The spinning business

Recognising and dealing with strategic drift

DAV Management Limited

http://www.davmanagement.com

The spinning business

As the economic climate continues to improve so this throws greater focus on the strategic thinking of organisations across all market sectors. In the good times, decision-making comes easily. Every successful decision seems to be driven by a sixth-sense and you can seemingly do no wrong. Confidence breeds more confidence until one day, you miss an opportunity. And then another. Now the doubts set in. Should you change your sales technique or your marketing strategy? In this paper DAV Management looks at the steps organisations should take to avoid strategic panic and secure and maintain their market share.

1. Recognising when you are starting to drift

Imagine you're swimming in the sea on holiday and you suddenly notice that you now seem to be further away from the shore than you were five minutes ago. Is the tide taking you out to sea or are you drifting in a current? But you're a strong swimmer, and you can still get back to shore, can't you?

Imagine that same scenario applied to your business. Your sales, which were growing year on year, have started to flatten. While there is strong evidence that sustainable growth is returning to the economy, the cautiousness created by uncertainty and fear during the financial crisis does appear to have altered the mind-set of many in business. So, has your market changed and left your business drifting? Is this just a blip? Or have you missed a move by one of your competitors? And what can you do to put it right?

Back in 2009 the challenging economy created self-doubt like this across a range of business sectors. It could be argued that some of the High Street banks themselves became spinning businesses, caught in a strategic rip tide caused by the credit crunch, a collapse in consumer and shareholder confidence, and reactive government policy.

The same was true for the consumer electronics industry. Just before the recession the industry outlook was relatively positive. Then, in the midst of a consumer-led recession, a number of businesses whose prospects relied heavily on consumer spending – from High Street retailers to start-up Silicon Valley technology companies – were left wondering what their next strategic move should be.

2. The four stages of strategic drift

A business that has started to spin from a strategic perspective typically goes through four phases of strife or 'strategic drift', first described by Johnson, Scholes and Whittington in their seminal work, 'Exploring Corporate Strategy'[1].

In the first phase, the initial indication of trouble is that the strategy that has worked for years gets hit by external factors that are perhaps outside the influence of the business and which start to change the direction in which the market is going. The strategy, which was beautifully aligned and serving the organisation so well, is now out of synch with the direction in which the marketplace is headed. The customer base starts to shrink and the company misses sales because it's not offering what the market requires.

In Phase 2 executives are sure they're getting on top of the problem. They just needed to tweak things a little, which is what they do. And that's probably good enough – initially.

But the fix isn't sustainable. So, as the chief executive, you consider whether you're really competitive enough on price or whether you need to reduce your cost base. Maybe your support offering isn't quite right. You start thinking about reducing your operating costs through outsourcing - or redundancies. This may work for a while, but you know you're still not getting your market share back and securing it.

Now you're in Phase 3 and you're starting to ask yourself 'What do I do now? I've done all the things I think I should do and I'm sure my strategy was fundamentally right.' So you start to try a few wilder ideas. But they don't have an effect. Now you're almost making changes for changes sake, without giving those changes any time to work. Desperation is starting to set in. The guys at the top and those on the ground both know things aren't going so well. Staff get concerned for their futures and start leaving for a rival company that's 'on the up'. You're starting to get into a real struggle to continue to be a player in the market.

At this most extreme point, you move into Phase 4 where you realise 'Hey, our strategy is absolutely wrong and we need to make some major changes to what we're doing or we're going to die as a company.' And that's what you do: you either make a huge step-change in the way you're doing things, or you decide your position is unrecoverable, cut your losses and drop out of the marketplace altogether. Whichever choice you make you will have to make a significant structural change to your business. And that means you'll need to put in place a change programme to manage it. That in turn requires planning and managing correctly or you'll find that things just won't improve – and your business will continue to spin out of control.

3. Big companies can fall victim just as easily

Even the biggest companies can fall victim to strategic drift. Take Tesco as an example - in just 13 years profits grew more than four-and-a-half times to £3.4 billion in 2010 and it boasted an incredible 30.5 per cent share of the grocery market. However, within a couple of years, the company suffered the most disastrous six months in its 95-year history. As the solid profit line started to drop it's not hard to see how managers would have come under pressure to change direction and make decisions that can now clearly be seen as being wrong for the business.

Tesco is not alone, there are other examples that are well reported in the press. For example, the problems being experienced at Balfour Beatty's construction arm. The swift unravelling of the 109-year old company has shocked the City and after a series of profit warnings caused by an unanticipated spike in costs in its UK construction business, Balfour's chief executive has since been replaced.

Nokia is perhaps an even better example. This once undisputed leader in the handset market failed to recognise the impact smart, touchscreen phones would have on the mobile market and, as a consequence lost its place at the top table, before finally spiralling into the arms of Microsoft. In fact today mobile telecoms remains one of the most challenging industries, facing intense competition in developing markets, saturation in mature markets, and continued disruption from new technology. For the first time ever at the end of 2014 there were more gadgets in the world than there are people, including a growing number that only communicate with other machines, according to data from digital analysts at GSMA Intelligence. The number of active mobile devices and human beings crossed over somewhere around the 7.19 billion mark. Gadgets like tablets, smartphones and not-so-smart phones are multiplying five times faster than we are, with our population growing at a rate of about two people per second, or 1.2% annually.

Of course, this doesn't mean that everyone on the planet has a mobile connection but it does indicate the degree of saturation that exists and explains why operators continue to look at alternative ways of generating revenue. This is primarily through data services which, with the advent of third and fourth generation networks and smart phone technology, have become a way of life for many in the developed world.

Those operators that recognised the fundamental market shift early enough have been able to move with the times and take action to maintain their profitability model. But those who relied on voice services for too long demonstrated the classic Phase 2 behaviour of a spinning business, lowering the cost of their price plans and increasing the number of minutes to combat declining market share. The result was ground lost to existing and, critically, new entrant competitors who had correctly anticipated the market shift.

4. Where is your business?

For those chief executives heading up spinning businesses it can be very frustrating. They can see the broad direction they want to take the company, yet the options being put on the table by executive colleagues just don't feel right. Or the financial and regulatory hurdles are too high. It could be argued that when it comes to the Internet, Microsoft was in danger of becoming a spinning business in its pursuit of Google, which had redefined the software landscape. Some may argue that Microsoft is still spinning and has some way to go in order to gain parity in the 'Software-as-a-Service (SaaS) buy-as-you-go market place. However, in Office365 it has a powerful offering that represents not only a comprehensive set of personal (and collaborative) productivity tools, but also compelling value for money. It's competing head on with Google for Work and is a great example of market place realignment helping to avoid the spinning cycle.

We're in an era where, firstly to survive and then to thrive, organisations must make innovation driven by collaboration part of their DNA. This should then form a significant platform for enabling the changes that the business needs, rather than risk the four phase drift outlined earlier.

Smart enterprises prosper through mutual co-operation and the sharing of critical business information as their use of collaborative tools matures. DAV is seeing across its business that organisations are choosing to work more closely together to maintain their competitive advantage and they're basing that desire for competitive advantage on technology enablers that will drive both innovation and the critical changes that businesses must undertake to survive and thrive.

5. Putting the right structure in place

Ultimately, the success of this entire process depends upon getting the right management structure in place. With the right level of experience and expertise on your side of the table you can ensure that only viable options, that can deliver sustainable business benefit, emerge from the innovation process. With the right management in place you can also ensure that these are taken forward in such a way that the business vision can be broken down and delivered through a properly structured programme of change.

Improvements in the economy over the past couple of years have been most welcome as the UK starts to gather sustainable momentum. However, the chances are that a number of businesses will still find themselves in danger of spinning out of control. It's very easy to get to the point where you realise things aren't working and panic starts to set in. At this stage it pays to take a step back and take a considered, structured approach that enables you to understand the real reason behind the issues in your business, and take the necessary strategic stages to address it. In other words, are you a spinning business steeped in the past – or one that is successfully speculating on the future? All things being equal, it is likely to be organisations in the latter category that perform strongly in today's fast paced competitive business landscape.

[1] Exploring Corporate Strategy (Publisher: Pearson Education) by Gerry Johnson, Kevan Scholes and Richard Whittington.