansoff matrix* consists of a simple two-by-two matrix, with one axis for 'existing products' and 'new products', and the other for 'existing markets' and 'new markets' (customers can be substituted for markets). The idea is a simple one: each box represents a different way to grow. The matrix does not evaluate the merits of any of these options; it simply stimulates thinking about alternatives. A web search can yield further information, as will many strategy textbooks.
- *Who, What, How analysis* – First define your current position by defining who the customer is, what product they are being offered, and how it is produced. The next step is to think about changes to either the who, the what or the how. For example, Hertz's primary business model is to sell convenient access at airports to

cars (What), to business and leisure travellers (Who), using a network of rental offices and depots (How). You might create a new option selling access to cars located near your house (What), to people who do not own cars (Who), by allowing customers to book online and use swipe cards to access cars located in parking bays on city streets (How). Indeed, Zipcar has already done this!

Further information can be found via the references at the end of the chapter.

GENERATING OPTIONS USING GENERIC STRATEGIES

Another way to increase the range of options is to consider whether any typical or 'generic' strategies might be customised to fit your particular situation. Such strategies include:

- *Low cost leadership* through market share, relentless improvements in operating efficiency, pressure on purchasing costs, supply chain design or product simplification and design. Examples would include Toyota in small cars, or discount supermarkets such as Aldi.
- *Differentiation* from providing high-value products to customers for whom product

characteristics are more important than price. Approaches include creating a strong brand or reputation, attracting the best employees, being at the leading edge of technology, or controlling critical distribution channels. Examples include branded goods such as speciality vodkas, cosmetics, or services such as management consultancy.

- *Focus.* By targeting a particular customer or product niche, dominate it. For example, did you know that a German company Agathon is the leading producer of chocolate moulds for large-scale industrial production?
- *Shifting the allocation of investment to more attractive industries and segments.* If you are in many businesses it is worth seeing where the investment of money and time is going and how well it matches the positioning of the businesses on the matrix. You should be investing in businesses where you have a chance of being a strong player. Many organisations fall into the trap of investing in struggling businesses in a vain attempt to turn them around, or under-investing where they are strongest.
- *Capturing the value of a network.* eBay and Facebook achieved success by creating a network based on a virtual circle of winning more customers – creating a more valuable service – attracting even more customers, and so on.
- *Controlling an industry* (especially an unattractive one) by consolidation and vertical integration.

This strategy can pay off if it also provides concrete benefits for customers. An example is Apple in its combination of the iPod and iTunes.

- *Creating a collaborative network* whereby the strategy emphasises building strong links with suppliers, customers and potential customers. An example is ARM, whose computer chip technology is used in 95% of all mobile phones. It has a network or 'ecosystem' of 400 other companies and tens of thousands of developers which has enabled it to be successful in competing with Intel – a company over 40 times its size.

The generic strategies described above generally require major commitments over the long-term. They may require bold steps – with the related issue that they may be difficult or risky to implement in practice. For example, consider the position of Air Liquide – a major producer and distributor of industrial gases such as oxygen, nitrogen, helium and argon. It might want to become the global leader in its industry – allowing it to achieve economies of scale in technology and investment costs – but in practice how does it build share in markets where there are already established competitors?

One approach is to seek inspiration from the strategies used by companies that have built share against entrenched competition. One such example is *building a beachhead* in a new market before moving on. The Japanese motorbike manufacturers, having failed to sell many of their bigger bikes, switched to selling smaller ones – later using the same platform built to go up market. Air Liquide might start by building a single plant for a large customer, using that to expand its presence gradually. Another example is *judo strategy* – in which you work around, or even use the strength of an incumbent against them. For example, a new entrant such as Aire Liquide may be able to under price established incumbents initially to build scale, because the incumbent is loath to respond, as it will damage its profitable business. Another approach, suggested by Clayton Christensen, is to be a disruptive competitor, as discussed in Chapter 4 – perhaps selling gases with lower purity at lower prices to carve out a niche that the incumbent is loath to compete in, because it will undermine their profitable core business.

Books and articles on strategy will contain other examples of successful strategies. The more you read, the more examples you can collect. Be warned, however: not all strategies should or will fit these simplistic models. At a minimum you need to select examples that are relevant to your industry and situation.

GENERATING OPTIONS THAT DEAL WITH UNCERTAINTY

It is particularly important to spend time generating a broad range of options when there is a high degree of uncertainty. A common trap is to focus on options that will be successful in one particular future. These options may look good on paper, but be vulnerable if the world turns out differently to what was expected.

There are no foolproof ways to generate good options under such difficult conditions, but here are a few ideas to get you going:

- Think of options that are robust under as many future scenarios as possible. For example, E.ON, the German power generation company, is investing in a mix of nuclear power, fossil fuels and renewable energies.
- Now think of one or more events not captured in the scenarios but which are credible – for example the risk that power demand falls because many households install their own small-scale power plants. Then, think of additional options that would allow you to profit from such a change, for example, investing in an energy services business that was well positioned to install and maintain such equipment.
- Think of options that provide agility and flexibility, so that you can seize options or respond to potential threats. For example, consider options that minimise fixed costs and capital investment – for example by signing contracts for 10% of your predicted power needs with other generators, including terms that allow you to cancel the contracts under certain conditions.

- Devise options that are robust and resilient to your worst case environment. For example, during a boom it may be good to build up cash so that you can buy assets and competitors during the bust, when prices are low.
- Develop options that allow you to learn as you go. Small investments, even if not attractive in themselves, may provide a platform for learning and getting access to more lucrative opportunities. For example, Apple's joint venture with Motorola to create the unsuccessful Moto phone in the mid-2000s allowed it to learn about making phones – knowledge which it put to good use when developing the iPhone.

WHO SAID IT . . .

". . . companies have to be very schizophrenic. On one hand, they have to maintain continuity of strategy. But they also have to be good at continuously improving."
– Michael Porter

GENERATING CUNNING OPTIONS

The best strategy options are often difficult to identify. The more obvious ones may be too incremental, too risky, or too costly. It often takes a flash of insight to generate the cunning option which is only obvious with the benefit of hindsight.

For example, when Unilever announced its new, improved Persil Power detergent, what strategy should P&G (Proctor and Gamble – Unilever's primary competitor) have used to defend its market share? The classic response would have been to increase promotional spend and look to launch its own improved product. In fact, P&G released a study suggesting that repeated washing with the new Unilever product put holes in boxer shorts. Unilever denied the allegations but changed the product formulation anyway. The battle dragged on and eventually Unilever conceded that the 'miracle' manganese compound did indeed attack certain dyes under extreme conditions, and withdrew it from the market.

Cunning options are of most value when you are in a tight spot – as P&G appeared to be when Unilever launched its new product. By defining the issue you face in unusual ways (in the case of P&G this was 'How do we undermine Unilever's product advantage'), then you may be able to generate creative options by considering how other organisations dealt with similar situations. It

WHO YOU NEED TO KNOW

Edward de Bono

Edward de Bono was born in Malta in 1933. He holds degrees in medicine and psychology, but most people round the world associate him with 'lateral thinking' – a term he invented. He contrasts what he calls 'vertical thinking', which uses the processes of logic, with its 'lateral' alternative, which 'involves thinking in new ways that generate new options and ideas'.

His skill has been to bring his thinking and methods to a wide audience (ranging from 7 year-olds to CEOs), suggesting practical ways to improve the creativity of an individual or group. Particularly famous in this area is his idea of 'six hats' – roles that six different members of a group can play to maximise the chance of generating new ideas. Another of his creativity tools is 'the power of perception' – which emphasises the benefits of looking at a problem from different angles, allowing the situation to be framed and analysed properly.

De Bono's work stands as a reminder of the fact that humans are, by nature, both dogmatic and limited in our vision and yet capable of occasional great leaps of insight. It also reminds us how hard it is to think outside the box.

is hard to create a comprehensive list of problems that need cunning solutions as – by definition – they tend to be unique. However, here are a few of the more typical examples:

- *Dealing with a threat.* The ideal strategy is to turn the threat into an opportunity – as P&G did by making the new Persil a millstone around Unilever's neck.

- *Taking on a dominant competitor* as in the case of the Japanese motorbike manufacturers entering the US and UK.
- *Creating a market for a new product* as in the case of the Nordic mobile phone manufacturers and operators – who created a single network that gave customers a service in all four countries as early as 1981 (unlike in the US – which had a much slower start because each network developed independently).
- *Breaking compromises.* A product requiring a mix of high-quality engineering, style and low cost might be seen as requiring tradeoffs and compromises – but this is what Swatch created when it came up with its innovative range of watches.
- *Overcoming organisational or cultural resistance.* For example, the inventor of Post-it notes got senior management interested in his product by giving samples to their personal assistants. When their bosses saw them they asked for more supplies.

Other factors which may inspire a cunning option include luck, persistence and a creative strategy process or the use of creativity tools such as those promoted by Edward de Bono. Whichever you use, leave yourself enough time; you are unlikely to find a solution quickly. Indeed, you may require several attempts before any such option reveals itself.

Before moving to discussing how to evaluate all these options it is worth summarising briefly the various approaches to generating options discussed so far – if only because the list of alternative approaches may seem overwhelming.

To *increase* the range of options you can try reframing the problem by brainstorming, or by considering different combinations of objectives and constraints. To test whether you have the right objectives you can use the '5 Whys' tool.

There are many ways to generate new options directly, including brainstorming, thinking of the options implied by different combinations of reasonable objectives and feasible pathways, using the strategy tools introduced earlier, considering generic strategies, spending extra time on considering options designed to work in a particularly uncertain future and pushing for cunning options based on the examples of others in a similar position.

If you are worried that you are spreading your resources too thin you may want to *reduce* the range of options and an effective way of doing so is to narrow the frame. Similar techniques can be applied to those discussed earlier – just ensure that your narrow frame is consistent with the overall strategic objective and mission, and feasible given the available pathways.

EVALUATING OPTIONS

All the good work to date will come to nought if you do not select the best option. Your options can be evaluated using three types of criteria: strategic, feasibility and risk/return.

Strategic criteria reflect the main strategy concepts introduced in this book, such as segmentation, segment attractiveness and competitive advantage. The figure below provides a checklist to structure this evaluation – each criterion is scored using 'traffic lights' (red, amber or green) depending on how it rates. A rule of thumb is that even a single red would be enough to prompt serious concerns about a strategy; at a minimum, a plan to tackle the issue would be required. One or two greens, in important categories, would be required for the strategy to be attractive.

Given the broad mix of potential strategies and organisations to which these traffic lights might be applied, it's impossible to be more precise about what constitutes an acceptable mix of reds, ambers and greens. For example, the issue of competitive advantage is often the dominant criterion in a competitive industry, but competitive advantage may be less relevant for a defence company that enjoys a quasi monopoly position vis-à-vis the national government. In such a case it may be more important to create value for the primary customer, thus ensuring maintenance of the favoured relationship. So a first step

OPTIONS EVALUATION CHECKLIST

1. Does the option position the organisation in large, growing industry segments?
   - ☐ Red light: Small or declining
   - ☐ Amber light: Average growth and size
   - ☐ Green light: Very large or high growth
2. Does the option position the organisation in profitable industry segments?
   - ☐ Red light: Particularly low profitability industry with low returns for even well established players
   - ☐ Amber light: Average industry returns
   - ☐ Green light: Exceptionally profitable industry or niche
3. Is the option aligned with the broader trends that are shaping the industry?
   - ☐ Red light: Option will require confronting significant external political, government or regulatory interference
   - ☐ Amber light: Broader trends have limited impact on the outcome of the options
   - ☐ Green light: Broader trends could provide significant support and upside for the option
4. Does the strategy create significant value for customers and stakeholders?
   - ☐ Red light: Option will destroy value for customers and stakeholders
   - ☐ Amber light: Limited impact on value creation
   - ☐ Green light: Options offers opportunities for significant new value generation
5. Will the option provide a competitive advantage, including any additional advantage that comes from linkages across segments?
   - ☐ Red light: Disadvantaged
   - ☐ Amber light: Me-too player
   - ☐ Green light: Significant, sustainable advantage

6. Is the option aligned with the mission, purpose, values and behaviours of the organisation?
   - ☐ Red light: Significant challenge to deeply held beliefs and behaviours
   - ☐ Amber light: Option is consistent
   - ☐ Green light: Option makes a significant contribution to purpose
7. Is the option aligned with the interests of the most influential stakeholders?
   - ☐ Red light: Powerful stakeholders will strongly resist
   - ☐ Amber light: Effects will be broadly neutral
   - ☐ Green light: Option is aligned to the interests of the most powerful stakeholders
8. Is the strategy adaptive and/or resilient to the type of uncertainties that might be faced?
   - ☐ Red light: Significant uncertainty exists and option will only be successful under a limited range of future scenarios
   - ☐ Amber light: Some flexibility to respond to known and unknown uncertainties
   - ☐ Green light: Option will result in a competitive advantage from being more flexible or resilient than others
9. Does the strategy allow the organisation the ability to create strategic options for the future?
   - ☐ Red light: Highly valuable capabilities or options are lost
   - ☐ Amber light: Some future options closed off, but others remain
   - ☐ Green light: Significant option value from options or capabilities created
10. Is the analysis based on a robust understanding of the evolving external and internal environment, and the full range of options?
    - ☐ Red light: Suspect data and insights
    - ☐ Amber light: Further analysis of key assumptions possible
    - ☐ Green light: Thoroughly analysed

in using the traffic lights should be to prioritise them according to your situation. It may also be necessary to add some particularly important criteria, like a particularly important source of competitive advantage.

WHO SAID IT . . .

"There are two things to be considered with regard to any scheme. In the first place, 'Is it good in itself?' In the second, 'Can it be easily put into practice?'."
– Jean Jacques Rousseau

EVALUATING FEASIBILITY

The traffic lights will help establish whether an option is a good one in principle. However, it is also important to double check whether it is feasible and can be implemented in practice. Criteria typically vary according to the situation, but might include:

- Are the required resources and capabilities available?
- Is the management team up to the job?

- Is there a strong sponsor?
- Will it be acceptable to key stakeholders?
- Is the option likely to have significant negative side effects and thus face resistance from other parts of the organisation?
- Are there suitable suppliers and partners to allow us to operate?

There may also be criteria specific to the context. For example, in acquiring a new business, a critical issue would be 'Can we manage the post-merger integration?' In entering a new country, there may be issues such as 'Can we get the required permits to operate?'

Just because these criteria are listed at the end of the analysis does not mean that you should wait until late in the strategy process to think about them. Thinking about feasibility should start during the evaluation of the external and internal environments – well before you get to this point. Otherwise you are in danger of committing one of the cardinal sins of strategy: devising an unimplementable strategy.

EVALUATING RISK/RETURN

When both strategy and feasibility criteria have been applied, it is common to summarise the assessment by comparing the potential return with the risks. There will be a mix of options that might be acceptable, each with a different combination of risk and return (obviously, you can reject options that have lower return for the same risk).

Measures of *return* are often set partly by the financial policies of the organisation and will include metrics such as profitability, payback or discounted payback, net present value and return on investment.

There are many ways of measuring and analysing *risk*. The most common, in order of sophistication, include:

- *Listing the main risks.* By simply describing the risks it is possible to get a better gut feel about the level and nature of the risks involved in different options.
- *Sensitivity analysis.* This involves measuring the potential impact of the risks on operating and financial metrics, such as time to market, investment cost, margins and payback.
- *Base, upside and downside cases.* This uses the results from the sensitivity analysis to build a set of possible scenarios for how the strategy may turn out, measuring the financial performance of each.
- *Probability trees.* This involves assigning probabilities to the base, upside and downside cases to get a more precise measure of the impact of risk on the expected performance of the strategy.
- *More detailed analysis of specific risks.* For complex and major risks, special modelling might

be required – for example, the impact of foreign exchange rate fluctuations on an investment in a manufacturing plant that imports and exports components, or the impact of changes in fuel prices and demand on the prices for power enjoyed by a new gas-fired power station.

The numbers can be vital for prioritising which risks to worry about and their potential impact, but don't assume that they will do all the thinking for you. Strategic decisions are typically helped by the development of some well-grounded facts and numbers, but rarely can they be mechanically answered this way. There are likely to be some issues which cannot be quantified in the risk/return analysis.

TIP: To help you weigh the pros and cons of different options, a good discipline is to create a simple table of the most attractive options arrayed against the most important strategic, implementation and risk/return criteria. Not only is this a useful check on your logic, it provides a great basis for discussion.

ITERATING

The most important point to remember from this chapter can be stated quite simply: Make sure you go round the cycle of framing the issue, generating and evaluating options several times! The process has been described in a sequential way. However, it is almost always the case that it is an iterative, cyclical affair – as is often the case for the whole strategy process. As you analyse the situation and how it may evolve, you will begin to frame the issue and come up with options. As you evaluate the options, they may prove to be less appealing than you had hoped, prompting more analysis and a reframing of the question until new options emerge. This may happen in an orderly way but it is more likely you will encounter a lot of confusing ideas and distractions that you will need to pick your way through.

To illustrate, President Kennedy initially framed the Cuban missile crisis, in which the US unexpectedly discovered that the Soviets were putting nuclear missiles into Cuba, as 'How do we get those missiles out of Cuba?', receiving a range of military options in response. As his team explored the risks of nuclear war that such options entailed, they re-framed the question: 'How do we get the Russians to withdraw the missiles?' – eventually yielding the option of putting a blockade in place, which ultimately brought the Russians to the negotiating table.

Sometimes the process of framing and reframing can take years. For example, Steve Jobs had framed the idea of getting Apple into the music business in 2001 or earlier, but the iTunes store was not launched until 2003. The framing, and the options evolved over that period from 'How to get into the music business', to 'How to make music available on the Macintosh computer', to 'What music player to develop', to 'How to get the music industry to give Apple the rights to sell their music over the net.'

So how can you best navigate through this process? First, like checking your answers at the end of an exam, it makes sense to spend some time revisiting the framing of the issue and your chosen option. You may be exhausted at the end of a long strategy process, but don't rush things at the end. Put your work away for a day or two, refresh yourselves if you can, and then come back and tear it apart to see if the logic is robust.

The key to making this work is to imagine new frames and/or new options. Be prepared to introduce new people and perspectives as late on in the strategy process as you dare. Try packaging your logic using the Pyramid Principle to highlight any weaknesses. Ask yourself the question: 'But what if we have framed this in the wrong way – what is another way to do it?' Build in the ability to learn and respond as the strategy evolves.

WHAT YOU NEED TO READ

- Zook's trilogy on growth consists of *Profit from the Core, Beyond the Core,* and *Unstoppable,* Harvard Business School Press, 2001, 2003 and 2007.
- The '5 Whys' technique, developed initially at Toyota, is discussed at *http://en.wikipedia.org/wiki/5_Whys.*
- The 'Who What How' analysis was first proposed by Derek Abell and developed further by Costas Markides in 'All the Right Moves', *Harvard Business School Press*, 2000 and in his article 'Six Principles of Breakthrough Strategy' in *Business Strategy Review,* 1999, Volume 10, Issue 2 pages 1-10. There are various variants involving deconstruction of these three dimensions, e.g, 'Who' into 'Customer', 'Need' and 'Channel'.
- *De Bono's Thinking Course: Powerful Tools to Transform Your Thinking,* BBC Active, 2006 provides a summary of much of his thinking.
- *Profiting from Uncertainty: Strategies for Succeeding No Matter What the Future Brings*, The Free

Press, 2002, by Paul J.H. Schoemaker provides many ideas about how to create strategy under uncertainty.

- Chapters 3 and 4 of 'Harvard Business Essentials: Strategy', *Harvard Business School Press*, 2005, provide several examples of generic strategies.
- *Strategy: How to Shape the Future of the Business*, Format Publishing, 2004, edited by Dominic Houlder, is a stimulating read and provides interesting ideas on collaborative strategies.

IF YOU ONLY REMEMBER ONE THING

Reframe and iterate at least three times!