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Magazine Article

Strategy

Why Do So Many Strategies Fail?

by David J. Collis

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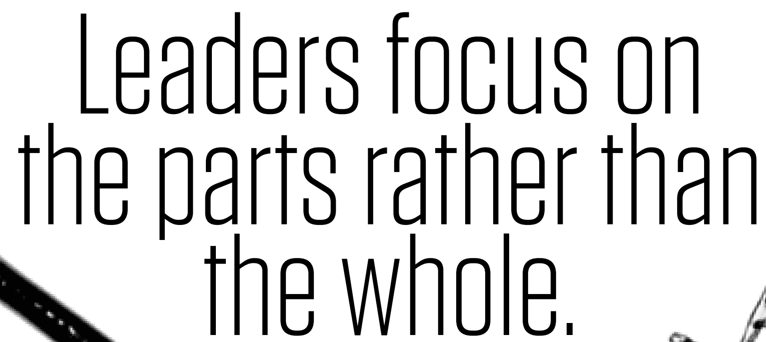
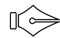


Leaders focus on the parts rather than the whole.

Why Do So Many Strategies Fail?



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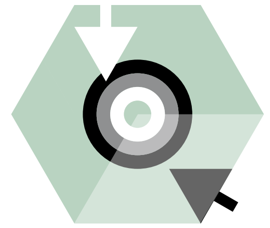

STRATEGY

PHOTOGRAPHER
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IDEA IN BRIEF

THE PROBLEM

Seemingly successful new companies struggle to turn a healthy profit. Established firms get disrupted by upstarts. Companies that excel at serving their markets can't adapt when customers' tastes shift.

THE ROOT CAUSE

All too often business leaders focus on one element of strategy—such as identifying a golden opportunity presented by new technologies or building advantages that competitors lack. But they either ignore the other components of strategy or don't recognize the components' interdependencies.

THE SOLUTION

Take a holistic approach and craft a strategy that encompasses carefully coordinated choices about the business model, the competitive position, implementation processes that adapt constantly to the changing environment, and the capabilities needed to win in the long term.

The CEO's job of crafting a strategy that creates and captures value—and keeps realizing it over time—has never been harder.

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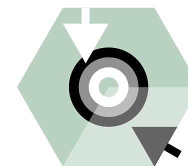
Often CEOs underestimate how much new technologies and business models can increase the value provided to customers.



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In today's volatile and uncertain world, corporations that have dominated their markets for decades can be blindsided by upstarts with radical new business models, miss the boat on emerging technologies, or be outflanked by competitors that are more adept at shaping consumer preferences. Young ventures can raise hundreds of millions of dollars, attract tens of millions of customers, and achieve lofty market valuations, only to collapse when they cannot figure out how to turn a profit or hold off imitators.

All too often those failures occur because the CEOs' approach to strategy isn't holistic. At many innovative new businesses, CEOs excel at identifying ways to generate value by addressing unmet customer needs—yet don't adequately analyze what it would take to *capture* a sufficient portion of that value. Or they get seduced by the initial success of their new business models, grow too fast, broaden their firms' scope too far, and neglect to invest in capabilities needed to sustain a long-term competitive advantage. Leaders of traditional corporations tend to make different mistakes: Some underestimate how much new technologies and business models can increase the value provided to customers. Others align their operations with their distinctive market position so tightly that they can't adapt when customers' tastes change. These leaders either ignore some components of what I call the *complete strategy landscape* or don't recognize the interdependencies among them.

Today a complete strategy has to encompass carefully coordinated choices about the business model with the highest potential to create value, the competitive position that captures as much of that value as possible, and the implementation processes that adapt constantly to the changing environment while building the capabilities needed to realize value over the long term. CEOs must develop an approach that integrates *all* those elements. To do that, they have to take the following actions:

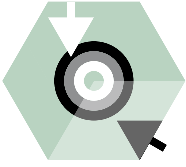
Identify opportunities. This involves continually taking stock of what's happening in the outside world—developments in technology, demographics, culture, geopolitics, disease, and so on that are the current "hot topics." These changes and trends open up possibilities for firms to exploit. The Covid-19 pandemic, for example, has sped the growth of many opportunities in areas from telemedicine and online education to home delivery services.

Define the best way to tap a given opportunity. To translate an opportunity into strategy, CEOs need to develop a business model that maximizes the potential value of their offering. The model should describe the "job to be done" for customers, which affects their willingness to pay for the product or service and the size of its possible market. The model should also spell out the configuration of the assets—technology, distribution channels, and so on—that will be used to produce and deliver the offering (and that determine the cost of doing so), and the monetization method, or how all this will be paid for. The model will also suggest how the value produced might be distributed among the players pursuing it (such as whether a few winners will reap the lion's share because of scale economies or network effects) and key aspects of possible strategies (such as whether being a first mover is important).

Figure out how to capture the value generated in the near term. This requires designing a strong competitive position. To do that the CEO has to assess three things. The first is the *industry's attractiveness:* Regardless of the value created, an industry will be attractive only if its structure allows participants to earn decent returns. (One of the contributions of Michael Porter's five forces framework was its insight that not all industries are created equal.) The second is *competitive positioning.* Identifying a unique value proposition for a defined customer group and a distinctive configuration of activities is still the way to build an advantage that allows you to outperform the industry's average rate of return—even when others pursue the same business model. (See "Can You Say What Your Strategy Is?" HBR, April 2008.) The third is *competitive interaction:* To assess the sustainability of any advantage, you must predict how interactions among rivals will play out. Here, behavioral and game theory approaches can be helpful.

Realize value over time. To keep capturing value, a firm needs to constantly adapt how it implements its strategy—adjusting its activities and building new capabilities as the external environment changes. This typically does *not* mean the CEO has to reformulate the entire strategy; it's more about making incremental changes to respond to new realities.

Build a foundation for long-term success. The firm's strategic choices and its interaction with competitors



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ultimately determine its financial performance and, critically, the resources it has to build assets and capabilities that support future moves.

Developing strategy across the complete landscape isn't a linear process; it should be continuous and iterative. Good performance will allow a firm to refresh and expand its skills and resources, which in turn will enable it to search for new opportunities and respond to external change with new strategic choices.

THE INCUMBENT'S MISTAKE

CEOs of established companies often pay too much attention to defining how their firms will capture value and too little to new ways to create value and how firms' activities and capabilities need to evolve over time. One reason is that approaches focusing on capture (like the five forces) have been very successful in long-established and stable industries and as a result have become ingrained in the strategy process. But CEOs of mature companies should ask themselves, When did our annual strategy process last generate a truly breakthrough idea, like ride-sharing or mobile banking? When did it allow us to become the "disruptive" innovator?

Look at the list of the most valuable companies in the United States, and you'll see that discovering and exploiting new business models to satisfy previously unmet, unexpressed, or even unknown customer needs is where the action has been in recent years. (See the exhibit "Winning with a New Business Model.") Those companies didn't collectively create trillions of dollars in value by outpositioning their rivals. When they were founded, they didn't have rivals. Indeed, the kind of businesses they started didn't exist previously.

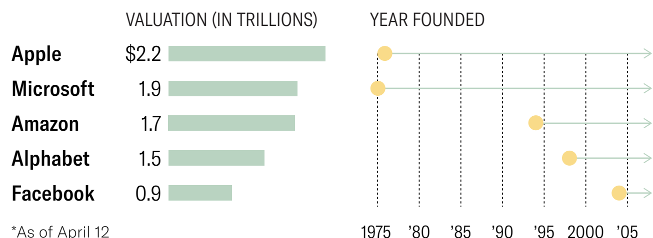
The good news for leaders of incumbent companies is that the emergence of new approaches doesn't have to doom their enterprises. Indeed, if they take a holistic perspective on strategy, they may discover that those business models present attractive opportunities because they create more value.

For example, would you rather make a onetime sale of a physical product or build a long-term client relationship and deliver tailored solutions that generate more value for the customer and potentially much more profit for you? As some old-line companies have discovered, the latter is the

Winning with a New Business Model

The most valuable companies in America all launched brand-new business models that met previously unfulfilled or unidentified customer needs.

Largest U.S. companies by market cap, 2021*



Source: Yahoo Finance

opportunity that new digital business models offer firms that can effectively leverage data and analytics. Komatsu now offers subscriptions to its Smart Construction platform, which coordinates all the activities of a construction site, including drone surveys, dumptruck scheduling, and the operation of autonomous earthmoving equipment. The platform cuts construction projects' entire costs by well over 15%—creating far more value than the revenue from the sale of bulldozers, which was all that was available in Komatsu's previous model. In a somewhat similar fashion, Siemens uses artificial intelligence to predict, and so prevent, maintenance issues on its trains. The improvement in uptime performance allows it to switch to performance-based contracts for rail service that bring in thousands of dollars a day, rather than just the initial price of a train.

No incumbent should respond to every new business model—that would simply be playing whack-a-mole. Instead, a firm must develop a strategic approach to identifying the value-creation potential of models and then determine whether to pursue any new ones by predicting the outcome of competition among alternative models.

By using available tools, strategists could have foreseen, for example, that video on demand (streaming) would replace Netflix's original mail-order delivery of DVDs and Blockbuster's old-fashioned video stores. The superiority of the value proposition for the job to be done for the customer, which was "delivering personal video entertainment," suggests the absolute dominance of streaming. (See the exhibit "Why Streaming Video Beat Rival Models.") An examination of the purchase criteria you might consider—convenience, the ability to make an impulse purchase, access to recent best sellers, a large back catalog—reveals that video on demand serves customers better than either of the earlier business

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models. If that weren't enough, the cost of delivering movies and TV shows over the internet is vastly lower than doing so via physical stores or the mail. Considering those advantages, it's no wonder that almost everyone is now paying monthly subscription fees to streaming services.

In contrast, a similar analysis suggests that Amazon's online business model, which consists of a retail website, a limited number of fulfillment centers, and fleets of delivery trucks, will never fully displace Walmart's longtime business model, which features traditional brick-and-mortar stores supplied by a national network of distribution centers. When you compare how well each does the job to be done, you see that Amazon's model is good at providing home delivery for a very broad range (hundreds of millions) of items, while Walmart's is better for immediate availability at low cost of a more limited number (a few hundred thousand). Each business model has a distinctive proposition that appeals to different customers on different occasions for different products. And a comparison of the cost positions of their asset bases shows that Walmart's logistics system is low cost for everyday items that consumers pick up in stores in rural or suburban locations, while Amazon's is more efficient for long-tail items and home delivery in densely populated geographies. Neither business model universally dominates the other. Both will survive, which is why each company is rushing to replicate the other's asset base, with Amazon buying Whole Foods, and Walmart spending billions of dollars to expand online and add fulfillment centers.

THE ENTREPRENEUR'S MISTAKE

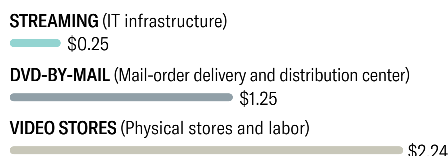
In their excitement to exploit new opportunities they spotted before anyone else, many entrepreneurs fail to see that the more value their business model creates, the more competition they're likely to face. Netflix has been copied by dozens of credible companies, including Disney, and Casper—the innovator of the bed-in-a-box business model—has 175 competitors. Seduced by their immediate success, entrepreneurs often commit to an investment that never pays a worthwhile return. WhatsApp, for example, now faces numerous free-messaging rivals, but its owner, Facebook, has yet to monetize any of its 2 billion users.

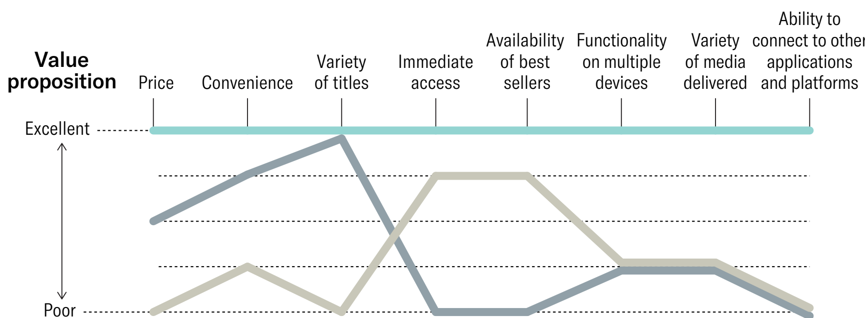
When a firm is pursuing a successful new business model against intense competition, it's vital to apply the three value-capture frameworks in the middle of the landscape—industry attractiveness, competitive positioning, and competitive interaction. Consider a business model that investors are now enamored with: electric vehicles. In early April, Tesla had the highest market capitalization of any car company ever and the sixth-highest market cap in the United States (hitting $672 billion on April 12)—more than the combined market caps of Ford, GM, Toyota, Daimler, and Volkswagen. Tesla has certainly identified and exploited an appealing business model, but it's unclear whether it will ever make a decent return on its investment. Why, if the business model creates so much value for customers? The answer lies in the effect that a promising new business model has on other parts of the strategy landscape.

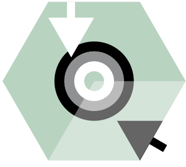
Why Streaming Video Beat Rival Models

Its value proposition was much stronger than the propositions of video stores and DVD-by-mail on almost every dimension, and its costs were also far lower.

Cost of delivering a video to a customer, 2007







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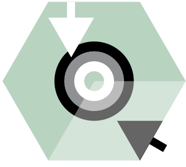
To capture sufficient value, a firm has to be in an industry with an attractive structure and possess a sustainable competitive advantage. Unfortunately, the electric vehicle industry of the future will look remarkably similar to the auto industry of the present. Every carmaker in the world and every company with an interest in electric motors is entering the business. (Even the vacuum cleaner company Dyson invested half a billion dollars in a car design and a plant before realizing the error of its ways.) Given that barriers to entry are low with electric vehicles because of the simplicity of their design and their few (relative to an internal combustion engine) parts, even more companies are likely to jump in. In fact, the quicker the adoption of electric vehicles around the world is, the faster competitors will enter the race and the more rapidly the attractiveness of the industry will deteriorate.

Nor is it clear that Tesla has a sustainable competitive advantage. It might have a brand aura and a performance edge today, but its design and engineering expertise will soon be challenged by Porsche and other performance manufacturers, like BMW and Mercedes. Moreover, it's well behind other auto companies in cumulative production experience and overall scale, so its manufacturing cost position is unenviable. Indeed, the need for scale has led Tesla to add more models—it's now producing seven—which increases its total output to about 500,000 a year but creates inefficiencies.

Tesla also appears to be finding it challenging to realize value through the effective execution of its strategy. The automaker has had enormous quality problems in the United States. (*Consumer Reports* no longer recommends the Models S and Y.) If you simply cannot achieve operational efficiencies, you are condemned to fail, regardless of how exciting your business model is.

IMPLEMENTATION: THE KEY TO REALIZING VALUE OVER TIME

Identifying a viable business model and a distinctive competitive position that captures value today doesn't ensure success when companies confront ever-changing opportunities. To realize value over the long term, firms have to balance agility and control, by giving project teams the authority to experiment with new configurations while consistently investing in the capabilities needed for the future.



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As I noted earlier, the challenge for established companies often is not designing a completely new competitive position but supporting entrepreneurial activity that drives incremental but continual improvement. Indeed, most managers' involvement in strategy today is with projects that adapt operational activities rather than a onetime change-management process to execute a different strategy.

Consider a hamburger chain that is successfully pursuing a low-cost strategy targeted at young men. Mobile technology is the hot topic presenting an opportunity—one that is even bigger now that the Covid-19 pandemic has caused indoor dining to plunge and takeout to soar. The restaurant chain's desire to capitalize on it unleashes a flood of proposals that would affect nearly every activity in the firm. Do we redesign the menu so that items can be prepared in advance? Should we change the restaurant layout to accommodate a separate pickup point? Do we need to relocate stores in anticipation of new customer traffic patterns?

It's in developing plans to realign the firm's activities that strategy plays out every day—not in its initial grand design. Tactical though they might appear, these adaptations are fundamentally strategic because they cut across functions inside the firm and require systemic change. Yet too many CEOs give them short shrift.

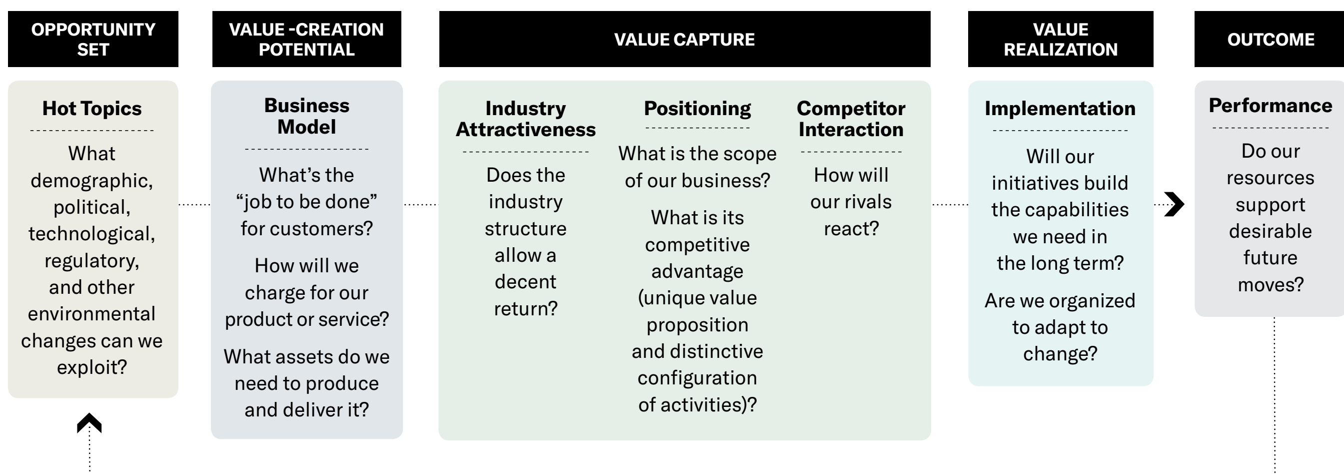
Conversely, entrepreneurs can fail by too frequently adjusting their product-market fit in response to the latest consumer test, which undermines their ability to build the organizational capabilities required for long-term success. Nasty Gal, for example, was an early mover in online fashion retailing but went bankrupt after it pursued too many expansion efforts, overstretching an organization that lacked effective leadership and weakening the attachment customers had to the brand.

The solution for both established and young companies is a strategic approach that champions experimentation within bounds clearly established by the CEO. Each exploratory project should have a clear, objective process, a timetable, metrics, milestones that trigger cutoff decisions, and after-action reviews. However, CEOs cannot and should not get involved in projects' minutiae; that would simply be overwhelming.

Control is maintained first through adherence to a well-articulated and well-communicated "classic" strategy that

The Complete Strategy Landscape

Strategy involves more than finding an attractive industry or defining a competitive advantage. It requires an aligned set of decisions about which opportunities to pursue, how much value the firm can create and capture, and how to keep realizing value and build a foundation for long-term success.



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clarifies how the firm will outperform competitors pursuing the same business model. That will set limits that the organization won't go beyond, helping ensure that any solution a project team proposes will fit within the chosen value proposition, configuration of activities, and business scope. (See "Lean Strategy," HBR, March 2016.)

Hidden in this part of the strategy landscape is a source of competitive advantage that capitalizes on the interdependency of its elements. Strategic adaptation must become an ongoing, iterative process of hypothesis, experimentation, learning, and action. The faster a firm cycles through the process, the more effective it will be in the marketplace. Indeed, as George Stalk Jr. and Sam Stewart of the Boston Consulting Group have noted, the more a firm can compress the cycle time, the stronger an advantage it will possess.

The second control mechanism lies in selection of the tactical projects pursued. Here, the CEO must be able to see through the fog of immediate pressures and identify and support a limited number of long-term initiatives that will guide the individual experiments. Typically, these become "corporate" initiatives, even if in smaller firms nothing that fancy is ever announced. They're not objectives, since they lack a time frame and specific metrics, but broad themes that govern the sequence, selection, and design of multiple projects. They must be injected into every ongoing change program in the firm that cuts across silos and boundaries.

These broad initiatives should be manageable in number—probably seven or fewer—so that each can be adequately funded, monitored, and continually promoted. They cannot change regularly; if that happens, they'll be viewed as "flavors of the month" that can be ignored or met with lip service.

These higher-level strategic programs must be owned and championed by the CEO. Only the firm's top leader has the perspective and authority to ensure there's enough investment in building the capabilities they'll require. One example is the "digitalization" initiative at Siemens that Joe Kaeser spearheaded. Another is the Creating the New initiative at Adidas, which Herbert Hainer started and his successor, Kasper Rørsted, is continuing; it focuses on speed (in order to offer consumers "exactly the products they want to buy whenever, wherever, and however they want to buy"), key strategic cities (to spot emerging trends), and open-source innovation (collaborating with third parties in industry, sports, and entertainment). A third example is Bob Iger's commitment to invest in quality branded franchises, technology, and globalization during his 14 years at the helm of Walt Disney. Each CEO took personal responsibility for shepherding progress in the chosen areas.

It is the outcome of these "must-win" battles that determines long-run success. Though these broad themes or initiatives are not corporate strategies—as they are often mistakenly called—their pursuit is an essential part of a complete strategy.

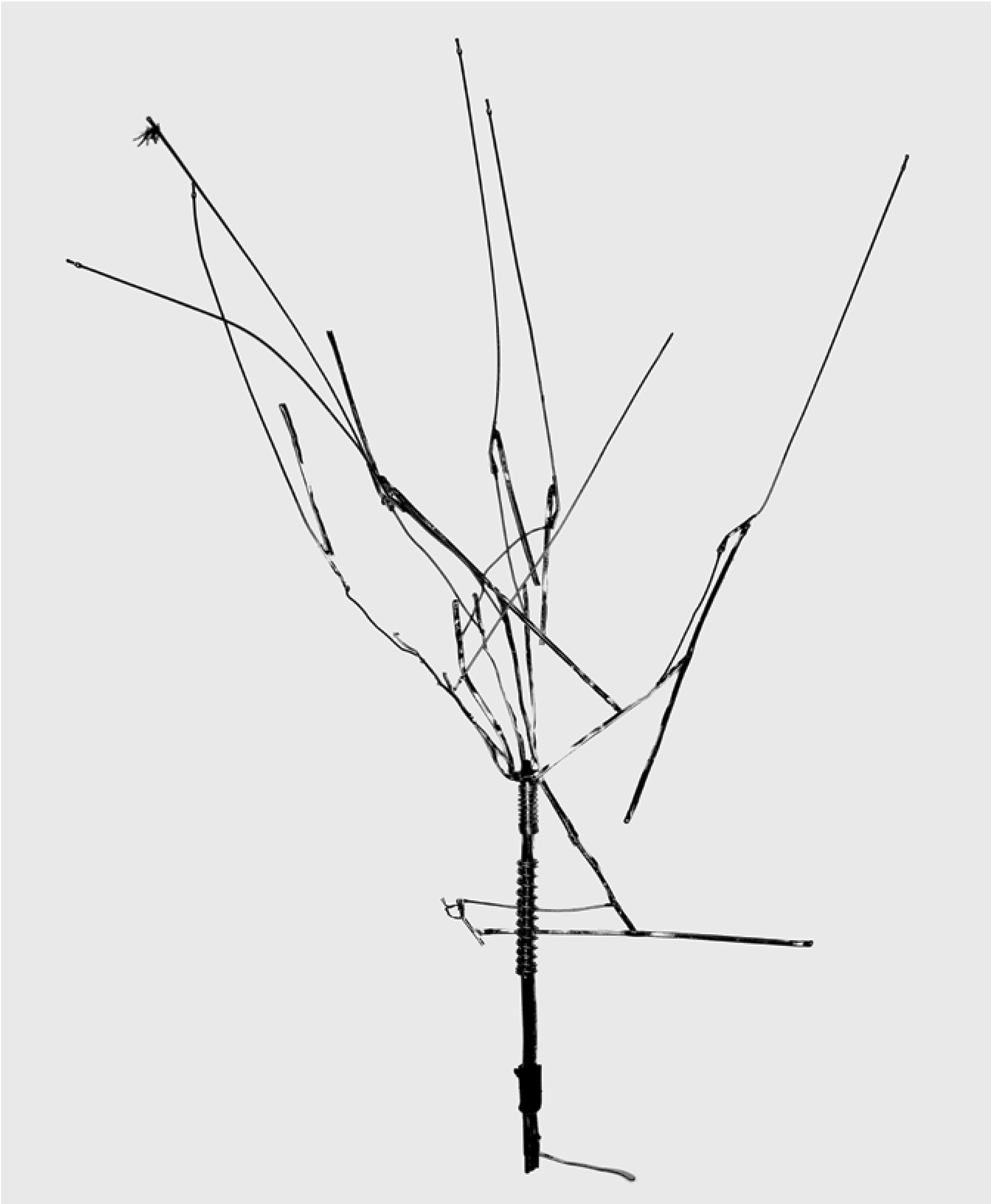
THE NEED FOR INTEGRATION ACROSS THE LANDSCAPE

A vivid example of a firm that has integrated its strategy across the complete landscape is Edward Jones, a St. Louis–based brokerage firm I have been advising for 20 years. In 2020, under the leadership of Penny Pennington, it embarked on a plan to increase the value it created for clients. The plan is being implemented in a series of projects that revise many of the firm's business practices. However, none of them will alter the firm's current customer scope or competitive positioning: delivering trusted personal guidance to conservative individuals who prefer to delegate their financial decisions to financial advisers located in a national network of offices.

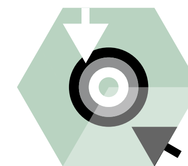
Edward Jones has been performing extraordinarily well, with profitability that's above average for its industry. It has the most brokers of any firm in North America and nearly $1.5 trillion in assets under management, and it consistently makes *Fortune*'s 100 Best Companies to Work For list. So why did Pennington and her leadership team decide that it needed to undergo dramatic change?

The problem is not with the firm's positioning. The target customers—conservative people who want a trusted adviser to help them manage their money and provide guidance on their financial future—have not gone away. If anything, information overload and increasing time demands have only increased how many consumers (traditionally 23% of the market) value this service. Nor is the firm's value proposition any less important to those customers: the security and peace of mind that come from knowing your investments are in safe hands.

The issue isn't competitive imitation either. No rival company has been able to replicate the firm's 17,000 offices throughout North America.



Strategic adaptation must become an ongoing, iterative process of hypothesis, experimentation, learning, and action.



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The problem is that the attractiveness of traditional portfolio management has been eroded by environmental changes: the rise of fintech companies, like Robinhood, with new business models enabled by new technologies; a demographic shift as Baby Boomers begin spending down their accumulated assets; new regulations requiring more attention to smaller accounts; and investor preferences for passive asset management. Those developments, and others, have reduced the perceived value of the services Edward Jones traditionally delivered. Today completing a transaction is free online. Portfolio allocation according to individual risk preferences costs 0.2% when offered by a robo-adviser. Index fund management fees are as low as 0%. As a result, simple portfolio management, while still incredibly useful for customers, doesn't provide enough value to allow brokers like Edward Jones to prosper.

The solution is not to alter the company's competitive position. If Edward Jones changed its customer scope by serving day traders, it would be positioned in the most price-competitive part of the market. If it altered its model of entrepreneurial advisers who are embedded in communities, it would lose its cooperative, client-interests-first culture. The best hope for escaping commoditization is to pursue business model innovation that creates more value and potentially monetizes it in ways other than just a commission on each transaction.

Edward Jones is therefore following the path that other professional services firms have taken and is shifting from a product, or "transactional," business model to a financial life "solutions" business model. Through a five-step process that begins with documenting individual goals, the firm now offers customized advice and solutions for lifelong needs, not just purchases of mutual funds or blue-chip stocks. Though this approach requires more-intense engagement with customers, it creates substantially more value for them.

In its efforts to successfully shift to the financial life solutions model, Edward Jones has identified must-win battles in several areas, including diversity (while about half of Generation Z is nonwhite, fewer than 15% of the firm's advisers belong to minority groups); intergenerational wealth transfer (an estimated $40 trillion in assets will be inherited by Millennials); and multichannel distribution (to effectively serve a full range of clients regardless of net worth and to complement in-person services with digital interactions). The firm has created teams, each of which works on part of a broader initiative—for instance, how to enter urban markets with a large minority population—to develop and test approaches addressing those challenges. Specific projects will come and go over time, but the focus on building capabilities required for long-term success will remain.

Notice that we need to look at the whole strategy landscape to understand the change under way at Edward Jones. First, new developments (in demographics, regulation, capital markets' performance, and so on) are throwing up novel threats and opportunities. Second, the reduction in value capture for the industry is undermining the old business model. Third, the business model itself now needs to be retooled to create more value even if the competitive positioning is unchanged. And fourth, the revisions will take place through projects that support broader strategic initiatives.

The most important lesson is that to craft a resilient strategy, companies of all sizes must integrate all the elements of the complete strategy landscape. While not disregarding how critical competitive positioning is to value capture, an effective strategy process must begin with a creative and open-ended discussion of the value potential of alternative business models and finish with an approach to execution that guides ongoing experimentation and operational adaptation while investing in underlying capabilities.

Strategy has always been about aligning the organization behind a clear direction. Today it must be broadened to become an integrated set of choices about the business model, competitive positioning, and capabilities required for long-term success. By managing the complete strategy landscape, CEOs of young ventures will greatly increase the odds that their firms won't crash and burn, and leaders of established companies will ensure that they continually renew themselves.

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