



# FORMULATING STRATEGY

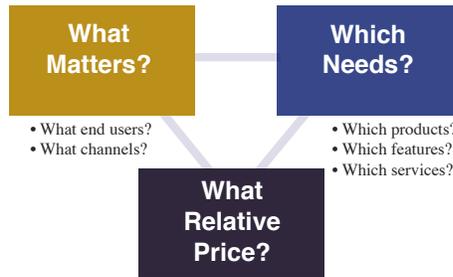
*"The worst error in strategy is to compete with rivals on the same dimensions."*

- Michael Porter, Harvard University

Before we define what strategy is and how an effective strategy is put in place, since there are many misunderstandings about the topic of organizational strategy, let's define what strategy is not. Strategy is not about operational effectiveness -- trying to be better, faster, or cheaper than a competitor. This is simply being more efficient than competitors. Nor is strategy about benchmarking or trying to do the same things as your competitor but doing them better. This may lead to short term advantage at best. Strategy is also not about trying to be number one in a given market. That is a statement of aspiration that simply defines how well you want to do, not what you want to do. So what is strategy?

competitive advantage. It involves developing a different and tailored "value chain" or set of activities that support and help to differentiate the organization's strategy. It involves deciding what not to do as much as what to do.

### Defining the Value Proposition



## It's About Uniqueness

Strategy is the process of competing to be unique rather than competing to be the best. It involves defining a unique value proposition through which the organization will achieve and maintain

Let's take a business example. Whole Foods is a recent entrant into the grocery industry. Having no way to compete in a crowded market that includes a number of large competitors such as Kroger, Supervalu, Albertson's, and Safeway, Whole Food's adopted a strategy of uniqueness.

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They adopted a strategy of providing totally natural, organic, fresh and prepared foods and health items with excellent service and at a premium price. They focused on educated, middle class and affluent customers that were passionate about food as a part of a healthy lifestyle. This was a niche in the market that no one else was serving. They supported this strategy with a series of distinctive activities including café style seating in areas with high speed internet for meetings and meals, well lit and inviting store formats with appealing displays and extensive prepared food sections.

### Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Educated, middle class, and affluent customers passionate about food as a part of a healthy lifestyle

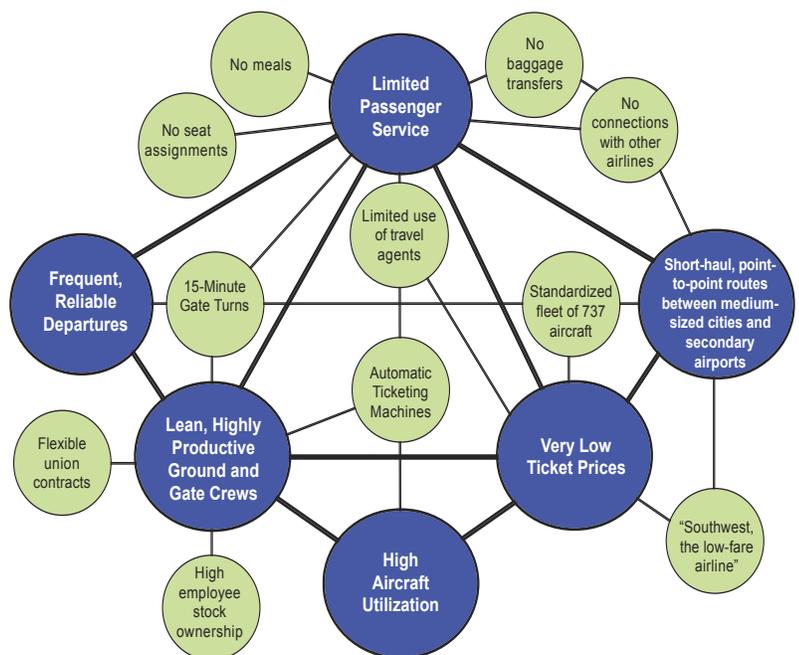
### Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meetings and meals
- Each store carries local produce and has the authority to contract with the local farmers
- Information and education provided along with products
- High touch in-store customer service via knowledgeable, non-unionized, highly motivated personnel
- Egalitarian compensation structure
- Own seafood procurement and processing facilities to control quality (and price) from the boat to the counter
- Donates 5% of profits to non-profits
- Each store has “green projects,” directed by employees to improve environmental performance

Whole Foods has been extremely successful as a result. Though their sales are less than a tenth those of Supervalu or Albertson's, their market value at approximately \$6 billion is similar to those of Supervalu and Albertson's. Their market value to sales ratio is 4 times that of the industry average.

### A Tailored Value Chain

Having a unique value proposition is not enough. It must be supported by a set of integrated activities that fit the strategy and contribute to the unique strategic positioning of the organization. This is called the value chain. Southwest Airlines for example has a strategy to be a low-cost airline providing short haul point to point routes with frequent and reliable departures. There are many internal company practices that enable this strategy.





As Jim Collins says, “leadership is the process of alignment.” All activities of the organization must line up in support of the strategy and present a “value chain” that creates advantage in the marketplace. This is what makes a good strategy difficult to imitate or copy.

Kevin Rollins, Vice Chairman of Dell was asked what it is about Dell’s direct sales strategy that is so difficult for competitors to copy. He responded, “It’s not as simple as having a direct sales force. It is not as simple as having mass customization in plant or manufacturing methodology. It’s a whole series of things in the value chain from the way we procure, the way we develop product, the way we order and have inventory levels, and manufacturer and service support. The entire value chain has to work together to make it efficient and effective.”

#### ***Four Elements of An Effective Strategy***

- A unique value proposition compared to competitors.
- A different tailored value chain with activities that fit together and reinforce each other.
- Clear tradeoffs, and choosing what not to do.
- Continuity of strategy with continual improvement in realization

The four key elements then of a good strategy include a unique value proposition that differentiates your organization from others, a set of trade offs about what your organization will do and won’t do in serving its customers, and a different and tailored value chain supported by activities that fit together and reinforce each other.

A final element is continuity with a focus on continual improvement in implementation and execution of the strategy. A strategy is dynamic and not static and must be continually adjusted as conditions change in the competitive environment faced by the organization. Putting together a strategy is not an event but an ongoing process.

### Communicating Strategy

Having put together a strategy, the leadership of an organization has to make sure that all understand the strategy and how their part in the organization contributes to the strategy. Generally speaking the rule of thumb is that you cannot be too clear in conveying strategic issues to employees. As Peter Drucker said, every brick layer should know that he is building a cathedral as he carries out his day-to-day work. Getting the water to the end of the row is difficult as the chart below suggests:

***How Well Does the Senior Management Do In Communicating the Mission and Strategy of the Organization?***

	Executives	Middle/First level
Very effectively	47%	8%
Somewhat effectively	46%	18%
Not too effectively	5%	36%
Not at all effectively	1%	34%
Not sure	1%	3%

—Kouzes and Posner, Leadership Credibility



*“Leadership is the process of alignment.”*

—Jim Collins, Built to Last.

### What Is BYU's Strategy?

BYU is an excellent example of an organization with a clear and effective strategy. Though BYU has no formal written strategic plan, BYU maintains a clear strategic positioning in the college and university “market place.” Since very early in its history, BYU has tried to be a provider of faith-based undergraduate education at a very low cost and in an honor code environment. Many talks given by BYU leaders and leaders of the Church have confirmed this strategy and it is clear that BYU is virtually unrivaled in accomplishing this strategy.

It is as clear what BYU will *not* do as it is what we *will* do in support of this strategy. BYU will continue to emphasize teaching over research and will not substantially grow its graduate programs at the expense of its undergraduate programs. It will remain primarily a teaching institution rather than a research institution.

There are many BYU “value chain” activities that support this strategic position. The way faculty and staff are hired including an interview with a general authority for a faculty hire and the use of a temple eligibility process in all hires is an example. The ecclesiastical endorsement process for all entering students is another as is the existence and enforcement of a BYU honor code on and off campus. The teaching of religion classes, the provision of a counseling center, and the availability of off-campus housing that requires BYU standards are also examples.

### Things To Do

- ✓ Determine what it is that your organization uniquely provides that can form the basis of a strategic position in the marketplace you serve. What is it that you do that other organizations on or off campus cannot do in the same way or as well as your organization?
- ✓ Make sure that the activities and processes in your organization “line up” with your strategy. If there are activities that hinder or run counter to your strategy, make the necessary changes so that you have strategic alignment within your organization.

### The Bottom Line

Strategy is about defining and offering a unique set of products and service. It is not about being more efficient or operationally effective than others. It is not about competing to be the best. It is about competing to be unique.

