

## The Need for a New Model to Craft Business Strategies

OUR CONTENTION is that the essence of business strategy is to allow a company to create and exploit a unique strategic position in its sector. To do so a business must come up with ideas to differentiate it from its competitors – and thus stake out a unique strategic position.

But before we go on to explore how this can be done, take a look at the case of Honda for a moment and note what you think about strategy formulation.

Honda, one of the leading manufacturers of motorbikes, is credited with identifying and targeting an untapped market for small 50cc bikes in the US, which enabled it to expand, trounce European competition and severely damage indigenous US bike manufacturers. By 1965, Honda had 63 % of the US market.

### **An amazing feat! Yet this occurred by accident...not by design!**

Honda's planned strategy for the US was to compete with larger European and US bikes of 250ccs and over. These bikes had a defined market and were sold through dedicated motorbike dealerships. Disaster struck when Honda had to recall the larger machines as they couldn't cope with the wear and tear imposed on them by US motorcyclists.

But then something extraordinary happened!

Sports goods shops and ordinary bicycle and department stores had expressed an interest in Honda's smaller 50cc bikes. Despite its wish to enter the US with its larger models, Honda had no alternative but to sell the small 50cc bikes just to raise money. They proved very popular with people who would never have bought motorbikes before. Eventually the company adopted this new market with enthusiasm with the slogan: 'You meet the nicest people on a Honda.'

### **What are your impressions?**

Let me tell you what mine are.

When I first looked at the case of Honda in the US, I was studying for an MBA. As an avid student of strategy I just couldn't see how Honda, heralded by business schools and gurus alike as an icon of Japanese success, had hit all the right strategic buttons. Their success, it seemed to me, was just good fortune; a company on the point of exit rather than on the brink of success.

Full marks for being there, or hanging on in there, but was this really strategy or just pure luck?

In fact Honda's strategy evolved – it simply emerged! It had materialised against managers' conscious intentions, but to their credit they eventually responded to the new situation and re-focused their goals and objectives.

And here is the point. Strategic management has been seen as a rational model; a formal approach to achieving a stated objective, all encompassing, top down and likely to be ponderous.

## **Formal strategic planning and control processes look something like this;**

1. Strategic planning starts with the identification of strategic business sectors, in other words, areas of activity where there are identifiable markets and where profit, management and resources are largely independent of the other sectors.
2. Strategic plans are drawn up, based on a 'comprehensive analysis of market attractiveness', competitors and so on. There are three important aspects to these plans. Long term objectives. Key strategies. And funds requirements.
3. At corporate levels these plans are then reviewed. Head office examines all the different plans, and, with a 7 to 10 year planning horizon, the total risk, profitability, cash flow and resource requirements are assessed. Business sectors are allocated specific targets and funds.

## **This very approach though carries with it limitations. Here are some of them:**

1. Defining strengths and weaknesses, part of the planning process, is actually very difficult in advance of testing them. 'The detached assessment of strengths and weaknesses may be unreliable, all bound up with aspirations, wishes and hopes'.
2. Discovering strengths and weaknesses is a learning process. Implementing a strategy is necessary for learning - to see if it works.

3. Planning assumes that the environment can be forecast, and that its future behaviours can be controlled by a strategy planned in advanced and delivered against schedule. In conditions of stability, forecasting and extrapolation make sense of things. But forecasting cannot cope with discontinuities (e.g. the change from mainframe computing to PCs).
4. A business cannot allow itself to wait every year to go into annual strategic planning mode to address problems. Such an approach is dependent on a number of conditions – of stability, of maturity, of limited competition, and of the significance of economies of scale for the achievement of competitive advantage.

Managers lower down the hierarchy, operating in 'fast moving conditions', faced with dealing with problems and opportunities may require different forms of strategy formulation.

Clearly successful strategic thinking involves a creative and intuitive approach to the business, not just logic. Some even argue that formal strategic planning processes have withered strategic thinking and that strategy is essentially a creative process.

### **Strategic thinking as a creative process**

In practice, managers are limited by time, by the information they have and by their own skills, habits and reflexes. Strategic managers need to create strategic solutions rather than

# The Strategist's Choice

follow a standard set of actions to exploit favourable situations.

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Successful strategists have an idiosyncratic mode of thinking in which company, customers and competition merge in a dynamic interaction out of which goals and plans crystallize. In other words successful business strategies result not from rigorous analysis but from a particular state of mind. And this means that a strategist should be able to see beyond the present, think flexibly, ask what if questions, avoid perfectionism. Keep details in perspective - especially uncertain ones.

## So just how do we create a unique strategic position?

To do so a company must make clear and explicit choices based on the answers to three difficult questions:

1. Who should we *specifically* target as customers?
2. What *value* should we offer them in our products and services?
3. How should I do this in a way that offers *sustainable differentiation*?

Any business engaged in strategy making must ask these questions, identify the possible answers,

and then choose what to do and what not to do. The object must be to differentiate the company from its competitors – and thus take a unique strategic position.

But this is not all even the best of strategies have a limited life. It is not enough to develop a unique strategic position or to improve an existing one. Companies must continually create and colonise new strategic positions.

If you have identified with this viewpoint you may be interested to read my book ***“How to Create Breakthrough Strategies for Your Business”*** for a dynamic approach to formulating business strategies please contact me at [andrew@uniquebusinessstrategies.co.uk](mailto:andrew@uniquebusinessstrategies.co.uk) for details.

To read more about strategies to grow your business [click here](#)

Best wishes,

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