The Impact of Strategy on Re-engineering

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Re-engineering without strategy only leads to market blind cost cutting. If your only objective is cost reduction, and not increasing value, you will not engage the organization.

Strategic planning is not about predicting the future but about creating capabilities for success in an unpredictable future. Business today is complex and business strategies have followed in their complexity. High performance businesses, however, do a much better job of focusing their value delivery core processes to better support a much more highly focused business strategy. The market place has identified three dominant strategic positions: lowest price/cost, superior product, and best total value. The core value delivery processes needed to support a "superior product" dominated strategy differ from the core value delivery processes needed to support a "lowest price/cost" dominated strategy, and again from a "best total value" dominated strategy. Without agreement to a dominant business strategy, it becomes very easy for a company to try to be all things to all customers and to attempt to have their business processes support all three. This proves to be virtually impossible and ultimately results in poor customer satisfaction and loss of market share.

History and experience have shown that no company can succeed in the long run trying to be all things to all customers. The most successful companies find a unique value that it alone can deliver to a specific market or customer base. Choosing one strategy as dominant does not mean that the company ignores or abandons the other two, only that it focuses on a specific strategy to create a unique value for its chosen customers and to establish its market reputation. Today, market leaders understand the battle that rages for customers. They realize they must constantly redefine value by continuously raising customer expectations toward their chosen value strategy.

The characteristics of a "lowest price/cost" dominated strategy include low price, high reliability, hassle-free basic service, superior service error recovery, lots of advertising, limited product variety, and products without the latest features. The process to develop new products or services must support these characteristics and typically are evolutionary and also low risk.

The characteristics of a "superior product" dominated strategy include breakthrough product capabilities, product features with major benefits, big bang product launches and events, high price--but worth it, could have lots of basic service snags, sometimes limited help in selecting and applying the product, typically an engineering-driven company. The process to develop new products or services must support these characteristics and typically are revolutionary and also very high risk.

The characteristics of a "best total value" dominated strategy include a superior understanding of the customer's business. Advice is valued because of the expertise in areas of customer need. Service is tailored or customized for each customer. Never the product innovator but a quick follower. Products without the latest features, very relationship-oriented, normally are more expensive but the customer believes it is worth it. The process to develop new products or services must support these characteristics and typically are incremental and also moderate to high risk.

While all businesses are made up of a network of processes, the dominant strategy should drive a focus on superior "core process" performance, unique to that dominant strategy.

If the business elects to focus on a dominant strategy of "lowest price/cost" then the obvious core value delivery process would be "end-to-end supply chain management." By that I mean a committed focus to minimizing overhead costs, elimination of production steps, reduced transactions, and optimization of the business processes across functional and organizational boundaries, internally as well as externally. The focus is on delivering products or services to the customers at very competitive prices with minimal inconvenience at the lowest possible cost. These types of businesses are built in a very standardized, centralized, and directed way.

If a business elects to focus on a dominant strategy of "superior product" then the obvious core value delivery process would be "new product development/ introduction," with special emphasis on time-to-market and market exploitation. This strategy requires the business to challenge itself three ways: (1) it must be incredibly creative - this means recognizing and embracing ideas, even if they come from the outside; (2) it must be able to commercialize these ideas very quickly; and (3) it must pursue new solutions to problems their products have already solved. Their mind set is that if anyone is going to render them obsolete they want to do it. Their core value delivery process focus is engineered for speed and they have a fluid infrastructure and management system to manage risk well.

If a business elects to focus on a dominant strategy of "best total value" then the obvious core value delivery process would be, "sensing and servicing customer requirements/needs," with special emphasis on mass customization, service recovery and customer retention. In addition, they must be very good at targeting the "right" customers and then acquire them. They continually tailor and shape products and services to fit an increasingly refined definition of their customer. While this is expensive, they are willing to spend now to develop a long-term relationship, always stressing customer loyalty. They look at the customer's lifetime value to the business, not the value of any single transaction.

Sustained success requires core business processes to possess certain assets that continually enhance performance and value. These also should not be duplicated easily by the competition. To provide an unmatched value to your customer, you must have an unmatched way of operating your business. If your core value delivery processes do not have a coherent design, if you don't have a control system, a reward and recognition system, and a culture all working together to support the selected business strategy, it can become virtually impossible to be the best. To re-engineer your business to excel in one business strategy doesn't mean you should ignore the other two strategies. Your new design also must strive to maintain a minimum level of performance in the other two to keep you competitive.

The selection of the correct strategy is dependent on the answers to the following questions:

1. What type of customers do we want to have? (Can you define an ideal customer profile?),

2. What do these customers require/need? (Can you uncover the un-stated needs and turn them into requirements for leverage?),

3. What are my competitors' capabilities? (Can you clearly and honestly determine where you match? Have an advantage? A disadvantage?),

4. What strengths or capabilities do you possess that can be exploited as a natural advantage?

The goal of this research is to determine what percentage of customers would value which strategy and which market to dominate. Letting a customer go is a hard decision that all market leaders make. Your strategy must fit your culture. On the face of it, selecting a single strategy seems costly; however, it is quite the opposite. The only way you can afford to treat your customers, your employees, and your shareholders right is to have a superior operating model to create greater value.