



Strategy Development

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THE BOSTON CONSULTING GROUP

Agenda

What is strategy? Why is strategy useful?

Portfolio strategy: Managing (and balancing) diverse goals

BREAK

Business strategy: Defining what to do and how to do it

Conclusion

Strategy defined

The organization chooses to do some things—and not others—based on a data-driven process that reveals and compares alternative

The objective is to develop sustainable advantage in delivering impact.
Even for civil society

Strategy is an integrated set of choices that positions an organization to win.

The choices, and thus the organization's activities, are internally consistent.

Resources are deployed toward chosen activities and away from others.

Comparative advantage is central to understanding strategy, regardless of whether or not the organization is profit-seeking

Civil society organizations are constantly competing ...

Competing for resources

- Bidding for donors' money
- Competing for talented workers' time
-

Competing for attention

- Striving to get media attention
- Competing for the public's interest
-

Competing for access

- Getting the attention and support of decision makers
- Getting access to areas (or people) that could most benefit from your work

... and they are constantly cooperating

Partnering to achieve impact

- Different organizations focus on different tasks, such as mobilizing the public or interacting with corporations
-

Coordinating activities to reduce overlap

- Ensuring that different organizations don't send mixed messages to vulnerable groups
- Helping beneficiaries navigate offerings
-

Understanding comparative advantage is essential to understanding strategy. It's about:

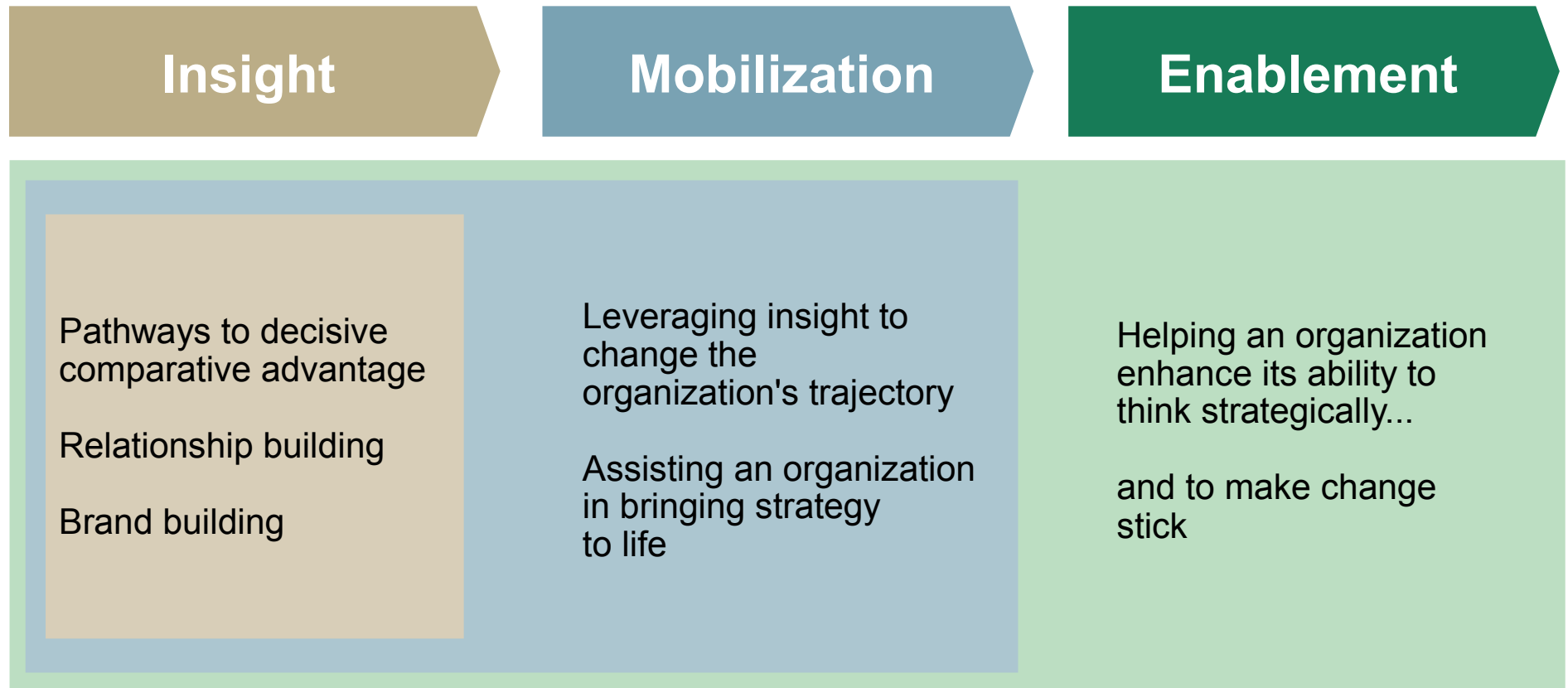
- "Focusing on what you do best"
- "Letting others do what they do better"
- "Positioning our organization to best achieve impact"

BCG's perspective on strategy: five propositions

Adapted for the civil society setting

- 1 Strategy is about achieving superior relative advantage—it is not enough to create impact, you must focus on where you can create more impact than others
- 2 Advantage can manifest itself as a lower cost position, the ability to create additional impact, or the control of a critical asset
- 3 Advantage is only real if sustainable and unique—"hard to imitate" advantages are thus typically either structural or capabilities-based
- 4 The scope for achieving sustainable advantage differs by industry type and region—the typical unit of competition is business unit, but it can be a broader ecosystem
- 5 No advantage is forever—enterprises must adapt to the changing competitive environment or lose their reason to exist

Strategy is about transformation—Good ideas are not enough



Strategy is not strategy without results

Why is strategy important?

Strategy provides guidance and a sense of mission

- Employees know how their activities fit into the overall picture
- Stakeholders understand how the organization can help them
- Donors can see the value they are creating through their contributions

Strategy ensures resources are placed where they are most effective

- Resource allocation becomes a conscious choice, rather than a reaction
- Regular review of past activities ensures visibility of their success (or failure)
- Constant view towards the future helps counteract inertia

Strategy allows an organization to react before a crisis

- Clear view of trends helps to uncover shifts before they grow too large to handle
- Shifts in potential over time are more visible
-

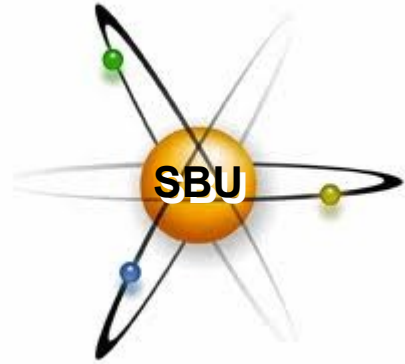
**If your own strategy is clear, you can help others
(like your donors) define their strategy**

Question



**What role does
strategy play in your
organization today?**

Basic unit of strategy is the "strategic business unit" (SBU)



The **strategic business unit** is the "atom" of corporate strategy. It represents a homogenous and largely independent group:

- which has similar goals and measures of success
- functions in consistent market conditions with consistent trends
- faces the same or a similar set of competitors
-

This could be a department, a division, a country office, or even an entire organization

Examples of strategic business units

- Infant and young child nutrition
- Malaria prevention
- Carbon reduction
- Sustainable farming education

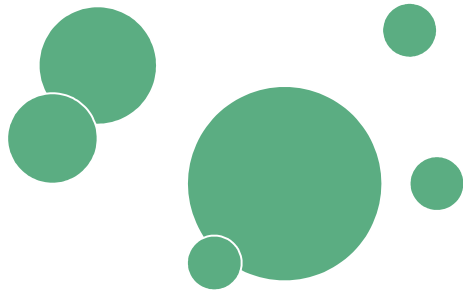
Not strategic business units

- Advocacy
- Fundraising
- Partnership management

Corporate strategy deals with SBUs on two levels

Portfolio strategy

Where does the SBU fit in overall picture?

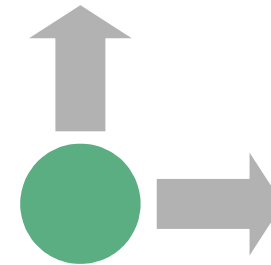


How does an SBU relate to other SBUs?

- Is it bigger or smaller, more or less effective, older or younger, ...
- Should it receive more investment or less?
- What type of goals should it have?
- What role does it play in the overall picture?

Business strategy

How should the SBU develop?



What should the SBU do to be successful?

- What is its advantage relative to competitors?
- What should its key activities be?
- What specific targets should it reach?
-

We will discuss both levels this morning

Agenda

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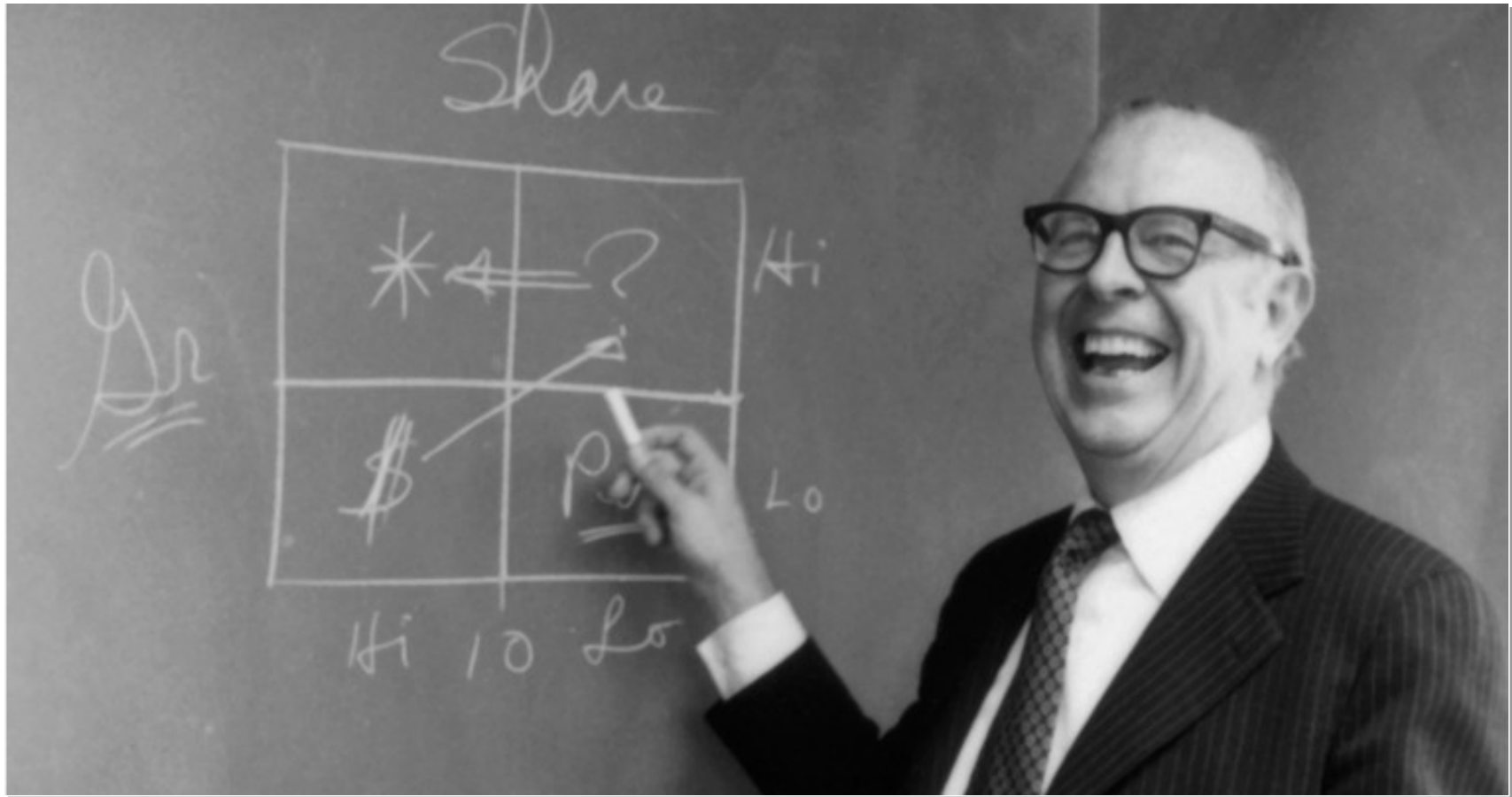
Portfolio strategy: Managing (and balancing) diverse goals

BREAK

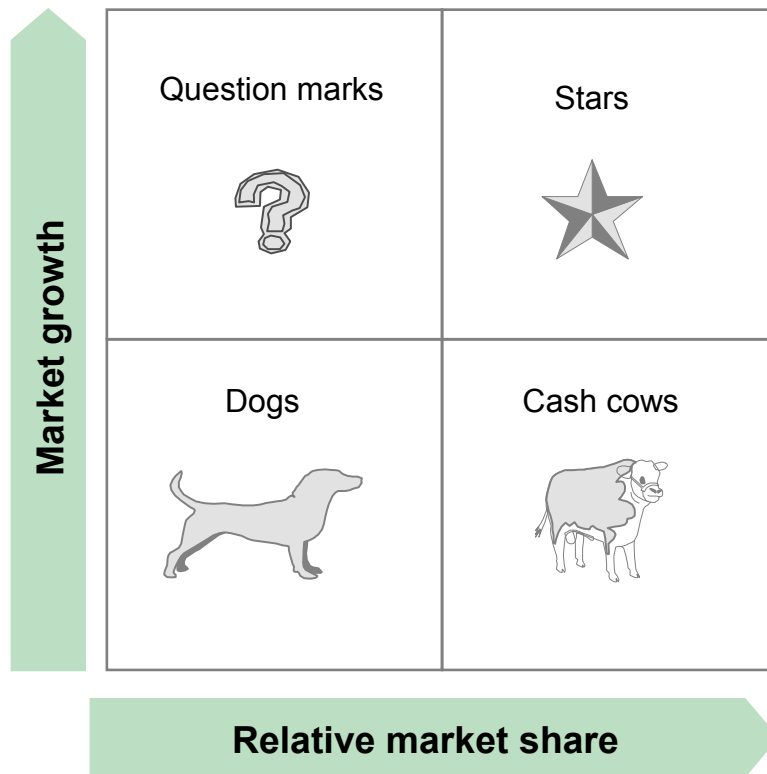
Business strategy: Defining what to do and how to do it

Conclusion

How it all began: the BCG growth-share matrix



How it all began: the BCG growth-share matrix



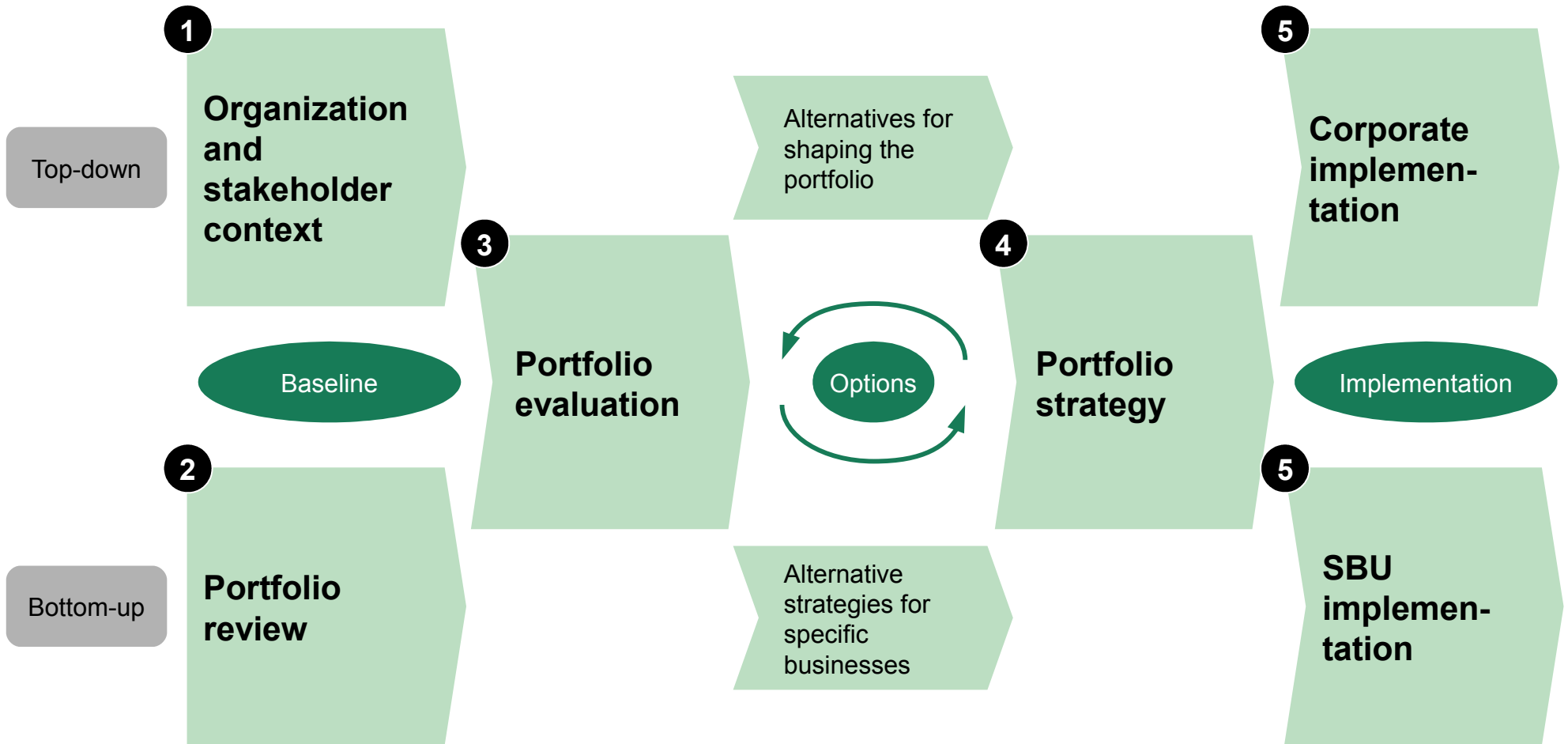
Implicit assumptions of the growth-share matrix

- Higher growth implies higher cash consumption
- Higher relative market share implies higher cash margins when growth is stable
- Therefore, it is a waste to
 - Invest cash to grow a business with no credible path to higher RMS
 - Continue investing cash to maintain a low-RMS business in a stable market

Many approaches still based on this type of matrix

It has gotten a bit more complicated over time...

BCG's approach to corporate strategy



Step 1: Understand the context

Organization's starting point and its (and its stakeholders') aspirations

What you need to know

How you can get there

Understand the organization's starting point

- ❑ Financial context
- ❑ Basic construct of the portfolio (unit realities, size, impact, and growth)
- ❑ Governance model, role of the center
- ❑ Organization identity, history and culture, mission
- ❑ Specific capabilities, sources of potential parenting advantage
- ❑ Basic financial analysis, historic impact analysis
 - Comparative benchmarking
 - Beliefs audits
 - Culture audit, capability audit

Understand the aspirations of the org. and its stakeholders

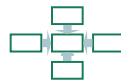
- ❑ Strategic vision
- ❑ Stakeholder / donor objectives
- ❑ Impact targets
- ❑ Guidelines and boundary conditions for portfolio development
- ❑ Theory of change / theory of action
 - Senior management workshops
 - Donor interviews
 -

Basis for portfolio evaluation criteria and for derivation of feasible portfolio development options

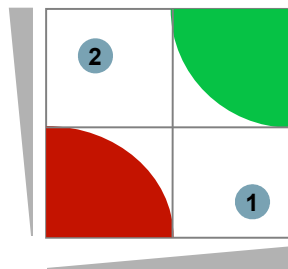
Step 2: Review the existing portfolio from three perspectives

Application in the corporate context

Market-based view: Strategic potential



Market
attractive-
ness



Competitive
position

**What can my business units
achieve?**

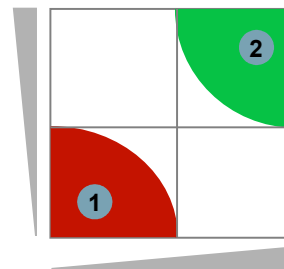
What roles do they play?

**Do I have the right mix for the
future?**

Value-based view: Return on investment



Current
returns



Planned value
creation

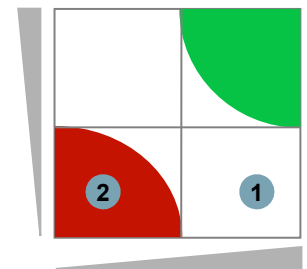
**What are my business units
achieving?**

**Will they be able to achieve
enough in the future?**

Resource-based view: Ownership advantage



Parent
advantage



Linkage
advantage

**Are my business units achieving
more because they belong to me?**

**Do they gain anything from each
other?**

**Each view also makes sense for the civil society sector,
although slight modifications needed**

Market perspective becomes Need-based view

What is the strategic potential of the SBUs in the portfolio?

Need-based view

Addressable need

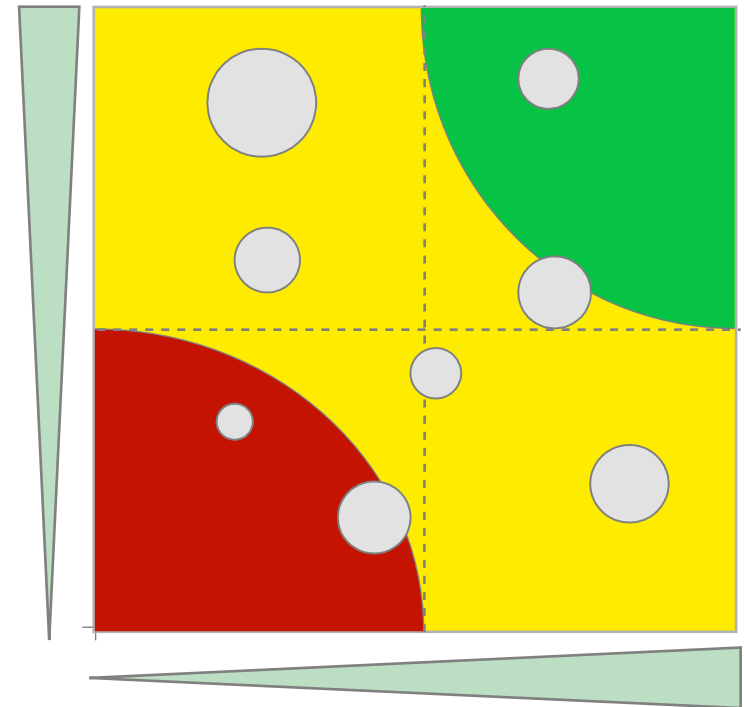
- Size of need
- Growth/reduction of need
- Existence of proven solutions
- Openness to solutions
- Competitive dynamics
- ...



Business Unit
(invested assets)

Competitive position to address need

- Relative size of current activities to address need
- Fit to organization's comparative advantage
- Fulfillment of success factors
- ...



Value perspective becomes Impact-based view

How does strategic potential translate into social impact?

Impact-based view

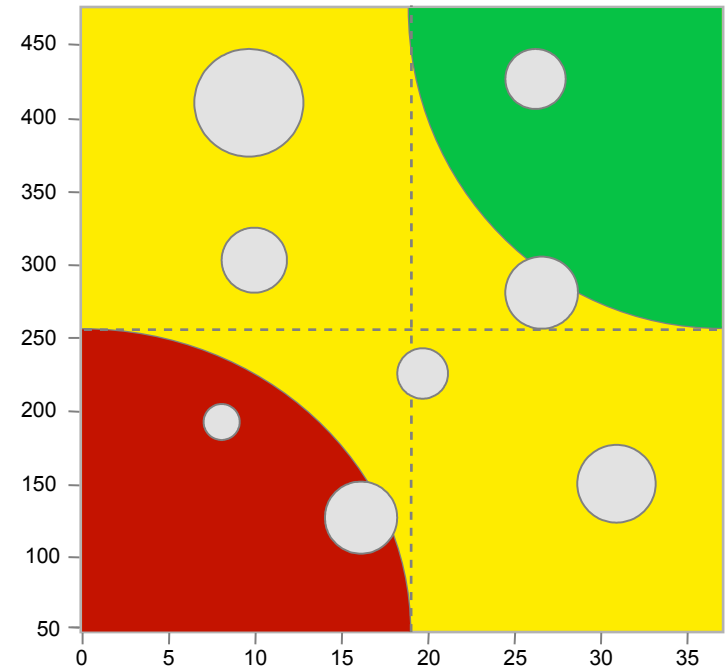


Impact achieved

- DALYs
- Lives saved
- AIDS cases prevented
- CO2 tons reduced
- ...



Business Unit
(invested assets)



Cost effectiveness

- Impact / money (or resources more generally) invested

Resource-based view equally relevant for civil society

Ownership advantage from parent characteristics and linkages between the businesses

Resource-based view

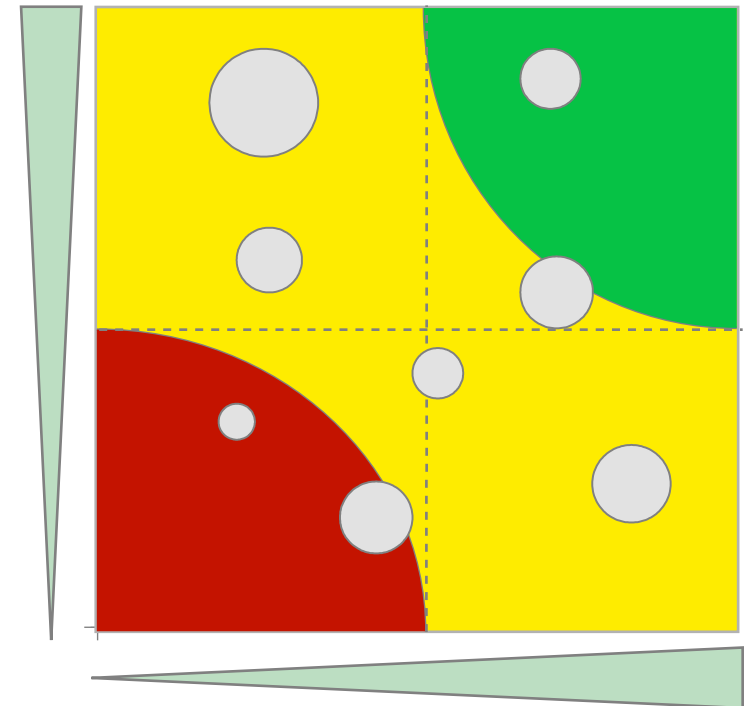


Parent advantage

- Central expertise and experience
- Central functions and services
- Role for corporate identity and vision
- Consistency with donor preferences



Business Unit
(invested assets)



Linkage advantage

- Cost synergies with other businesses
- Revenue synergies with other businesses
- Learnings applicable to other businesses

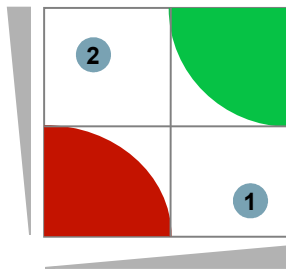
All three perspectives are important!

Resist the urge for one "super-matrix"; you will lose information and may make bad decisions

Need-based view: Strategic potential



Addressable need



Competitive position

What can my business units achieve?

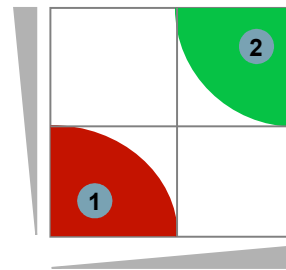
What roles do they play?

Do I have the right mix for the future?

Impact-based view: Return on investment



Impact achieved



Cost effectiveness

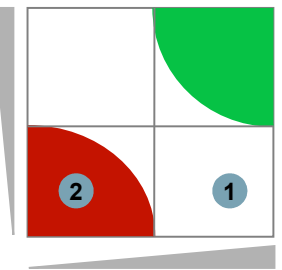
What are my business units achieving?

Will they be able to achieve enough in the future?

Resource-based view: Ownership advantage



Parent advantage



Linkage advantage

Are my business units achieving more because they belong to me?

Do they gain anything from each other?

Now you understand what SBUs you have – but is the balance right?

Step 3: Evaluate the portfolio

How do you recognize a good portfolio?

Sure, it consists of "good" business units

- "Good on a standalone basis": Strong competitive positions in areas of high need
- "High impact (potential)": Significant impact planned, at a reasonable cost effectiveness
- "Good for us as an owner": Fit to the talents of my organization as a whole (best owner?)

But there is more to a good portfolio ("the system perspective")

- The individual units in the portfolio can be developed for their maximum impact
- The portfolio enables the company to achieve its (short- and long-term) goals
- The portfolio is balanced with respect to key strategic trade-offs

CPM is not limited to a review of the businesses in the portfolio; it's about how they fit together

Is the balance of the portfolio consistent with objectives?

Potential balance criteria

Balance of impact of the individual businesses

- "Don't put all eggs in one basket"

Balance between impact generated and ability to raise funds

- "Don't live beyond your means"

Balance between risk and return

- "There is nothing like a free lunch"

Balance between short-term and long-term impact

- "A bird in the hand and two in the bush"

Balance between exploiting existing capabilities and developing new capabilities

- "Don't forget to re-charge the battery"

Balance will mean very different things to different organizations in different situations

Step 4: Develop options and iterate

How to manage the BUs in the portfolio and how to develop the portfolio

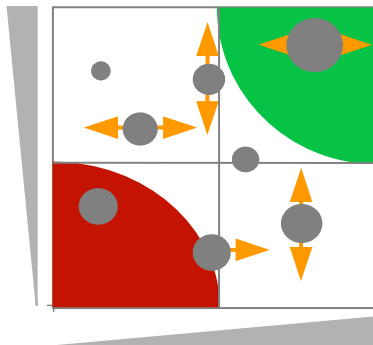
"How to manage what we own"

What roles should each business play in the overall portfolio?

- Learn: Test new ideas and expand reach
- Core: Manage for sustained impact
- Fix: Improve effectiveness

What strategic goals and impact targets relate to the roles?

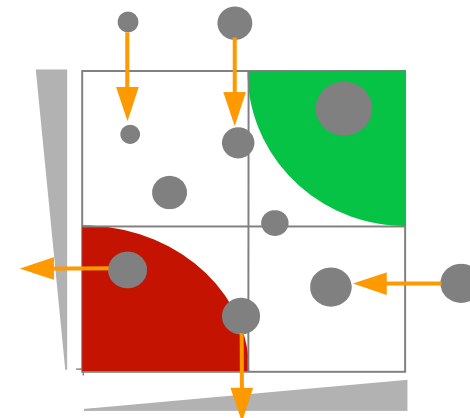
- • Business strategy development



"How to change what we own"

What alternative development options exist for the portfolio?

- Investment in new business areas
- Merging or splitting business units
- Acquisition of businesses / co-operations
- Divestment of businesses / exit



Step 5: Create implementation plan

Two examples of corporate implementation plans

Example roadmap: Corporate strategy implementation

Critical actions over next 24 months

We will:

- Clarify our strategic direction to investors: value-added x, not only y
- Continue to pursue operational excellence initiatives
- Not split the company
- Target capex at ~90-95% of depreciation
- Invest near term <\$xxMM/year in emerging markets—focus investments in Russia and Mexico
- Pursue small divestitures “around the edges” with up to 4% in potential proceeds
- Track progress on Western European strategy
- Target debt to 30-35% of EV
- Target steady dividend increases: 5 cents per year (or poss

Options 24+ months out

Continue to monitor:

- Consolidating acquisitions in xx
- Structured merger opportunities in yy
- Logical zz bolt-ons
- Logical xx bolt-ons

Report on status of potential opportunities every 12 months

Source: BCG Case example
VT-Corporate Strategy-14Apr11.ppt

Example roadmap: Where we expect to be in 5 years

Base Business

Options beyond the Base

BU1

- Leader in xx
- Top-quartile operating returns vs. peers

- Potentially growing through bolt-on acquisitions (leverage channel relationships)

BU2

- Leader in xx, yy
- Returns above the cost of capital across the cycle

- Potentially growing through bolt-on acquisitions (leverage channel relationships)

BU3

- The most profitable xx company focused on high-growth segments

- Merged with a competitor to become clear xx leader

BU4

- Slowly shrinking—continuing to run for cash
- Supporting economics of overall xx system

BU5

- Western Europe “fixed”
- Selective moves into high-growth emerging markets

- Underperformers divested
- Expanding option bets placed in emerging markets

Overall

- Investment-grade credit statistics
- Returns above the cost of capital
- Growth at or above GDP
- Strong free cash generator/distributor

- Still generating and distributing strong cash flows, but investing in consolidation or bolt-ons

Source: BCG Case example
VT-Corporate Strategy-14Apr11.ppt

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Breakout discussion



Do you think of your organization in terms of Strategic Business Units?

- If you do not, how would this change the way you think of your organization?
- If you do, how do you define them?

Which is your strongest SBU? Your weakest?

- Need perspective, Impact perspective, Resource perspective
-

How well is your portfolio balanced?

- Balanced impact and funding, risk and return
- Current vs. future capabilities
-

How can your portfolio be improved?

Agenda

What is strategy? Why is strategy useful?

Portfolio strategy: Managing (and balancing) diverse goals

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Business strategy: Defining what to do and how to do it

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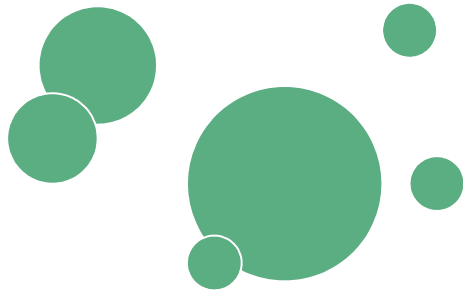
Business strategy: Defining what to do and how to do it

Conclusion

We will now shift from the "corporate" to the "business" view

Portfolio strategy

Where does the SBU fit in overall picture?

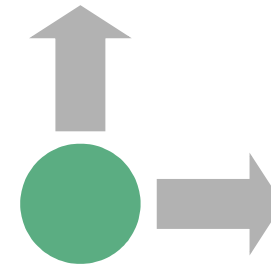


How does an SBU relate to other SBUs?

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What should the SBU do to be successful?

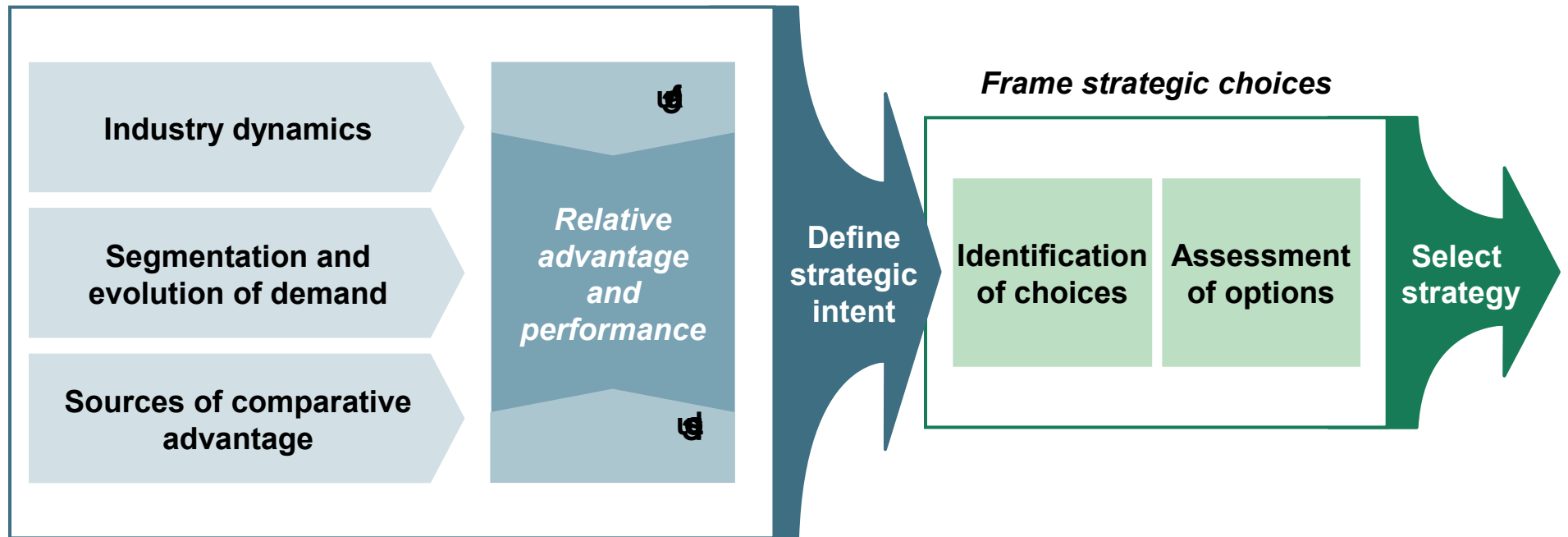
- What is its advantage relative to competitors?
- What should its key activities be?
- What specific targets should it reach?
-

**Once the overall context is clear –
what should the SBU actually be doing?**

BCG business unit strategy framework

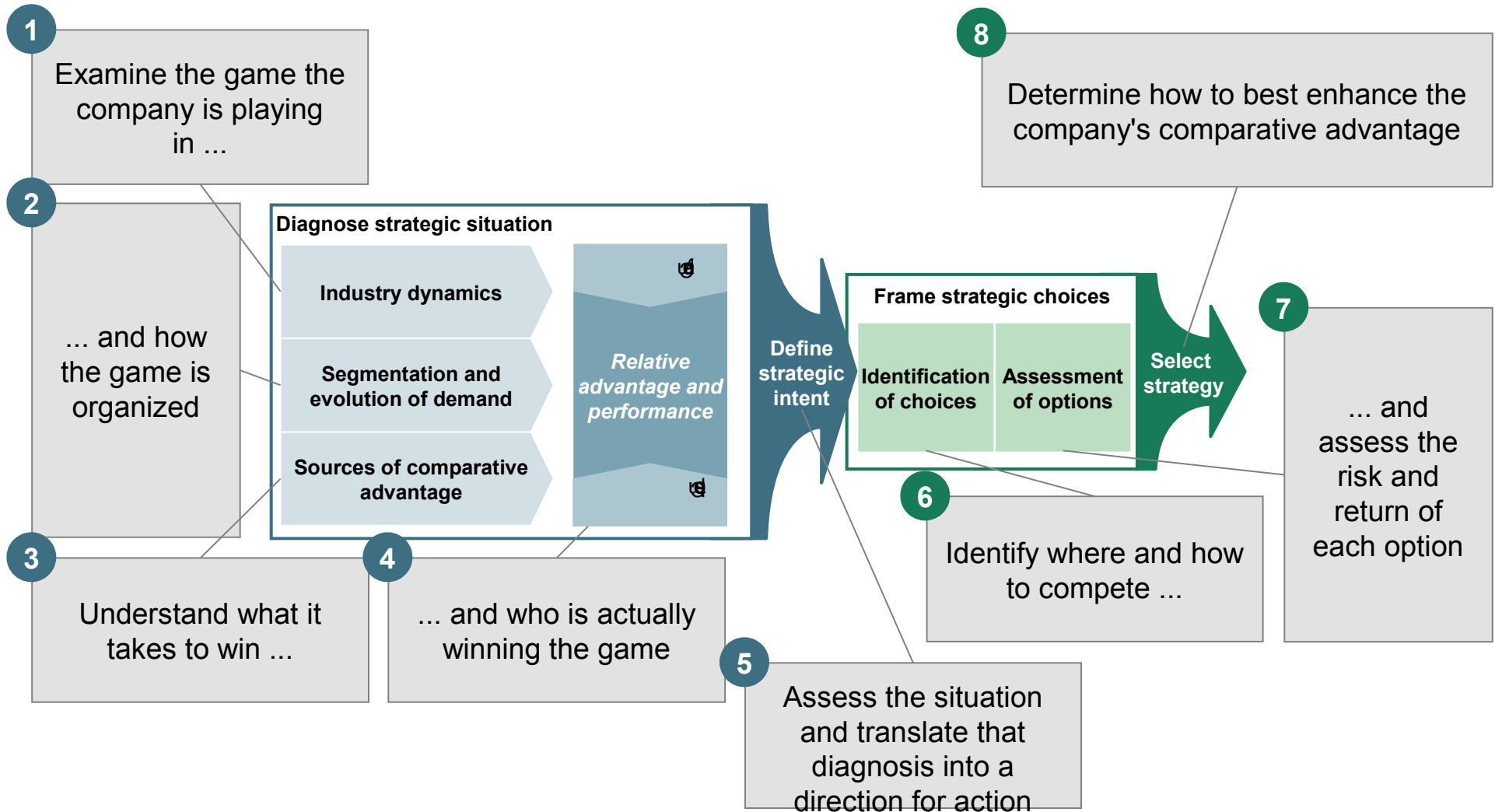
From diagnosing the strategic situation through selecting the strategy

Diagnose strategic situation



BCG business unit strategy framework – brief explanation

From diagnosing the strategic situation through selecting the strategy





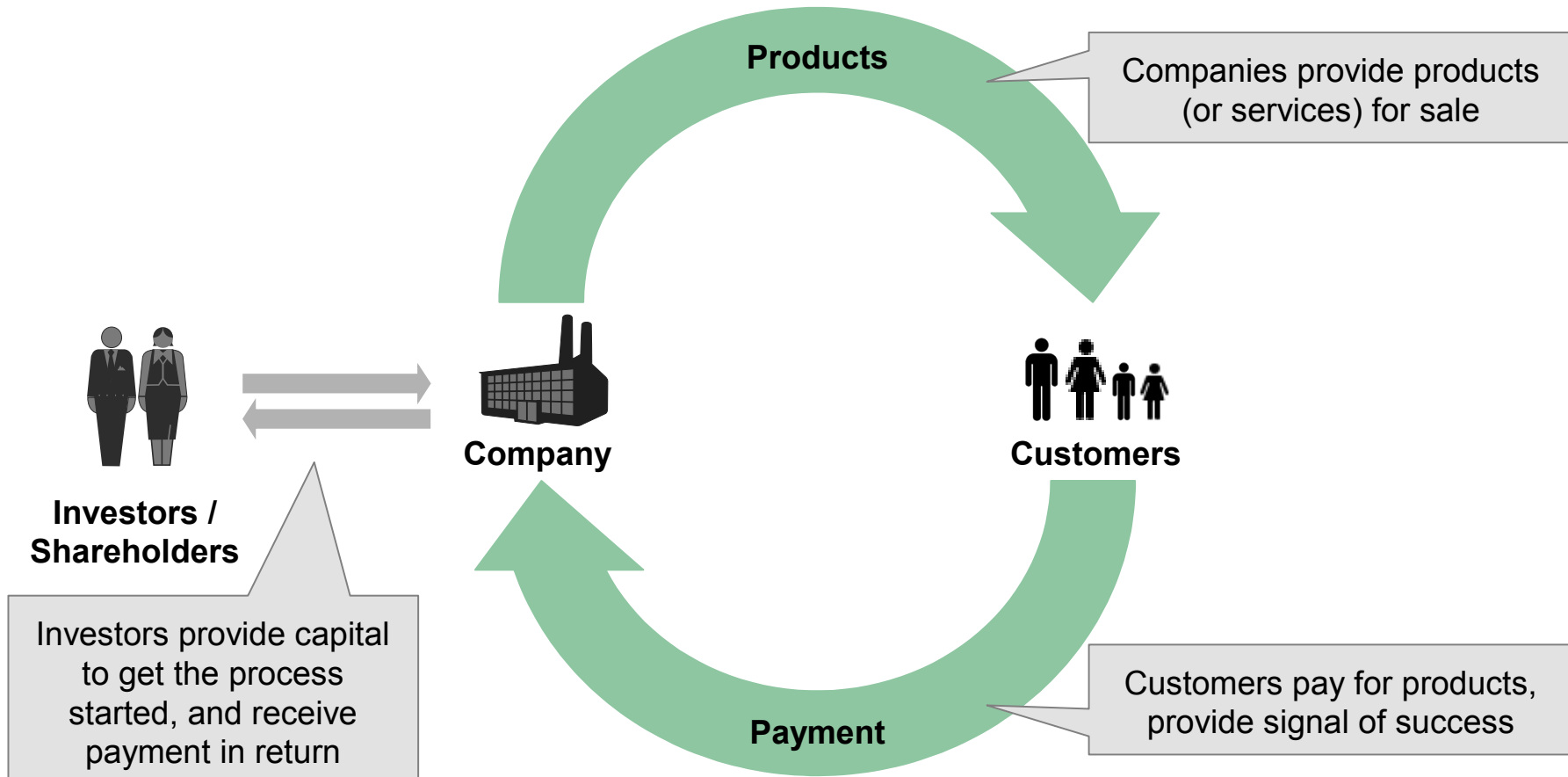
Strategic diagnosis requires sound analysis

Three key areas foreseen for private sector companies

Area of analysis	Examples of questions to be asking
Industry dynamics	<ul style="list-style-type: none">• Megatrends: What externalities will change the industry works?• Regulation: Are the boundary conditions changing? Should they?• Deconstruction: Is the way organizations work together changing?• Volatility: How stable is the environment that I work in?
Segmentation and evolution of demand	<ul style="list-style-type: none">• Customer segmentation: How can I group my beneficiaries, by level of need, geography, vocation, age, ethnicity, experience, ...• Activity segmentation: How can I group my activities, by type of work, effort, cost, cost intensity, impact, growth possibilities, donors, ...• Partner segmentation: Who should I work with? Who do I compete against? How is this changing?• Trends: How are those segments evolving?
Sources of comparative advantage	<ul style="list-style-type: none">• Type of advantage: High-impact, cost-effective, flexible approach• Source of advantage: Scale, access to beneficiaries, partnerships, ...• Positions and capabilities

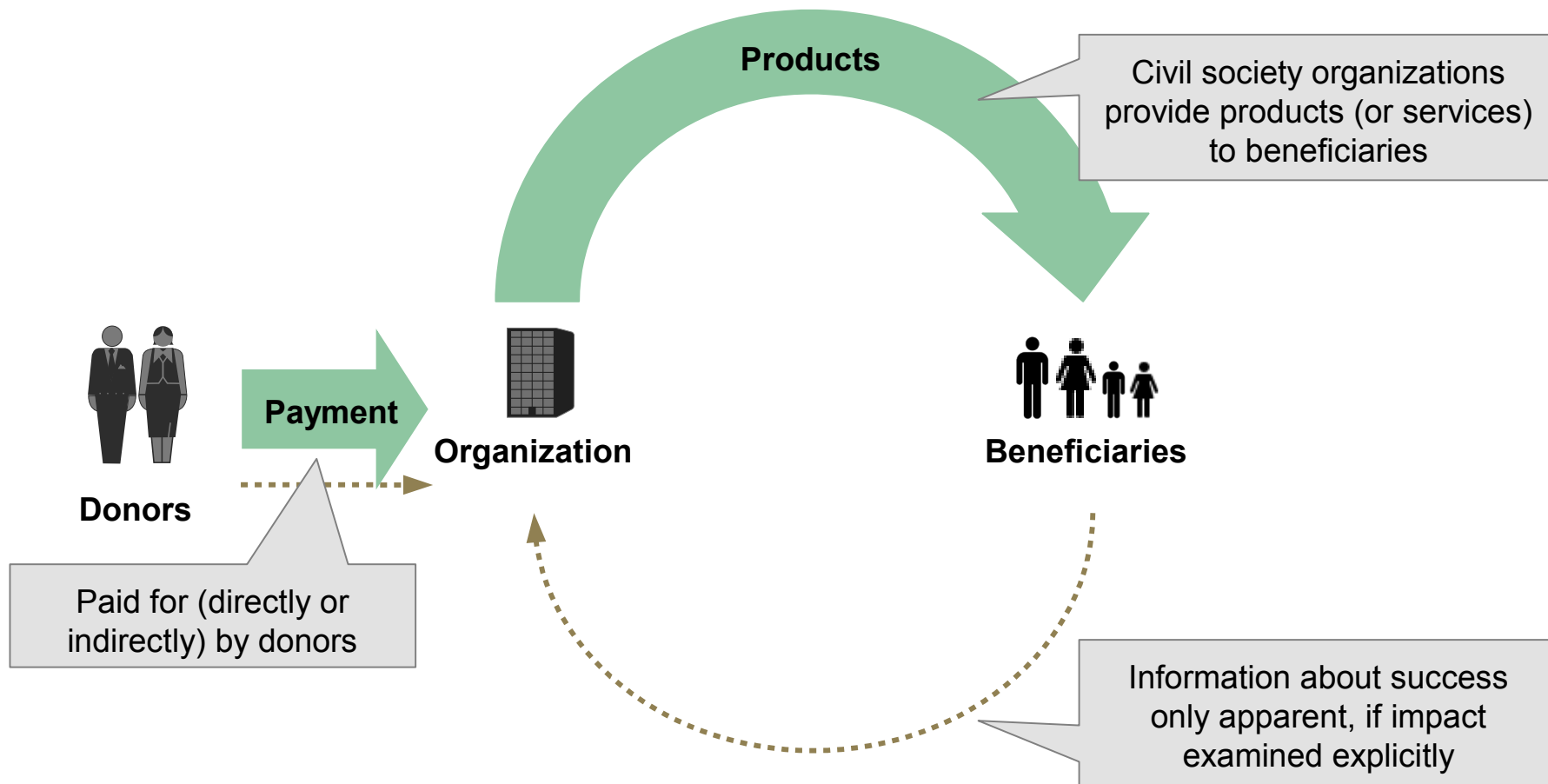
For civil society, additional analysis areas needed

For traditional companies, the flow of products and payment is self-reinforcing





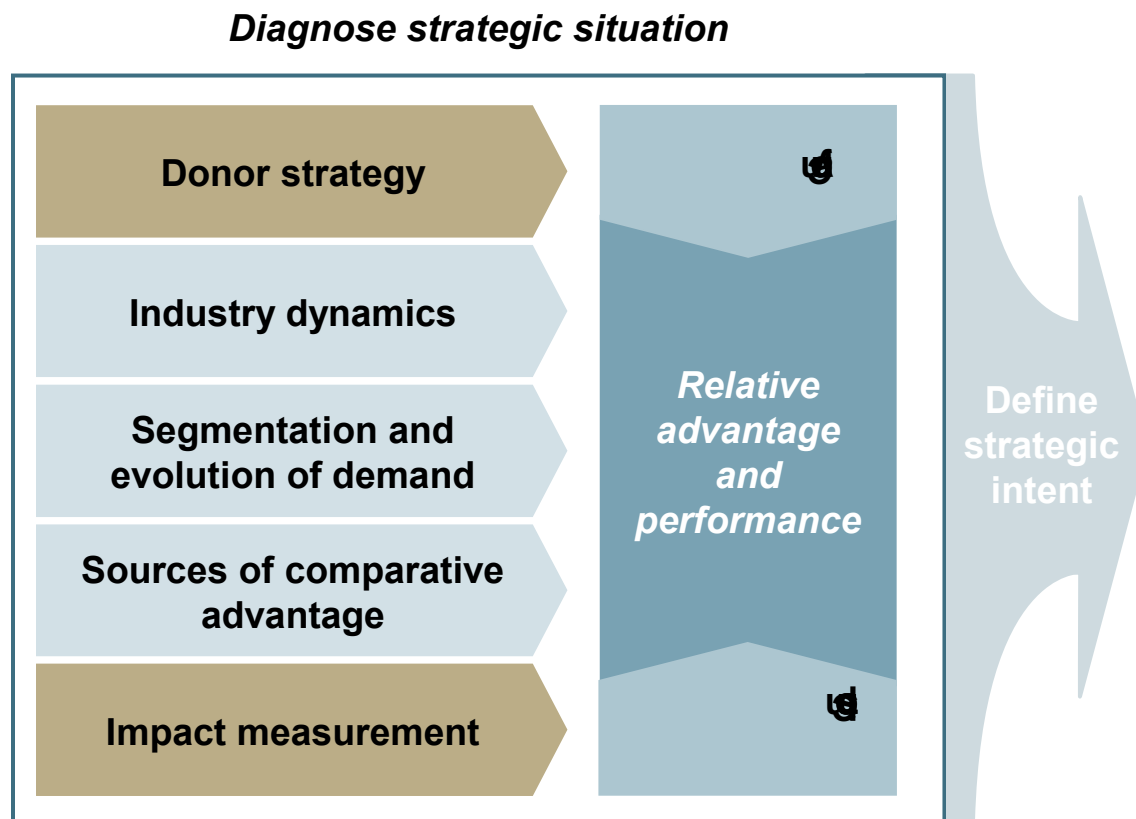
For many civil society organizations, this cycle does not exist



Both donors and impact measurement need to be explicitly included in the strategic analysis



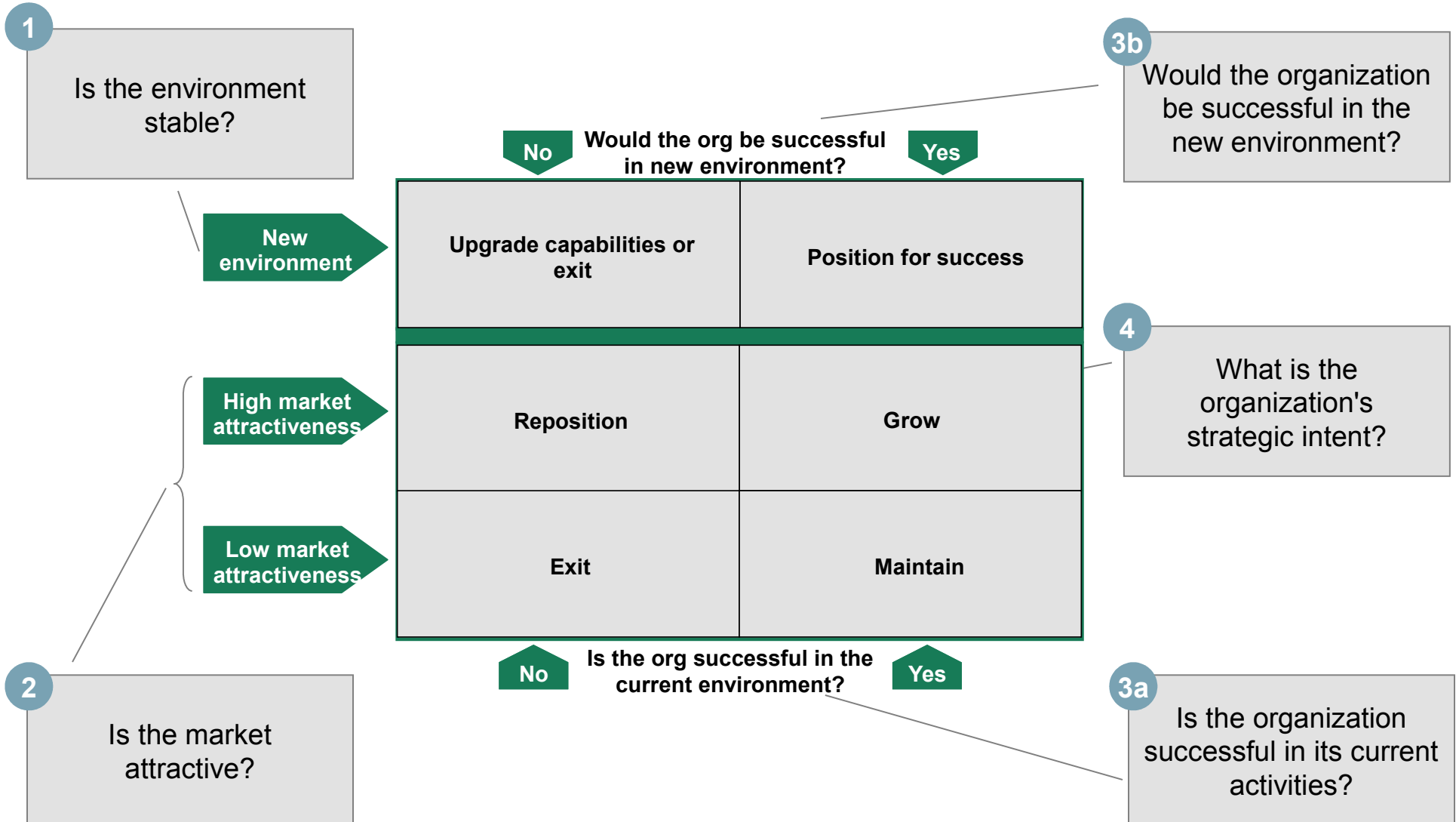
Strategic diagnosis requires two extra steps



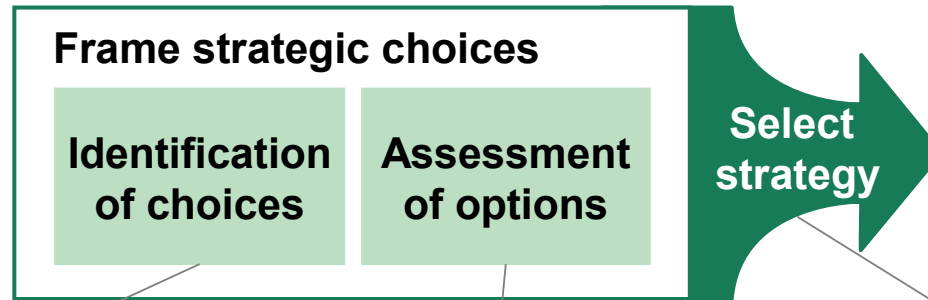
All five aspects need to be understood relative to comparable organizations



Strategic intent essential to turn diagnosis into action



After direction is clear, options can be defined and assessed



Identification of choices

- Develop list of options based on strategic direction
- Choose framework to evaluate options

Assessment of options

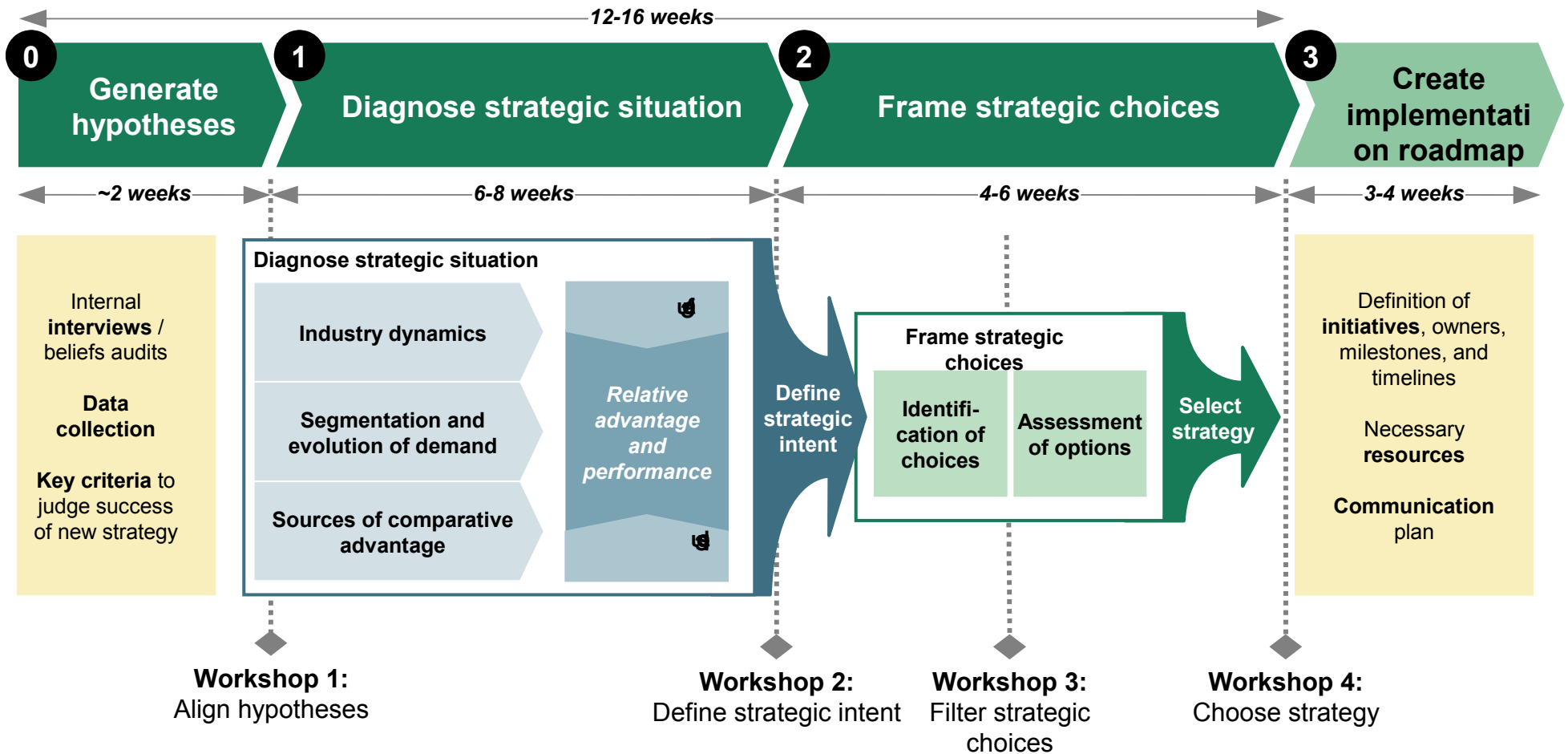
- Direct, "knock-out" criteria
- Detailed analysis of key remaining options

Select strategy

- Business plan
- Impact plan
- Choice of strategy
- Creation of implementation plan

BCG strategy projects often 12-16 weeks – but vary a lot!

Yearly revisions however can be conducted with significantly less effort



Civil society strategy projects often take longer

Breakout discussion



What does your strategy development process look like today?

- Which factors do you evaluate?
- Which organizations do you compare against?
-

What is your organization's strategic direction?

When was the last strategic discussion you had with your donor(s)?

- Who led that discussion?
- What was the result?
-

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Strategy is about choices – and about advantage

The organization chooses to do some things—and not others—based on a data-driven process that reveals and compares alternative

The objective is to develop sustainable advantage in delivering impact.
Even for civil society

Strategy is an integrated set of choices that positions an organization to win.

The choices, and thus the organization's activities, are internally consistent.

Resources are deployed toward chosen activities and away from others.

A good strategy is not enough – it must also be made real





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