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Strategic Planning: It's Back!

After a decade of gritty downsizing, Big Thinkers are back in corporate vogue

He was in his mid-20s and had never made a product, run a business, or managed an employee. But he was armed with a Harvard University MBA and a power suit, and he had a magic talisman: He was a consultant at one of the hottest strategy boutiques of the 1970s. And after he completed a presentation on Boston Consulting Group Inc.'s strategic ideas at a major U.S. company, the young consultant got his due when the board of directors erupted into enthusiastic applause.

Those were heady times, recalls John Clarkeson, the young MBA who joined BCG from Harvard in 1966 and is now its chief executive. In its heyday, strategy-spinning was the ultimate left-brain exercise for the corporate elite. Thousands of B-school-trained thinkers sat high in the climate-controlled aeries of bloated business empires, crunching numbers and spinning scenarios to conquer adversaries.

The popularity of corporate strategy spawned a mini-industry of brainy consulting boutiques, and nearly every CEO worth his perks learned how to sort out his business by cows, dogs, stars, and question marks. Everything could be categorized, analyzed, quantified, and predicted. You could plot a strategy that would safely steer your company to uninterrupted triumph if only you thought hard enough.

Or maybe not. By the early 1980s, as U.S. companies found themselves battered by global competitors and more nimble entrepreneurs, the cerebral strategizing of the past looked like a luxury of a more leisurely era. Suddenly, Corporate America was frantically struggling to catch up. Instead of weaving elegant stratagems, companies were scrambling to improve quality, restructure, downsize, and reengineer.

But here's a funny thing. After more than a decade of shrinking to hike productivity and efficiency, companies are now eager to wring more profits out of those streamlined operations. So what's making a comeback? You guessed it: strategic planning. Suddenly, the idea of rising above the tumult of day-to-day business to ponder the future of markets and competitors is looking attractive again. Reengineering consultants with stopwatches are out. Strategy gurus with visions of new prospects are in. "The pure efficiency approach did very little to generate distinctive competitive advantages," says Dwight Gertz, a consultant at Mercer Management Consulting Inc., which says its growth-strategy business has nearly doubled in the first half of the year.

At one company after another--from Sears to IBM to Hewlett-Packard to Searle, strategy is again a major focus in the quest for higher revenues and profits. With help from a new generation of business strategists, companies are pursuing novel ways to hatch new products, expand existing businesses, and create the markets of tomorrow. Some companies are even recreating full-fledged strategic-planning groups. United Parcel

Service expects to spin out a new strategy group from its marketing department, where strategic plans are now hatched. Explains Chairman Kent C. Nelson: "Because we're making bigger bets on investments in technology, we can't afford to spend a whole lot of money in one direction and then find out five years later it was the wrong direction."

"REBOUND." Many mainstream consulting firms, including onetime strategy leader BCG, say their strategy business is booming. Meanwhile, a new wave of gurus and consulting firms has emerged with a wide assortment of perspectives and tools for companies to create strategy. A recent study by the Association of Management Consulting Firms found that executives, consultants, and B-school professors all agree that business strategy is now the single most important management issue and will remain so for the next five years. "We are seeing strategy make a rebound," says Vijay Govindarajan, a well-known strategy professor at Dartmouth College's Amos Tuck School of Business Administration. "Strategy has become a part of the main agenda at lots of organizations today."

But if strategic planning is back with a vengeance, it's also back with a difference. Gone are the abstraction, sterility, and top-down arrogance of the old model. The death knell for that approach was sounded in 1983 when General Electric Chairman John F. Welch dismantled the company's once heralded planning department, where as many as 200 senior-level staffers used to crank out vinyl-bound reports. Welch found GE planners too consumed with operating and financial details instead of competitive positioning and the creation of future markets and too divorced from the day-to-day reality of line managers.

Today's gurus of strategy urge companies to democratize the process--once the sole province of a company's most senior officers--by handing strategic planning over to teams of line and staff managers from different disciplines. Frequently, these teams include junior staffers, handpicked for their ability to think creatively, and near-retirement old-timers willing to tell it like it is. And to keep the planning process close to the realities of markets, today's strategists say it should also include interaction with key customers and suppliers. That openness alone marks a revolution in strategic planning, which was always among the most sacrosanct and clandestine of corporate activities. But it's necessary if the process is to help produce what customers want.

It's worth taking some risks to get the process right. When companies get their strategies wrong, the results can be disastrous. IBM's failure to maintain its leadership in the personal-computer market, arguably one of the past decade's biggest strategic blunders, cost Big Blue as much as $90 billion in lost market capitalization, according to Adrian J. Slywotsky, a founder of Boston-based Corporate Decisions Inc. Slywotsky, one of several new thinkers in the field, estimates that the decision by former Apple Chairman John Sculley not to license the Macintosh operating system in the mid-1980s cost Apple Computer Corp. $20 billion to $40 billion in value.

Hoping to avoid a similar fate, Microsoft Chairman William H. Gates III is redirecting his strategy toward the Internet. "Every new change forces all the companies in an industry to adapt their strategies to that change," says Gates. "But here was clearly the case where if we sat around and didn't recognize the thing and didn't understand it, someone else would take leadership."

If even Microsoft Corp.--an upstart just a moment ago--risks being whipsawed by ever faster change, it's no wonder nearly all these new thinkers argue for bold strategic approaches to stay ahead of that change. Instead of being called upon to eke out fractions of market share or revenue growth, today's gurus say, strategic thinking should be seen as an opportunity to transform a corporation and change the rules of an industry to its advantage. They decry incremental change. "Our view of strategy has shifted from the classic Coca-Cola vs. Pepsi market-share fight to how do you shape the emergence of the new opportunity arenas, whether it's branchless banking, satellite telephony, or genetic engineering," says Gary Hamel, who, with colleague C.K. Prahalad, is among the most influential of the new breed of strategy gurus (page 50).

A good example of such a transformational shift is Procter & Gamble Co.'s decision four years ago to compete on the basis of low prices. That flew in the face of conventional strategic thinking, which argued that companies with premium brands never have to worry about being the low-cost producer in an industry. By challenging that widely held belief, P&G reinvented itself and its industry. Result: Profit margins are at a record 11.6%, up from 6.4% when the about-face in strategy occurred.

This wouldn't be management if the new thinking about strategy didn't come with a whole lexicon of new buzzwords. Forget about the value chain, experience curves, stars, and dogs. Now, any enlightened discussion of strategy is likely to include talk of "co-evolution" and the "business ecosystem"--creating networks of relationships with customers, suppliers, and rivals to gain greater competitive advantage. Here's how it sounds in practice: "In a global market, companies should learn how to work in a world of business ecosystems where they can get other players to co-evolve with their visions of the future," says James F. Moore, founder and chairman of GeoPartners Research Inc. in Cambridge, Mass.

You'll hear talk of "value migration," "strategic intent," "game theory," and "core competencies," too. "White-space opportunities" are also big. These are potential areas of growth that often fall between the cracks because they don't naturally match the skills of existing business units. The new strategists believe it's necessary to pay keen attention to these in order to focus on what can be rather than what is.

Tortured as the lingo is, these approaches are getting a welcome reception in Corporate America. Sears Roebuck & Co. found the idea of value migration to be a useful model for understanding its excruciatingly long decline. To strategy guru Slywotsky, value migrated throughout the 1980s from the outmoded business designs of such retail incumbents as Sears and Montgomery Ward to new, more competitive ones such as specialty stores, superstores, and discounters that were better able to satisfy customers.

From 1985 to 1994, about $163 billion of stock market value was created in the retail industry. Some 25 companies were responsible for creating 85% of that wealth, and many of them did it with "business designs" that featured stores outside shopping malls, with low prices, quality merchandise, and broad selection. While Wal-Mart Stores Inc. generated $42 billion and Home Depot Inc. added $20 billion in value, Sears' retail operations captured less than $1 billion in that 10-year period.

"HUGE HOLE." How did it happen? Like so many American business icons, Sears lost sight of its customers. "We didn't know who we wanted to serve," concedes CEO Arthur C. Martinez. "That was a huge hole in our strategy. It was also not clear on what basis we thought we could win against the competition."

A major strategy overhaul led to the disposal of nonretail assets and a renewed focus on Sears' core business. Martinez renovated dowdy stores, upgraded women's apparel, and launched a new ad campaign to engineer a major turnaround at the department-store giant. But now, he has to prove he can make the business grow, a tough assignment since Sears is still essentially locked into relatively cramped mall-based stores. So a year ago, Martinez enlisted Slywotsky's Corporate Decisions to help Sears create a new future. "What I liked most about them is that they came at it from a customer perspective," says Martinez. "Strategy can sometimes be this inside-out, self-absorbed self-examination process. But they have an outside-in view of strategy. I was mightily taken with that, because one of the things that got the company in trouble was its lack of focus on the customer."

Extensive customer research discovered high levels of brand loyalty to Sears' hardware lines. The research also suggested that by segmenting the do-it-yourself market and focusing on home projects with a low degree of complexity, say, papering a bathroom or installing a dimmer switch, Sears could avoid a major competitive collision with Home Depot and other home-improvement giants. Customers, the Sears research showed, desired convenience more than breadth of category in such hardware stores.

After successfully testing the concept of hardware outlets, Martinez is now making a billion-dollar capital bet that Sears can gain growth in this new market. He hopes to have 1,000 freestanding, 20,000-square-foot hardware stores built in five years, with 200 of them up and running by yearend, at a cost of $1.25 million per outlet.

Other devotees of Slywotsky's precepts include Searle Pharmaceuticals, which is customizing strategies to deal more effectively with managed-care organizations in certain markets, and Philips Electronics, which is using his methodologies to help it make research-and-development investments for new technology-based products.

In turn, the notion of white-space opportunities is proving especially compelling for highly decentralized companies such as Hewlett-Packard Co. HP Chairman Lewis E. Platt now believes his most important role in strategy formulation is to build bridges among the company's various operations. "I don't create business strategies," argues Platt. "My role is to encourage discussion of the white spaces, the overlap and gaps among business strategies, the important areas that are not addressed by the strategies of individual HP businesses."

To bridge those gaps, HP now brings its customers and suppliers together with the general managers of its many business units in strategy sessions aimed at creating new market opportunities. In each case, HP defines a "business ecosystem," the framework posed by GeoPartners' Moore, for its managers to explore and analyze. In an ecosystem, companies sometimes compete and often cooperate to come up with innovations, create new products, and serve customers. "Most of the business managers are so busy minding their current businesses that it's hard to step out and see threats or opportunities," says Srinivas Sukumar, director of strategic planning for HP Labs. "By looking at the entire ecosystem, it provides a broad perspective to them. It gets people out of their boxes."

A session on the ecosystem for the automotive industry saw HP assembling managers from divisions that make service-bay diagnostic systems for Ford Motor Co., workstations in auto-manufacturing plants, and electronic components for cars. The company also invited customers and suppliers. What could all these divisions do together to create new value for the industry? "Many of the opportunities came right out of the mouths of customers," says Susan Burnett, who heads executive development at HP. Possibilities: creating "smart" highway systems or building integrated systems that would collect service problems and immediately feed them back to Detroit. "It changes your vision of the business future," says Thomas E. Vos, general manager of HP's electronic-instruments group. "You start thinking about how you can get increased value from all the pieces of our company."

By inviting such a broad range of people to the strategy table, HP gained viewpoints that would normally not be heard. Yet those opinions are critical to creating future products and markets. "You have to bring in new voices to the process," says Hamel. "I find it amazing that young people who live closest to the future are the most disenfranchised in most strategy-creating exercises."

Electronic Data Systems Corp., which manages large-scale data centers, has opened its strategic-planning process to an even broader range of players. Four years ago, EDS launched a major strategy initiative that involved 2,500 of its 55,000 employees. Using Hamel to help guide the process, the company picked a core group of 150 staffers from around the world for the yearlong assignment. The group ranged from a 26-year-old systems engineer who had been with EDS for two years to a sixtysomething corporate vice-president with a quarter of a century of EDS experience. Similar approaches have been used by a wide range of companies, including Marriott Hotels and Helene Curtis Industries.

POINT OF VIEW. At EDS, staffers identified potential "discontinuities" that could threaten or pose opportunities for EDS. They isolated the company's core competencies--what it does best and how that differentiates it from the competition. And they crafted a "strategic intent"--a point of view about its future. "We discovered that in order for us to make information technology valuable to people, we had to be able to go into a company" and offer consulting to provide more complete solutions, says Rick Barretta, a corporate vice-president. "You couldn't do that without building a business strategy." So EDS began to create a management-consulting practice, acquiring A.T. Kearney Inc. last year for $600 million.

J.M. Smucker Co., the Ohio-based maker of jams and jellies, more recently enlisted a team of 140 employees--7% of its workforce--who devoted nearly 50% of their time to a major strategy exercise for more than six months. "Instead of having just 12 minds working it, we really used the team of 140 as ambassadors to solicit input from all 2,000 employees," says President Richard K. Smucker. "It gave us a broader perspective, and it brought to the surface a lot of people with special talents." The company, which has struggled to grow in a mature market, now has a dozen viable initiatives that could double its $635 million revenues over the next five years. One of them is a just-announced alliance with Brach & Brock Confections Inc. to make Smucker's jellybeans, the first of several co-branded products to be developed under the pact. The idea came from a team that included staffers who ordinarily would never have had a role in strategy formulation.

Unlike slow-growing Smucker's, Finland's Nokia Group had been exploding at a rate of 70% a year in the booming telecommunications business when it chose to involve 250 employees in a strategic review early last year. "By engaging more people, the ability to implement strategy becomes more viable," says Chris Jackson, head of strategy development at Nokia. "We won a high degree of commitment by the process, and we ended up with lots of options we hadn't looked at in the past."

Among other things, the review forced managers to look at the convergence of different technologies and how they would affect the company. The most tangible benefit to date is the creation earlier this year of a new "smart-car" unit in Germany to develop products for the auto industry. Nokia hopes to use its expertise in cellular networks to create such products as integrated navigation and road-guidance systems. "The smart-car project needed a multitude of disciplines to master the solution that will win in the future," says CEO Jorma Ollila. "The think-tank approach addressed this challenge effectively."

The company's top executive team now meets monthly with a strategy agenda. Nokia also says that the line managers who spent a quarter of their time over six months on the exercise now have the training and perspective to make strategy a regular part of their jobs. "We've taken strategy away from the yearly cycle that it was in, and we're trying to make it a daily part of a manager's activity," says Jackson. "We haven't quite arrived at that yet, but we're clearly moving in that direction."

SUMMER BRAINSTORMS. That's also the direction Jack Welch has been moving in ever since he nuked GE's central-planning department. Welch pushed responsibility for strategy down to each of General Electric Co.'s 12 unit heads, who meet every summer with Welch and his top management team for day-long planning sessions. "The focus is on strategy, both near-term and a four-year look into the future," says Steven Kerr, vice-president for corporate management development. "They lay out what they are going to do, what new products they are interested in, and what our competition is doing." The Corporate Executive Council, a group of GE's top 24 execs, also meets four times a year to dissect each business and where it is headed.

But there's no one at GE with the title of head of strategic planning. "If you had one, what would such a person do?" asks Kerr. "He would require reports." Bound in vinyl, no doubt. Definitely not the way the strategic-planning game is played anymore.

By John A. Byrne in New York, with bureau reports