



Distinctive
Strategy
Consulting

How to Derive a Coherent Strategy

BY JAN STANGE



AGENDA

1. The Strategic Management Cycle

2. Goal Setting

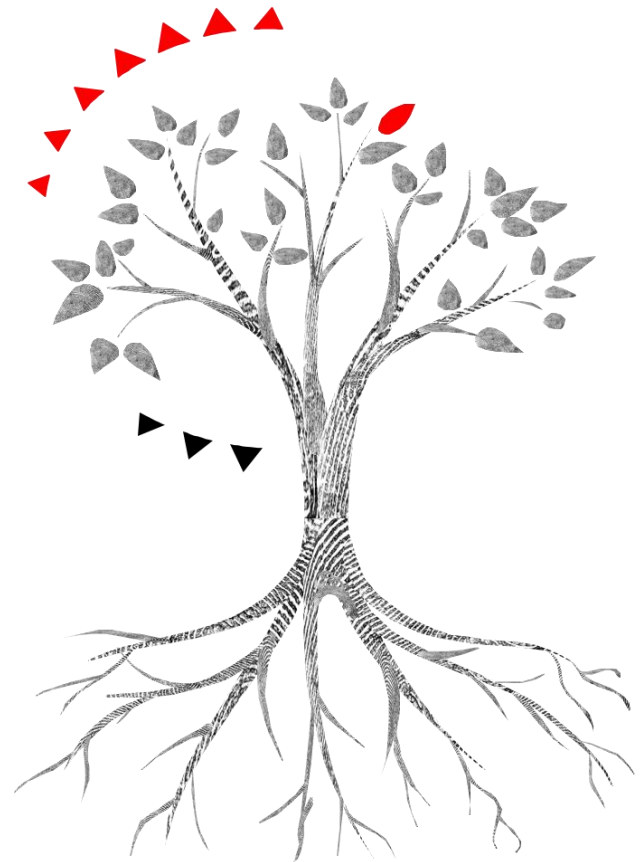
3. Analysis

4. Strategy Derivation

5. Implementation

6. Monitoring and Control

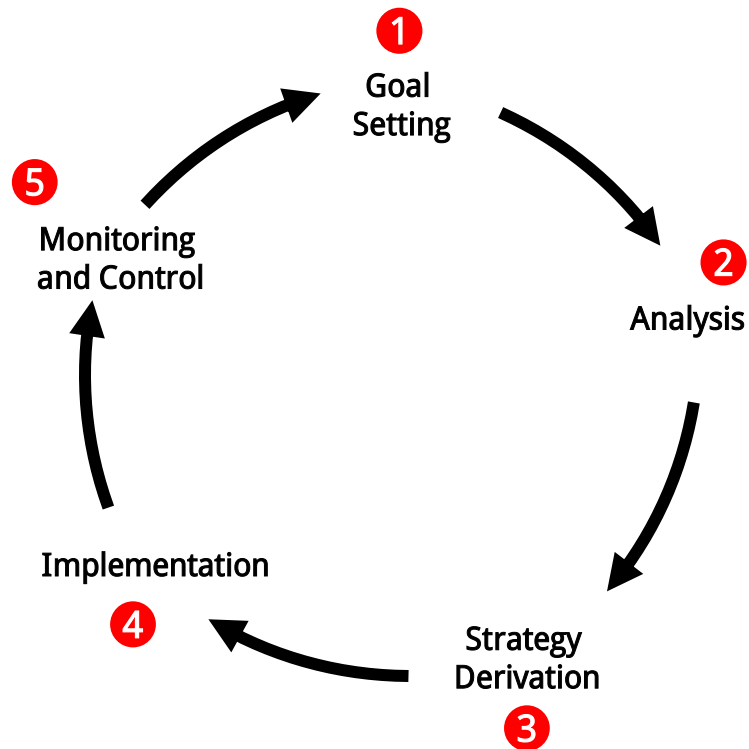
7. Your Contact Person



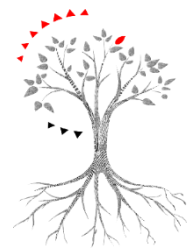
The strategic management process is more than just a set of rules to follow –
It is a philosophical approach to business



The Strategic Management Cycle



- 1**
 - The purpose is to clarify the vision of the business
 - The stage consist two key facts:
 - Firstly, the definition of both short- and long-term objectives;
 - Secondly, the identification of the process needed to accomplish the objective;
- 2**
 - Analysis is a key stage
 - Information gained in this stage will shape the final strategy
 - The objective is to gather information and relevant data to accomplish the vision
 - The focus of the analysis should be to understand the needs and drivers of the business (internally and externally)
- 3**
 - The first step is to review the outcome from the analysis
 - The goal is to identify resources and the abilities the business currently possesses
 - Weaknesses should be identified and minimized according to external threats
 - Strengths should be identified and maximized according to external opportunities
- 4**
 - Strategy implementation is crucial for success
 - If the overall strategy does not work with the business' current structure, a new structure should be installed
 - Everyone within the organization must be made clear of their responsibilities and duties
 - A work-break-down structure (WBS) helps to structure tasks and measure progress
- 5**
 - Continuous strategy evaluation and the control of actions minimizes risks
 - Evaluation of the strategy begins with the definition of parameters to be measured
 - Control implies necessary adjustments of the strategy





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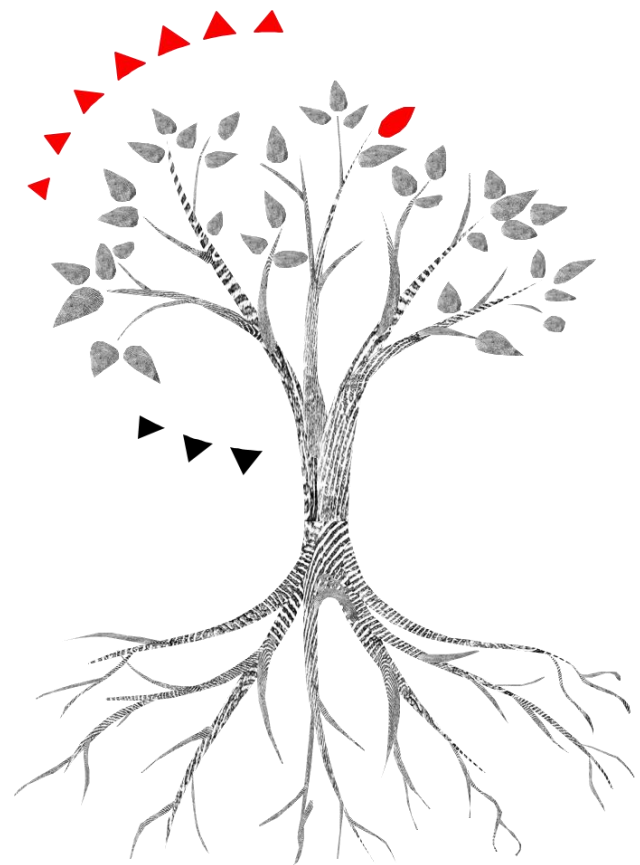
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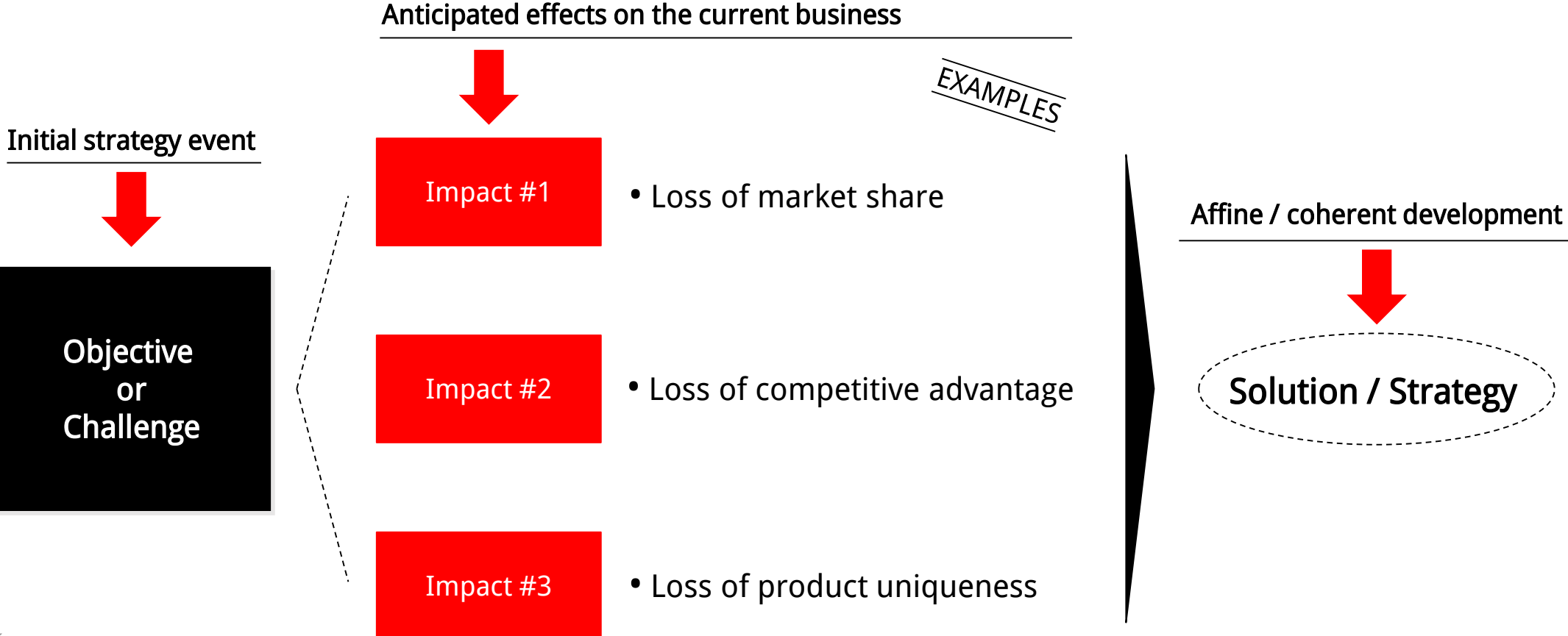
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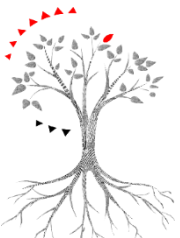


The purpose of goal-setting is to clarify the vision of the business, which can be to overcome long term negative market trends (challenges) or to gain more power (objectives)

Status Quo & Necessity for Strategy



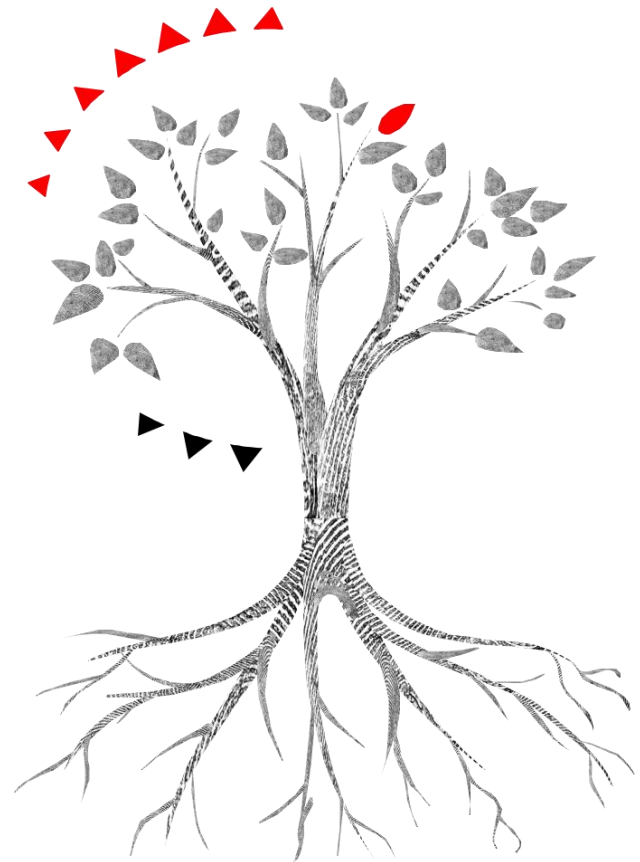
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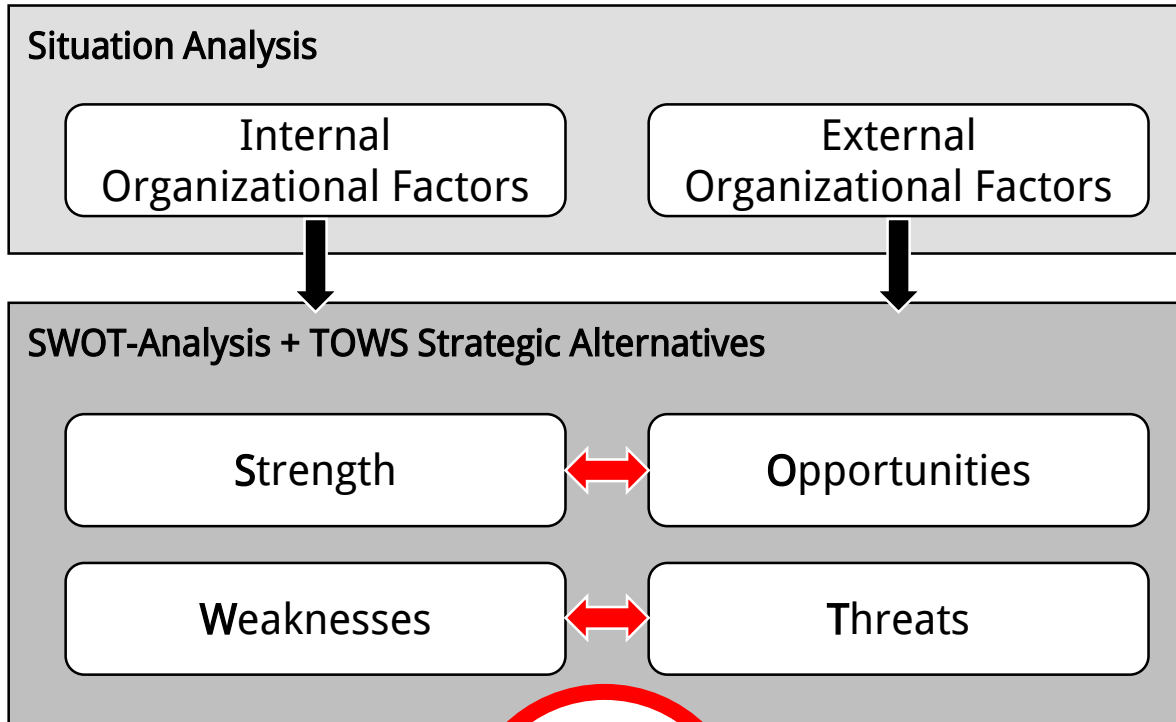
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The process of strategy formulation can be seen as a funnel approach – the analysis starts wide and become more specific until the strategy best suits the company's requirements

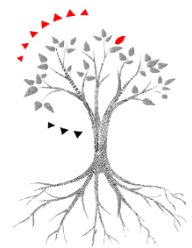


General Concept



Strategy Derivation

- Step 1**
- ✓ Identification of both the strengths and weaknesses of the organization (internal analysis) ...
 - ✓ ... as well as threats and opportunities (external analysis)
- Step 2**
- ✓ Consolidation and compression of analysis outcomes
 - ✓ Brute force search for best strategic directions in terms of maximizing strengths and opportunities...
 - ✓ ... and minimizing weaknesses and threats
- Step 3**
- ✓ Alignment of gathered data and information with organization's vision and creation of the most suitable strategy

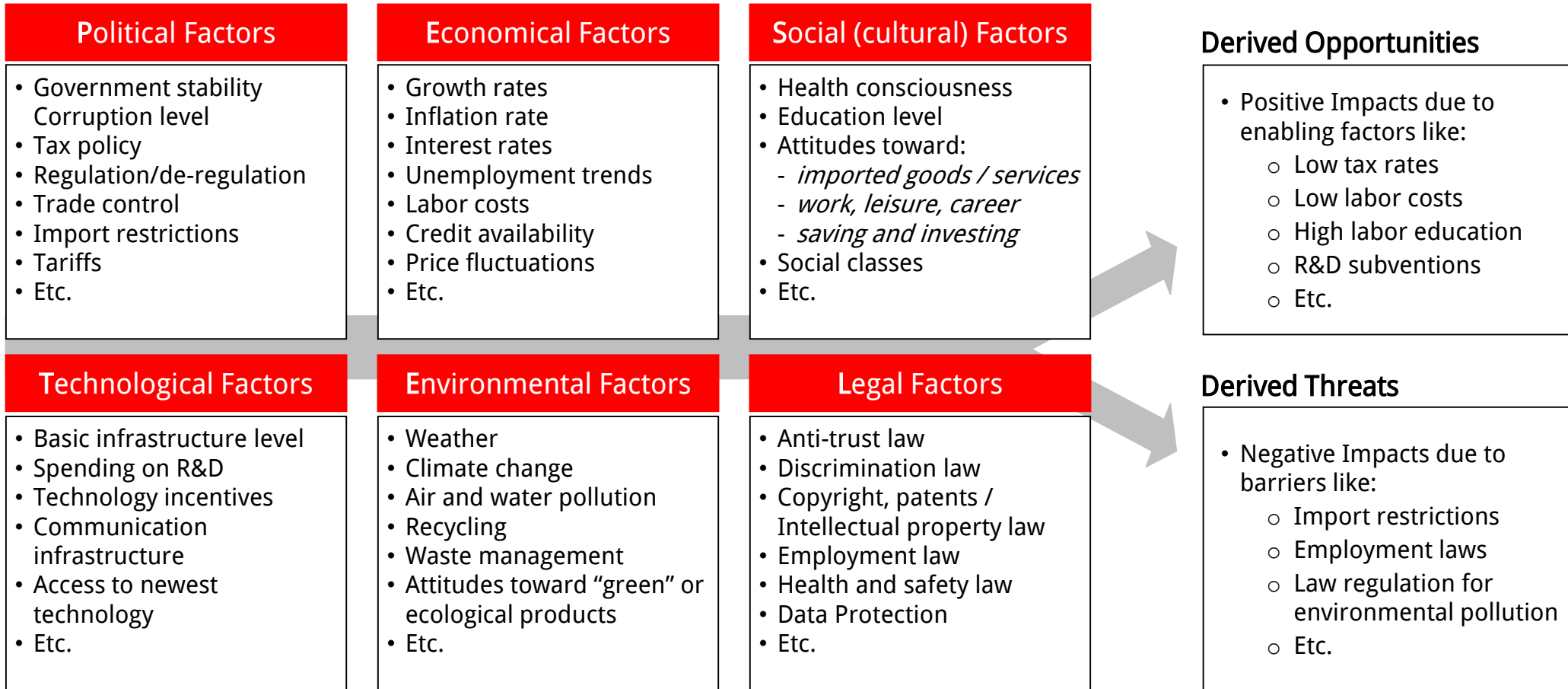


The context analysis strives for identifying enablers or potential barriers which might influence the business - and thus the strategy - on a broad perspective

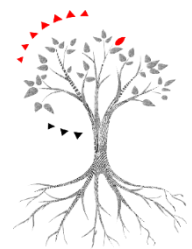


Context Analysis (PESTEL)

EXAMPLES



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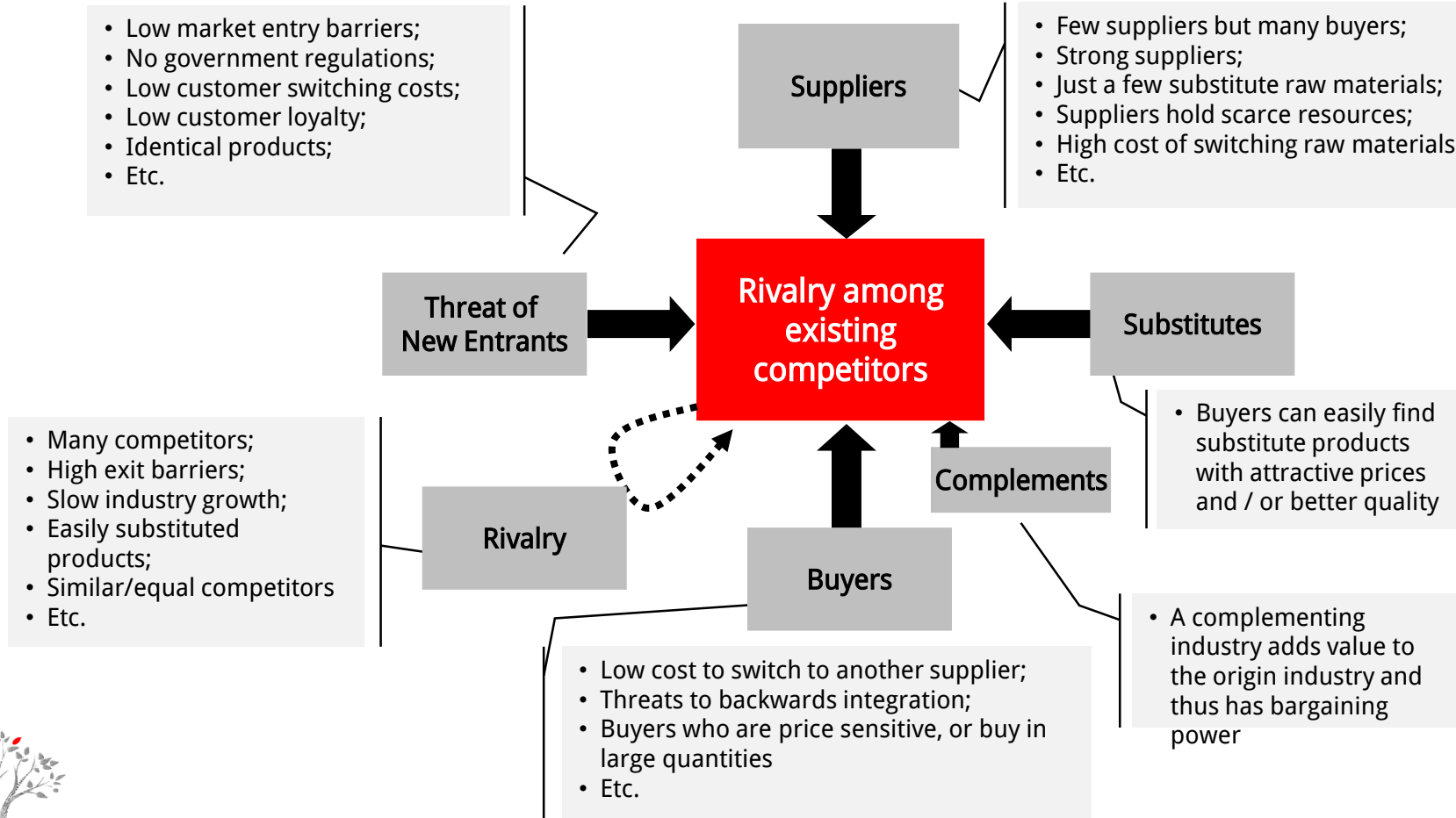




The five forces model is used to determine competition intensity and profitability of an industry to shape a firm's competitive strategy

Industry Analysis (5 Forces by M. Porter)

EXAMPLES



External View

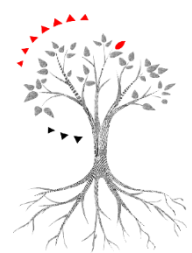
Derived Opportunities

- The lower the forces, the more profitable and attractive the market
- Opportunities exist in terms of partnering with suppliers or competitors to influence a negative market in a positive way

Derived Threats

- The greater the forces, the less profitable and attractive the market
- Threats exist when the bargaining power of suppliers or substitutes can't be overcome and thus there can be no expected market improvement

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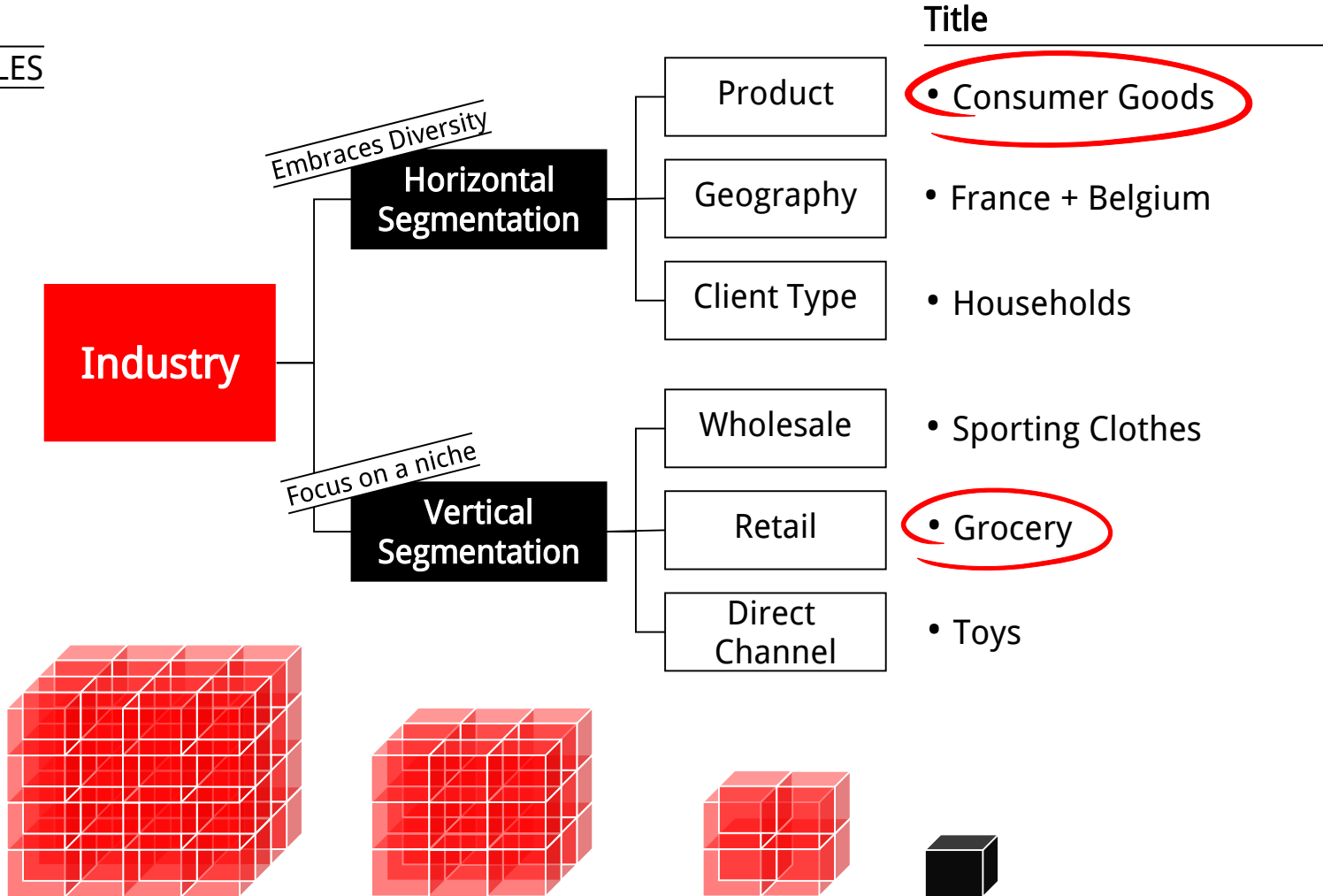




Market segmentation allows firm to find and focus on the most valuable customers, which is crucial because customers want to be understood and treated as if they are the focus

Segmentation

EXAMPLES



External View
Internal View

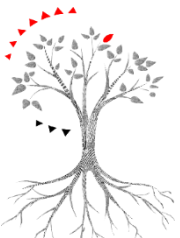
Derived Opportunities

- Identification of new types or classes of customers
- Uncovering unsatisfied needs
- Improvement of allocation of marketing resources
- Identification of new product development opportunity

Derived Threats

- Low competitive position
- Very diversified customer groups
- High anticipated COCA (Cost of customer acquisition)
- Total addressable customer market is low

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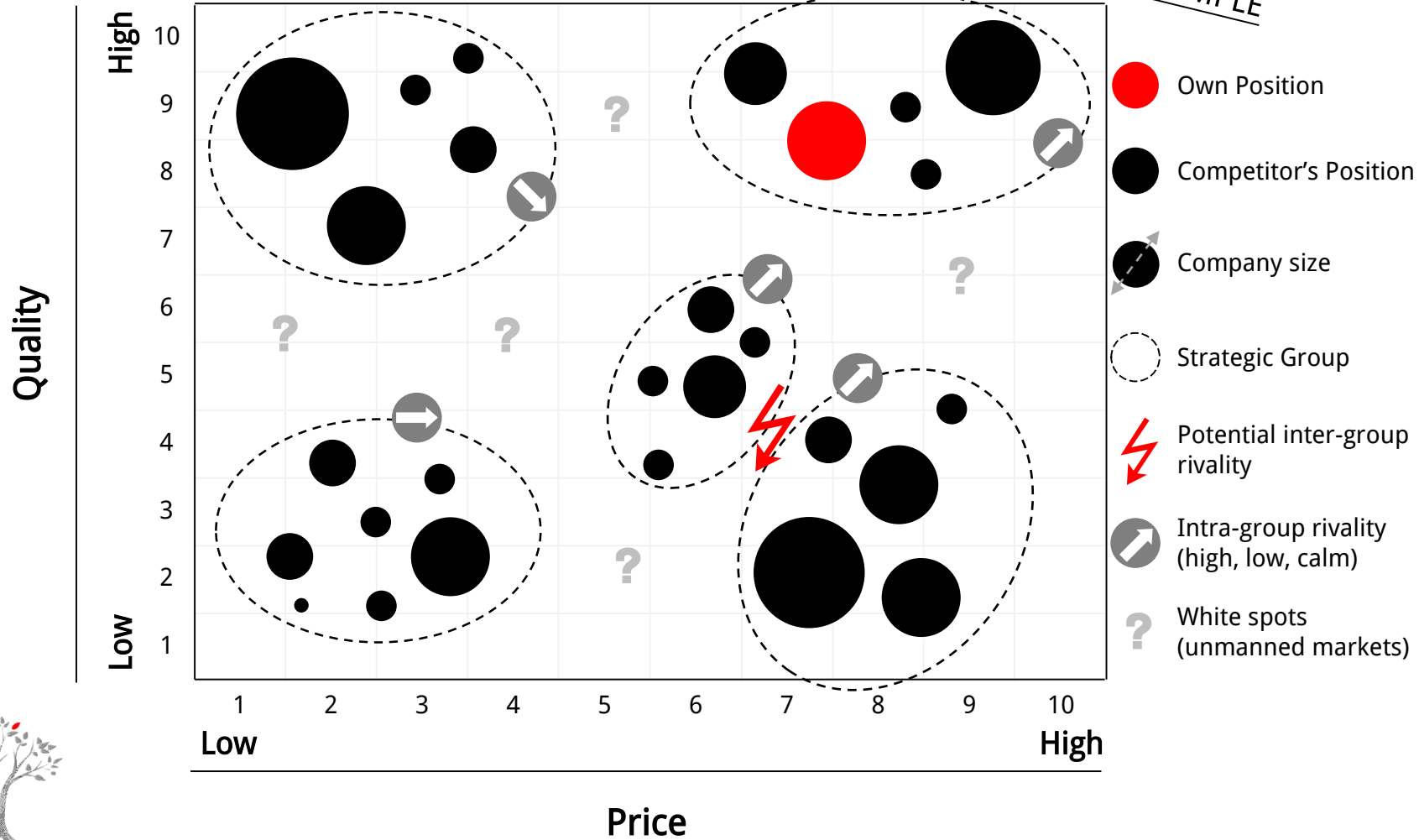


By identifying competitors with similar strategies and positioning them according to industry success factors, opportunities and threats can be derived



Strategic Groups

External View
Internal View



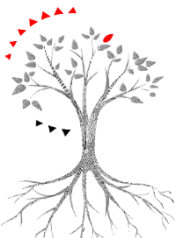
Derived Opportunities

- Opportunities arise, for example, if there is not much competition/rivalry within the firm's own strategic group
- White spots represent opportunities for blue oceans (new market development without competition)

Derived Threats

- Threats exist due to high competition within the firm's own group
- Inter-group rivalry increases threats
- Competitors of the same or similar size, which operate close to the firm's own position implies naturally high risks

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The Competitive Profile Matrix (CPM) is a tool that compares the firm and its rivals and reveals their relative strengths and weaknesses

Competitor Analysis – CPM

EXAMPLES

Critical Success Factors	Weight	Competitor A		Competitor B		Competitor C		Own Position	
		Rating*	Score	Rating*	Score	Rating*	Score	Rating*	Score
Brand reputation	0.13	1	0.13	2	0.26	2	0.26	2	0.26
Level of product integration	0.08	2	0.16	2	0.16	3	0.24	4	0.32
Range of products	0.05	3	0.15	1	0.05	4	0.20	3	0.15
Successful new introductions	0.04	3	0.12	1	0.04	2	0.08	3	0.12
Market Share	0.14	2	0.28	2	0.28	1	0.14	5	0.70
Sales per employee	0.08	4	0.32	3	0.24	2	0.16	4	0.32
Low cost structure	0.05	1	0.05	2	0.10	2	0.10	2	0.10
Variety of distribution channels	0.07	3	0.21	3	0.21	1	0.07	1	0.07
Customer satisfaction	0.02	5	0.10	2	0.04	4	0.08	2	0.04
Financial position	0.11	2	0.22	2	0.22	5	0.55	4	0.44
Strong online presence	0.15	1	0.15	1	0.15	2	0.30	3	0.45
Successful promotions	0.08	3	0.24	2	0.16	3	0.24	2	0.16
TOTAL	1.00		2.13		1.91		2.42		3.13

* Rating 1-5 (1= very low / 5= very high)

	Competitor A	Competitor B	Competitor C	Own Position
Competitive Index	2.13	1.91	2.42	3.13
Ranking	Rank #3	Rank #4	Rank #2	Rank #1



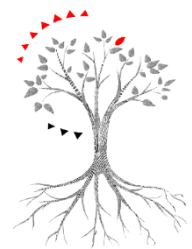
Derived Opportunities

- Identification of industry success factors in which competitor performance is low
- Opportunity to strengthen the entire competitive position according to competitor weaknesses

Derived Threats

- Identification of competitors dominating strength
- No space for competitive advantage
- Expected high cost to develop an outstanding success factor
- Competitors with highly developed success factors

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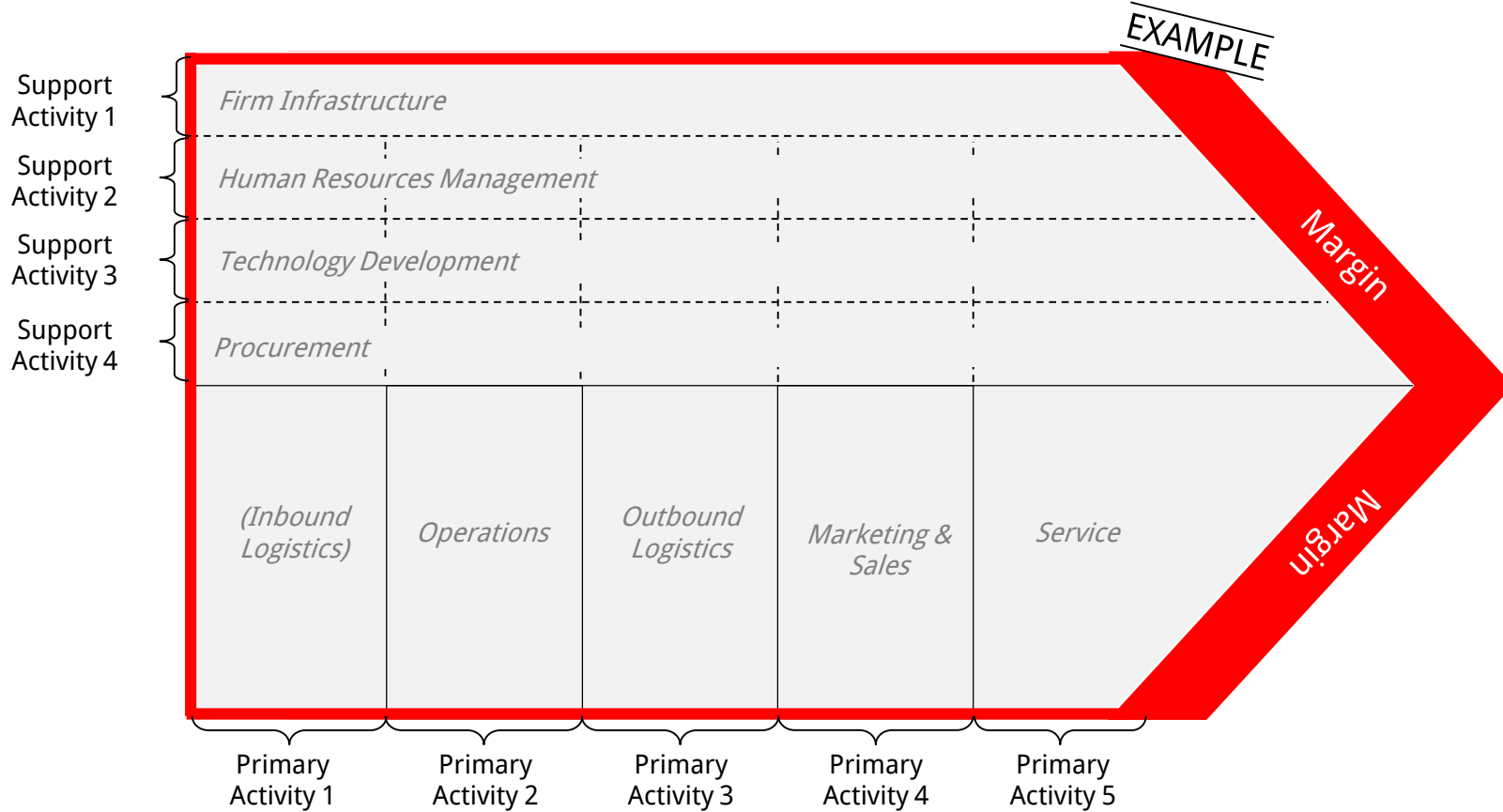




VCA is a process to identify primary and support activities that add value to the final product/service and analyze these activities to reduce costs or increase differentiation

Value Chain Analysis (VCA)

External View
Internal View



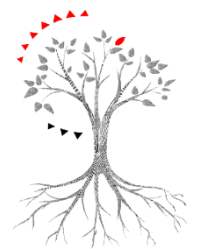
Derived Strengths

- Identification of value adding activities (core business)
- Allows focus on value adding activities and slim non-value adding activities
- Allows for an understanding of the dependencies of the business and bottlenecks

Derived Weaknesses

- No direct core business
- No competitive advantage within the core business
- Easy to adapt or copied activities
- No real value adding activities
- Too large of an operation for a less-than-anticipated outcome

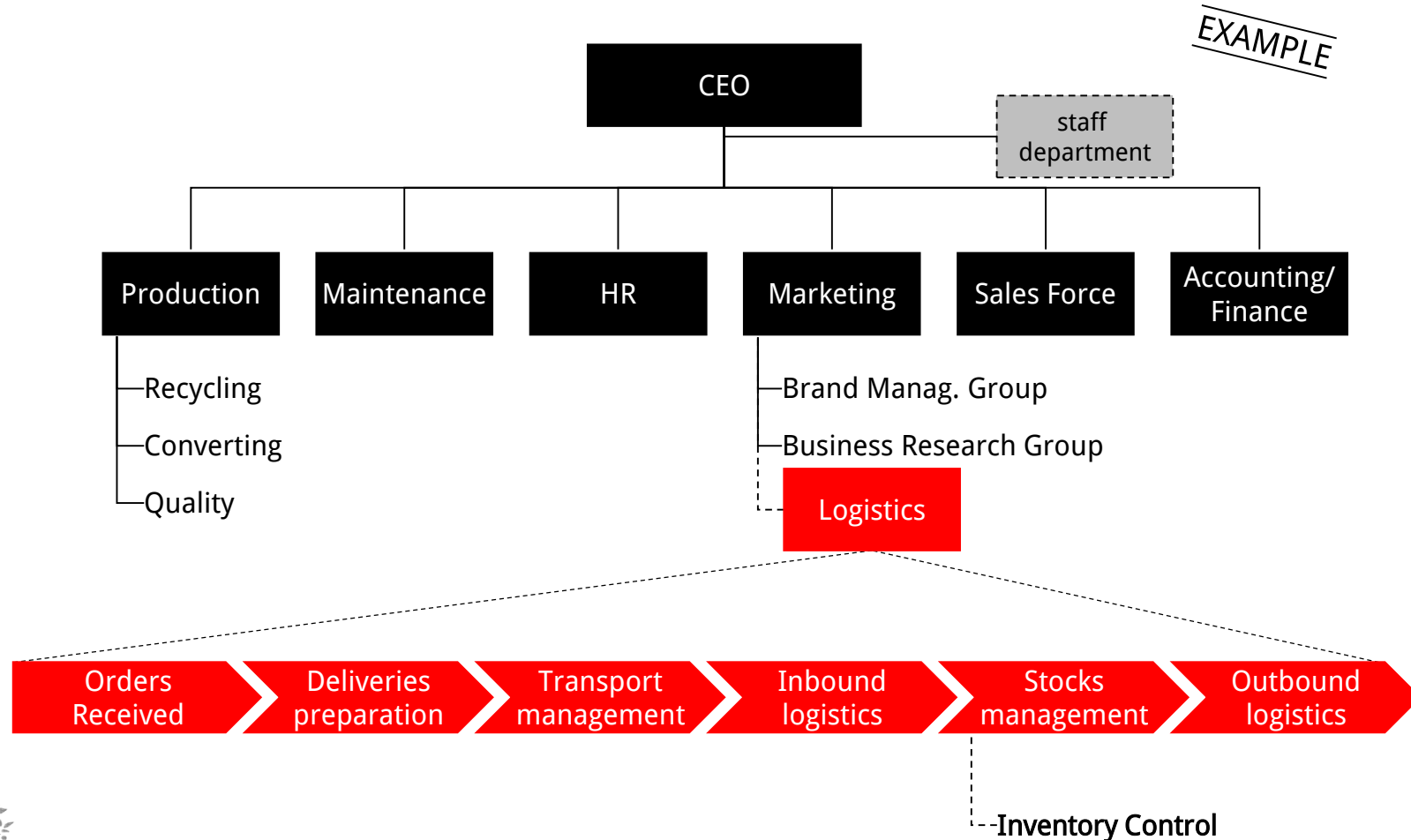
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Organizational Breakdown Structure generally represents the hierarchical structure of an organization related to the WBS elements and the responsibilities for tasks and processes

Organizational Breakdown Structure (OBS)



External View
Internal View

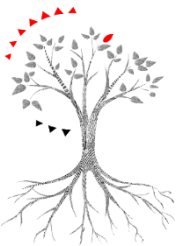
Derived Strengths

- A suitable organizational structure can be a competitive advantage
- Value adding activities must be the core of where the whole organization is built
- Support activities should minimize costs and time

Derived Weaknesses

- A non-suitable organization faces less agility and high costs
- Misaligned processes and activities fail to meet clients' needs
- A bloated organization implies higher operational risks

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The competency analysis focuses on identifying core abilities which should be focused on and that can create competitive advantage – non-value adding activities should be minimized

Competency Analysis

EXAMPLE

Value Chain

	Inbound Logistics (1st)	Operations (2nd)	Outbound Logistics (3rd)	Marketing and Sales (4th)	Services (5th)
Sales / Distribution	NA	NA	O	CO	CO
Human Resources	NA	NA	NA	CO	CO
Marketing and Strategy	NA	NA	NA	D	C
R&D / Technical	NA	C	NA	NA	NA
Legal	NA	CO	NA	CO	NA
Commercial/ Procurement	CO	CO	NA	NA	NA
Corporate Communication	NA	NA	NA	CO	CO
Finance & Control	CO	CO	CO	CO	CO
IS / IT	CO	CO	CO	CO	CO

O
B
S

NA (Not available); O (Outsourcing); CO (Competency); C (Core Competency); D (Distinctive Competency)

External View
Internal View

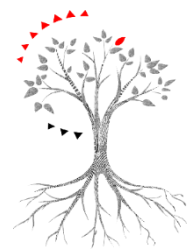
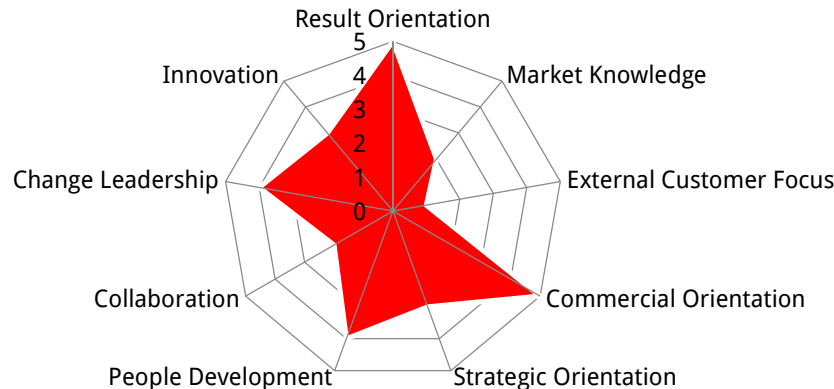
Derived Strengths

- Competencies are those that make a difference to the value delivered to the client
- Distinctive competencies are difficult to copy for the competition
- Competencies allow better performance than rivals

Derived Weaknesses

- Competencies don't produce value for the final customer
- Competencies are common and easy to copy
- Competencies can be replaced by other competitors' abilities
- No competitive advantage through internal capabilities

! Core- or "distinctive" competencies can occur under the surface of the company. Deep-dive analysis of single departments can show high abilities which add real customer value.



Operational risks represent the organizations reliability and susceptibility in terms of defaults while operating daily business tasks and satisfying customer needs



Operational Risk Analysis

EXAMPLE

Department	Processes	Time	Budget	Quality	Overall
HR	Recruiting	MR	HR	HR	HR
	Training	MR	MR	MR	MR
	Career Development	LR	MR	MR	MR
	Performance Development	LR	MR	MR	MR
Marketing and Strategy	Market Research	LR	MR	HR	MR
	Pricing the products	HR	LR	HR	HR
	Planning production and forecasting future demand	HR	MR	HR	MR
	Creating marketing campaigns and advertisement	MR	HR	HR	HR
Procurement	Finding trustable suppliers	LR	MR	MR	MR
	Negotiating long-term contracts with suppliers	LR	LR	LR	LR
	Implementing programs for sustainable farming and fair wages	LR	MR	LR	LR
	Controlling the quality at each stage according to ISO standards	MR	LR	LR	MR
IS/IT	Integrating the suppliers into IT system	HR	HR	HR	HR

LR (Low Risk); MR (Medium Risk); HR (High Risk)



Derived Strengths

- Low operational risks
- Lean organization and agile processes
- Plans for process defaults
- Process management and monitoring allows action before risk event
- Competitive advantage due to lean and low risk organization

Derived Weaknesses

- High operational risks due to long processes with many responsibilities
- Change requests in processing take a long time and imply high cost
- Processes are not monitored
- Customers can't customize products/services

Overall Risk Evaluation			
HR	Marketing and Strategy	Procurement	IS/IT
Comment / Action ...	Comment / Action ...	Comment / Action ...	Comment / Action ...

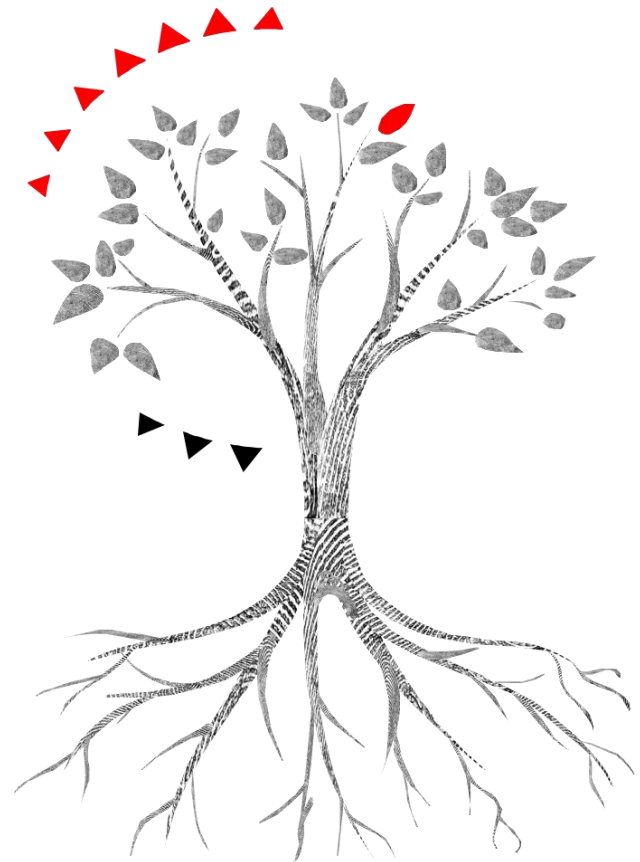
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SWOT analysis involves the collection and portrayal of information about internal and external factors which have an impact on the business and the future strategy

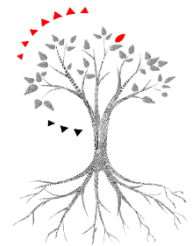


SWOT Analysis + TOWS Strategic Alternatives Matrix

	1) 2) 3) 4) 5) Opportunities	1) 2) 3) 4) 5) Threats
1) 2) 3) 4) 5) Strength	SO-Strategy	ST-Strategy
	<i>"Maxi-Maxi" Strategy</i> Strategies that use strengths to maximize opportunities.	<i>"Maxi-Mini" Strategy</i> Strategies that use strengths to minimize threats.
1) 2) 3) 4) 5) Weaknesses	WO-Strategy	WT-Strategy
	<i>"Mini-Maxi" Strategy</i> Strategies that minimize weaknesses by taking advantage of opportunities.	<i>"Mini-Mini" Strategy</i> Strategies that minimize weaknesses and avoid threats.

- ✓ Review of the gathered data and outcome of the analysis
- ✓ Distribution of outcome in terms of:
 - Opportunities;
 - Threats;
 - Strength; and
 - Weaknesses
- ✓ Crossing of external and internal factors to:
 - a) increase opportunities by using strength
 - b) decrease threats by minimizing weaknesses

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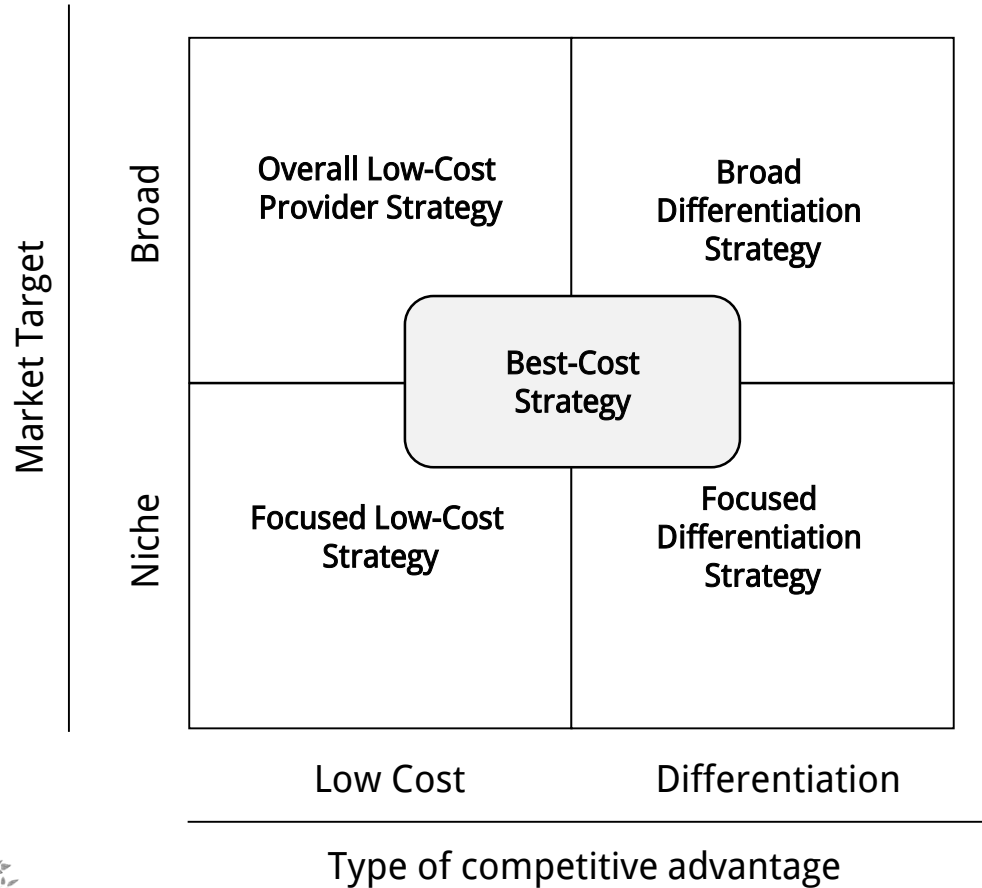




In general, every strategy has a baseline to gain a competitive advantage. Three generic fundamentals are the differentiation strategy, the focus strategy, and the low cost strategy



Strategy Derivation



Overall Low-Cost Provider Strategy

A pricing strategy in which a company offers a relatively low price to a wide market (broad range of customers) to stimulate demand and gain market share.

Focused Low-Cost Strategy

A strategy in which a company concentrates its resources on entering a narrow market or industry segment through additional low cost offers.

Best-Cost Strategy

A strategy in which a company offers an upscale product at a lower price which in turn adds more value to customers for their money.

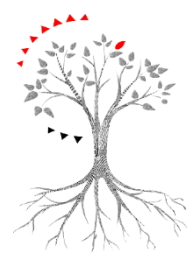
Broad Differentiation Strategy

Approach under which a company aims to develop market uniqueness for a specific product or service for different customer segments.

Focused Differentiation Strategy

A strategy in which a company concentrates its resources on entering into a narrow market or industry segment by additionally offering a wide product portfolio.

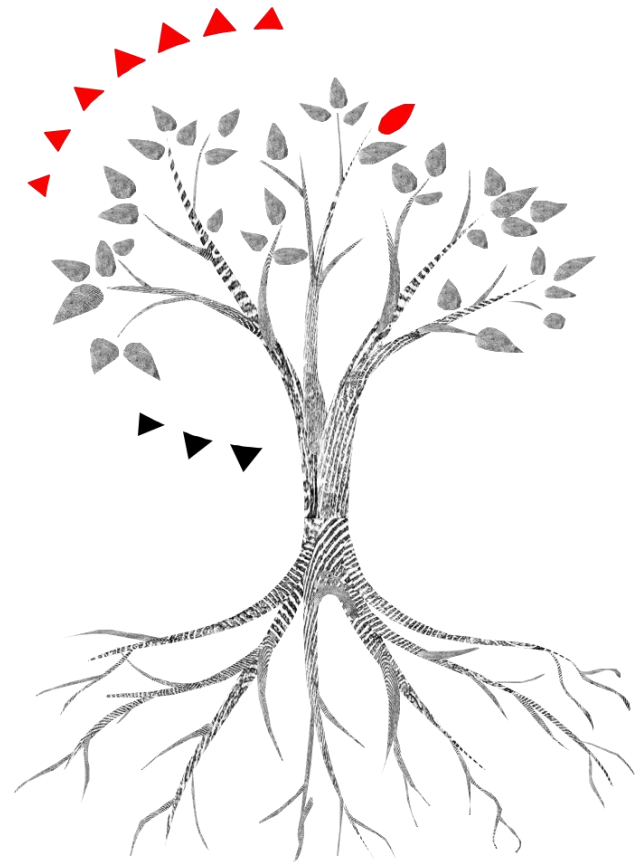
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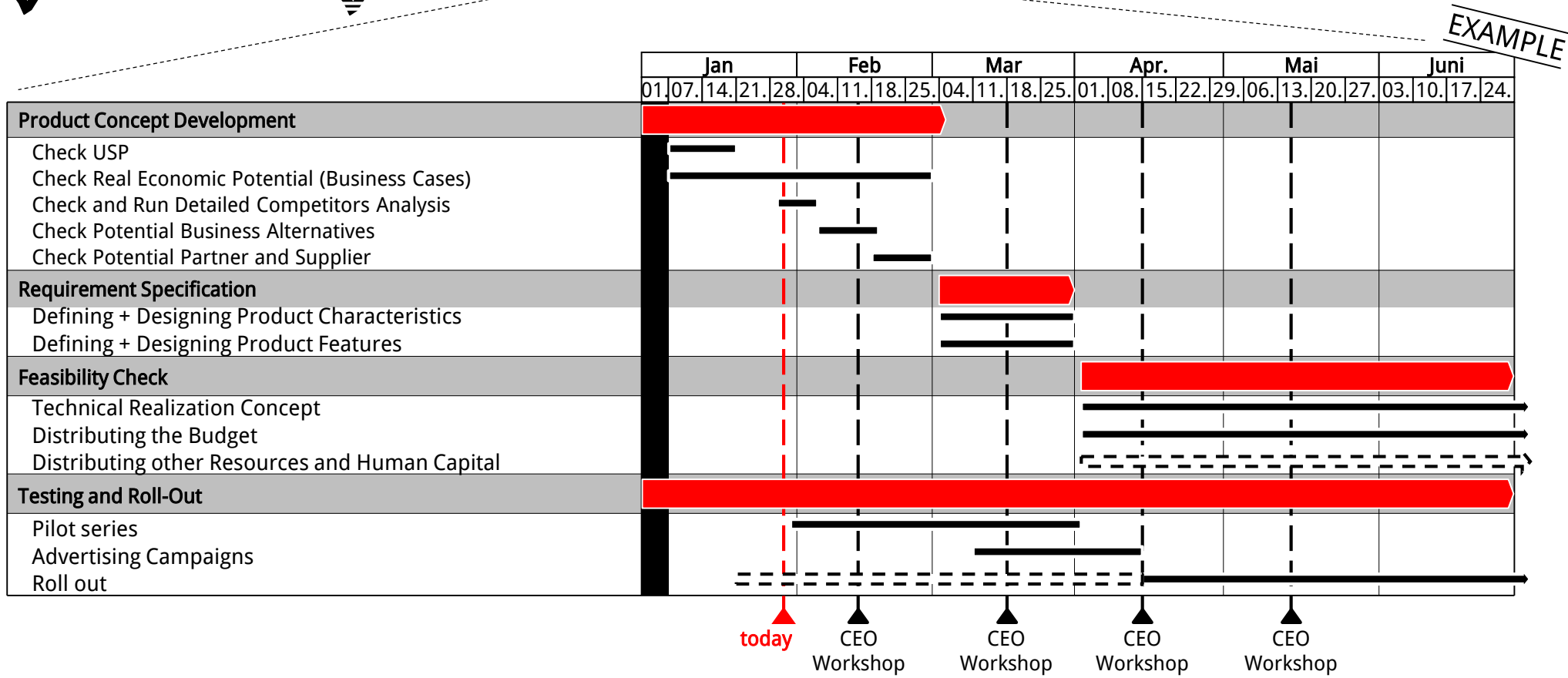
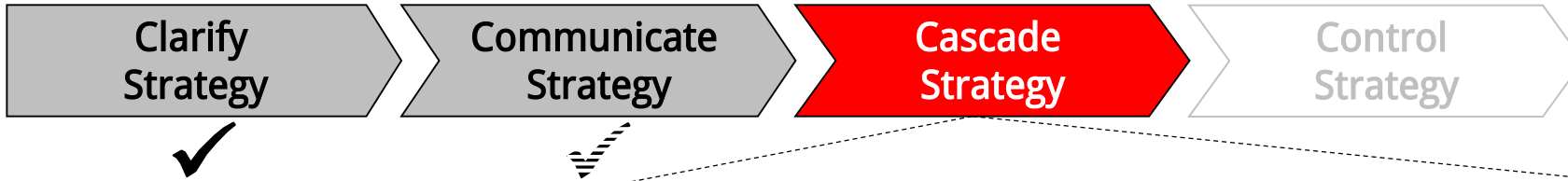
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The strategic implementation describes the process that puts the strategy into action through goals and responsibilities, which can be controlled and measured

Strategy Breakdown



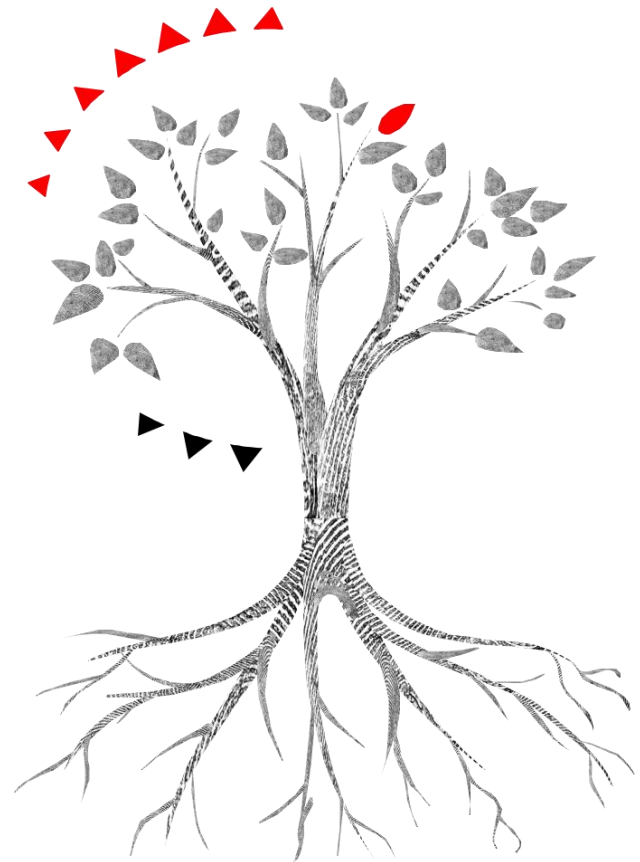
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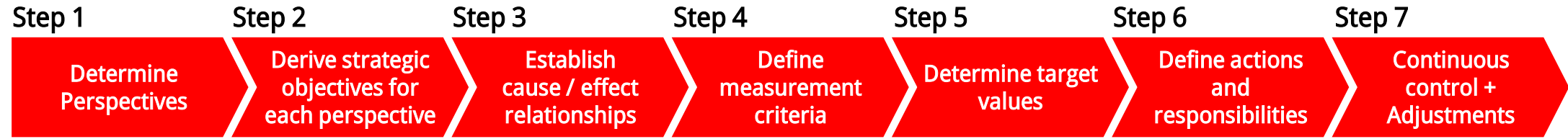
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Strategic controls are a very significant component that follows implementation – they track, monitor and evaluate effectiveness as well making necessary adjustments possible

Measurement Criteria and Adjustments



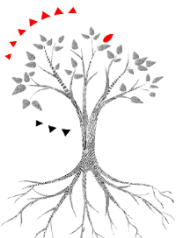
Perspective

Balanced Scorecard ↓

Perspective	Strategic Objectives	Measures (KPI)	Targets	Initiatives
Financial	<ul style="list-style-type: none"> Maximize Returns Profitable growth 	<ul style="list-style-type: none"> ROCE Revenue growth 	<ul style="list-style-type: none"> (+) 14% (+) 6% 	<ul style="list-style-type: none"> /
Customer	<ul style="list-style-type: none"> Reduction of customer complains 	<ul style="list-style-type: none"> Customer satisfaction rating 	<ul style="list-style-type: none"> (-) 20% 	<ul style="list-style-type: none"> Customer satisfaction survey
Internal Business Processes	<ul style="list-style-type: none"> Ensure reliable services 	<ul style="list-style-type: none"> Reliability Index 	<ul style="list-style-type: none"> 92/100 	<ul style="list-style-type: none"> /
Learning and Growth	<ul style="list-style-type: none"> Increase leadership effectiveness 	<ul style="list-style-type: none"> Leadership rating 	<ul style="list-style-type: none"> 4.5/5.0 	<ul style="list-style-type: none"> Leadership training program

EXAMPLE

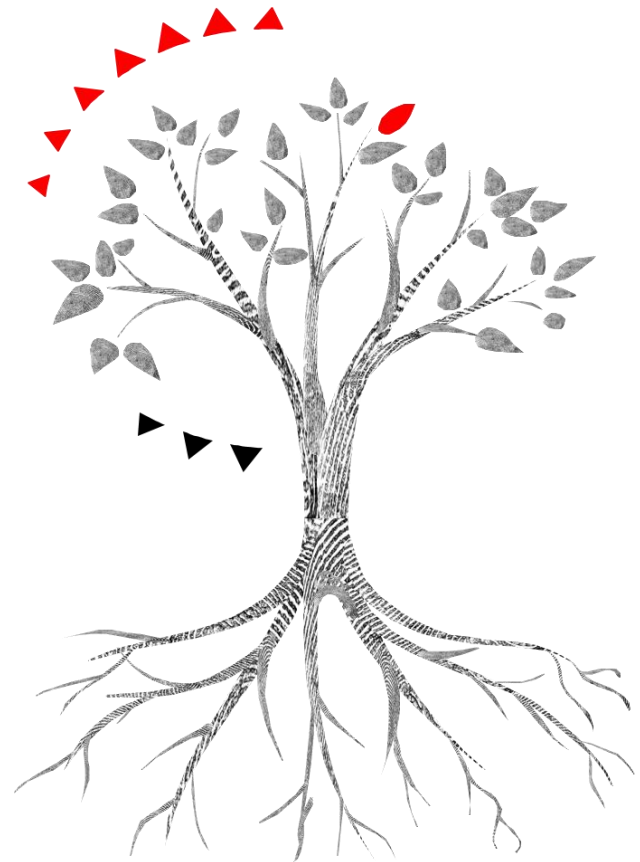
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We focus on our clients problems and therefore we work closely with our clients on a partnership basis



Your contact person

Distinctive Strategy Consulting
Lisbon, Portugal



Jan Stange

Founder & CEO

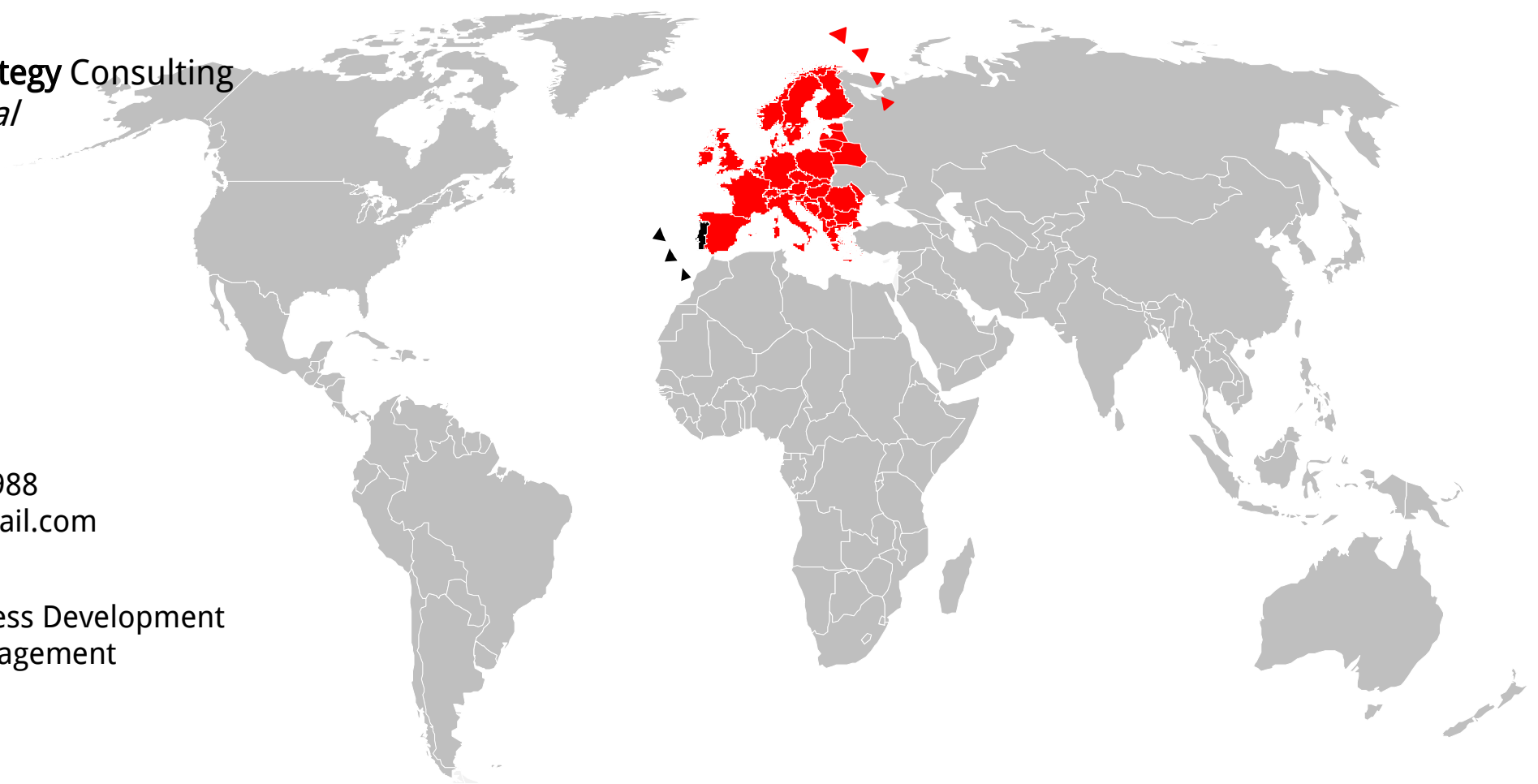
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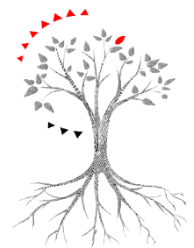
Specialization

Strategy & Business Development

Turnaround Management



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