



Have you stress tested your strategy recently?

Ask most CEOs if their business has a strategy. They will tell you sure – we use such and such a strategy framework. We got our team together and had a strategy offsite. They might even say they have a strategic plan. Most will have a clear ambition or big goal to dramatically improve revenue or profits. However the strategy to achieve this ambition is normally less clear.

Your company probably has its own way of developing strategy. You may have a particular approach that you use that fit your markets, people or products. You may even involve the Board or an external facilitator. Your strategy may have evolved over time.

Whatever your favourite way, CEOs tell us that many strategy sessions involve some strategy creation tools, flip charts, powerpoints and various conversations, often somewhat fragmented. Many find it hard to achieve a coherent strategy and execution plan around which their team is aligned.

Other CEOs tell us of the benefits of well thought through strategies. They say how the clarity of the strategy simplifies decision making and motivates their teams.

Either way, the pace of change means stress testing your strategy is more important than ever. Winston Churchill is reported to have said *“however beautiful the strategy, you should occasionally look at the results”*. We agree and recommend the following five questions to stress test your strategy. They will help identify where your strategy might need some further work.

Stress Test 1: Is your strategy clear about where you are going to compete?

Deciding where and where not to compete is the most concrete test of strategy. Getting your team aligned around your sweet spot has a disproportionate impact on performance.

As CEO, defining where you are going to compete and ensuring that sales, marketing and production are all pursuing the same sweet spot is the most important strategy decision you will take. The right choice could have a 50% + impact on revenue growth and profitability.

Many strategies avoid this or are vague about the choices made. Good strategies are clear about their scope – what are you going to sell to who and where? They are also clear about where they are not going to compete. If you duck these questions, you really have no strategy at all.

Stress Test 2: Is your strategy based on a unique insight?

Hoping for unique insight by trawling the internet or scanning analyst reports is unlikely to prove a winner. Your competitors will have done the same. The data is ubiquitous.

Yesterday's insight can be today's commodity. Challenge the status quo and look to future trends. Look at what cheeky start-ups are doing, rather than older established companies.

Strategy masters have the uncanny clarity of unique insight about the future. They make the right choices today to take advantage of tomorrow. Famous Canadian ice hockey player, Wayne Gretzky captured it nicely when he said *"I skate to where the puck is going to be, not to where it has been"*.

The pace of change makes developing unique insight harder. It requires deeper focus to obtain a new clarity and perspective. Most mid-sized companies have a great advantage when seeking insight. They are closer to their customers than their bigger rivals. By putting in the effort, they can understand their customer's personas and perspective first hand.

Be curious when speaking with your customers. Challenge the status quo. Use tools like the '5 Whys' to gain a deeper perspective of the root cause of their problems or latent needs. Consider 'what if' these problems could be solved in a different way? Consider how these problems might be solved in the future, using technology or a new business model.

Great CEOs have an ability to take contrarian insights and build whole businesses around them e.g. in retail think IKEA and Zara. They test their insights with simple hypothesises and experiments, before going on to invest in capabilities to deliver on their insight.

Stress Test 3: Is your strategy based on a unique capability?

How and why does your company make money? How does it's financial performance compare to your peers. Companies that make higher profits than their peers typically have a real competitive advantage, based on unique capabilities. Dig away at financial performance and the truth behind competitive advantage starts to emerge. For example, a technology client of ours had great bottom line profits – digging revealed that 80% of those profits were from less than 23% of customers who truly valued their special engineering capability.

Many companies claim special capabilities. Their teams are offhand and almost arrogant as they list off 'unique' capabilities. Others have a special capability (often emanating from the founders - for example, a commitment to customer service excellence or great engineering - that needs to be sharpened or strengthened).

Betting on one or two unique capabilities to help you win is hard. Yet, it's the right thing to do. Your strategy should highlight a clear insight (IKEA's insight was cheap, flat-pack nicely designed furniture) – and a commitment to take advantage of that insight.

Good strategies are clear on the unique capabilities they are going to build. They are also clear on the sequence and timing of the investment to deliver them. Great strategies often bundle a number of unique capabilities together and become harder for competitors to copy.

Stress Test 4: Is your strategy balanced and challenged by multiple perspectives?

Strategy is a set of choices about an uncertain future. None of us is clairvoyant. Strategic thinking and dialogue is prone to poor judgement. Individual contributors may have blind spots.

Whether it is the Founder CEO who has drunk too much ambition Kool-Aid, the investor who exhorts 10X growth or the more conservative members of the team, who cling to the past – a fine balance if needed. Equally a dominant functional bias needs to be balanced – if sales is the dominant mindset, then that might need to be balanced by a stronger delivery focus.

Vague or fuzzy thinking in strategy blurs progress. Future assertions should be supported by documented business assumptions to be tested. The financial plan should reflect the strategy. If an element of the strategy is to grow by selling more to existing customers, then this should be clearly documented and tested in the financial model.

Strategy is a dialogue. It's both an individual and team sport. A strategy created and driven by one perspective is less likely to succeed. A dominant CEO and senior team (no matter how talented) need their strategic thinking challenged. Whilst those external to the business lack domain knowledge, experienced strategists have the pattern recognition of how multiple strategies played out. They will see both the strong points and potential flaws more incisively.

Stress Test 5: Is there buy-in to the strategy and a committed action plan?

Does your team and company understand your company's strategy and how they can contribute to it? We often ask client team members these three simple questions:

1. On a scale of 1-10, how clear is your company strategy?
2. What is your company strategy?
3. How do you contribute to executing that strategy?

The answers point to either strong or strategies in need of some further work.

Strategy without execution is hallucination. A key test of strategy is the quality of the action plan. How realistic is it? How can assumptions and progress be tested? Who is accountable for different elements?

Look to resource allocation when testing the committed action plan. Is current and proposed resource allocation in line with the strategy? For example, we recently reviewed a plan with projected growth in the US Market of \$11m sales within 24 months but the sales team was not resourced to achieve this.

The frequency of strategy reviews is a good clue to buy-in and commitment. If strategy reviews only take place annually, then commitment may be weak. A review every 90 days with committed actions plans to deliver key elements of the strategy shows much higher commitment.

Insight in Brief

All companies have a strategy. Some may have it in the founders' heads. Others may have it more formally documented. A clear strategy makes decision making easier and improves performance. Conduct a simple 'Strategy Stress' test with your team to see how strong your strategy is.

Insight in Action

At your next management meeting, try conducting this simple strategy test: it consists of the following five inter-related questions:

1. Is your strategy clear about where you are going to compete?
2. Is your strategy based on unique insight?
3. Is your strategy based on a unique capability?
4. Is your strategy balanced and challenged by multiple perspectives?
5. Is there buy-in to the strategy and a committed action plan?