2 Thinking and acting strategically

Strategic thinking involves the integration of several types of mental skills and techniques, as well as certain habits and attitudes, in the context of defining the problem to be solved from an initially ambiguous sea of unconnected data, and then solving it. There is an element of risk in strategic problem solving because complexity causes uncertainty. (LOEHLE, 1996: 1)

Great strategies, like great works of art or great scientific discoveries, call for technical mastery in the working out but originate in insights that are beyond the reach of conscious analysis. (OHMAE cited in de Wit and Meyer, 1998: 94)

Creativity cannot be taught, but it can be learned. (OHMAE cited in de Wit and Meyer, 1998: 100)

Learning objectives

After reading this chapter you will be able to:

- understand and explain the difference between strategic thinking, strategic management and strategic planning
- define strategic thinking, strategic management and strategic planning
- choose which strategic activity is appropriate under different circumstances
- understand the difference between entrepreneurship and management and recognize different mixes of the two in strategy making

Key strategic challenge

What do I gain by becoming a strategic thinker, a strategic manager, a strategic planner, or all three?

Strategic dangers

That an organization neglects either the creative activity associated with strategic thinking or the administrative activity associated with strategic management; it therefore gets the mix badly wrong, either having no vision or making no realistic attempt to realize that vision, or in some cases both.

Case Study Scenario The IKEA way

Keep making furniture less expensive,
without making it cheap. *IKEA's battle plan*

The furniture and furnishings industry is a mature one, not one which, superficially at least, lends itself to creative strategic thinking, to global activity, or even to innovation. It is an industry with relatively stable, slowly growing markets, and is very much part of the old economy.

Ingvar Kamprad founded IKEA in Sweden in 1943 as a mail-order company. The name IKEA is an acronym for Ingvar Kamprad Elmtaryd (the name of his family farm) Agannaryd (the name of his home village). Its Swedish origins are unmistakable even today, although it has moved its management centre to the Netherlands and is Dutch-owned.

Kamprad is a man with a clear vision and a supporting philosophy, which was expressed in the book, *Leading by Design: The IKEA Story* (Kamprad and Torrekull, 2000):

- He wished to promote the 'democratization of consumption' by offering good value furniture and furnishings at a price that all could afford.
- He believed that everyone deserved to have an aesthetic sensitivity enhanced rather than diminished by the immediate environment.
- He believed in a non-hierarchical world and was distinctly anti-bureaucratic in his attitudes.
- He wished to empower his staff.
- He wanted to set a good example of frugal living, travelling economy class and sharing hotel rooms with his sons on business trips when they worked for IKEA. His most striking act was to give IKEA 100% to a Dutch-based charitable trust in order to avoid conflict between his three sons and the possible break-up of the company.

IKEA opened its first showroom ten years after its foundation. Initially the growth of IKEA was steady and gradual. Only internal funding was used to support the growth, and therefore significant debt avoided. The norm was to reinvest the equivalent of at least 15% of revenue each year.

From a global perspective, there have been four distinct stages in the growth of IKEA (Table 2.1):

- The first, starting in 1963, was restricted to the Scandinavian region.
- The second, from 1973, saw an extension to Western Europe, which was to become its major market centre, with Germany at its heart. This move into an area with a similar culture and a similar market was comparatively smooth.
- The next move, in 1974, beginning very quickly after the second, was into North America, first into Canada but then gradually into the USA. The initial strategy came under pressure during this stage, but the difficulties were overcome.
- The final stage, as difficult as the move into North America, was first into Eastern Europe and next into Asia, both undertaken during the 1990s. Both moves have benefited from the previous move into the USA. This expansion is still in process.

IKEA has plans to accelerate its rate of expansion and to extend its reach. Currently IKEA is moving into Japan, opening two stores in the Tokyo region and a further new store every six months. It is a sign of its confidence that it is venturing into such a different and, for outsiders, difficult market. However, the current crisis in Japan has created favourable conditions for such an entry, for example a desire for low-cost furniture and furnishings. IKEA, having learnt from its American experience, produces a range of products suitable for the small spaces characteristic of Japanese homes.

At the same time IKEA is consolidating its position in existing markets. Up to now IKEA has opened one or two stores in North America each year. In 2003 IKEA became more aggressively competitive in that market, planning to open as many as five stores a year for a ten-year period. To serve the new stores in the

Table 2.1 **IKEA's expansion**

	No. of outlets	Countries	Co-workers (000s)	Catalogue circulation	Turnover in millions of euros
1954	1	1	15	285,000	1
1964	2	2	250	1,000,000	25
1974	10	5	1,500	13,000,000	169
1984	66	17	8,300	45,000,000	1,216
1988	75	19	13,400	50,535,000	
2001	172	32	70,000	110,000,000	11,300
2003	190		85,000	131,500,000	12,370

Source: www.ikea.com.

Table 2.2 **The geographical location of IKEA stores**

Scandinavia	22	(Sweden 13, Denmark 4, Norway 5)
West Europe	91	(Germany 27, France 12, UK 11, Netherlands 8)
North America	29	(USA 19, Canada 11)
East Europe	16	(Poland 8)
Asia	17	(Hong Kong and China 7)
Others	5	(Australia 5)
Total	172	

Source: www.ikea.com.

USA, IKEA opened two new distribution centres in 2003, one on the east coast and one on the west. It has been seeking an advertising agency to help promote this campaign.

The wide coverage is a considerable achievement, given how culturally sensitive the demand usually is for furniture and home furnishings (Table 2.2). The aim has always been, in the words of IKEA's website, 'to bring the IKEA concept to as many people as possible'.

In 2003 it was estimated that around 347 million people visited IKEA stores worldwide. IKEA has become the world's largest home furniture and furnishings retail chain.

How has IKEA managed to achieve this successful growth? What combination of strategic thinking, strategic management and strategic planning has this achievement required?

In order to clarify the nature of strategy, this chapter concentrates on the distinction between different strategic activities, notably between strategic thinking, strategic management and strategic planning. By linking this distinction with the terminology usually employed in business studies and economics, it is possible to put in place a useful framework for developing a discussion on the nature of strategy.

The distinction between strategic thinking, strategic management and strategic planning

What is strategic thinking?

Some strategic ideas are so simple and so obviously relevant to meeting a particular need that it seems with hindsight that anyone could have conceived them. Ogawa Kikimatsu's idea, described below, illustrates this.

Strategy in Action **Quick strategic thinking in unfavourable circumstances**

After total defeat in World War II, there were those in Japan who had the foresight to identify strategies for making money, other than black-marketeering and prostitution. Ogawa Kikimatsu, a publishing editor, was one such person.

Ogawa was on a business trip when he heard the emperor's surrender broadcast. He returned to the capital, immediately considering how to get rich in the changed situation. In the words of John Dower (1999), 'By the time the train pulled into Tokyo, he had hit upon his great idea: and, like so many enlightenment experiences, it was the essence of simplicity. As soon as the country was occupied, people would be clamouring for an easy guide to everyday English conversation. He would provide it.' This was the vision: the vision then had to be realized.

First Ogawa sold the idea to a publisher. He had no particular competence in English and used two conversation books as models, a Japanese–Chinese manual ironically used during the occupation of China, and a Japanese–Thai manual. It took only one to three days to complete, the exact time varying according to different authorities. *Nichi-Bei Kaiwa Techo* (Japanese–English Conversation Manual) was only 32 pages long and appeared in print one month to the day after the initial idea had been conceived. The initial printing of 300,000 disappeared almost immediately. By the end of 1945, 3.5 million copies had been sold. The book remained the country's all-time bestselling publication right up to 1981.

Ogawa may not even have realized that he was engaged in strategic thinking.

Implicit and explicit strategic thinking

Although strategic thinking has its early origins in military activities, the notion of strategy has been applied to a wide range of activities including scientific discovery and even artistic expression. In a sense strategy is everywhere, but is not always recognized as such. It is helpful at this stage to distinguish between *explicit* and *implicit* strategic thinking. Not all strategy is deliberate or self-conscious, and therefore made explicit. Some people engage in strategic thinking without realizing what they are doing. As Kenichi Ohmae (1991) has put it, many outstanding performers 'have an intuitive grasp of the basic elements of strategy'. Strategic thinking is often an unconscious process. There is a breed of instinctive strategists operating in most areas of human activity. In this sense strategic thinking is all around us.

An example to illustrate the use of implicit strategy can be taken from an activity superficially distant from the area of business, one basic to human survival and immensely important to human enjoyment, but one in which there has been radical change – eating, both private and public.

Elizabeth David was an English cook and food writer who changed the eating habits of the English. She recreated the world around her, by publicizing a cuisine very different from the one she found in England, writing a series of highly influential books which were pioneers in promoting what could broadly be called the Mediterranean style. She wrote these books for three reasons:

1. She wanted to convey her deep enjoyment of good food and good cuisine to others; she was an enthusiast as good strategists often are
2. She saw an opportunity, even a need, to raise the quality of what was eaten in England
3. She needed to secure a living.

She had motivation, both intrinsic and extrinsic or pecuniary. She also had the skills to become one of the major strategy makers of the food world and a progenitor of all those 'foodies' who grace our television screens and the pages of journals, magazines and newspapers. Her name became synonymous with good eating in England.

Focus on Theory
Strategic thinking

Liedtka has selected five major attributes of strategic thinking. There are specific techniques which, by promoting the attributes, deliberately encourage this kind of thinking.

Focus on Theory cont'd

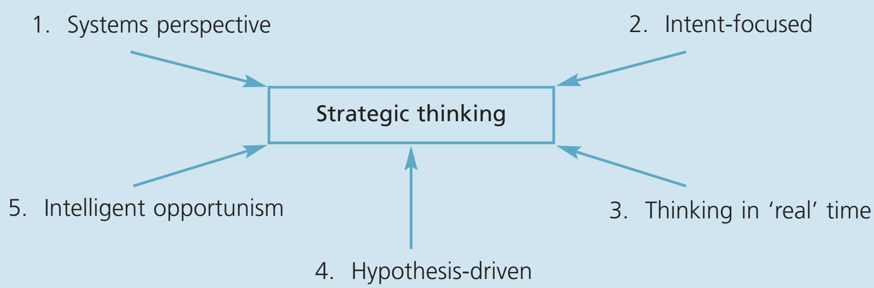

Figure 2.1 **The attributes of strategic thinking**

1. Strategic thinking takes a holistic or systems view

Strategic thinking requires an orientation to the whole, rather than a focus on just part of the whole.

The possible techniques which deliberately foster this attribute are: various kinds of stakeholder mapping, any value system analysis, and conferences which focus on building the future, whatever the exact method adopted.

2. Strategic thinking focuses on intent

Strategic thinking involves purpose – it is not aimless, but has a definite direction. It also unfolds in a process of discovery or learning which takes time to complete, if it is ever complete. It inevitably involves some delay in the achievement of objectives, as the journey unfolds.

The main technique used can be broadly described as story writing.

3. Strategic thinking encourages thinking in real time

'Strategic thinkers link past, present, and future' (Liedtka, 1998a: 31). Strategic thinking is a dynamic process of reading from one's knowledge of past behavior what is likely to happen in the future.

The most important techniques which can be employed are: scenario building, gap analysis, and the systematic use of analogies, as in case studies.

4. Strategic thinking is hypothesis-driven

This attribute links strategic thinking to scientific method. It is necessary to generate new hypotheses and to test them, an iterative process which has no end. Strategic thinking is therefore both creative, in conjuring up the hypotheses, and critical or analytical, in subjecting the hypotheses to testing.

The techniques involved are those common in developing a system of analytical thought: Asking the questions, What if … or, If then … ; and distinguishing what are knowns, what are unknowns and what are assumptions; and finally asking Alexander's question – what new knowledge will change a specific presumption?

5. Strategic thinking is intelligently opportunistic

There must be room for the exercise of 'local' intelligence by anyone anywhere in the organization. This requires room for the adaptation of existing strategies or the emergence of new strategies to accommodate such new insights.

The relevant techniques are: the process of share and compare, and any simulation techniques.

Source: Liedtka, 1998a: 30–5, 1998b: 120–9.

Unconsciously Elizabeth David stumbled on an opportunity which was implicit in the environment around her. It combined a number of enabling factors – a very low level of private and public cuisine in England; rising discretionary incomes which could be directed to improved eating, both at home and in restaurants; vastly increased travel and access to new culinary experiences; a high level of migration, providing those skilled in different cooking styles who could accelerate the spread of the new cuisines and adapt them to the host society; the birth of a medium made for the display of cooking, television, and a change of style in publishing and journalism which lent itself to the display of 'exotic' cuisines, for example the paperback (another strategic innovation of far-reaching consequences). She was present in the right place at the right time or, putting it another way, she read the times right. The indirect result of her pioneering is visible in the variety of restaurants offering different cuisines throughout British cities, a result copied, or rather occurring simultaneously, throughout the world.

Elizabeth David both read the environment right, exploiting opportunities contained within that environment, and changed or remade the environment for those who came after her. This is the core of any strategic thinking, in this case a clear example of implicit strategic thinking.

By contrast it is possible to look at a more deliberate, or even explicit, strategy. A revolution simultaneous with the culinary revolution was the birth of the popular music industry, which reflected some of the same factors – the rise in discretionary income, particularly but not only among the young; the advent of new media, such as radio and television; and the appearance of the gramophone and vinyl records, as a mechanism for disseminating popular music. Much of this revolution occurred in the USA, partly because pop music there was an offshoot of native jazz and partly because the USA pioneered in mass entertainment generally. However, perhaps the most successful popular group ever was the Beatles, a British group, which was at the centre of the process which fully internationalized and made respectable popular music. The Beatles were therefore not the pioneers, but they were the product of an explicit strategy. Others, such as Bill Haley and Elvis Presley, played the pioneer role.

Brian Epstein, the Beatles' manager, was an explicit and very successful strategist, planning every aspect of the group's success, including a very careful creation of an attractive and acceptable image, both for the group itself and its music. This could be described as 'domesticated wildness' or 'domesticated rebellion', terms which encapsulate the essential features of the new group. Epstein took the raw energy of generational conflict and made it acceptable. He created the first pop group to have international star status, one on which all later groups tried to model themselves. He orchestrated in every detail the move of the group from obscurity to fame. He taught them how to dress, what kind of music to write and record and the right combination of live and recorded performance, all with the aim of creating the most powerful brand name in this industry. For this purpose he used all the media most effectively. He internationalized the group in a way which was not true of other British performers who have had a similar longevity in the popularity of their music, such as Cliff Richard.

Focus on Practice
Brian Epstein

Brian Epstein had almost an ideal background for the role of manager of the Beatles. He was the son of a Liverpool businessman, in some ways an outsider, being both Jewish and a homosexual. Before becoming a successful manager he had run a successful record shop as part of his father's business, in which he displayed a remarkable talent for spotting future hit recordings and ordering the right number of records, despite the fact that he had a strong personal preference for classical music over popular music or even jazz. He had also spent one year at the Royal Academy of Dramatic Art, aspiring to be an actor at this stage in his career. He had an acute theatrical sense. He was in the right place, Liverpool, at the right time, the 1950s and 1960s, but he was partly responsible for the explosion of the Mersey sound onto the world scene. Without him the Beatles might never have had their London opening and other groups would not have followed them.

Epstein was not a great businessman, although he was charming enough to effect the necessary openings for the group and a stickler for detail. He was the first manager to look after every detail of a group's activities when they were on tour. He was most of all a visionary who could see the golden future for the group and make it happen. He created the imagery of the boy group which became as important as their music. He smartened them up, converting their leathers into mohair suits and giving them the distinctive haircuts. He taught them stage discipline. On stage they were not to swear, not to joke with the girls, and to stop smoking or drinking coke. He made them acceptable to the vast middle class which yearned for an exciting wildness but one somehow under control or tamed. His own homosexuality and neurosis made him identify with the group and made him able to win their respect and even inspire them. In the words of one associate Nat Weiss, 'Brian was the fuse that created the explosion or set it off – not only set it off but controlled it and made it work'. Weiss goes on to add that there was no precedent and a strong measure of pure instinct in what Epstein did. He was a creative pioneer, not of the music itself but of the way the music was presented.

Source: Geller, 2000.

The two examples above illustrate on the one hand an implicit strategy – pioneering a new way, which others benefited from as they developed it with their own explicit strategies – and on the other an explicit strategy which built on the previous implicit strategies of others. The two business areas are firmly positioned in the service sector, which is fitting as this has been, since the middle of the twentieth century, the area of most dramatic expansion and therefore of new opportunity.

The many contexts of strategic thinking

Strategic thinking has many contexts, including here the business context, although in the real world the business context can overlap many others, such as the scientific, the technical, the social, even the aesthetic. A major construction project, for example the renewal of an old docklands area, will have relevance in areas which are aesthetic (the urban landscape), scientific (engineering), political, social, managerial and economic. Strategic thinking is therefore not limited to the area of business, appearing, as it does, in a much wider range of human activities. The scope for strategic thinking extends well beyond commercial activities. Artistic activities offer the justification of an aesthetic experience of some kind. Scientific discovery is prompted by intellectual curiosity. Sport concentrates a blend of competitive instinct and tribal loyalty, the desire to identify with a group to which one belongs. The motivation for strategic thinking in all these areas is always an intrinsic one. The activity is in its own right a pleasurable one.

Strategic thinking is much more than simply having a new idea; that idea must have a context, one in which the idea has a meaning defined by the specific aims of the activity, whether it comprises scientific discovery, artistic expression, making war, winning an important sporting championship or simply the business of making a profit. It therefore involves both systematically developing an idea together with its implications and testing the empirical validity and usefulness of that idea against the real world. This requires the conducting of a reality check – does the idea work in a way which enhances the wellbeing of those for whom it is intended?

It is a matter of identifying both a problem, and therefore an opportunity, and a solution in a highly complex world in which so-called 'wicked' rather than tame problems abound. Strategic thinking comprises a creative but ordered sequence of intellectual activities including the generation of completely new ideas, followed by the application of rational thinking to the development of those ideas. It comes down to the never-ending asking of questions, which have the potential to lead to a significant reinterpretation of the complex world around us, showing how that world can yield a new way of meeting basic human needs. This involves the providing of answers to the questions, often using concepts, approaches and procedures which are themselves innovative but most importantly reveal how a beneficial outcome might be realized. An enterprise which almost epitomized this process was the Japanese company, Sony.

Strategy in Action Sony – the disruptive innovator

Sony was the joint foundation of Masuru Ibuka, a passionate inventor and humanist, in short a dreamer, and Akio Morita, a highly competent administrator and a man of great charisma, a realist. Both had a background in electronics. The Japan Precision Instrument Company, Ibuka's company, had produced vacuum tube volt meters and other instruments during World War II. After the war he sought to continue to employ his workforce. In May 1946 the company was formally incorporated as the Tokyo Telecommunications Engineering Company (TTK). TTK later became Sony. Sony's first location was a burnt-out store in Tokyo's Ginza district. TTK tried a whole host of possible products. Ibuka set very high standards of design and quality, with the result that the company was given the responsibility for converting the equipment of Japan's broadcasting network to modern standards.

Sony became the first company in the world to make the entire range of products involved in tape recording – tapes, circuits, recording heads, feed systems, amplifiers and testing instruments – using skills involving nearly a dozen basic technologies. It did this from knowledge of an existing American tape recorder, for which at the time there was no word in the Japanese language. Sony was forced by postwar shortages to use as tape a specially calendered paper with a slick surface. This compelled it to compensate for the low quality tape by designing extra quality into every other aspect of the recorders. The first tape recorder made was the G-type in 1949, which weighed over 100 lb and sold for $400. It then worked very hard to reduce both price and weight, in a way which was repeated on later products. The first market turned out to be the Japanese broadcasting network's English-language programmes for use in schools.

A visit to the USA acquainted Ibuka with the transistor, which he became convinced would revolutionize electronics. In 1954 the company acquired access to the relevant technology. Ibuka's goal was to produce a pocket-sized radio but with Japanese technology. This seemed a hopelessly overambitious goal. Yet by 1957 Sony had achieved success with the Type 63 radio, which fitted into a shirt pocket. The product was both small and cheap. The company soon sold one million. At this stage Sony had a two- to three-year technological lead over its competitors which it used to provide the world's first transistorized short-wave and FM receivers.

Sony turned to transistorized television and in particular to the mini-TV, first selling the product in the early 1960s. In 1967 the company pioneered a new technology for colour television, the Trinitron system, very different from the existing shadow mask technology, and won the first Emmy ever given for a product innovation. The stress was again on a mini version, which was wildly successful.

Sony moved on to video tape recorders, producing the first commercial model in 1963, a model one-twentieth of the size of the American pioneer, the Ampex, and one-fourth of its price. The first home VCR, the CV-2000, was produced in 1965. Sony chose the Betamax system rather than the VHS system, although it was responsible for much of the research work for the latter. The general view of technical experts is that Sony was right, since Beta offers superior quality, but the market decided otherwise.

Sony then introduced the Walkman, a compact cassette player with small earphones for portable listening, and the Mavica, an all-electric still camera. It pioneered the compact disc audio record player, a small video camera (camcorder), a digital audiotape system of very high sound quality, and a HDTV system with outstanding picture quality.

The general approach adopted to innovation gives an interesting insight into the development and use of creativity. Ibuka's goal was 'to have fixed production and budgetary requirements but within these limits to give Sony employees the freedom to do what they want ... This is the way we draw on their deepest creative potential' (cited in Quinn, 1993: 286). The key unit was the cell, in which a small number of workers were free to determine their own work methods and how to evaluate their performance, in the process developing team spirit. There were networks of such interacting teams. The job of managers was to set the overarching goals, to assist where requested, particularly to help to solve any problems arising and, even more important, to praise superior performance. The approach of the cell teams was to try as many options as possible, developing two or three alternatives for every subsystem needed, something which became a common practice in the best Japanese companies (see the case study on Toyota in Chapter 17). Staff were appointed on the basis of talent and then given a free hand. Staff were moved around, potential executives exposed to the production line and/or marketing. The decisions to innovate were freed from the constraints which in established companies often lead to the rejection of innovations outside the core activities. Throughout its history Sony carefully avoided involvement with either government or banks.

Christensen et al. (2002: 30) have argued that Sony is the only company in history to have successfully launched such a long series of 'disruptive' innovations, each of which initiated new business. Between 1950 and 1980 there were as many as 12 such disruptions. The last of the successful disruptions was the Walkman, launched in 1979.

By contrast, more recently Sony has been engaged in **sustaining innovations**, innovations which build on the platform of existing technology and markets. Sony's PlayStation and the Vaio computer notebook are successful products, but they are targeted at well-established markets rather than new ones and use technology which is not revolutionary.

How did sustaining innovations squeeze out disruptive ones? The answer lies mainly in the passing of the old guard and the maturing of the company. In the early 1980s, Morita withdrew from an active role in Sony. The role of Morita and his small group of immediate associates had been critical. They made every product launch decision themselves. They did this largely on the basis of an intuition grounded in well-practised procedures for shaping and launching such innovations. With Morita's departure, a change of balance occurred and the ability to generate disruptive innovation was steadily lost. There appeared to be a loss of creativity. During the early period, there was no market research done since there was no existing market for the new products. The transition was accompanied by a beefing up of the marketing side of the company, with the result that only sustaining innovations tended to pass muster.

Focus on Humour
An example of strategic thinking

The Australian farmer is well known for his ingenuity and ability to improvise and I think that this tale proves this point.

I own a small electronics business where we specialise in design and service of various types of electronic equipment. A few months ago I was approached by a local farmer to design a monitoring system to detect when the feed pipes in his high-pressure seeder were blocked.

The seeds are carried down the pipes by high-pressure air and delivered to the soil. However, if one or more pipes block the farmer has no way of knowing and a whole day's work can be wasted.

I duly went to the farmer's paddock, inspected the equipment and told him I would be back in touch when I had designed a prototype. The electronics and sensors required turned out to be quite complex. When I mentioned that it would be a month or so before I had some results for him, the farmer surprised me by saying there was no hurry because he had temporarily fixed the problem.

After consultation with his neighbour, they had come up with a novel solution. I think De Bono would be proud of their lateral thinking.

Realising that a lack of air pressure denoted a blockage, a hole was drilled in each of the six feed pipes and a small nozzle fitted. Then a condom was tied to each nozzle (I assume they picked a colour that could be easily seen). This solution apparently worked very well. When the air pressure was present six condoms stood erect on the top of the seeder. A drop in air pressure in any pipe caused the relevant condom to sag. So much for my sophisticated design.

Apparently the only problem is a high wastage rate, because the condoms tend to last only a few days. After I controlled my mirth at the vision of a seeder rumbling over the paddock with six erect condoms waving in the breeze, a thought occurred. I wondered where the farmer bought his replacement condoms and, given his usage of a dozen or so a week, what effect this had on local gossip.

Source: B. Johnson, letter published in the *Age* newspaper on December 27, 2000.

Strategic thinking sometimes consists of using a single new idea or a novel combination of old ideas to solve a major problem. The nature of the combination is itself often the strategic innovation, as the case study on IKEA in this chapter illustrates.

Focus on Practice
A solution to the problem of drug rape

An increasing number of women are becoming the victims of 'drug rape'. Their drinks are spiked by male companions who slip a drug into their drink, which reduces them to a helpless state, unable to protect themselves. The prime suspect is flunitrazepam, which is a drug ten times as strong as valium. How can this problem be approached and a solution found which prevents the rape? There are many possible ways of thinking about the problem.

A very simple solution has emerged. A small biotechnology firm in England, SSD of Derby, has discovered an immunoassay test in which the antibodies on the surface of

Focus on Practice cont'd

an agent react with the molecule being tested for, activating a dye, one colour for positive and one for negative. The creativity comes with the way in which this is to be done. The reactive agent is to be placed on a beer mat. All the suspicious woman needs to do is to dip her finger in the drink and touch the test area on the mat. A number of tests can be carried out on the same mat.

The firm teamed up with large beer-mat makers in June of 2002. Sponsors were not hard to find and advertising helps to reduce the cost. This help is needed since the simplest of tests costs more than double the normal price of a beer mat (2p or 3c).

Source: The Economist, June 1, 2002: 97.

This solution puts together two elements in a new combination – the immunoassay test and the use of a beer mat as the location of the test. The solutions to other problems can be a combination of a much greater number of ideas or different elements. The example above reveals a highly successful implementation of a complex combination.

A complex and dynamic world

There is a complexity about the real world which defies the simple classifications of academic disciplines. It is full of wicked problems. Indeed, as de Wit and Meyer assert (1998: 156), strategic problems are inherently wicked, that is, they share some striking characteristics: they are essentially unique, highly complex, linked to other problems, they can be defined and interpreted in many ways, have no correct answer, nor a delimited set of possible solutions. They cannot be reduced to simple, or even complicated, problems of optimization, which have one correct solution. There is usually a number of possible solutions.

In general terms, strategic thinking is devising creative new ways of thinking about a complex world, the consequent application of systematic logic to the working out and development of these ideas and their translation into operational proposals with practical outcomes. This may involve deliberate remaking of the problem's context. Strategic thinking creates as well as recognizes future scenarios. A strategic thinker seeks to understand the world but also to change that world, even if in a limited way. IKEA is a good example of this at work.

Strategic thinking is proactive rather than reactive; it is innovative rather than imitative; and forward thinking both in the sense that it deals with the future and in the sense that it is ahead of its time. All strategic thinking occurs in the context of the achievement of clearly defined objectives, even if those objectives manifest themselves only at a late stage or gradually. Such thinking is inevitably set in a dynamic rather than a static context. It has a potential for significant development and extended application. It often sparks off a continuing stream of fresh ideas. There is an envisioned end result, or series of end results, increasingly indistinct as they stretch into the future.

A strategic thinker breaks out of normal routine thinking, very often moving beyond the accustomed ways and outside the explicit or implicit models through which the world is normally conceptualized, the so-called 'cognitive maps' which already exist in highly developed forms in our minds. He or she finds connections unperceived by others. For that reason strategic thinking involves breaking free of the constraints of traditional thinking and at the same time requires the gathering of new information. In the mind of a strategist, relevant information can become valuable knowledge. The strategist thereby creates a new but valuable knowledge base relating to an uncertain future. Strategic thinking comprises devising a plan for the continuing acquisition and use of such knowledge. It may involve the exploitation of knowledge created by another but in a way not previously envisaged.

The relevant thinking must be driven by the nature of existing and emerging opportunities and problems, not by the concerns of existing academic disciplines or theory alone. Yet the problems cry out for the insights provided by new conceptualizations. Strategic thinking is directed thinking, linked to an application to real-world opportunities and threats and the need to address real-world problems. It is not restricted solely to the cognitive area, it is thinking applied to practice. Neither a narrow scholasticism, nor a narrow empiricism is enough.

Strategic thinking is therefore an approach which combines a number of characteristics: a creative cognitive process; flexibility in reading and responding to changing circumstances in a changing world, particularly those marked discontinuities which are much more common than often thought; and a ruthlessly self-critical evaluation of the validity of that thinking, both from a deductive and an inductive perspective.

Strategic objectives

For an enterprise, strategic thinking is the process of continuously redefining its objectives, undertaken in the context of the intended creation and maintenance by the enterprise of increased value for its customers and competitive advantage over its competitors, both actual and potential, and the management of risk to levels regarded as acceptable by the enterprise's main stakeholders. It anticipates wants before they are perceived and problems before they manifest themselves. It is an inherently creative process.

Changes in the nature of the modern economy have raised the significance of strategic thinking. The perceived universality of change itself has made this increasingly a prerequisite of business success. Particular changes reinforce this perspective: the progressive replacement of labour by capital; the automation of most manufacturing processes; the increasing importance of human capital; and the emphasis on the provision of services.

Strategy requires a serious consideration of how the enterprise will achieve the continuously redefined objectives, particularly in a competitive environment. The ultimate test of strategic thinking is the long-term success of the enterprise, expressed most strongly in the bottom line, the ability of an enterprise, through a new idea, or set of ideas, or the recombination of old ideas, to generate above-normal returns at an acceptable risk level. Success is due not to luck or chance but to strategic intent, systematically pursued. This involves an appropriate blend of creativity and systematic and logical reasoning. Luck is largely opportunity recognized, risk managed, but strategy is required to turn this luck into good performance.

A good starting point for strategy making is to encourage all employees to think strategically, notably by providing some relevant training to enable them to do so. All the employees of an enterprise can, and perhaps should, think strategically. Indeed it is highly, and increasingly, desirable that they do so. Part of the empowerment of such employees is to be able to define a domain in which they can think and act strategically, their own personal strategic domain. All staff in any organization are potentially strategists – what differs for individuals is the size of their domain.

Vision and mission

All strategists, whether engaged in implicit or explicit strategic thinking, have a vision. In the business world, strategic thinking has its most visible manifestation in the vision of the enterprise, written or unwritten. The vision of an enterprise defines what that enterprise is. It is at the core of the enterprise's identity, representing the reason why the enterprise exists. It is closely linked with what the enterprise can do, reflecting its resources, capabilities and competencies. The vision is an expression of the dynamic of the enterprise, where it has come from and where it is going to – in that sense it can remain implicit, unsaid; it exists whether it is made explicit or not. However, it is better made explicit, if only to motivate those who flesh out and realize the strategy.

The vision precedes but overlaps strategy. It is very much the creative or imaginative part of strategy. The existence of a clear vision is a precondition for the formulation of a good strategy. For a new enterprise, it is the very raison d'être of its creation. For an existing enterprise, the vision comprises both the unchanging core and the variable strategic aims and objectives, the strategic intent. For a new enterprise, this distinction is not meaningful: the core identity, even the corporate culture, has to be created in the course of the realization of the new project. For an existing enterprise, one important preliminary question to ask is what constitutes the core, the essence of the existing enterprise, and thus what is a given and what is temporary and changeable and needs to be changed. The latter indicates what should be the focus of strategy.

There are two parts to the vision:

1. The paradigm, discussed in Chapter 1.
2. An explicit core purpose or strategic intent. It can never be fully realized since it puts the emphasis on aspiration. It is intended to guide and inspire. It is not intended to differentiate the enterprise from others. Indeed, other enterprises may have the same purpose, for example to be the best in some specific area, that is, to be the market leader, the most innovative, or to provide the best service.

Vision also incorporates the strategic thinking particular to the enterprise. It includes an envisioned future, which also has two parts:

1. Long-term, challenging goals for the next 10–30 years.
2. A vivid description of what it will be like to achieve those goals, necessary to enthuse the implementers. These have been described as BHAGs – big, hairy, audacious goals. Usually they should have a 50–70% chance of success. They might take a number of different forms:

- specific quantitative targets
- a common enemy to be defeated or outcompeted
- a role model to be emulated in some important respect
- some internal transformation to be achieved.

They must be clearly articulated.

The vision may be expressed in writing, or left unwritten and expressed only verbally at relevant times. Even if the vision is left unwritten it is not left unsaid. It is internalized. This may occur through meetings and face-to-face contact. Some leaders are superb at expressing a vision verbally, without any resort to the written word.

A written mission statement may articulate the enterprise's vision. Not all enterprises have mission statements. There are other ways in which the vision may be articulated in writing including corporate profiles. Probably the majority of enterprises, if they have a mission statement, have it for internal consumption. In a large number of cases it may be there as a form of tokenism, without real meaning. Sometimes the statement is so bland as to have no specific meaning. A minority of enterprises have it for external consumption by key stakeholder groups outside the enterprise, although in many ways it is an ideal mechanism for such a role. It is intended to alert the stakeholders as to what is being done in their interests and persuade them to acquiesce in enterprise policies. The mission can be constructed to appeal to the broadest stakeholder constituency.

Even fewer companies include the mission statement in their annual report, which is the commonest method of communicating with these groups. In the USA, for example, the stakeholders at whom the mission statement is most often targeted tend to be the customers. What is most frequently communicated includes the benefits for each stakeholder group, most of all the customers. Value statements and expressions of self-image are uncommon. There may be an indication of the focus of the enterprise, that is, what is produced, how it is produced and where it is sold.

A definition of strategic management

As an initial working definition, strategic management is any management action taken to realize a strategy, in particular to realize the vision which results from creative strategic thinking; it is action taken within the framework of the strategy. Successful strategists in the business area are not only engaged in strategic thinking, they also move on to the next step of strategic management. They do not limit themselves to thinking about strategy, they act to carry out their vision. Strategic management therefore translates strategic intent into strategic action. All such actions are organized around the realization of that intent, or should be. Intent defines the direction in which action should be taking the organization. This can be done loosely, or it can involve much more detailed preparation and articulation.

This represents a change in emphasis from the individual to the organization, which consists of teams of individuals working to realize the strategy. Whereas it is conceivable that one individual could formulate a strategy, it is inconceivable that one individual could implement it. Strategic management is carried out by specialist units or teams within an organization who translate the objectives into functional programmes which can achieve those objectives. The relevant functional units engage independently in strategic management. Both within the teams and between them there needs to be significant coordination, which in itself will necessitate strategic action.

Mintzberg and Quinn (1996) have labelled something very similar as *strategic programming,* which represents the process of converting strategic thinking into strategic action. From the opposite perspective, the operational one, it means interpreting the role of particular actions in the context of strategic intentions, but sometimes only recognized and articulated after the event. Sometimes strategy making gives shape to and legitimates what has already been done. Mintzberg identifies three separate steps in such programming – codification, elaboration and conversion, which are each part of the process of strategic management. Strategic management or programming is therefore focused on various strategic activities which can be grouped under the three headings:

1. the identification by the enterprise of specific strategic intentions, identified as a result of strategic thinking (codification)
2. their formulation as proposed actions which will facilitate the achievement of those intentions (elaboration)
3. the efficient and timely implementation of these actions (conversion).

Often one of these activities is much more developed than others. Good strategy making requires all three to be carried out imaginatively and efficiently.

Any effective strategic management is premised on the previous articulation of the strategic intent, often expressed and communicated in general terms through the vision or mission statement. Codification means the translation of a general intent into specific objectives, the spelling out of specific objectives, such as the rate of growth of sales of key products or profit levels in particular units. Sometimes the objectives are only relevant to one part of an organization, for example financial or marketing targets.

In strategic management, elaboration and conversion are not always comprehensive; they are often piecemeal, involving only small parts of the whole organization and certain functional areas. A particular business unit may lend itself to systematic elaboration and conversion, while others may not (see the difference between electronic hardware and entertainment software in the case study on video game wars in Chapter 6 and in the Sony case study in Chapter 18). Some functional areas, such as finance or marketing, are more common venues for systematic strategic management.

The role of the business plan and financial controls

It is often assumed that the central element in any strategy is the business plan, or more specifically the financial mirror of that plan. For most enterprises the most important parts of the business plan are seen as the financial targets, broken down into specific streams of revenue and expenditure. This is because financial control is seen as vital to business success, as expressed in the level of profit, and is found at the heart of any business plan. The most common form of elaboration in strategic management is therefore the production of an annual business plan, sometimes called a corporate plan, the core of which is a set of financial targets (see Chapter 18 for a list of possible targets).

Focus on Theory
Above-normal profit

The broad aim of strategy is often seen as the making of 'above-normal' profit. What exactly is above-normal profit?

For economists normal profit has a specific meaning; it is the return which characterizes an equilibrium situation in a perfectively competitive market. An equilibrium price is reached when competition has fully worked itself out. A normal profit is

Focus on Theory cont'd

earned in a market in which there is a homogeneous product traded by many buyers and many sellers, and in which there is complete freedom of entry or exit. All players have access to the same technology and the same inputs. Competition would ensure that any above-normal profit was eroded by a new entry or expanded sales from an incumbent. In such a market profit will be driven down by competition to a level at which a normal profit is made on the assets employed.

In a riskless world, this normal rate is equal to the opportunity cost of the capital employed – what could be earned on the funds invested in the enterprise if they were invested elsewhere. Putting it another way, it is equivalent to the going rate of interest on an alternative commitment of the same investment funds to the purchase of financial assets with the same risk profile – in a riskless world, the return on a government treasury bill. In such a riskless world, it is assumed that the normal rate of profit is the same in all industries throughout the economy. In such a world all earn the same return.

The normal rate of profit is not the average rate for the economy as a whole nor is it the average for individual industries.

Any profit above the normal level can be described as a monopoly profit. It emerges because there are a limited number of sellers; there is not freedom of entry into the industry; the product is not homogeneous; or one enterprise has a cost advantage over the others. In other words, there is a market imperfection which prevents the operation of perfect competition.

In the real world, as against the theoretical world of the economist, there is no such thing as perfect competition. What motivates an entrepreneur is the possibility of above-normal profit. No self-respecting businessperson would be content with earning only a normal profit.

It is worthwhile to explore for the moment the place of the financial side in strategic management. There is a tendency to see both the elaboration and conversion elements of strategic management as revolving around financial targets and financial controls. It is certainly true that any decision, whether it involves an investment or not, can in theory be reduced to a present value of cash streams which result from that decision. It could be put as a stronger argument, that any plan must be so reduced to ensure successful elaboration and conversion. There are two streams, revenues and costs:

- *Revenues:* these are streams generated by particular sales occurring at different times. In some cases there are delays in the initiation of such a stream or a gradual build-up of the level.
- *Costs:* these are expenditures on a variety of particular inputs occurring at different times. The expenditures may be made as one-off fixed costs, such as the cost of equipment or a promotional campaign, some now, some at an indefinite time in the future, or as operating expenditures which change or vary according to the level of sales, so-called variable costs.

It is often difficult to disentangle the revenues or costs which result from any specific decision. There may be an overlap in both revenue and cost between the business or accounting units. In some cases a project or business unit is independent and stands apart, although there may still be costs shared with other projects or units. In other cases the decision is part of a much larger set of decisions, for example a decision to introduce a particular marketing campaign, raising the general profile of the enterprise which affects all units. The standing of particular budgetary controls may not be closely linked with a clear understanding of where specific revenues and costs are located.

The business plan and its contents provide the financial controls which are used in strategy elaboration and conversion. However, the process of strategy making requires a careful consideration of the assumptions, and therefore the limitations, of any financial analysis. There are a number of powerful assumptions which underpin the stress on financial analysis itself and the interpretation of strategic management as mainly consisting in the implementation of a business plan. It is clear that the financial streams, just as the business plan, are the results of rather complex strategic decisions which reflect different scenarios and can yield different outcomes. There is so much uncertainty that any such estimate has a rather dubious value unless the assumptions on which it is based are made explicit.

All such estimates usually have a spurious degree of exactness. They mask the qualitative judgements which support them. They tend to put the cart before the horse, in the sense that the indication of financial streams should come at the very end of the process of strategy making when their meaning is clear, not at the beginning, after which they are used to justify strategic decisions made later. A successfully implemented marketing strategy will boost the revenue stream. A well-thought-out and implemented operations strategy will keep costs down. A properly focused research and development strategy can yield a series of planned innovations which both reduce costs and add quality to the product. All these functional strategies, and others, are the base on which a business plan, with its streams of income and costs, rests.

The financial part of strategic management is necessary, even vital, but only a part and certainly not the most important part. At best the narrowly financial approach is an oversimplification of the issues at stake. At worst it often drives the whole process of strategy making. A good financial strategy comes at the end of the strategy management process. Focused strategic management should occur in every functional and business unit. Strategic management shows the implications for these units of the overall strategy and what is needed to make an efficient conversion. The degree of elaboration might vary from functional unit to functional unit, from an elaborate marketing plan to one in which there is little in the way of what can be described as planning, as in the uncoordinated use of information systems or a poorly developed human resource strategy. Strategic management can be variable in its effective application. The degree of coordination between such strategic actions might also vary.

A definition of strategic planning

The definition of planning is as problematic as the definition of strategy itself. Sometimes it is assumed that strategy and planning are the same thing, at other times that strategy sets the objectives or targets and planning shows how to achieve them. The clearest way to distinguish them is to talk of strategy, not just as a plan but as a whole range of manifestations – as pattern, perspective, position and ploy.

Planning always assumes the pre-existence of a strategy. It is impossible to plan without an explicit strategy; the aim of any plan is to realize that strategy. Strategy does not necessarily imply planning, or planning as it is normally understood, but provides the framework within which planning can be successfully implemented. Nor does strategy necessarily require the development of a formal planning process with a structured planning department.

An organization blessed with good strategists does not necessarily have to produce, in a deliberate way, comprehensive and detailed strategic plans; it may produce strategic plans with a strictly limited functional scope. Planning is analytical, in that it reduces everything to the formal and systematic. Such planning requires a careful consideration of how all resources are to be used in order to achieve the strategic objectives, which themselves have to be spelt out in detail. It requires the collection of detailed data relevant to the achievement of such strategic targets. This data is processed in order to produce a plan. Planning is about:

- *departmentalization*, the setting out of separate functional plans
- *disaggregation*, the breakdown of a plan to suit the lower levels of an organization where this is necessary
- *planning horizons*, the time period over which targets should be achieved. Most plans are broken down into short-term plans, quarterly or annual plans.

Strategic planning is understood here as involving the use of formal planning methods, including the development of explicit plans with a full range of objectives, and its application to all business units and functional areas within the organization, and at all levels. The emphasis is on comprehensiveness. All parts of the enterprise have a carefully defined role to play in the realization of such a plan.

What is the main aim of planning? This aim has a profound influence on the nature of strategy. Planning can have two orientations:

- conservative – premised on the constraints of resources currently available within an enterprise, that is, what can be done with the present resources. Each unit must have the resources required to carry out its part of the plan
- radical – directed chiefly at the creation of new resources in an attempt to break out of current constraints.

Planning is partly about targets, restructuring the company and reshaping its environment, and partly about using as effectively as possible what it already has. It is better to find a balance, that planning involves something of both orientations, respect for existing constraints and the desire to break free of those constraints.

The definition of strategic planning used in this book includes:

- The systematic formulation of fully coherent and comprehensive written plans, setting out all the relevant strategic management actions for the achievement of the enterprise's strategic intent, as expressed in the objectives of its long-term vision.

- The translation of such long-term plans into short-term operational and administrative plans. It involves organization of the actions which are needed to implement in the short term the long-term plans.
- The specification of the exact resources which are needed to carry out those actions and how they can be accessed.
- A fully developed planning process, with the communication and implementation of those plans and the monitoring of their implementation, with any related adjustment of the plan during the period of its currency.

A summary of three different strategic activities

The three strategic activities can be interpreted as three separate steps in the incorporation of strategy making in a systematic process:

1. *Strategic thinking* describes well the establishment of the vision, which includes the process of defining and achieving objectives in a complex world in which there is considerable uncertainty about the future. It is about rethinking that future, sometimes in a small way. In some industries this may be as far as any strategist wishes to go, providing the cognitive framework, which explains how all current operations are to be organized.
2. *Strategic management* is strategic thinking applied to action, allowing an organization to subordinate all its functional activities to the achievement of clear objectives and to integrate them, insofar as this is possible. It is about the remaking of some part of the future. In a world of change this remaking is a precondition for the long-term success of an enterprise. The first step is pointless without at least some move into this second one.
3. *Strategic planning* assumes a further step in the moulding of the future in which strategic management, often fragmentary and inchoate, is translated into highly formal and coherent written plans and action to realize those plans. Any plan imposes the human will upon an environment which is full of unpredicted change.

For most enterprises, strategic planning is simply too hard and too risky. It is better to concentrate on the operational problems within a long-term strategic framework and marshal those elements of strategic management made necessary by those problems. Most of what is usually described as strategic planning does not correspond to what is described above under that label. This issue is discussed at greater length later in the book.

Principles for the successful use of strategy

A key issue is how far an enterprise needs to go in developing strategy making, where on the spectrum from strategic thinking to strategic planning it should locate itself. The definitions above provide us with a checklist of key factors which influence the exact role of each of the possible strategic activities – thinking, management and planning – and their relationship to each other.

The argument has been put that all staff should be strategic thinkers, at least with reference to their own domain, however small. That domain tends to get larger as a staff member rises in the hierarchy of an organization. Within that domain there is, or at least should be, strategic empowerment of the individual, that is, the giving of as much discretion for strategic decision making within the scope of the domain as is consistent with the overall strategy. This discretion must be exercised within the framework of strategic decisions made by higher levels of the hierarchy.

On the other hand, strategic planning is likely to be much less common than usually thought. Certain conditions make strategic planning inappropriate. It is obvious that rapid change in technology and market conditions discourages the introduction of detailed plans. Any risk reinforces this reluctance. An overly detailed plan can act as a straitjacket, removing the flexibility needed to maintain competitive advantage and survive in a rapidly changing environment. Any plan would have to be adjusted so quickly and comprehensively that it would cease to be helpful.

How to classify an industry or market

It is appropriate to consider how to classify different markets or industries by their degree of instability. There are three classifications which can be used:

1. *Level of competition in the market*
   In a certain sense there is an incompatibility between the operation of planning and the market. The key issue is the number of sellers. Monopsony is possible, that is, when there is only one buyer in the market, but rare; usually there are more buyers than sellers. At the extremes the possibilities range from monopoly to perfect competition, from one seller to many sellers. The more typical case falls between the extremes; it is either oligopoly, a few sellers, or monopolistic competition, a limited number of sellers, more than a few but less than many.
   How does the number of sellers influence the nature of the market?
   - The main characteristic of any monopoly is that the player has some control over price and therefore the level of profit that can be earned. The more sellers there are, the less likely it is for such control to exist.
   - A second feature, often assumed rather than discussed, is that the more sellers there are, the more likely it is that the market will be stable, and not subject to price fluctuations; the fewer sellers there are, the more unstable the market and the more likely price fluctuations. This is not always true. There is not necessarily a close relationship between the number of sellers and the level of instability, as will be seen.
2. *Age and degree of development of the particular market, industry or segment of either*
   - The market may be young and small but with enormous potential. At this stage it is the subject of significant entrepreneurial activity. Even rapid growth has little effect, since it is from a low base, but growth may be far from rapid in the early stages of industry life.
   - Later it may be in its adolescence or adulthood during which there is increased competition, more rapid growth but more standardization of product and price. Growth may initially be very rapid but may decline towards the end of this period.
   - It may be at the mature stage, entering middle age when growth is very slow or non-existent.
   - The market may be old when the search for any new markets, often abroad, becomes critical. Growth may become actual contraction.

These stages trace out the conventional S-shape of a life-cycle curve, which is often assumed to have universal validity.

In such an approach it is possible to easily define a new product which remains the same throughout its history, and therefore a new market or industry. In reality there may be modifications of the product which continuously renew it, sometimes quite dramatically. It is as if the industry re-enters childhood.

3. *Speed at which competitive advantage is won or lost*
   - In a slow-cycle market, for various reasons, including natural monopoly or the existence of considerable barriers to entry, there is little threat to the existing competitive advantage held.
   - In a fast-cycle market, competitive advantage can only be sustained for a short period. Competitors quickly imitate the first mover or even take the initiative, leapfrogging the early leader by introducing fresh innovations. There are a multitude of new processes, new organizational methods and new ways of differentiating the product which are introduced one after the other in rapid succession.
   - A standard cycle market is between the two extremes. Here, competitive advantage can be retained for longer than the short term, but still a finite period of time.

It is possible to simplify the classification of circumstance. It is likely that fast-cycle industries are those which are new whereas slow-cycle industries are those which are old. The two can be combined while recognizing that some industries by their nature are fast and some slow cycle. By also aggregating monopolistic competition with oligopoly and infancy with adolescence, it is possible to reduce the classes to three. Figure 2.2 helps to indicate what circumstances are appropriate for different strategic activities. The variants which are in bold are the most common, those italicized are the least common.

Variants:

A. This is the typical situation of an industry in extreme infancy. Such a situation is unlikely to last for long. It is possible to plan in such a situation, indeed highly desirable, but there may be resource constraints on engaging in such planning. Given the speed at which the situation is likely to change, it is unlikely that any planning will occur.

B. As other sellers enter the industry, it becomes harder to retain competitive advantage and therefore it becomes desirable to employ strategic management but impossible to plan in any realistic manner.

C. With many sellers in a young industry, it is only possible to apply strategic thinking and impossible to go beyond this. Enterprises are jostling each other with their competitive innovations.

D. A monopolist can always attempt to plan. However, there are few industries with a natural monopoly. This variant, just as A, is rare.

E. This is a common situation, possibly the most common of all. It lends itself to considerable strategic management. Enterprises might or might not try to speed up the introduction of innovations, that is, to accelerate the standard cycle. If the oligopoly involves stability of market share and price, this is unlikely. There is a

Enterprise age (speed of cycle)	Number of sellers: One	Few	Many
Young (fast)	*A*	B	C
Mature (standard)	*D*	E	F
Old (slow)	G	H	*I*

Figure 2.2 **The variations of enterprise circumstance**

danger in too much planning which might make an enterprise vulnerable to any change in circumstances.

F. Such an industry is likely to be highly competitive and possibly unstable. In such an industry it is difficult to apply too much strategic management, but there is likely to be some.

G. This is the most likely situation in which there is strategic planning. Competitive advantage is not an issue and unlikely to become one.

H. Such an industry may oscillate between stability and instability. There may well be very significant amounts of strategic management in this variant. They are used to gain some marginal competitive advantage.

I. This is a very unusual situation.

Under what conditions is it likely that an enterprise should go the whole way from strategic thinking to strategic planning? Such conditions do not occur frequently, both A and D being very unusual. Only G is likely to occur and this is also exceptional. Clearly a fiercely competitive fast-cycle market which is in the growth stage is unlikely to be right for strategic planning. The younger the industry, the faster the cycle; the greater the number of competitors, the more unlikely the step to planning. An industry sharing any of these attributes may be ripe for the frequent exercise of creative strategic thinking. How much strategic management is possible depends on the stability of the industry.

When strategic planning is appropriate

As seen above a monopoly in a mature slow-cycle market is much more likely to be ideal for strategic planning. Under what conditions is strategic planning an appropriate strategic activity? There are three situations in which it might be desirable, although there are good reasons why, even in these situations, strategic planning may be unusual:

1. The situation of *predictable change*, at least as predictable as change can be. Both innovation and competition are sources of unpredictability. The absence of one,

or both, makes for a predictable context. This may be true of a mature industry in which technology and tastes are not changing very rapidly, or changing in a wholly anticipated manner, and in which the number of competitors is stable. An enterprise which is faced by an environment which changes little, and then only in a manageable way, can engage in strategic planning without fear that it will impose a straitjacket on the enterprise, which will prevent the exploitation of opportunities inherent in a changing environment and also inhibit the successful management of risk.

2. The *crisis situations* which confront all enterprises at some point in their life, often described as *turnaround* situations. These situations, which threaten the very existence of the organization, typically happen when strategic drift creates a wide gap between where an enterprise should be and its actual situation. This is when the priorities of the enterprise become so obvious that the strategic position is clarified for all. All have the same interest, the survival of the organization. Any planning requires absolutely clear-cut priorities which help to spell out the objectives. Planning enables a strategist to concentrate resources on the achievement of such priorities. Witness the assistance planning provides in conditions of war, at least modern warfare which demands a total mobilization of resources at every level of an economy.

   However, the speed of the necessary response may make it difficult to plan in the way described. Since the turnaround is forced on the enterprise, there may be no time to plan.

3. The *launch of any new venture*, which is best undertaken with a detailed understanding of the resources available and the strategic actions needed to achieve enterprise objectives. There should be an indication of what should be done in various contingencies. In other words, a new venture needs to be planned in a detailed manner. This is situation A above. The frequent lack of any such planning, indeed even of significant strategic management, helps to explain the extraordinarily high attrition rate for small businesses in all types of economy. The critical problem is that a small business may not have the resources to engage in planning.

These remarks provide only a general set of principles and need to be applied to the particular conditions of different industries. Since the world is complex, there are no simple solutions and no simple choices. Rather there are an endless series of unique events which combine to constitute environments which are not only different for every enterprise but never remain the same from period to period. The capacity to generalize about such situations is limited. It is necessary to learn how to read this complexity and create some order. Such uncertainty and complexity influence the whole nature of strategy making.

Finding the right strategic mix of entrepreneurial creativity and administrative expertise

Any successful enterprise needs both the vision and its realization by efficient management. Can the same individual manager or the same organization be good at both? This amounts to asking the question, what does a manager do or rather what should he or she do? Or, putting it differently, should all managers be entrepreneurial?

Entrepreneur and manager

It is helpful to ask these questions in the context of making a distinction between entrepreneurship and management. There is considerable misunderstanding concerning the nature and role of the entrepreneur, in particular a failure to distinguish between the entrepreneur and the manager. These are different roles. The distinction may be solely conceptual, in that it is possible for the same person to be both entrepreneur and manager, or at one time to be entrepreneurial and at another managerial. It may be highly desirable that this is so.

The key conceptual distinction is between innovation and imitation. Broadly speaking, the entrepreneur innovates and the manager imitates. The entrepreneur is the pioneer, the manager the applier of existing best practice. The entrepreneur engages in strategic activity, the manager focuses on tactical or operational activity. The entrepreneur formulates a strategy, the manager implements that strategy. Conceptually the distinction is clear.

The situation from the perspective of strategy is also clear. The strategist must allow for both entrepreneurial and managerial inputs:

- Strategists must sometimes play the role of entrepreneur; they must be entrepreneurial in their attitudes, confronting the need to innovate as part of strategy making. There is a considerable overlap between the role of strategist and entrepreneur. Both entrepreneurs and good strategists must display creativity, sometimes of a very high order. Both must manage change. Entrepreneurs are often implicit rather than explicit strategists, not having the time or the inclination to make the strategy explicit.
- The strategist must also put in place an efficient management team skilled in all the relevant functional areas. This is necessary in order to realize the vision of the entrepreneur.

Business success depends on the continuing renewal and application of the entrepreneurial spirit. This is difficult to achieve since it is in short supply. Business success depends on the application of efficient management. Few enterprises last very long. The attrition rate of new businesses is notoriously high. In the US, the bastion of the entrepreneurial spirit, almost 50,000 new enterprises fail each year. Even large enterprises seldom last more than one or two generations. In a long-term historical perspective, business success is ephemeral. Only a handful of the 100 largest companies existing in any country at the beginning of the twentieth century exist today, typically less than 10%. Even those enterprises are likely to be unrecognizable as the original creations.

Intrapreneurship

It is not only new enterprises which are the vehicle for innovation. Existing enterprises can innovate. The term 'entrepreneurship' has been modified to coin a new concept intrapreneurship, which captures the way in which in some companies the upper echelons of management, or the main strategists, manage to structure the enterprise to encourage innovation at middle and low levels. The enterprising individuals at these levels are given scope to discover new processes and products, develop new and more efficient organizational methods and identify new market segments. The upper managers promote the new strategic initiatives and put the intrapreneurs into a position to oversee the new ventures. Sony, in its early history, was a good example of successful intrapreneurship. Intrapreneurship is the key to innovating for a competitive advantage. Most enterprises at some stage lose the ability to generate and/or support intrapreneurship and intrapreneurs. The most successful Japanese companies, such as Sony, had strategies which at least implicitly aimed at doing just this.

There is a very real sense in which success itself is often the cause of failure. It does this by persuading the successful that they know all the answers, despite the fact that the environment has changed and therefore the answers have changed. The success of one enterprise, maybe a brash newcomer, may well be the cause of the failure of another. Schumpeter's famous phrase 'creative destruction' (1934, 1950) summarizes the role of the entrepreneur in both creating and destroying. The entrepreneur's job is to convert new ideas into profitable innovations. By so doing they subvert the viability of existing companies still using old technology or producing old products.

The mix

The obverse of creativity is the humdrum routine of administration. Creativity is not enough for business success. Routine management functions must be carried out efficiently. The relevant functions can be broadly referred to as 'administration', but the functions are rather wider than the term usually suggests. The manager is hired to apply best-practice managerial techniques, invariably well-tried techniques, that is, to carry out the basic operations of the enterprise in as efficient a manner as possible. The realization of entrepreneurial goals requires, for its success, adequate, even high-quality management inputs. Many of these management inputs involve specialist knowledge of functional areas.

The proportion of entrepreneurs and managers required within an enterprise, or indeed the desirable blend of these characteristics within the same individuals, can vary markedly. Some periods are periods of rapid change, others see greater stability. Equally, some sectors are characterized by unchanging technology and stagnant markets. This is the basis of the usual distinction made between the new and old economies. Old established industries often offer little scope for the entrepreneur but much for the manager, whereas new industries offer the reverse.

The number of genuine entrepreneurs available is limited: entrepreneurship requires a particular combination of qualities which is not common. Not least are the characteristics of creativity, imagination and originality, including the ability to think strategically. Further, there are the linked characteristics of persistence and realism, which allow the original ideas to be translated into operational innovations and recognize the importance of implementation through the processes of strategic management and strategic planning.

Entrepreneurs can be found as chief executive officers of large multinational enterprises or creating and running their own small enterprises, converting them into the successful companies of the future. Potential entrepreneurs achieve their greatest success by being in the right place at the right time, usually more by design than luck. Often entrepreneurs mould their own future.

It is also the case that each person, given the opportunity, is able to exercise some degree of entrepreneurship, that is, to reshape and innovate in the relevant functional areas, just as each can also act as a strategist in the relevant domain. Empowerment develops some entrepreneurship in all and gives scope for its exercise. The domain in which this is done may be very restricted. The impact of many small manifestations of this activity can add up to an enterprise which continues to be competitive. The ability of individuals to engage in innovation is the result of an appropriate strategic context, reflecting the input of appropriate strategic leadership and strategic decisions on structure, culture and procedures. Moreover, such entrepreneurial activity helps to make possible the realization of a strategy.

In seeking out and taking opportunities, the entrepreneur is seen as an unusual person; he or she deliberately takes risks, that is, is a risk taker instead of being risk-averse. Often the entrepreneur is seen as glorying in an exposure to risk. One of the main features of an entrepreneur may be the willingness to accept a challenge, therefore to be less risk-averse than the average person, to have a greater appetite for risk. However, successful entrepreneurial activity requires significant risk control. This is an important facet of any successful entrepreneurial activity. Successful entrepreneurs are often good at devising new ways of managing their external environment, controlling everything from suppliers, to competitors, customers, access to finance and technical expertise. Certainly they are good at making full use of any new methods of risk control.

The goal of the entrepreneur is to make above-normal or monopoly profits, at risk levels no higher than the norm for the industry. The monopoly arises from the ability of an enterprise to create a significant imperfection in the market, to erect a barrier to the entry of rival enterprises into the industry or sector, often simply by getting to know something which others do not know and using that knowledge to create value for customers. The ability of an enterprise to generate monopoly profit often depends on the ability of the entrepreneur to pioneer, to be 'first mover' in developing a new product, process or form of organization. On occasion it reflects the ability to quickly follow up after others have suffered the initial development problems which sometimes attach to being first mover.

It is a matter for strategy to determine the appropriate mix of creative entrepreneurship and good management. There is a time and a place for an emphasis on entrepreneurial activity and a time and place for an emphasis on managerial activity. For example, in fast-cycle markets there is both an opportunity and a need for continuous entrepreneurial activity, whereas in slow-cycle markets there is no such opportunity and no such need. The enterprise requires both structure and personnel suited to its circumstances.

It is possible to have too much entrepreneurship or too much administration:

- An organization which is excessively entrepreneurial can dissipate its energies in generating a stream of promising new ideas but never bringing any of them to fruition. It pays all enterprises to encourage a continuous display of creativity and to have a pool of ready-to-utilize ideas available. However, there should also be effective procedures for processing these ideas and selecting those which are worth taking beyond the ideas stage. Successful entrepreneurial activity consists in both generating the ideas and evaluating them effectively, in the context of both the general environment and the conditions of a particular industry.

- On the other hand, an organization which is obsessed with attaining the ideal structure, procedures and job descriptions and with the efficiency of its administration, and nothing else, will steadily lose its competitive advantage, even if it is a slow-cycle market. It will be obsessed with observing proper procedures and rules. It is likely to suffer continuing strategic drift. It will never generate those ideas which can be converted into continuing competitive advantage. At some stage the enterprise's products will become old and tired, its markets established and undynamic and its cost structures increasingly uncompetitive. It is what the typical enterprise often becomes and why the life of most enterprises is so short.

A successful organization needs both an ever-renewed vision for the future and an efficient routine management and administration, the balance between them changing with changing circumstances. Nor should the functional specialists be always limited in their perspective by their specialization. While an entrepreneur must have a strong feeling for the feasible, what is doable, administrators must have an eye for improvements, whatever their scale and impact. All managers need some entrepreneurial perspective, all entrepreneurs some managerial perspective.

The primary aim of any strategist is to maintain the long-term economic viability of the enterprise. The key to realizing this aim is to create and maintain competitive advantage over the long term. This is achieved by securing, on a continuing basis, an acceptable or satisfactory rate of return at an acceptable or satisfactory level of risk. The return ensures that the owners of an enterprise receive a reward which ensures their continuing participation in the enterprise. The managed risk guarantees that there will be no moments of illiquidity, however temporary, which might threaten the continued operation of the enterprise.

To achieve all this the strategist must behave on occasions like an entrepreneur and on others like a manager. The strategist must be an entrepreneur, at least some, if not all, of the time, notably by sponsoring the kind of change which provides value to the customers and keeps the enterprise ahead of its competitors. The key issue for the enterprise is to put together a team of strategists who combine the roles of entrepreneur and manager in the right combination. For an individual it is achieving the right blend of activity at the right time. In an increasing number of industries characterized by fast-cycle markets, there should be maximum scope for the expression of the entrepreneurial spirit: this is a strategic necessity. The industries which are characterized by slow-cycle markets need good management. Strategy is about achieving the right balance and the right timing. The entrepreneur/management mix and the strategic thinking /strategic management mix are therefore closely linked.

Case Study The IKEA way

IKEA's aim is to provide customers with 'affordable solutions for better living'. The better living comes from a range of furniture and household furnishings offered at prices which appeal to those just starting up their own homes and expanding their families, offered in a style and a context which satisfies the desire for beauty and modernity. Nearly all the products on offer by IKEA are sold in IKEA stores throughout the world. IKEA has achieved the impossible, to create a range of products attractive to consumers everywhere, in countries with very different cultures, and to apply a formula for presentation and sale of those products which reinforces the attractiveness.

IKEA has put together a number of creative ideas in a combination which explains its success. It is not a matter of just one creative idea. IKEA is at the same time the McDonald's and Harley-Davidson of the world of home furnishings. It has combined the cost-reducing benefits of mass consumption and production with the attention to style required to persuade consumers to buy items which will be on display and in the eye of the purchaser for many years, unlike the humble hamburger or cup of coffee which are consumed quickly and as quickly forgotten. In short, like Harley-Davidson, it has created a global brand. It has managed to innovate continuously and respond to changes in the world, continuing to convey a sense of excitement and modernity.

It is the originality of the overall IKEA concept which explains its success, a concept which comprises a number of different elements. The key aspect of creativity is how the IKEA package is put together as a coherent whole. It has features unique to IKEA but the uniqueness derives principally from the way in which these different features are combined.

The first, and in many ways most important, of these elements is the role of the customer. The 'IKEA way' elevates the customer above what is the norm. Customers choose, transport and assemble the furniture themselves, in a way untrue of the customers of other furniture and home furnishings retailers, although others are now imitating the IKEA model.

IKEA offers its products in a natural setting which encourages creative thought by the customer about how an individual item might enhance the look of the ensemble in different parts of the home. There is little fear of sameness since consumers can place the products in different combinations with other products, according to personal taste. IKEA encourages a holistic way of thinking about the home and its furnishings but also an attention to the details of design and functionality. It recognizes that there is an aesthetic component to furnishing a home, even if there is a limit on how much can be spent. It also recognizes that there are environmental implications to what is produced and sold, which must be taken into account.

Given this starting point, the concept can be summarized in the following way.

Target market

There is a clearly defined market. It may sound corny but the self-proclaimed focus of IKEA is 'young people of all ages'. In reality the market is primarily young people, who are well educated, liberal in cultural values, white collar, but with limited means because of their stage of career and family cycle, and in the process of setting up or expanding their homes because they are having children.

Canada is typical in its customer profile and can be used to represent the global customer. In Canada the target customer household has an income of $35,000–40,000 (middle level), owns a condominium (apartment) or a townhouse, has members with a university degree, has both husband and wife with white-collar jobs, who are in the primary age group 35–44, or the secondary group 25–34, has two children, and is prone to move residence relatively frequently.

Product

The IKEA products on offer exceed 12,000 items in number, an enormous range, in the words of Czinkota et al. (2000: 357), 'from plants to pots, sofas to soup spoons, and wine glasses to wallpaper'. The product is homogeneous worldwide, that is, it does not tend to differ from country to country. There is a complementarity between the large and small items on offer which creates the ensemble effect in IKEA stores. The design is light and modern. There is also a stress on pastel colours and the use of textiles. The emphasis is on individual design which still has a Scandinavian feel. The heart of the company's design capability was, and to some degree continues to be, a 50-person Swedish workshop. Considerable time and effort goes into the design of each product. The products are redesigned at regular intervals in order to retain the modern feel.

IKEA designs but does not manufacture. The products are purchased from a wide range of different sources, both in terms of the network of contracted manufacturers, which runs into the thousands, at present more than 1,800 suppliers, and in terms of countries, 55. Because of initial resistance from existing furniture retailers and their attempt to prevent suppliers cooperating with IKEA, from the beginning IKEA had to go to small cheap suppliers outside Sweden, notably Poland in the early years. This meant that IKEA had to play a prominent role in assisting the suppliers. Buying or trading offices, of which there are 43 in 33 countries, and production engineers perform the job of vetting candidates; their decision is then referred to and ratified by headquarters. The policy is to avoid the pitfalls of vertical integration while avoiding the suppliers' excessive reliance on IKEA.

There is an increasing emphasis on cheap manufacturing sources such as China, now the largest single source, and increasingly Poland, as well as Sweden, and suppliers in the main European markets. A precondition is that these sources maintain the quality of design. Today there are more than 500 suppliers in Eastern Europe alone.

IKEA is an example of what is called a strategic centre enterprise, that is, a company which works at the centre of an alliance network, in this case a global alliance network of thousands of manufacturers who supply IKEA with its products. IKEA can afford to outsource activities in which it does not think it has a core competency, notably manufacturing, concentrating on those activities in which it has, such as design, marketing, logistics and distribution/retailing.

Some of these alliances have been in existence for many years. As Margonelli (2002: 109) has said, 'Yet even as IKEA fosters competition among suppliers, it also treats them as long-term business partners'. It is difficult to become an IKEA supplier, but becoming one gives the supplier access to an enormous global market. The trick in maintaining low costs is high volume production. IKEA, through IKEA Engineering, which employs a dozen technicians, is ready to give suppliers technical assistance to reduce costs and improve quality. IKEA does everything, from leasing equipment to suppliers to offering frequent advice, in order to bring production up to world standards and keep down costs.

The typical product usually comes in kits which have to be assembled by the customer. The components of the kits, once manufactured, are sent to large warehouses, at present 18 distribution centres worldwide, and from there on to the retail stores which themselves act as mini-warehouses. The cash registers of the retail stores are directly connected to the distribution centres, providing immediate information on changes in demand patterns. The warehouses are at one and the same time storage facilities, logistical control points, consolidation centres and transport nodes. They are the key to reducing inventory to the minimum while ensuring immediate access to stock by the customer.

Price

There is a lot of emphasis on a competitive pricing strategy. IKEA prices are as much as 30–50%, certainly at least 20–30%, below those of fully assembled competing products. The exact level of undercutting varies from country to country and from period to period. There are also BTIs, 'breathtaking items', which have a very low price.

IKEA does everything to keep the price down. There is a ruthless drive to reduce costs. For example, the Poang chair has been reduced in price from US$149 in 2000, to US$99 in 2001 and US$79 in 2002. This follows the establishment from the beginning of a competitive price. As shown below fixing the level of price comes first. This cost and price leadership is achieved by a combination of strategies – large-quantity purchasing, the push to discover ever-cheaper suppliers in ever-cheaper markets (sourcing in developing economies has risen from 32% to 48%), low-cost logistics, store location in relatively cheap suburban areas, and a do-it-yourself approach to marketing and distribution. Low costs are translated into low prices as IKEA pursues a deliberate price leadership strategy. For example, IKEA does not deliver, although it will organize delivery at the purchaser's cost, if it is needed. At a cost it will even organize assembly for the customer.

Distribution

IKEA has constructed its own global distribution and retailing network, with 18 distribution centres in 2003, most near container ports and major truck and rail routes and 4 more under construction – 70% of the total product line is handled by the centres, the other 30% going direct from supplier to store.

Its stores are usually located well outside city centres but with plenty of free parking space. The stores themselves are large and take some time to walk around. IKEA owns the larger scale outlets, but is prepared to franchise in markets which are smaller or carry a bigger risk because of initial unfamiliarity with or hostility to the IKEA concept. They are decidedly family friendly, with supervised crèches and playgrounds or video rooms for older children, both available in order to free the parents from outside distraction in their shopping. There are also free buggies, reasonably priced restaurants and cafes. Such facilities allow for a lengthy visit.

The stores have been described as a kind of 'theme park masquerading as a furniture outlet' (Margonelli, 2002: 112). In the easy accessibility of the products, the experience of shopping is rather like a supermarket experience, but in the encouragement of family participation, it is more like an outing. The normal rules and expectations of a furniture store do not apply to IKEA. The combination of these superficially contradictory features is one aspect of the achievement of IKEA. It is also true that each store is a meticulously constructed 'virtual' Sweden.

In some regions, where the cost is not prohibitive, IKEA has used a mail-order system.

Promotion

One of the best-known features of IKEA is its *catalogue*. It is itself well designed, almost a collector's item. This catalogue has become something of a design icon, rather like the London underground map or the Coca-Cola bottle. It is the main mechanism of advertising. Promotion is centred on this catalogue. The aim of the company is to use the catalogues to promote innovative approaches, which are then talked about and publicity generated by word of mouth initiated by those who have seen the catalogue. The catalogue also helps the consumer to find the relevant product before entry into the store. The catalogue is uniform in layout throughout the world, with very minor regional differences – 110 million copies of the 2002 catalogue were printed in 34 different languages. It is much imitated.

The catalogue is reinforced by the existence of a *customer magazine*. IKEA doubled the print run of its customer magazine to 400,000 copies in 2002, again making it the largest circulation of any publication within the area of home furnishings. The recorded circulation in 2001 was 171,620. Half the copies are mailed to cardholders' homes, the rest are sold in-store and on news-stands. Each issue has a specific theme and tackles concerns relating to everyday life in a manner which makes the ideas easily accessible to the readers, rather than concentrating the focus on an aspirational lifestyle, which was formerly the case.

A second feature of promotion is the colourful and attractive nature of the *retail outlets,* where the furnishings are set out as they would be in actual homes. The usual approach to selling furniture is to have multiple versions of the same product in the same room, such as beds, lounge suites, or tables. Such an unnatural setting creates problems of choice for the customer. Such a situation often requires the shop assistant's assistance in enabling the purchaser to imagine the item in a natural setting. In IKEA by contrast there is not very much direct service; the stores have the do-it-yourself style of the supermarket. Customers are provided with tape measures, pens and note pads to assist them in making a choice. Information on the availability of items in different colours, including where they should be picked up, is clearly provided. The number of shop assistants is kept to a minimum in order to keep down costs. The attractive presentation offsets any notion that IKEA is a low-cost, low-quality supplier.

IKEA's strategy has been described as a focused cost leadership strategy, focused because it is targeted at a particular market niche, those who want style at low cost (Hitt et al., 2001: 169). However, this oversimplifies the approach adopted and underplays the complexity of the product, with its packaging of different services. If it were true that the strategy was no more than a form of focused cost leadership, it would be difficult to understand why IKEA has been so successful. Rather it is the combination of low price and high quality which attracts the consumer, which is not an unusual situation.

The attributes of the product offered by IKEA differ markedly from those of other retailers. Instant accessibility, customer participation in value-adding, the combination of low cost and high quality – all mark the product out as unique and therefore as carrying a competitive advantage, one which is continuously renewed as products are improved and renovated. IKEA is always ready to innovate. Two examples illustrate this; the introduction of the Children's IKEA in 1997, which meant both the addition of about 600 new products, from egg-shaped cribs to multiethnic fabric dolls, and the revamping of store layout; and, more recently, the distribution of a model kit for designing one's own kitchen.

A typical IKEA product – the Bang mug

The object of this section is to show briefly, with one of the humblest of products, the Bang mug, the IKEA method of developing and renovating a product, noting the sequence of steps in the development of a product. This is one of the most popular, although also one of the cheapest, of the IKEA products. IKEA will probably sell as many as 25 million worldwide in 2003. Its history is typical of many products. The product originated from the idea of a co-worker.

Typically the first step is to set the price, which is suggested by the location of the product in a matrix of price range and product style created by the strategists. The second step is to choose a manufacturer. Only at the third stage does the company design the product. When the process of design began for the Bang in 1996, the starting point for Pia Eldin Lindsten, the product developer, was the price, set at a very low level of five Swedish krona. This was regarded as a powerful knock-out punch, hence the name, Bang. The concern with cost was comprehensive. This price had to be taken into account in choosing materials, colours and design. For example, the mug is made in green, blue, yellow and white, as these pigments cost less than other shades, such as red.

However, price, while the starting point, was not everything. In addition to price there were also requirements of functionality, modern design, environmental sensitivity and production under acceptable working conditions. Some of these were at odds with the cost constraint but all were regarded as important. The team of specialist designers, product developers and purchasers had to satisfy all the requirements.

Often the existing suppliers are able to make suggestions for change. One producer of Bang, a factory in Rumania, has been a supplier for 15 years. This is not unusual. Such a long-term relationship helps in developing an awareness of the expectations of both IKEA and its customers. There is often a mutual exchange of suggestions which assists in the continuous improvement of the product. This was certainly the case with the Bang mug.

There have been three occasions on which the Bang has been designed and redesigned. In the case of the Bang it is possible to interpret the design aim as maximizing the number of mugs which can be stored on a pallet. Originally 864 mugs would fit, after the redesign with a rim, 1280 and after another redesign 2024. This allowed the shipping costs to be reduced by 60%. The launch of a new Bang in 2001 was an opportunity for further improvement and further cost saving. The new mug became shorter and the handle has been redesigned so that it stacks more efficiently. This helps to reduce costs since it saves space for all concerned, from the manufacturer to the customer. It assists the manufacturer since it makes better use of space in the kiln. The new design also helps in transport, warehousing and store display. Probably most importantly of all it assists the customer in saving cupboard space.

The final step is to sell it. The mug is presented in a natural context in the room in which it is likely to be used.

IKEA's competition

Throughout the world the initial competition for IKEA consisted of much smaller companies, often family concerns. Such concerns have neither the negotiating strength to keep costs down nor the opportunity to reap the economies of scale in manufacture or distribution that IKEA has created. They are also accustomed to deliver sometimes weeks, or even months, after the receipt of a specific order.

IKEA has been prepared not only to undercut the price of competitors, but to take on the purchasing risk which those who sell and manufacture to order do not. Calculating the product requirements of each store accurately and in a timely way is critical to ensuring that the products are always available in the warehouse and that the suppliers are producing the right number to maintain this availability. Easy communication of sales information helps. This allows IKEA to supply the consumer with what he or she wants with little or no delay, another product attribute which is very attractive to customers. Inventories are kept down to a minimum. The concentration and coordination made possible by the global coverage of IKEA enables a degree of long-term planning which is unusual for this industry. Planning is absolutely critical in balancing the supply of and demand for individual items of IKEA furniture and furnishings.

The existence of IKEA has raised the game of its competitors and stimulated imitation. As time has passed it has become more difficult for IKEA to maintain a competitive advantage. While the strategy for going global and entering different countries has been a carefully prepared and implemented one, some problems have emerged for the strategy.

This is best illustrated by the experience of IKEA in entering the North American market. Before entering the largest world market, the USA, IKEA went into the much smaller Canadian market. Entry into the Canadian market was gradual, partly by design, partly because IKEA could not do otherwise. This allowed a significant learning process. In 1976 the first store was opened. By 1986 there were still only nine stores, hardly a Starbucks or McDonald's pace of store opening. The range of products on offer was about half the total range available in Europe, a range selected on the basis of what the consumer wanted and what IKEA could sell at a competitive price. A central warehouse was set up in Montreal. Demand tended to exceed supply, which was partly countered by the establishment of a network of Canadian suppliers, 30 by 1984. Rather reluctantly the company ran a mail-order business, less profitable than its normal business.

IKEA took its time in building a platform for rapid growth in what could be its largest potential market, the USA. The American market represented a real challenge to the earlier strategy since it had already been the graveyard of many a European retailer. Bjorn Bayley, who headed the successful Canadian management team, moved on in 1985 to organize its entry into the USA. However, the entry was probably IKEA's most difficult one to date. This is shown by the fact that between 1985 and 1996 IKEA opened only six stores in North America.

The stores were much slower to become profitable than the European stores. Previously in Europe entry into a new market was typically followed by two or three years of loss making but profits began with the third or fourth store after this brief learning and adjustment period. In the USA four years after entry the stores were still losing money. They broke even for the first time in 1993. One problem was an adverse movement in the exchange rate, with the Swedish krona increasing in value, from \$1 equal to 8.6 krona in 1985 to \$1 equal to 5.8 in 1990. This had the unfortunate effect of removing the price competitiveness of IKEA's products.

A worse problem was the reluctance of the consumers to buy. They entered the stores but did not buy. American consumers did not find the dimensions of IKEA's products to their liking. For example, the beds were too narrow and were not sold with matching bedroom suites. Sheets and curtains were of European sizes, not American. Drawers in bedroom cupboards were not deep enough, and glasses too small to accommodate the American liking for ice.

The previously successful strategy had to be modified. By 1991 IKEA had decided that it needed to customize its products to American tastes and source many more of its products from American suppliers. By 1997 about 45% of supplies came from American sources, compared with only 15% in 1990. By 2000 about one-third of the products were also customized. The results were positive. By 1993 the American operations were profitable. By the end of the 1990s the gross profit was well over one billion dollars and growing rapidly, although not yet as profitable in its profit margins as the European operations.

There are further ambitious plans for expansion. In 2002, beyond the period for which figures were quoted above, there were 24 stores in North America. A further 9 were planned for 2003. The target is to have 50 by 2013. Growth is now rapid. In 2001 sales growth was 25.5% compared with the industry average of 1.9%. IKEA is still only the seventh largest furniture seller in the USA, so it has much room for expansion.

Wisely the same gradual approach has been adopted in Asia and Eastern Europe.

What about the nature of the competitors in different countries? It is possible to make some generalizations. Figure 2.3 does this by choosing two attributes of such players which are particularly important to IKEA.

Most of IKEA's competition comes from businesses with local roots. There are four kinds of competitor:

1. Enterprises not dissimilar to IKEA, that are aiming to give the customer the opportunity to add value, particularly by self-assembly, usually without the level of global activity of an IKEA. These include enterprises set up on the same principles as IKEA or existing enterprises which have adjusted to absorb some of the IKEA ways. The former include Freedom in Australia, IDOMO in Canada and Sauder Woodworking in the USA, although the latter supplies to and sells through department stores such as Wal-Mart, Office Depot or Staples – it does not retail itself. An example of the latter is Sears, with their so-called 'Elements' programme.
2. Specialist chains of furniture stores, so-called specialty chains, such as The Brick in Canada or Andersons in Australia. Both these and the next competitor group do source furniture and furnishings from abroad but most of the product sold is locally produced, whatever country is considered.
3. Large department stores which sell furniture as one of very many different product lines, such as Wal-Mart in the USA and Meyers in Australia.
4. The independents. Typically they account for most sales but have been losing market share, not just to IKEA-type enterprises, but to specialty chains and department stores. These are retail outlets, sometimes closely linked with a particular manufacturer or manufacturers, which sell to order. Some of these are specialists, such as the Sofa Workshop in Australia. The resulting product differs according to customer requirements.

The future

IKEA has an excellent platform for future growth since it has succeeded in branding itself, which helps it to enter new markets. It has an unchallenged reputation for producing stylish home furnishings at a low cost and continuous innovation. In 1999 it ranked as high as 43rd in the aggregate world ranking by brand value. No other home furnishings company was ranked in the top 60. This is a good indication of its competitive success and the special identity that IKEA has established for itself.

One key issue is to manage the brand well. This require a pace of expansion such that there is no loss of quality or efficiency and that sufficient homogeneity is retained to generate the economies of supply which have been so important in the past. Some adjustment of the business model is inevitable, but the main features of the old model will continue. The IKEA model has a lot more mileage in it. The interaction between the

Scope of sourcing	Value added: None	Medium	Maximum
Global			IKEA
Mixed		Large department stores, Meyers, David Jones Furniture chains, Andersons, The Brick	
Local	Made-to-order stores		Freedom, Sauder, IDOMO

Figure 2.3 **Value added by customers**

core company competencies and the tastes of its customers will be extended to further parts of the globe as the company expands.

In 1996, when IKEA became Dutch-owned, it was split into three parts – an organization comprising the retailing operations, one holding the franchise and trademarks of IKEA, and a finance and banking organization. The first two are controlled at arm's length by the Dutch charitable foundation. The intention is to try and avoid either the break-up of the organization or its takeover by a predator.

IKEA diverged from the usual way of doing things in a number of ways.

- In its international activities it continued to stress its Swedish roots, notably in the design of its many products but even in its international advertising, ostentatiously displaying the blue and gold of Sweden.
- It also applied the same formula throughout the world, putting on offer the same range of goods. It conducted almost nothing by way of market research into patterns of potential demand and local tastes. It engaged in very little market analysis and initially almost no customization to take account of local market differences.
- It did not ease itself into foreign markets through acquisition of an existing business, a joint venture with a successful local enterprise or franchising: it moved in boots and all, establishing operations on its own. Its growth was organic, that is, internally generated.

IKEA defined clearly what it wanted to do – produce and sell furniture and furnishings to the largest possible market in a new and creative manner, but it also met the requirements of logistics and management in a way which pared its costs to the lowest possible level. Selling the same products throughout the world allowed suppliers to reap economies of scale.

In the words of Normean and Ramirez (1993: 66), IKEA has 'systematically redefined the roles, relationships and organizational practices of the furniture business'. They go on to point out that 'IKEA did *not* position itself to add value at any one point in a predetermined sequence of activities (that is, the conventional value chain). Rather, IKEA set out systematically to reinvent value and the business system that delivers it for an entire cast of economic actors' (p. 68). These actors included suppliers, customers and the various groups of staff within IKEA itself. In the view of Normean and Ramirez, the case of IKEA shows that the focus of strategic analysis should not be the company or the industry, but 'the value-creating system, within which different economic actors – suppliers, business partners, allies, customers – work together to *co-produce* value' (p. 66). IKEA is 'the central star in a constellation of services, goods, design management, support, and even entertainment' (p. 68). It put together a strategy and a business model which was new and highly successful and, most dramatically, contributed significantly to a redefinition of the industry.

Case Study Questions

1. How has IKEA succeeded in expanding across the world using a standard range of products and a standard strategy in the home furniture and furnishings industry, in which divergent cultural influences are likely to be at their strongest?
2. Is there a limit to this expansion? Does IKEA's history illustrate the nature of such a limit?
3. How has IKEA managed to creatively combine the benefits of mass consumption and mass production with the desire for style and modernity of product?
4. Has IKEA chosen a strategy of cost/price leadership or one of product differentiation?
5. How far do you think that IKEA can look into the future in framing its strategic management?

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Normean, R. and Ramirez, R. 'From value chain to value constellation: designing interactive strategy' *Harvard Business Review*, **71**(4) July–August 1993: 65–77.

Relevant website

www.ikea.com

This case study is also relevant to Chapters 9, 10 and 13.

Key strategic lessons

- There is a significant distinction between three types of strategic activity – strategic thinking, strategic management and strategic planning – which are employed according to the degree of competition, the age of the organization and the speed of turnover of competitive advantage.
- Strategic thinking uses the power of creative imagination to generate innovative ideas which enhance the ability to create and maintain competitive advantage. It can be focused on one new idea or combine a number of different concepts and is often expressed in the vision or mission statement of the organization.
- Strategic management applies known methods in a range of functional areas to the realization of these innovative ideas. It involves codification, setting specific objectives and targets; elaboration, clarifying the implications of the objectives; and conversion, the implementation by strategic action.
- Strategic planning formally develops detailed plans, which are comprehensive horizontally, covering all specialized functional units, and vertically, covering all levels in the hierarchy of an organization.
- Strategic thinking is always desirable; strategic management is employed to a varying degree; and strategic planning is only rarely possible.
- Entrepreneurship is linked to strategy, in particular to strategic thinking. Entrepreneurial activity differs from management activity since it involves innovation rather than imitation.

Applying the lessons

1 Give definitions of the following terms: strategic thinking, strategic management, strategic planning, entrepreneurship, intrapreneurship, vision, mission statement, strategic intent, strategic activities or action, strategic orientation and strategic domain.

2 Give ten examples of implicit strategic thinking which have radically reshaped the world of business in the recent past. Divide the examples into those which involve the application of a single idea and those in which the creative originality results from the combination of several ideas put together in a complex pattern.

3 Take any example of strategic thinking discussed in this chapter. How far does it share Liedtka's attributes of strategic thinking?

4 Answer the following question on planning. What do you understand by the term planning? What are the problems associated with planning of any kind? What are the usual arguments put in favour and those put against the use of planning?

How and why does a large multinational organization find itself unable to avoid planning? In what sense does it plan? What implications does the growing internalization of transactions within a large organization have for planning?

5 Answer the following questions:

i What should be the relationship between a business plan or business model and a strategic plan?

ii Why does the former exist in much larger numbers than the latter?

6 Classify the following industries, breaking the industry into parts if necessary, in the three ways described in the chapter and then evaluate their suitability for the exercise of strategic planning on the basis of these classifications.

	Degree of competition	Stage in life cycle	Market cycle
1 Pharmaceuticals			
2 Electricity generation			
3 Sports footwear			
4 Watches			
5 Wineries			
6 Airlines			
7 Automobiles			
8 Aircraft manufacture			
9 Electronic equipment			
10 Furniture retail			

Strategic project

1 Consider an organization which you know well. The scope for individual decision making has implications for strategy making. How might this organization empower its staff members within their individual strategic domains?

2 What meaning does the notion of the domain of an individual staff member have in the context of the formulation and implementation of a strategy? What role might staff at different levels of the organization play in that strategy making? What might empowerment mean for the making of a strategy?

3 How far might such empowerment encourage the ability to innovate? What might it mean for the promotion of intrapreneurship?

Exploring further

There are an enormous number of works relevant to the creative process and therefore to strategic thinking in general, many relevant to areas much broader than business. The classic work on creativity in general, although one which puts a particular point of view very persuasively, is Koestler, 1989. Also relevant to a wide range of different activities is Loehle, 1996. The best-known writer on creativity in the area of management studies is Edward de Bono who has been extremely prolific. His most helpful works are de Bono, 1970, 1971, 1992 and 1999.

Two articles which establish the link between strategic thinking and strategy are Liedtka, 1998a: 30–5 and 1998b: 120–9. One of the virtues of the work of de Bono is that he answers Liedtka's question in the affirmative and tries to show how it should be done.

The military parallel with business studies is extremely popular. In studies on business strategy there is much reference to and quotation from the work of Sun-Tzu, 1971, and to von Clausewitz, 1984.

The various kinds of planning have been much debated. Still the best on Soviet centralized planning is Ellman, 1989. Very interesting on the transitional state in reform from a planned economy to a market economy is Nolan, 1995. On guidance planning the most balanced treatment is World Bank, 1993.

The best source on different speeds of market cycle is Williams, 1992: 29–51, 1999a or 1999b. To balance the views of one person it is useful to read Bower and Hout, 1988: 110–18.

The classic theorist of entrepreneurship and creator of the term 'creative destruction' is Schumpeter, 1934 and 1950. A much more recent work which looks within the enterprise at the continuing sources of innovation is Pinchot, 1985. A comprehensive treatment of a subject which is rarely dealt with very well is Legge and Hindle, 1997.