1 Why Strategy Needs a Strategy

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The oil industry holds relatively few surprises for strategists. Things change, of course, sometimes dramatically, but in relatively predictable ways. Planners know, for instance, that global supply will rise and fall as geopolitical forces play out and new resources are discovered and exploited. They know that demand will rise and fall with gross domestic products (GDPs), weather conditions, and the like. Because these factors are outside companies' control, no one is really in a position to change the game much. A company carefully marshals its unique capabilities and resources to stake out and defend its competitive position in this fairly stable firmament.

The Internet software industry would be a nightmare for an oil industry strategist. Innovations and new companies pop up frequently, seemingly out of nowhere, and the pace at which companies can build—or lose—volume and market share is head-spinning. A player like Google or Facebook can, without much warning, introduce a new platform that fundamentally alters the basis of competition. In this environment, competitive advantage comes from reading and responding to signals faster than your rivals do, adapting quickly to change, or capitalizing on technological leadership to influence how demand and competition evolve.

Clearly, the kinds of strategies that would work in the oil industry have practically no hope of working in the far less predictable and far less settled arena of Internet software. And the skill sets that oil and software strategists need are worlds apart as well. Companies operating in such dissimilar competitive environments should be planning, developing, and deploying their strategies in markedly different ways. But all too often they are not.

What's stopping executives from making strategy in a way that fits their situation? We believe they lack a systematic way to go about it—a strategy for making strategy. Here we present a simple framework that divides strategy planning into four styles according to how predictable your environment is and how much power you have to change it. Using this framework, corporate leaders can match their strategic style to the particular conditions of their industry or geographic market.

Finding the Right Strategic Style

Strategy usually begins with an assessment of your industry. Your choice of strategic style should begin there as well. Although many industry factors will play into the strategy you actually formulate, you can narrow down your options by considering just two critical factors: *predictability* (how far into the future and how accurately can you confidently forecast demand, corporate performance, competitive dynamics, and market expectations?) and *malleability* (to what extent can you or your competitors influence those factors?).

Put these two variables into a matrix, and four broad strategic styles—which we label *classical, adaptive, shaping*, and *visionary*—emerge (Figure 1.1). Each style is associated with distinct planning practices and is best suited to one environment.

Let's look at each style in turn.

Classical

When you operate in an industry whose environment is predictable but hard for your company to change, a classical strategic style has the best chance of success. This is the style familiar to most managers and business school graduates—five forces, blue ocean, and growth-share matrix analyses are

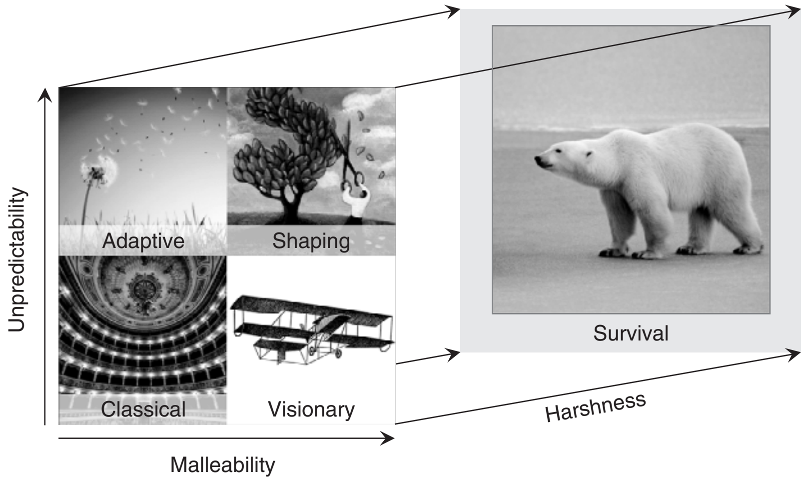

FIGURE 1.1 Environment Determines the Most Appropriate Strategic Style
Source: BCG analysis.

all manifestations of it. A company sets a goal, targeting the most favorable market position it can attain by capitalizing on its particular capabilities and resources, and then tries to build and fortify that position through orderly, successive rounds of planning, using quantitative predictive methods that allow it to project well into the future. Once such plans are set, they tend to stay in place for several years. Classical strategic planning can work well as a stand-alone function because it requires special analytic and quantitative skills, and things move slowly enough to allow for information to pass between departments.

Oil company strategists, like those in many other mature industries, effectively employ the classical style. At a major oil company such as ExxonMobil or Shell, for instance, highly trained analysts in the corporate strategic planning office spend their days developing detailed perspectives on the long-term economic factors relating to demand and the technological factors relating to supply. These analyses allow them to devise upstream oil extraction plans that may stretch 10 years into the future and downstream production capacity plans up to 5 years out. These plans, in turn, inform multiyear financial forecasts, which determine annual targets that are focused on honing the efficiencies required to maintain and bolster the company's market position and performance. Only in the face of something extraordinary—an extended Gulf war, for instance, or a series of major oil refinery shutdowns—would plans be seriously revisited more frequently than once a year.

Adaptive

The classical approach works for oil companies because their strategists operate in an environment in which the most attractive positions and the most rewarded capabilities today will, in all likelihood, remain the same tomorrow. But that has never been true for some industries, and it's becoming less and less true where global competition, technological innovation, social feedback loops, and economic uncertainty combine to make the environment radically and persistently unpredictable. In such an environment, a carefully crafted classical strategy may become obsolete within months or even weeks.

Companies in this situation need a more adaptive approach, whereby they can constantly refine goals and tactics and shift, acquire, or divest resources smoothly and promptly. In such a fast-moving, reactive environment, when predictions are likely to be wrong and long-term plans are essentially useless, the goal cannot be to optimize efficiency; rather, it must be to engineer flexibility. Accordingly, planning cycles may shrink to less than a year or even become continual. Plans take the form not of carefully specified blueprints but of rough hypotheses based on the best available data. In testing out those hypotheses, strategy must be tightly linked with or embedded in operations to best capture change signals and minimize information loss and time lags.

Specialty fashion retailing is a good example of this. Tastes change quickly. Brands become hot (or not) overnight. The Spanish retailer Zara uses the adaptive approach. Zara does not rely heavily on a formal planning process; rather, its strategic style is baked into its flexible supply chain. Zara need not predict or make bets on which fashions will capture its customers' imaginations and wallets from month to month; instead, it can respond quickly to information from its retail stores, constantly experiment with various offerings, and smoothly adjust to events as they play out.

Shaping

Exxon's strategists and Zara's designers have one critical thing in common: they take their competitive environment as a given. Some environments, as Internet software vendors well know, can't be taken as a given. For instance, in young high-growth industries where barriers to entry are low, innovation rates are high, demand is very hard to predict, and the relative positions of competitors are in flux, a company can often radically shift the course of industry development through some innovative move. A mature industry that's similarly fragmented and not dominated by a few powerful incumbents, or is stagnant and ripe for disruption, is also likely to be similarly malleable.

In such an environment, a company employing a classical or even an adaptive strategy to find the best possible market position runs the risk of selling itself short and missing opportunities to control its own fate. It would do better to employ a strategy in which the goal is to shape the unpredictable environment to its own advantage before someone else does—so that it benefits no matter how things play out.

Like an adaptive strategy, a shaping strategy embraces short or continual planning cycles. Flexibility is paramount, little reliance is placed on elaborate prediction mechanisms, and the strategy is most commonly implemented as a portfolio of experiments. But unlike adapters, shapers focus beyond the boundaries of their own company, often by rallying a formidable ecosystem of customers, suppliers, and/or complementors to their cause by defining attractive new markets, standards, technology platforms, and business practices.

That's essentially how Facebook overtook the incumbent MySpace in just a few years. One of Facebook's savviest strategic moves was to open its social networking platform to outside developers in 2007, thus attracting all manner of applications to its site. By 2008 it had attracted 33,000 applications; by 2010 that number had risen to more than 550,000. So as the industry developed and more than two-thirds of the successful social networking apps turned out to be games, it was not surprising that the most popular ones—created by Zynga, Playdom, and Playfish—were operating from, and enriching, Facebook's site.

Visionary

Sometimes, not only does a company have the power to shape the future, but it's possible to know that future and to predict the path to realizing it. Those times call for bold strategies—the kind entrepreneurs use to create entirely new markets (as Edison did for electricity and Martine

Rothblatt did for XM satellite radio) or corporate leaders use to revitalize a company with a wholly new vision (as Ratan Tata is trying to do with the ultra-affordable Tata Nano automobile). These are the big bets, the build-it-and-they-will-come strategies.

Like a shaping strategist, the visionary considers the environment not as a given but as something that can be molded to advantage. Even so, the visionary style has more in common with a classical than with an adaptive approach. Because the goal is clear, the strategist can take deliberate steps to reach it without having to keep many options open. It's more important for the visionary to take the time and care needed to marshal resources, plan thoroughly, and implement correctly so that the vision doesn't fall victim to poor execution. The visionary strategist must have the courage to stay the course and the will to commit the necessary resources.

When the Cold Winds Blow

There are circumstances in which none of our strategic styles will work well: when all access to capital or other critical resources is severely restricted, by either a sharp economic downturn or some other cataclysmic event. Such a harsh environment threatens the very viability of a company and demands a fifth strategic style: *survival*.

As its name implies, a survival strategy requires a company to focus defensively—reducing costs, preserving capital, and trimming business portfolios. It is a short-term strategy, intended to clear the way for the company to live another day. But it does not lead to long-term competitive advantage. Companies in survival mode should therefore look ahead, readying themselves to assess the conditions of the new environment and to adopt an appropriate growth strategy once the crisis ends.

Operating in Many Modes

Matching your company's strategic style to the predictability and malleability of your industry will align overall strategy with the broad economic conditions in which the company operates. But various company units may well operate in differing industry segments or geographies that are more or less predictable and malleable than the industry at large. Strategists in these segments and markets can use the same process to select the most effective style for their particular circumstances, asking themselves the same initial questions: How predictable is the environment in which our unit operates? How much power do we have to change that environment? The answers may vary widely. We estimate, for example, that the Chinese business environment overall has been almost twice as malleable and unpredictable as that in the United States, making shaping strategies often more appropriate in China.

To apply the right strategy style, you must correctly analyze your environment, identify which strategic styles should be used, and take steps to prime your company's culture for those styles. Then, you will need to monitor your environment and be prepared to adjust as conditions change over time. Clearly that's no easy task. But we believe that companies that continually match their strategic style to their situation will enjoy a tremendous advantage—potentially as much as several percentage points in total shareholder return (TSR)—over their industry peers that don't.