



strategydynamics

in action



Strategy Dynamics in Action

These materials are available to trainers as 2 packs. The first consists of sections 1 to 5 and is entitled "Core Concepts". The second pack consists of 4 sections of Advanced Topics.

This sample document shows a few slides with notes from section 1 and the "content" slides from sections 2-9 so that you can see the range of material covered.

Core Concepts

Section 1 - 21 Slides

Introduction - Why Strategy Dynamics?

Section 2 = 10 Slides

Specifying the Strategic Objective

Section 3 = 18 Slides

How Resources Drive Performance

Section 4 = 18 Slides

Building & Sustaining Resources - their 'Critical' Bathtub behaviour

Section 5 = 19 Slides

The Core Strategic Architecture - How Resources Work Together

Advanced Topics

Section 6 = 21 Slides

Developing Resources and the Choice Pipeline

Section 7 = 26 Slides

Managing Resource Attributes

Section 8 = 25 Slides

Into Battle! - Rivalry for Resources

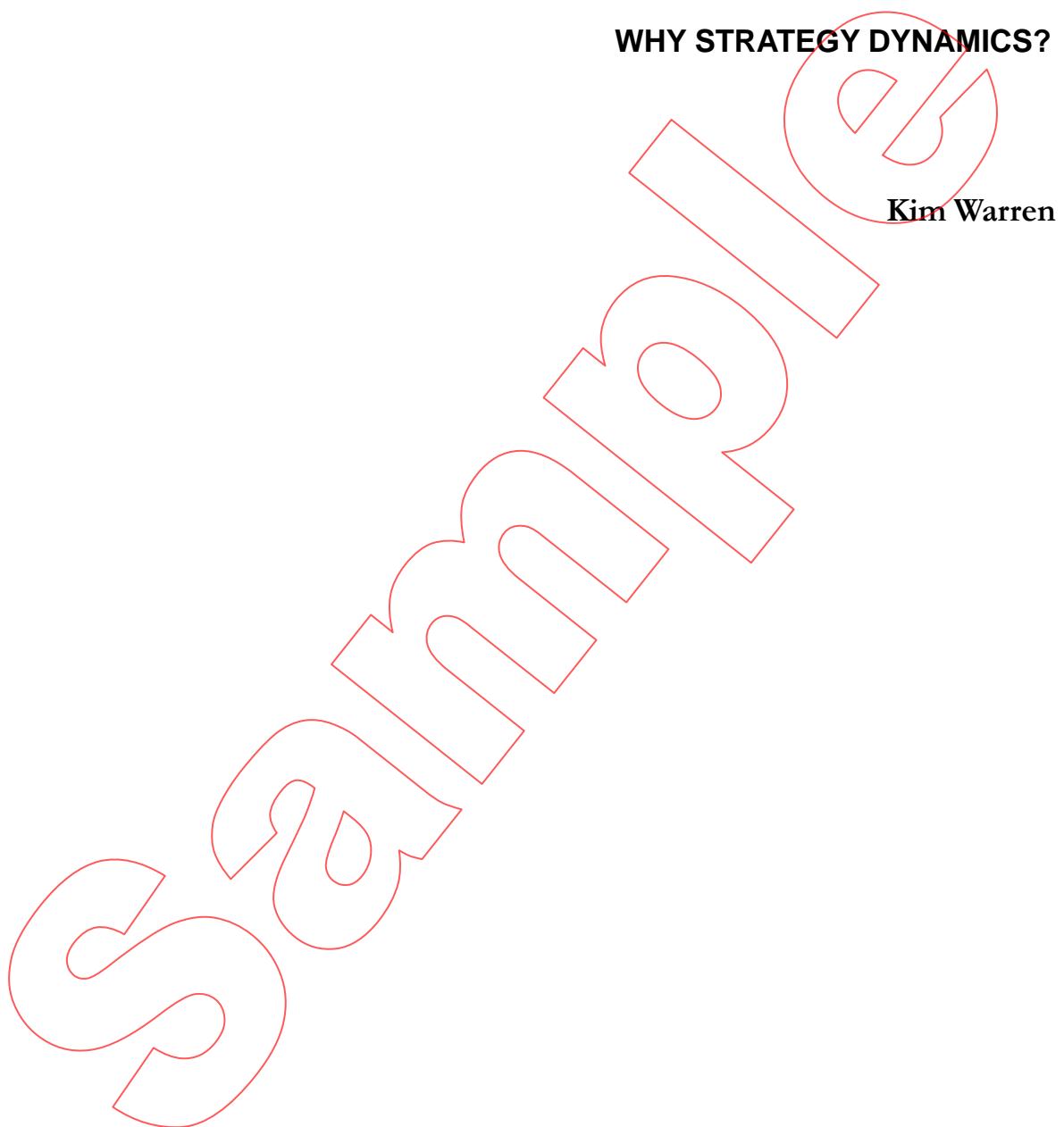
Section 9 = 22 Slides

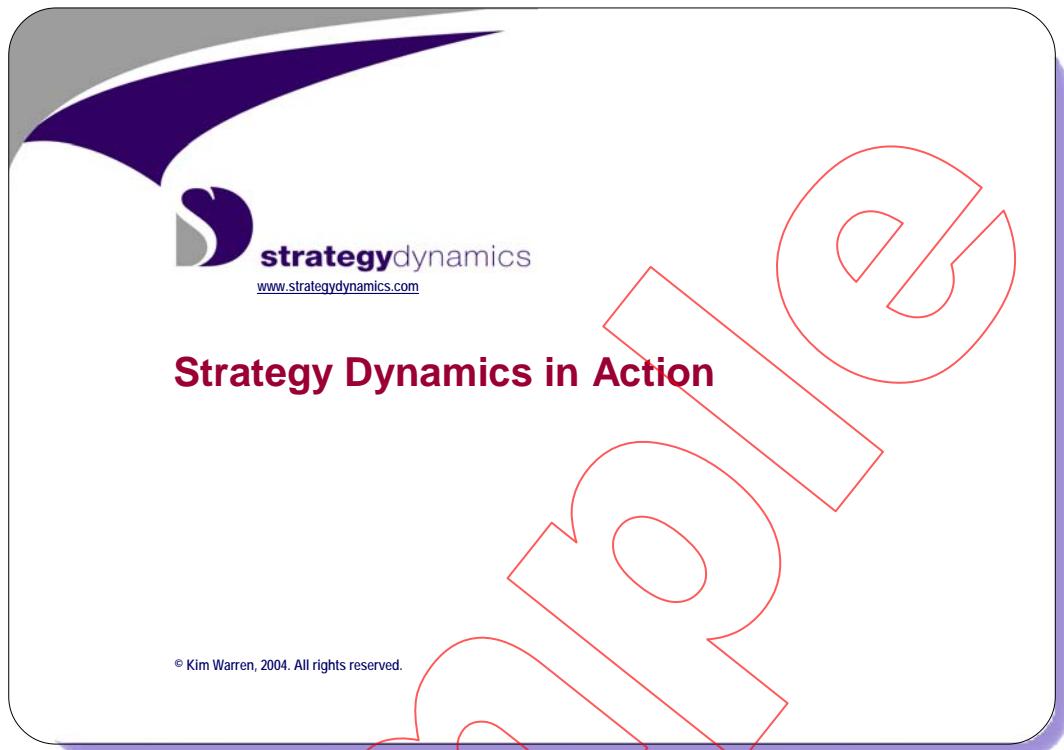
Coping with Soft Factors - Intangible Resources

Introduction

WHY STRATEGY DYNAMICS?

Kim Warren





The slides in this pack explain and illustrate the essentials of the Strategy Dynamics method.

They may be useful in three principal situations:

- to support the coaching of executive teams in tackling real and current issues facing their organisation
- as training materials for executives, consultants or other professionals, to equip them for tackling a wide variety of issues that they may come across in the future
- on MBA and other degree courses in management [especially in Strategy], as teaching material for introducing the importance of dealing with performance through time, i.e. 'dynamics' – and how to do so

These teaching materials are supported by a range of articles, books and simulation-based learning materials available at www.strategydynamics.com, together with a 10-class, CD-based self-tuition course: Mastering Strategy Dynamics.



Objectives

These slide-sets explain the essentials of the Strategy Dynamics approach, enabling you to work out:

- what performance aims* are feasible for your organisation [or for any case you are considering]
- ... or for important activities within an organisation [marketing, staff development etc.]
- what resources will need to be built and sustained to reach these aims
- how these resources depend on each other to drive performance
- how to use this understanding to steer strategy towards those aims?

... including how to deal with competitive pressures.

* (typically profits, but may feature other measures, especially for public services, voluntary or other not-for-profit organisations)



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This slide introduces the top-level aims of the Strategy Dynamics approach.
Additional points can be made ...

- It is important to clarify the appropriate time-scale for the performance aims. This may be a very long time-horizon [e.g. Kodak's need to sustain sales of photographic film for many years, in the face of increasing digital photography] – or very short [e.g. building immediate demand for the launch of a new movie]
- There may be several aims, and these may be in conflict to some degree – e.g. increase market share, but without reducing profits. The Strategy Dynamics tools expose these tensions and allow workable compromises to be found.

It can be helpful at this point to invite participants to explain performance challenges faced by their organisation or department. A short verbal summary will be enough at present – each issue can be specified in more detail as subsequent material is covered.

These aims are important in setting up the need for Strategy Dynamics, and positioning its contribution amongst other methods that are already widely understood.

SUGGESTIONS

You may, of course, wish to substitute or add aims of your own. However, it is important to ensure that any slides chosen from this pack are supportive of those other aims.



Outline of 'Strategy Dynamics in Action'

The slides are organised in the following segments:

- | | |
|---------------------|--|
| Core Concepts | <ol style="list-style-type: none">1. Why Strategy Dynamics?2. Specifying the Strategic Objective3. How Resources Drive Performance4. Building and Sustaining Resources5. The Core Strategic Architecture |
| Additional elements | <ol style="list-style-type: none">6. Developing Resources - The 'Choice Pipeline'7. Resource Attributes8. Rivalry for Resources9. Intangible Resources |



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This slide shows how these slide-sets are organised. They divide into two main sections:

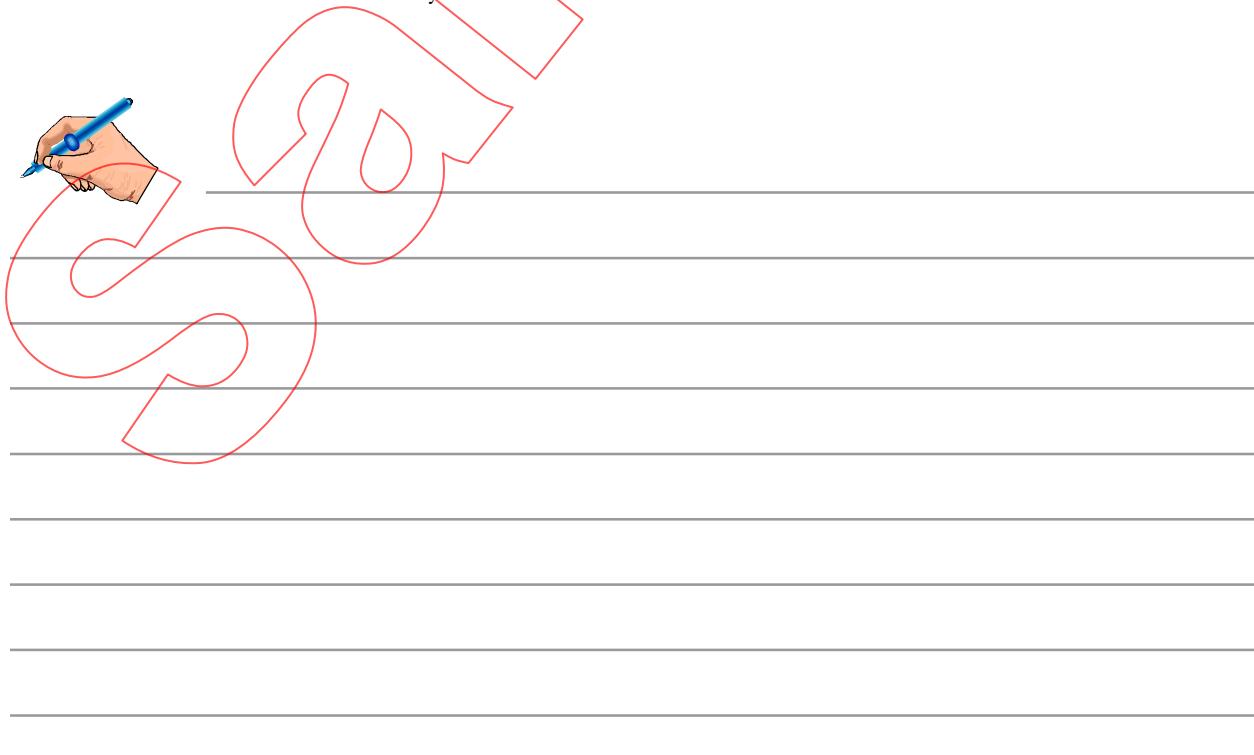
- the core concepts of the Strategy Dynamics method – in most cases, the majority of this section will need to be covered
- a series of extensions to the framework for dealing with rivalry, intangibles, and other issues, each of which may be appropriate in different situations

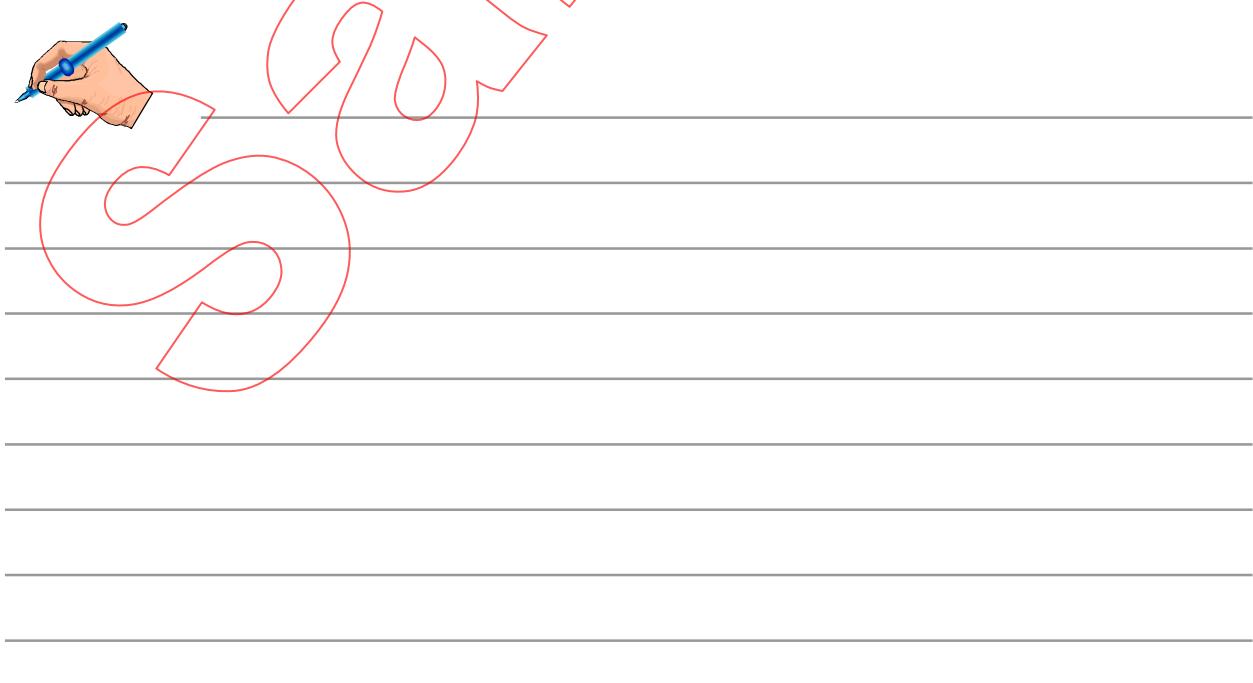
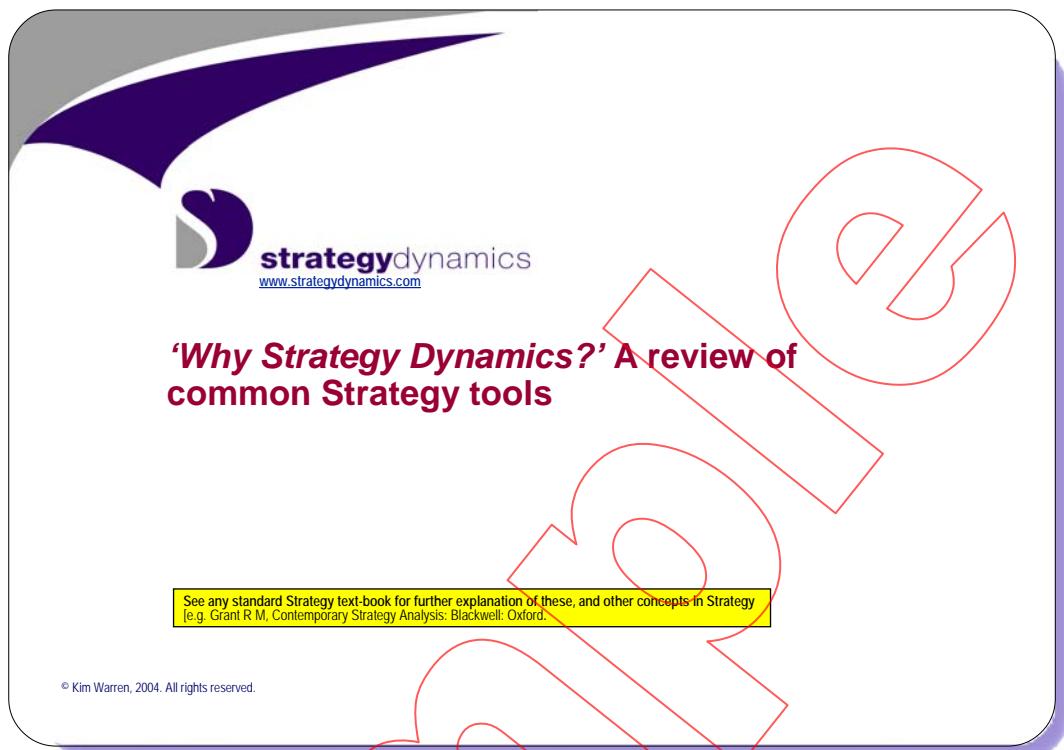
In addition, there is an optional opening section on 'Why Strategy Dynamics?' that reviews some standard Strategy tools, and explains why improved methods are needed.

If delivered simply as 'lecture' material, with minimal time for questioning or discussion, these topics could feasibly be delivered, in total, in a few hours. However, this delivery style is not recommended. The concepts covered will probably be unfamiliar to most audiences and will require them to take on a significant change in mind-set. Consequently, learning will be substantially more effective if the materials are delivered with frequent opportunities to discuss, clarify, and practise applying them to participants' real-world challenges and/or case situations. If used in this manner, the Core Concepts can deliver valuable learning over a full day, and the additional elements, in total, can usefully take 1½ to 2 days.

SUGGESTIONS

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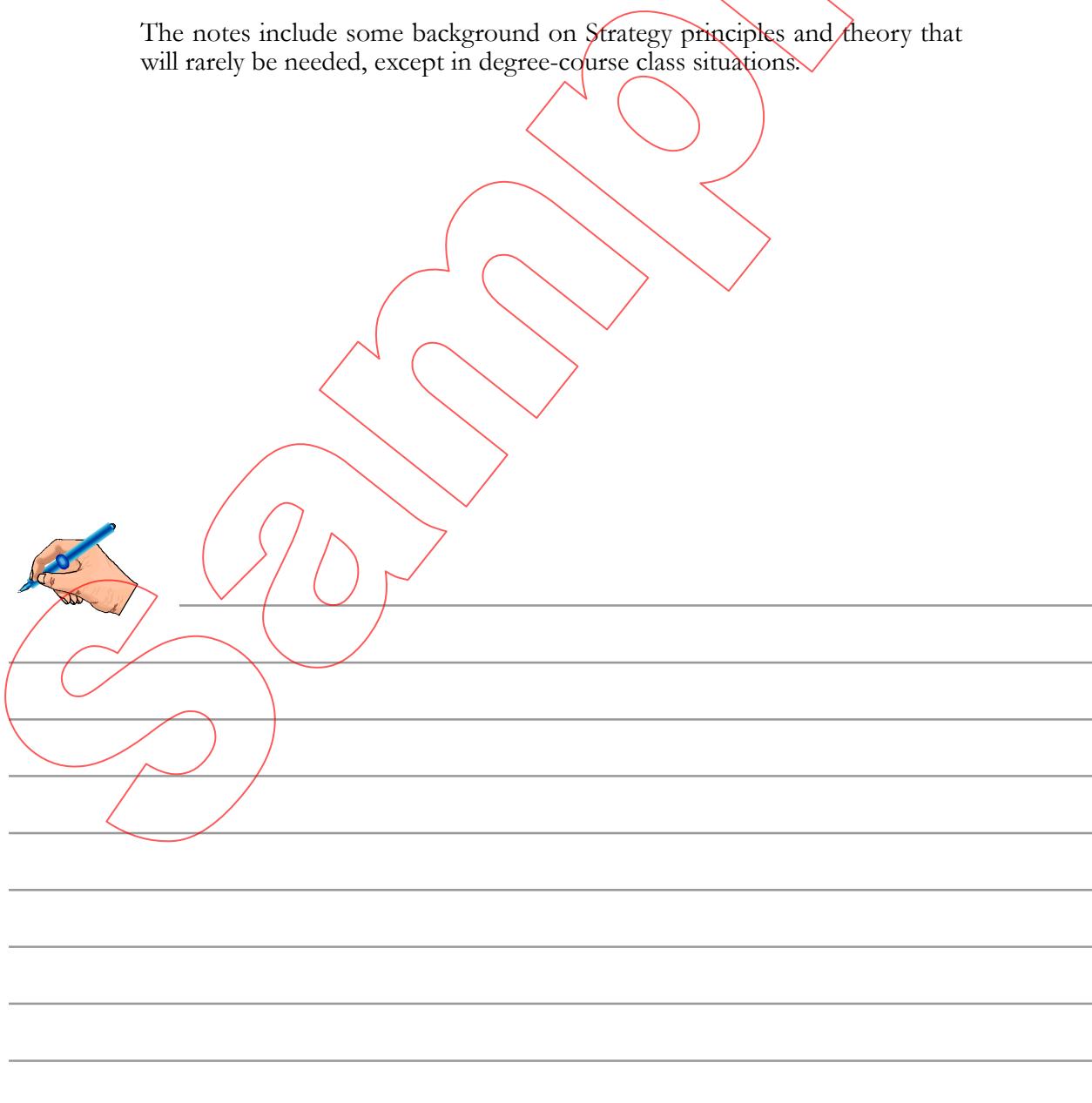


This optional introductory slide-set reviews several of the most common Strategy analysis tools, as taught in Business Schools and standard reference books. It shows how they connect to a simple strategy-development process, and summarises a rationale for their value.

These slides may be useful, in whole or in part, where audiences have some familiarity with strategy tools and approaches, in order to make the case a more rigorous, fact-based approach is needed.

This section concludes by highlighting the principal short-coming of the existing suite of strategy tools – namely that they do not offer the means to explain the *time-path* of performance, nor to identify what actions or policies a strategic plan should pursue in order to improve that performance into the future.

The notes include some background on Strategy principles and theory that will rarely be needed, except in degree-course class situations.



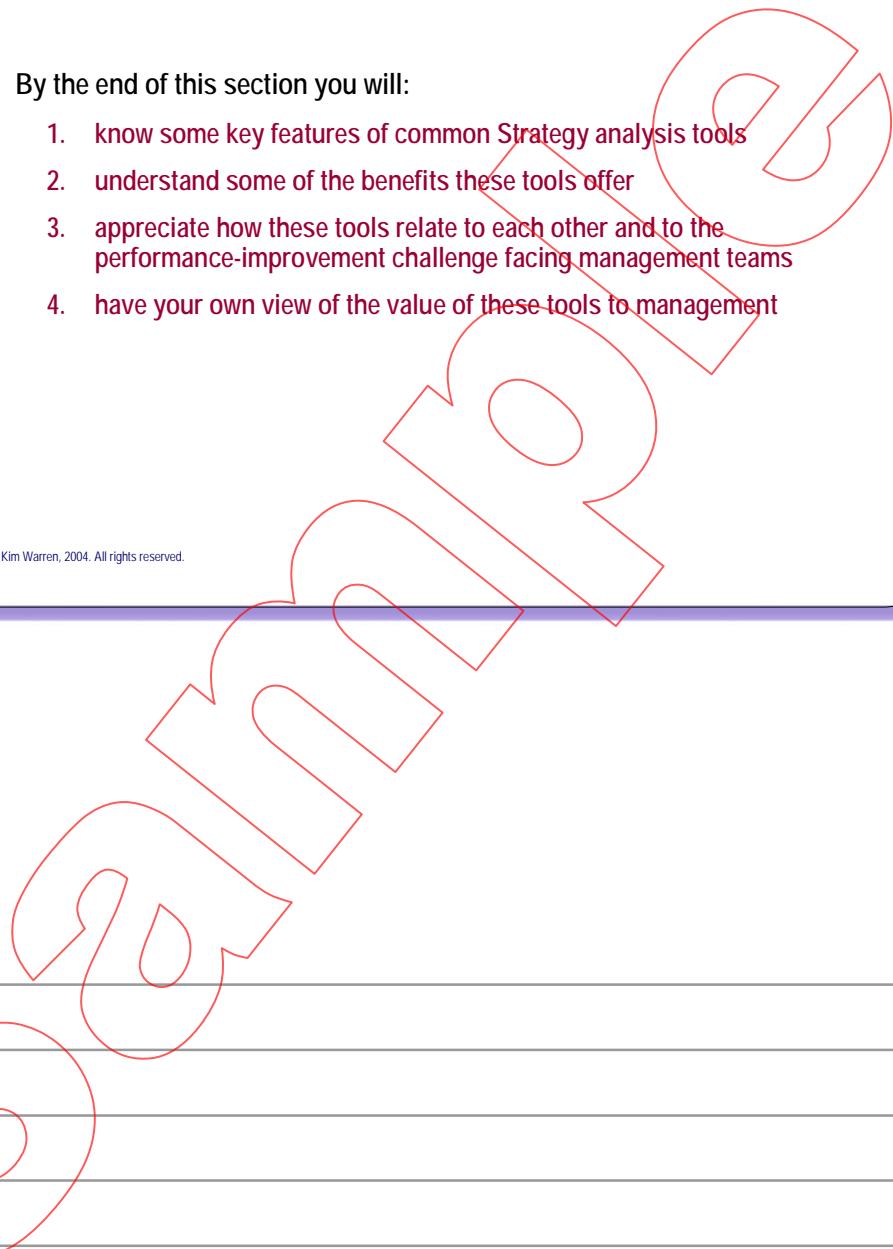
Strategy Tools Review: Objectives

By the end of this section you will:

1. know some key features of common Strategy analysis tools
2. understand some of the benefits these tools offer
3. appreciate how these tools relate to each other and to the performance-improvement challenge facing management teams
4. have your own view of the value of these tools to management



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These aims are important in setting up the need for Strategy Dynamics, and positioning its contribution amongst other methods that are already widely understood. Important points to note, however, include:

- existing Strategy tools have some genuine value and contribution to offer, so it is important to recognise their value and not be dismissive of them
- audiences may include individuals who are very familiar with these tools, satisfied with their value, and comfortable in their use. Be prepared for some resistance to the idea that these methods have significant limitations, by acknowledging participants' experience with them – for such people, position Strategy Dynamics as a powerful tool to go beyond what their existing methods can accomplish
- these slides are not a comprehensive review of all strategy tools, nor a full explanation of each. It may therefore be necessary to give participants a chance to bring out other methods they use, and explain how they work and the value they offer.



There's no shortage of management tools



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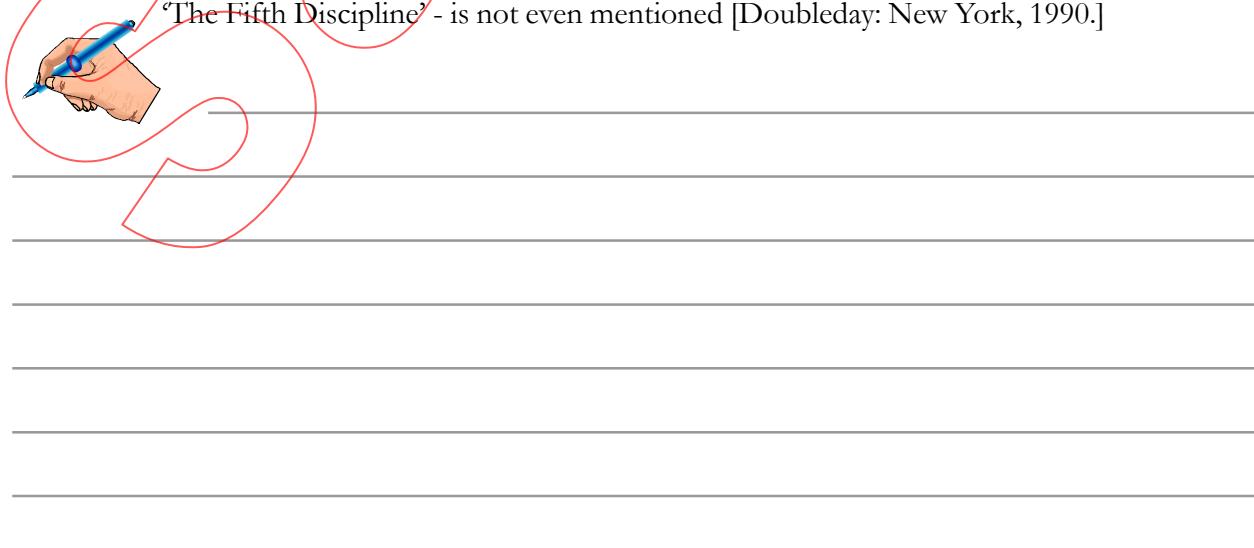
Source: Bain & Co www.bain.com



This list of management tools emerges from a biennial, international survey carried out by consultants, Bain & Co. The survey is not purely about strategy tools, but covers any techniques referred to by respondents. Key points are:

- Recognisable tools specifically about *Strategy* are few ... 5 forces, value chain analysis, core competences, 7-S framework, scenario planning, experience curve ... [these can be found in established strategy text-books, such as R M Grant, 2002, 'Contemporary Strategy Analysis' (4th Edn), Blackwell: Oxford.]
- Many items on the list are too general or idiosyncratic to merit the term 'tool' at all – e.g. strategic planning, customer retention, Gung-ho.
- Few current themes in academic Strategy research feature on the list – e.g. resource-based view, knowledge-based view, evolutionary approaches – which raises the question as to how these academic perspectives actually come to feature in real-world practice [this question may only arise in degree course teaching, and is not a matter to bring up with a general management audience].
- There are some surprising omissions of well known approaches – SWOT analysis (strengths, weaknesses, opportunities and threats), PEST analysis of external forces (political, economic, social, technological), value-based management, and so on. SWOT, for example, will almost invariably be mentioned if you invite a diverse audience of executives to mention any strategy approaches they know of.

Finally, note that Strategy Dynamics emerges from the coming-together of the resource-based view of Strategy with System Dynamics [Sterman J, 2000, 'Business Dynamics', McGraw-Hill: New York.] Though mentioned in this survey, system dynamics is one of the least well-known tools. Its better-known version - 'Systems Thinking', popularised by Peter Senge in his best-seller, 'The Fifth Discipline' - is not even mentioned [Doubleday: New York, 1990.]



Most widely-used strategy tools

Core Competencies
Balanced Scorecard
Scenario Planning
Shareholder Value analysis ?



?

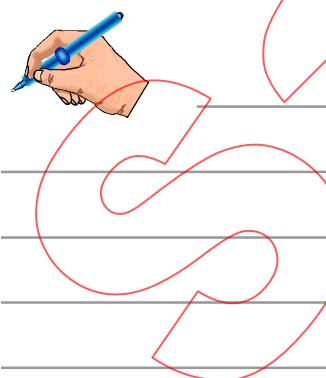


? ... these are tools for performance control, not for formulating Strategy



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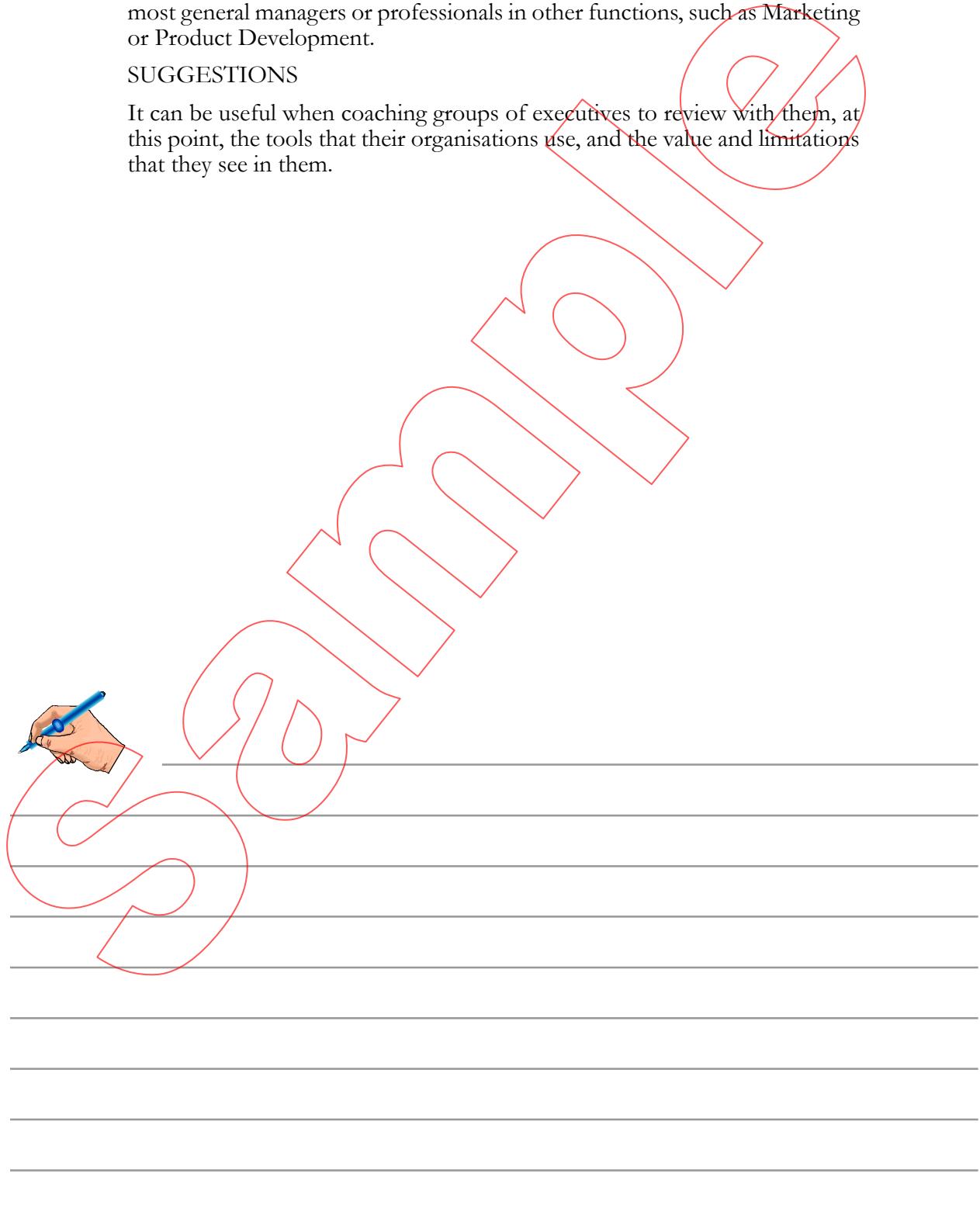
Source: Bain & Co www.bain.com



These four items are the strategy-related ideas most widely used, according to the Bain survey. It is important to stress that other tools - such as five forces and value chain analysis - may be widely used amongst Strategy professionals [e.g. consultants, corporate-development staff], but would not be relevant to most general managers or professionals in other functions, such as Marketing or Product Development.

SUGGESTIONS

It can be useful when coaching groups of executives to review with them, at this point, the tools that their organisations use, and the value and limitations that they see in them.



Section 1 : Strategy Dynamics in Action

Note : no optional slides in this section

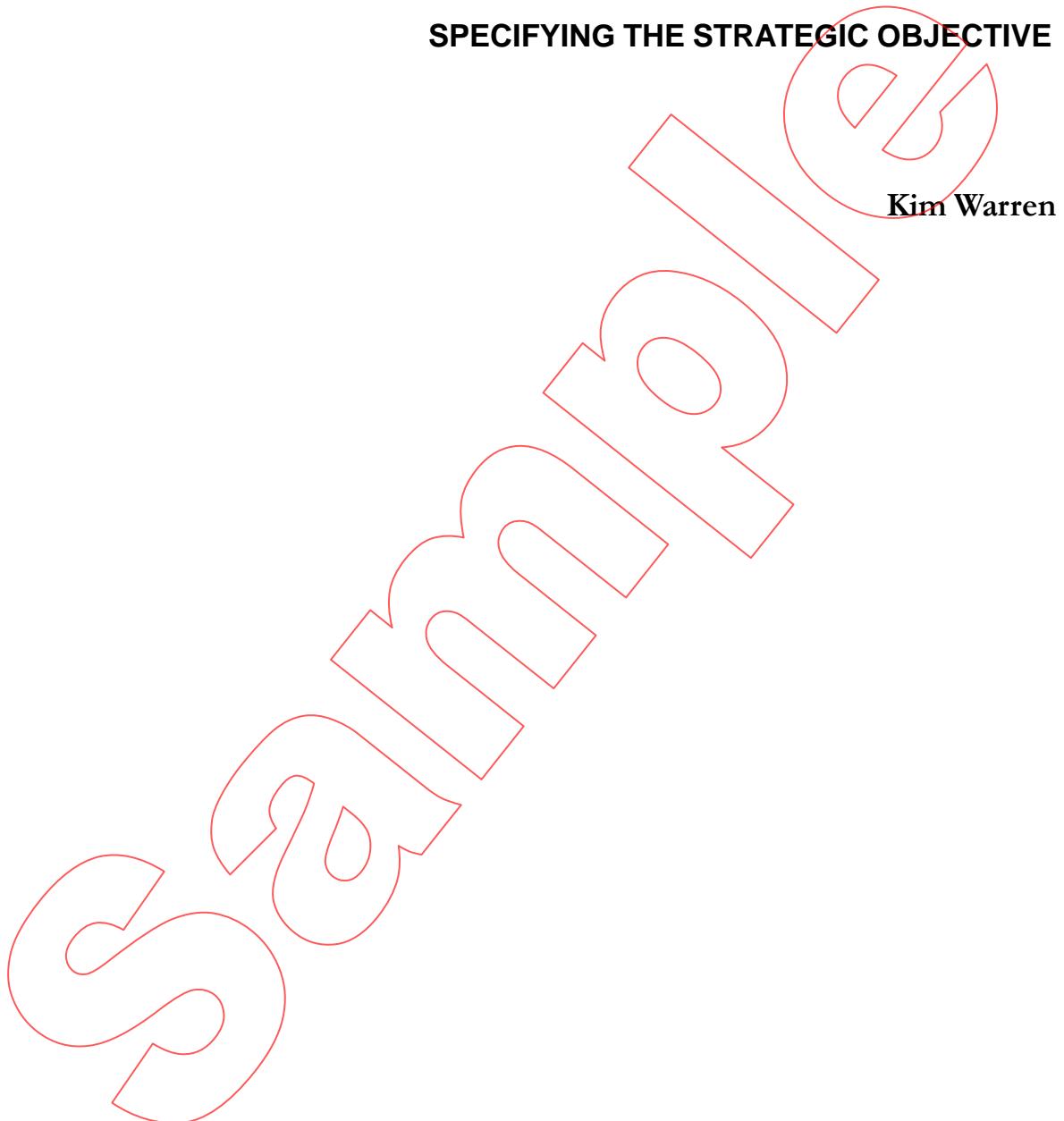
pg

• Strategy Dynamics in Action	2
• Outline of ‘Strategy Dynamics in Action’	4
• Why Strategy Dynamics?” A review of common strategy tools	6
• Strategy Tools Review : Objectives	8
• There’s no shortage of management tools	10
• Most widely used strategy tools	12
• Strategy development assesses the presentation , develops	14
• a business concept, a means to deliver it and a tracking system	16
• Business Strategy must address both where to compete and how	18
• Most executives will recognise “SWOT” analysis	20
• Industry analysis (“5-forces”) says whether the industry offers the opportunity for strong profitability	22
• PEST analysis assesses how Political, Economic, Social and Technological factors will change industry conditions	24
• Scenario-based strategy development considers how alternative ‘futures’ may change industry conditions	26
• Research suggests that firm factors are more critical to performance than industry forces	28
• Value-chain analysis shows where internal activities drive costs and add value in the eyes of customers	30
• Value Chain analysis is sometimes presented as...	32
• Resource-based strategy assesses what ‘strategic’ resources are available, and what superior profitability they can sustain	34
• Capability and competence-based strategy views these factors as more sustainable than 'resources'	36
• Limitations of Common Strategy Tools	38
• (1)Unfortunately, existing Strategy tools do not address the key issue – performance through time	40
• (2)Unfortunately, existing Strategy tools do not address the key issue – performance through time	42

Section 2

SPECIFYING THE STRATEGIC OBJECTIVE

Kim Warren



Objectives

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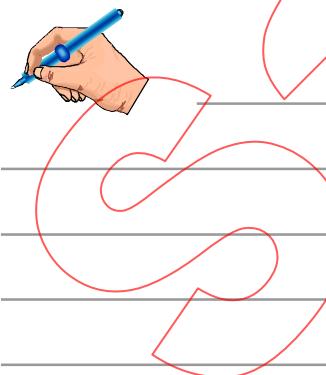
- what performance aims* are feasible for your organisation [or for any case you are considering]
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This slide introduces the top-level aims of the Strategy Dynamics approach.

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- the core concepts of the Strategy Dynamics method – in most cases, the majority of this section will need to be covered
- a series of extensions to the framework for dealing with rivalry, intangibles, and other issues, each of which may be appropriate in different situations

In addition, there is an optional opening section on 'Why Strategy Dynamics?' that reviews some standard Strategy tools, and explains why improved methods are needed.

Note also that the final section 'Extending the Core Architecture' does not offer further ideas, but is used to show how the items covered in the Additional Elements sections can be related to the Core Concepts without the framework becoming overcomplicated.

If delivered simply as 'lecture' material, with minimal time for questioning or discussion, these topics could feasibly be delivered, in total, in a few hours. However, this delivery style is not recommended. The concepts covered will probably be unfamiliar to most audiences and will require them to take on a significant change in mind-set. Consequently, learning will be substantially more effective if the materials are delivered with frequent opportunities to discuss, clarify, and practise applying them to participants' real-world challenges and/or case situations. If used in this manner, the Core Concepts can deliver valuable learning over a full day, and the additional elements, in total, can usefully take 1½ to 2 days.

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Section 2 : Specifying the Strategic Objective

Note : no optional slides in this section

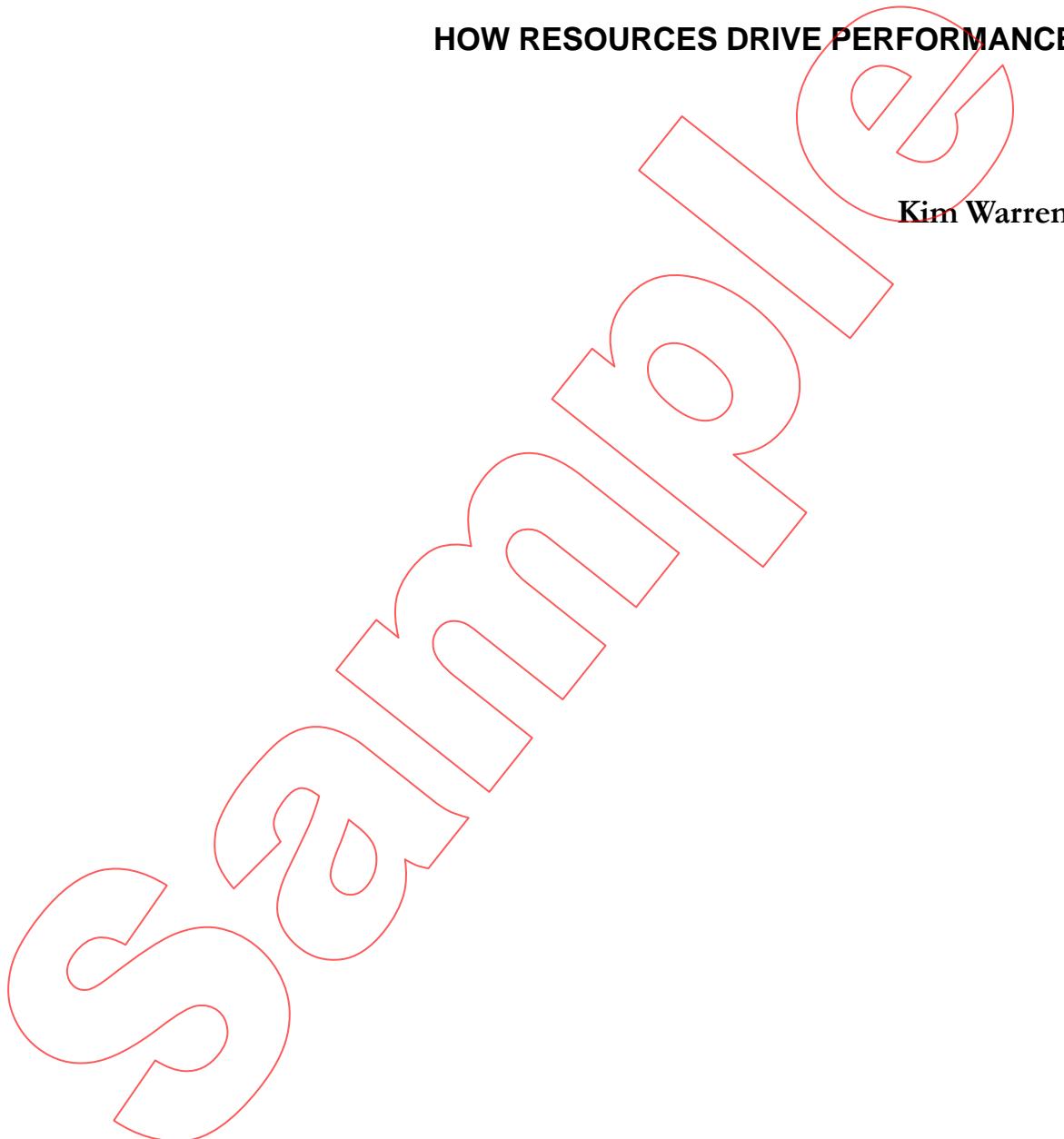
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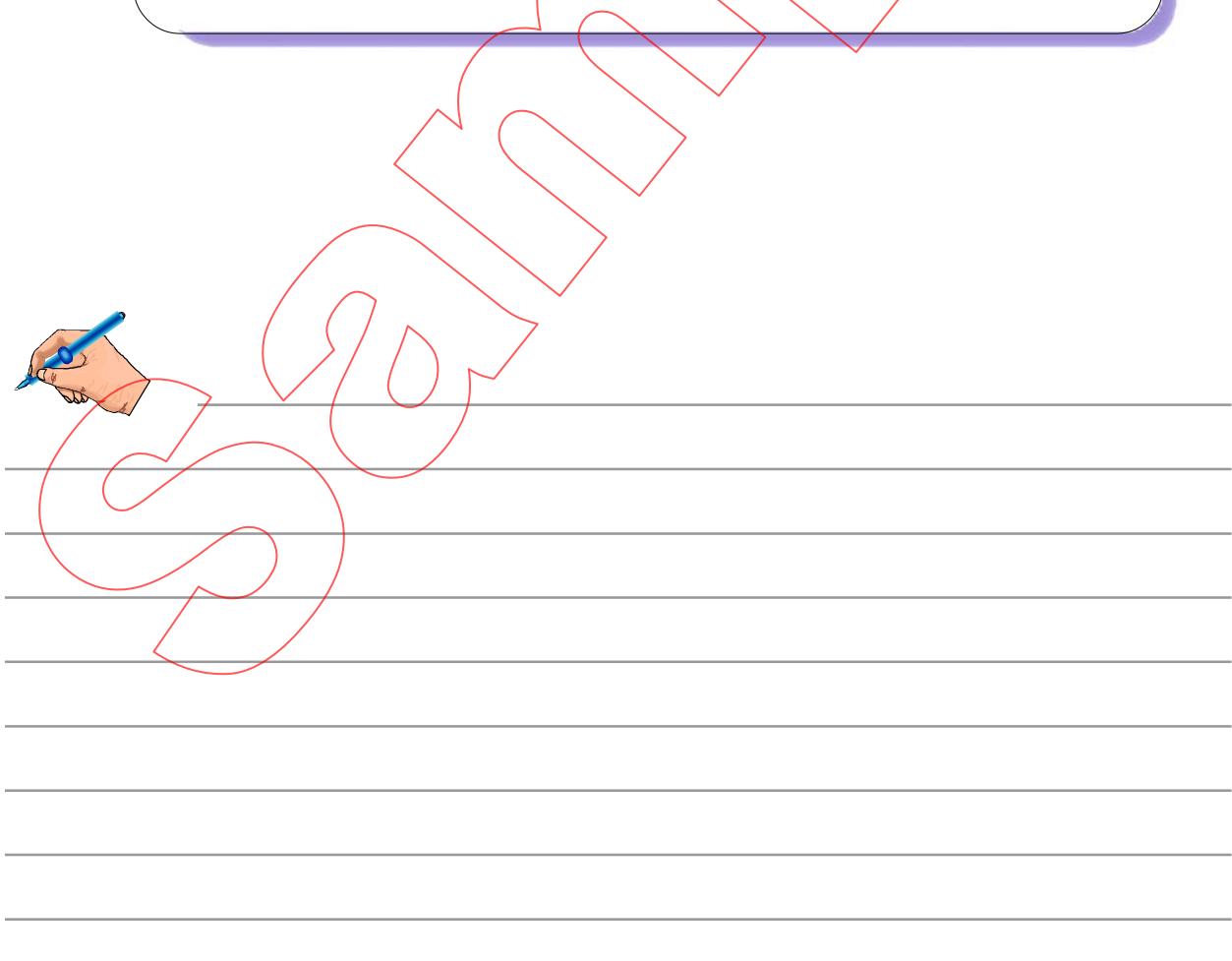
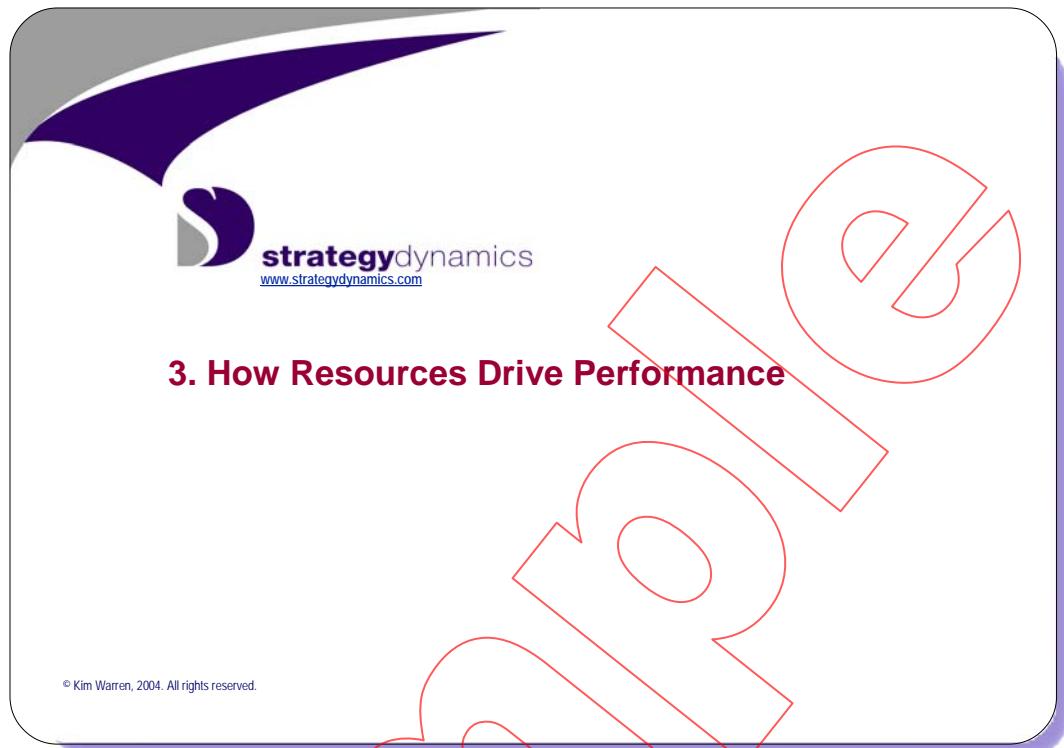
• Objectives	2
• Outline of ‘Strategy Dynamics in Action’	4
• Specifying the Strategic Objective	6
• Strategy Dynamics	8
• (3)Unfortunately, existing Strategy tools do not address the key issue – performance through time	10
• Examples of time-path critical strategic issues	12
• ...continued.....Examples of time-path critical strategic issues	14
• Rivalry outcomes in smart-phone operating systems	16
• Strategy Dynamics – Key Questions in non-business cases	18
• Stage 1 : What is the time-path for the key indicator of performance	20
• Stage 1 : The performance challenge for a new airline – growing passenger journeys to drive strong profit growth	22

Section 3

HOW RESOURCES DRIVE PERFORMANCE

Kim Warren

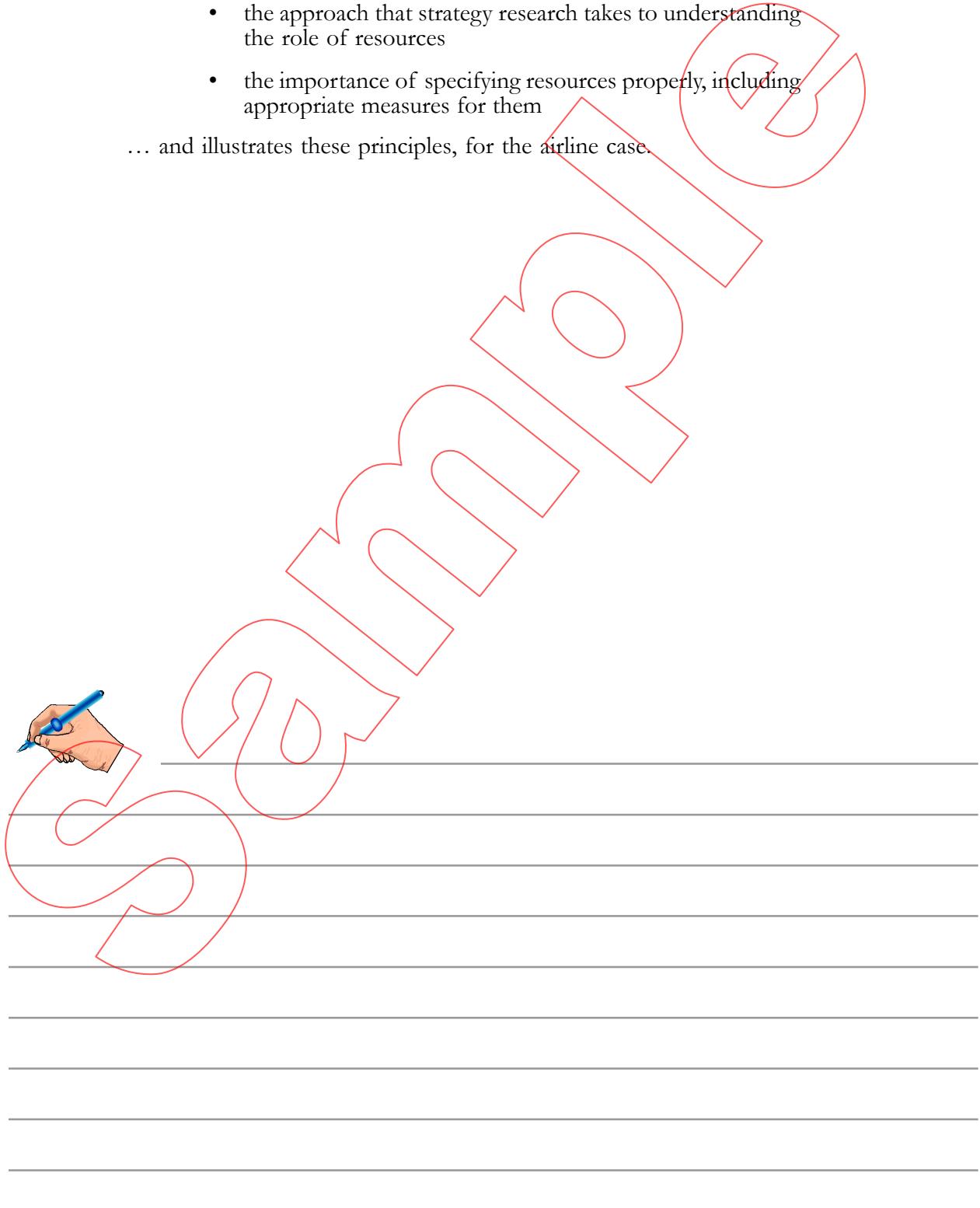




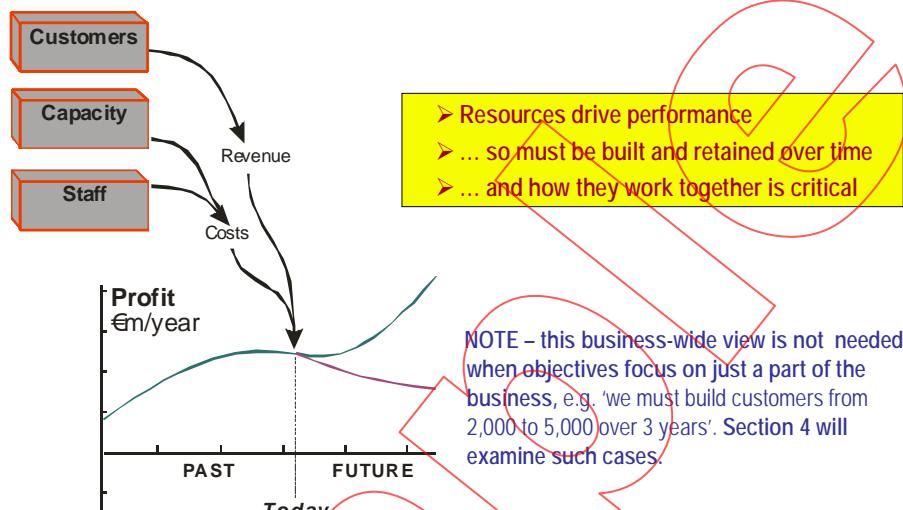
This slide set moves on from the focus on performance outcomes, to explain:

- the direct link between performance and simple, tangible resources [customers, staff], etc
- the approach that strategy research takes to understanding the role of resources
- the importance of specifying resources properly, including appropriate measures for them

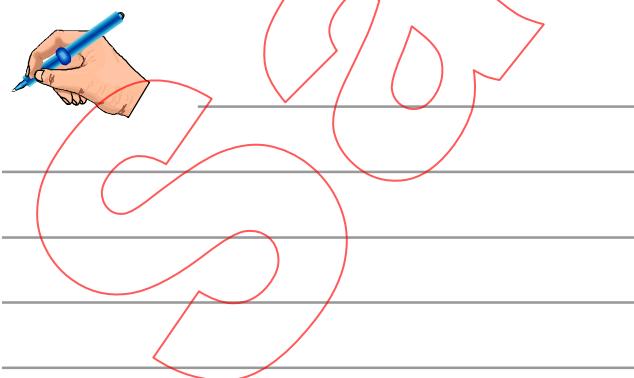
... and illustrates these principles, for the airline case.



Resources drive performance ...



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This is a simple caricature of how financial performance arises from firm resources (the items in the boxes).

For strategy challenges that concern the overall performance of an organisation, this chart clarifies the very simple point that performance – right now – depends, very directly, on the resources that are in place – right now. In commercial situations, this implies working your way back up the profit and loss account, from profits, through revenue, margins and costs, until you hit the factors that directly drive those financial items:

- Typically, the actual number of customers determines the rate at which we make revenue. [There are a few exceptions, e.g. businesses that sell product into an open trading market, such as petroleum or agricultural commodities]. Naturally, customers may also differ in size and value to us – a consideration we will address in section 7.
- Staff and capacity are examples of costly assets, and we typically know quite well the relationship between these assets and their cost of ownership. Costs will also be driven by acquiring and developing these assets, as well as by simply owning them.

Strategy challenges may not always concern overall business performance, but focus instead on issues within particular functions. Such issues may not require us to understand all parts of the organisation – it may simply be necessary to trace the problem issue back to just one or two resources. For example, staff turnover may reflect pressure of work, which is driven by service demand from customers that exceeds what the staff available can deal with.

In other cases, the challenge may be to build a particular resource itself, in which case the framework in section 4, and developed in section 6, will be sufficient.

SUGGESTIONS

Point out that this is not in any way an exhaustive list of relevant resources, and that the specific resources involved in any particular case may be different.

Again, it is helpful at this point to have your audience rehearse this step. In any real case, there will be many other items involved in a full explanation of profits, so a somewhat more developed version of the chart above will be required. [See the airline example at the end of this section].



Section 3 : How Resources Drive Performance

Note : no optional slides in this section

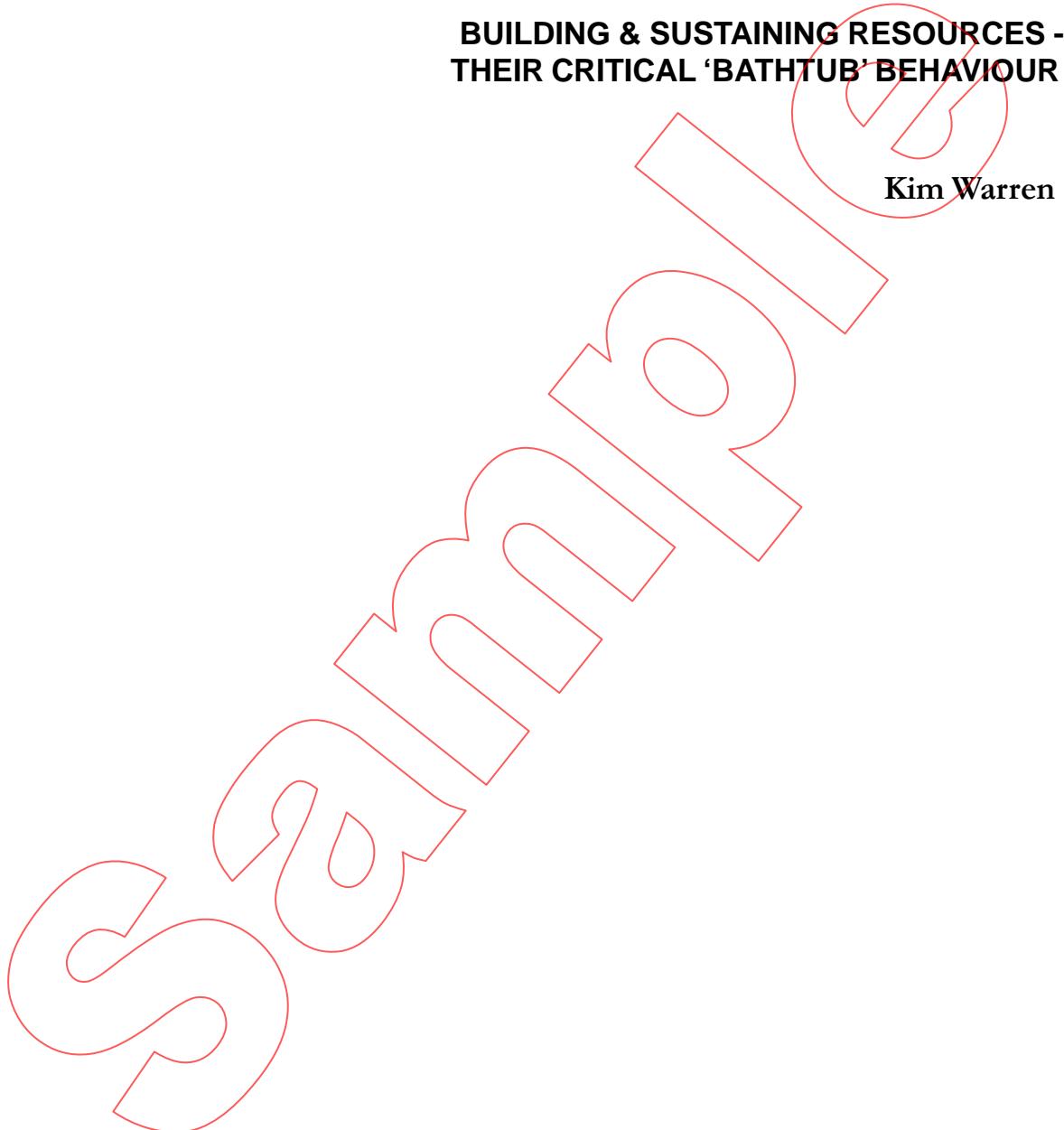
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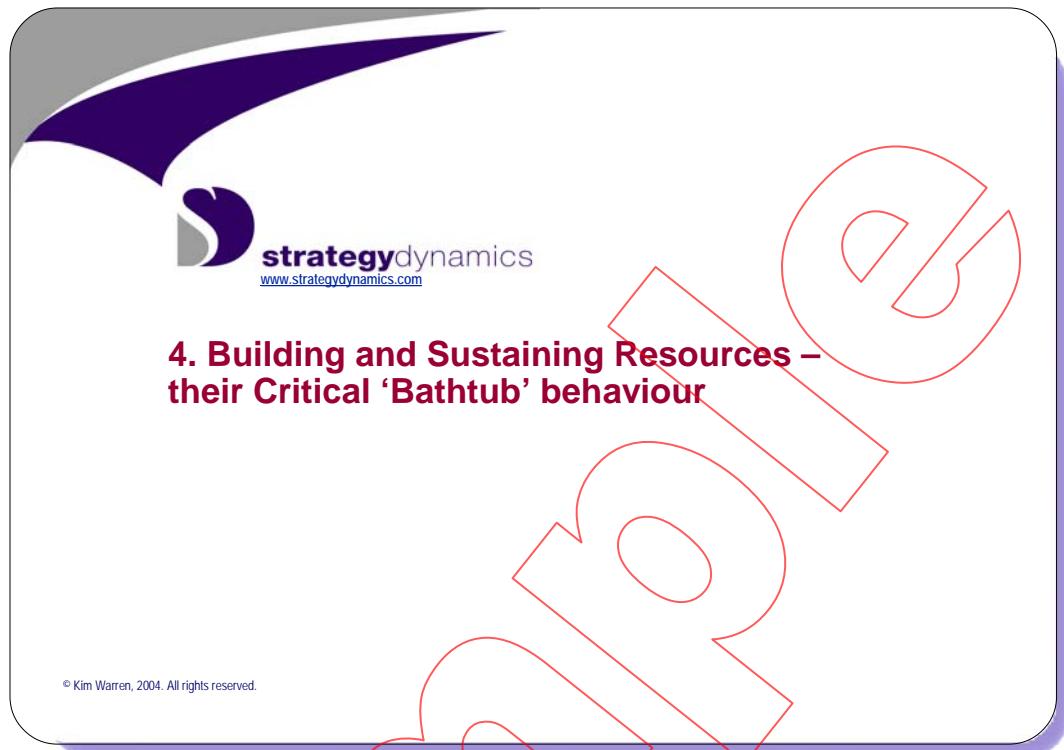
• How Resources Drive Performance	2
• Resources Drive Performance	4
•always did always will	6
• Resources also determine performance for public sector and other non-profit cases	8
• Conventional criteria for what makes a resource strategically valuable	10
• Resources may be tangible, attributes of tangible items, or describe 'intangible' factors reflecting the feelings of key groups	12
• Identifying resources : Tips	14
• Fact-based analysis of business resources	16
• Reminder – resources drive performance	18
• Reminder – The performance challenge for a new airline	20
• Stage 2 : Resources that directly drive performance e.g. airline	22
• The direct profit drivers for an airline – sales, revenues and costs	24
• The main resources driving revenue and costs	26
• Stage 3 : What drives performance in each period?back to the resources	28
• Stage 2 : Further resources involved in airlines	30
• Stage 2 : Resources that directly drive performance in your case	32
• Stage 2: Further resources involved in your case	34
• Stage 3: How tangible resources drive performance through time in your case	36

Section 4

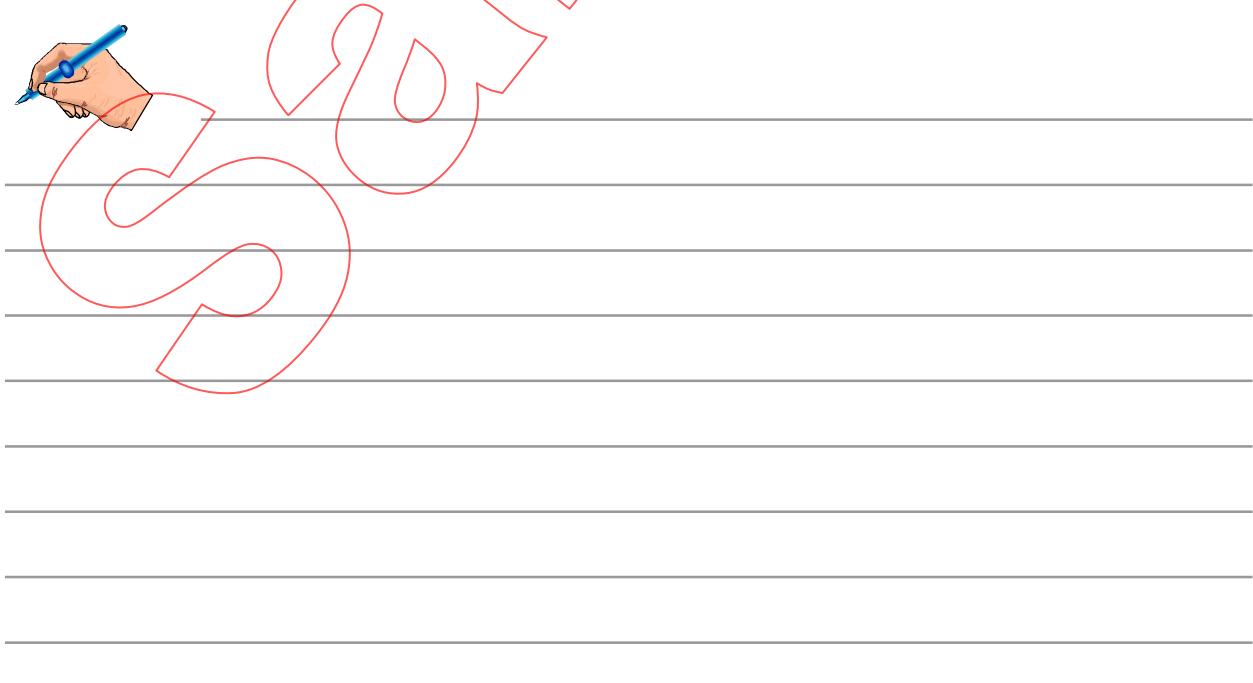
**BUILDING & SUSTAINING RESOURCES -
THEIR CRITICAL 'BATHTUB' BEHAVIOUR**

Kim Warren





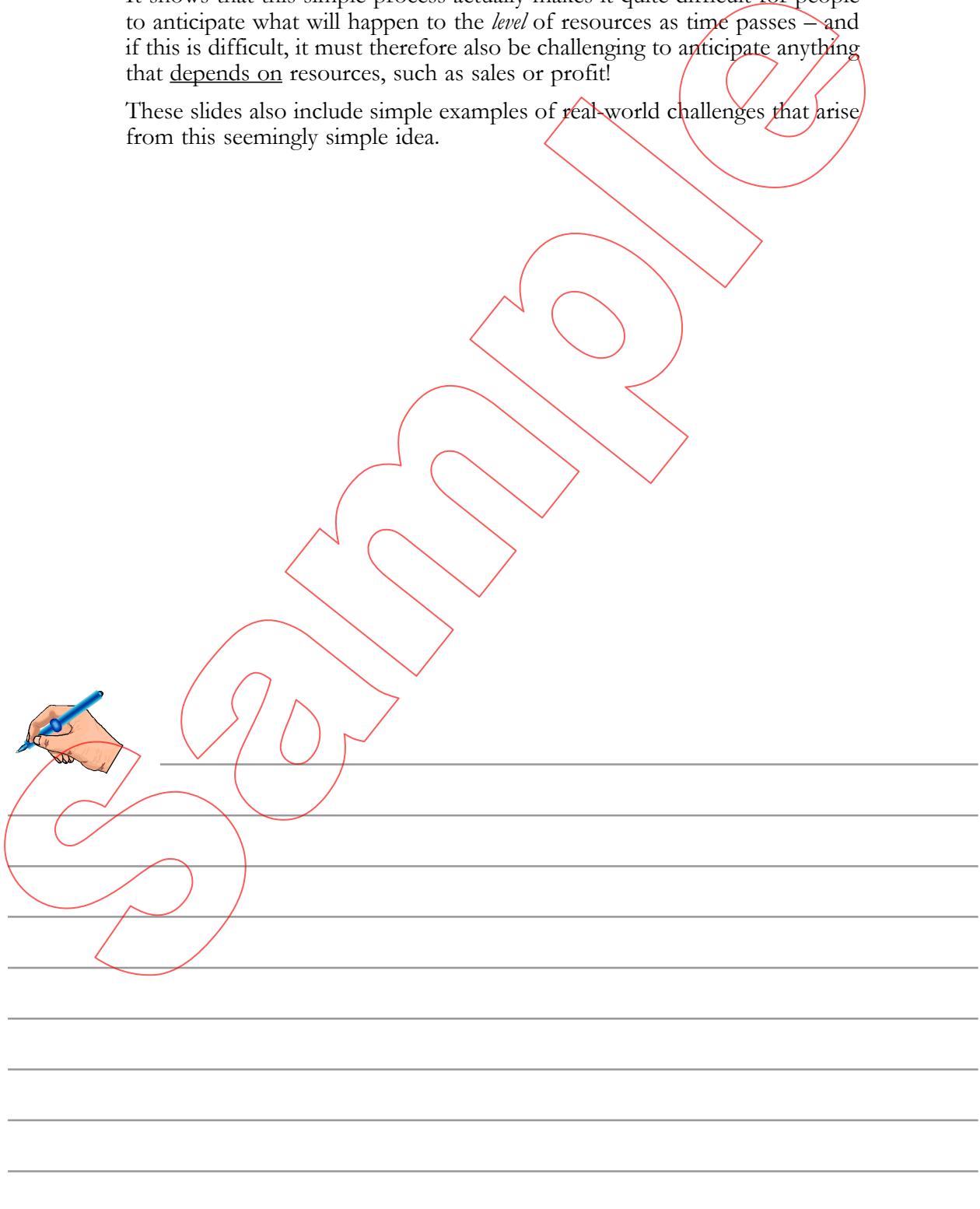
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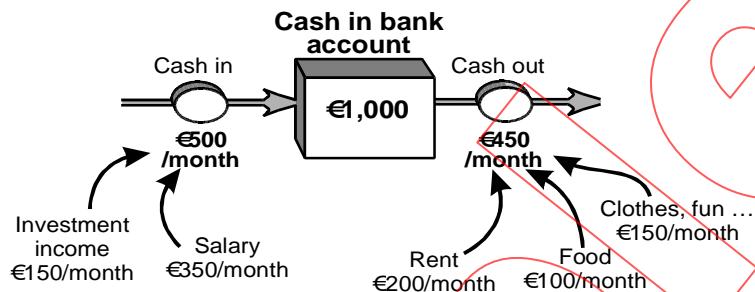
This slide-set introduces the crucial feature of resources, namely that they fill up over time – and drain away – just like water filling and draining a tank or bathtub.

It shows that this simple process actually makes it quite difficult for people to anticipate what will happen to the *level* of resources as time passes – and if this is difficult, it must therefore also be challenging to anticipate anything that depends on resources, such as sales or profit!

These slides also include simple examples of real-world challenges that arise from this seemingly simple idea.



Resources 'fill up and drain away' over time
[accumulate and deplete]



This is sometimes known as the 'bathtub framework', since all resources fill up and drain away, like water in a bath or tank.



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This is the central concept of Strategy Dynamics. [Note that the concept is not original to the Strategy Dynamics approach, at all, but originates from the 1950s [!] when Professor J W Forrester developed 'system dynamics'. John Sterman's, 'Business Dynamics', McGraw-Hill, 2000, provides an encyclopaedic reference book for this field].

Although essentially simple, it is deeply fundamental to the behaviour-over-time of business situations, social systems, and indeed our entire reality. Certain items just do accumulate and deplete over time, and there is no alternative to accounting, explicitly, for this process wherever it occurs. It is actually a quite familiar process – most people know that cash in a bank account fills up and drains away!

- A more general term for items that work like this is 'asset-stocks', or simply 'stocks'.
- The amount of resource at any moment is precisely equal to every amount ever added, minus every amount ever lost – e.g. today's customers = the sum of all those we ever won, minus all those who ever left us, since the day we started up. This means that every moment of history is equally relevant to today's situation – a customer won 10 years ago is [all else equal] exactly as relevant as one we acquired yesterday.
- This imposes serious limits on using statistical regression to understand 'what causes what', since this usually tests only *current or delayed relationships*, e.g. '*We believe that customer numbers and sales revenue are correlated with relative price [3 months before]*'.
- Accumulation is not the same as 'delay'. If you decide to buy a new machine, it arrives after a delay of a certain period, whereas if you decide to increase sales effort, customer-numbers start increasing continually as each month passes.
- Accumulating stocks are [for practical purposes] the only explanation for how our world changes through time – cause and effect cannot be separated in time, unless something is stored from one period to the next, and that is precisely what asset-stocks do!

SUGGESTIONS

The basic maths is known as integral calculus –you can have fun with a group by telling them they must master this advanced maths to be skilled at Strategy! Then ask if they can tell you how much money will be in this bank account in 3 month's time if these money flows continue – if they can (£1,150), they know all the integral calculus they need.

Section 4 : Building & Sustaining Resources - Their Critical 'Bathtub' Relationship

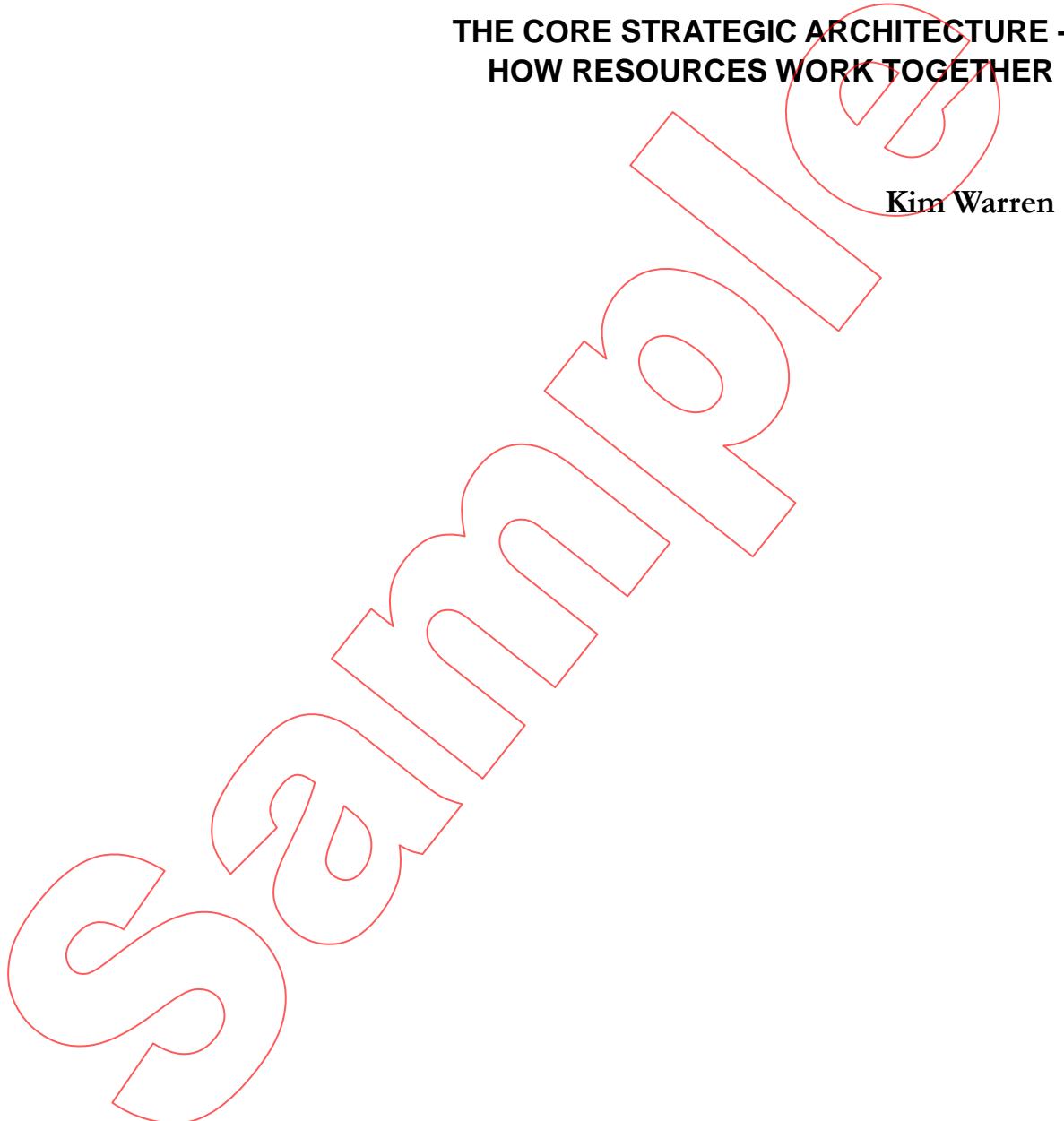
	pg	extra*
• Building and Sustaining Resources – their Critical ‘Bathtub’ behaviour	2	
• Resources ‘fill up and drain away’ over time	4	
• How resource-gains and losses interact	6	
•the resulting time-path for customer numbers is not intuitively obvious	8	AS
• From the numbers, you can easily show the time-path	10	AS
• What happens when resource-flows change?	12	
• Again, the numbers easily show the time-path...	14	AS
• Example : Increasing minority representation amongst senior staff	16	O
• Required staff promotion rates escalate sharply when attrition is significant	18	OAS
• How the numbers work for rising staff promotion and attrition	20	OAS
• Perhaps reducing the turnover amongst senior staff will help hit our target?	22	OAS
• Example : What to do with a pharmaceuticals sales-force?	24	O
• Sales-force roles in building sales for a drug	26	O
• Nothing useful for sales-force to do on this mature product	28	OAS
• Industry “wisdom” : Pharmaceuticals	30	OAS
• Stage 4 : Explain how flows are changing resource levels through time – the airline example	32	
• Stage 4 : How flows are changing resource-levels	34	

extra - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS*

Section 5

THE CORE STRATEGIC ARCHITECTURE -
HOW RESOURCES WORK TOGETHER

Kim Warren





5. The Core Strategic Architecture – How Resources Work Together

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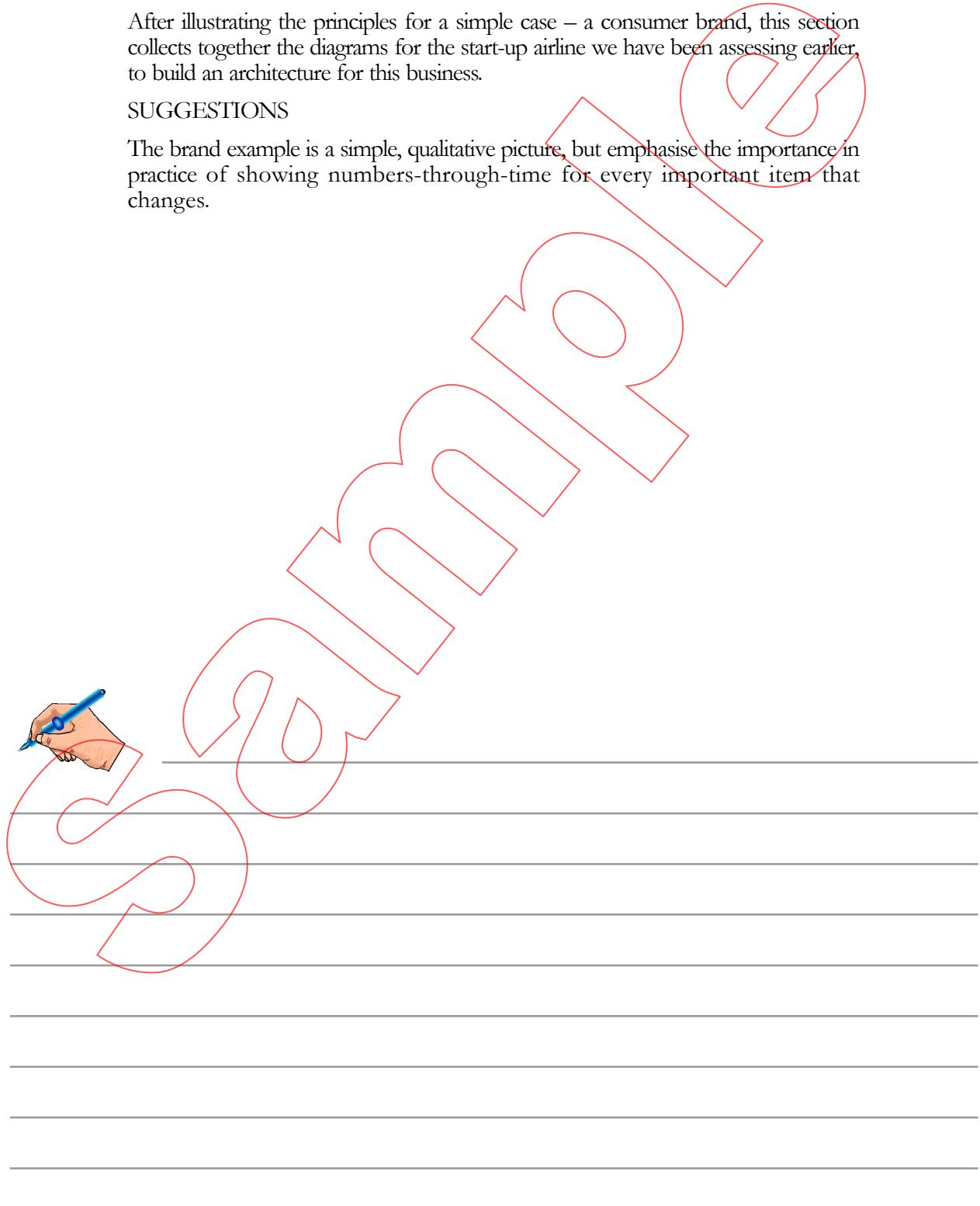


This section of slides shows how causal connections between resources come together to create a ‘strategic architecture’ diagram, which explains how the whole business or organisation system develops, and generates performance through time. The logic is summarised in the first slide.

After illustrating the principles for a simple case – a consumer brand, this section collects together the diagrams for the start-up airline we have been assessing earlier, to build an architecture for this business.

SUGGESTIONS

The brand example is a simple, qualitative picture, but emphasise the importance in practice of showing numbers-through-time for every important item that changes.



Building up the logic of how resources combine to form a Strategic Architecture that explains performance through time

- to drive improved performance into the future, we must build and sustain resources – e.g. build the customer-base to grow sales
- resources can only be changed by acting to improve their flowrates – e.g. to build the customer-base we must either win customers faster, or slow customer losses
- resource-flows depend, at any moment, on the existing quantities of resources that are already in place – e.g. today's customer win-rate depends on today's number of sales people
- these connections can give rise to mutual dependency that can help drive growth, or alternatively, hold us back – e.g. increasing the customer-base puts pressure on sales staff to look after existing business, rather than win new business (on which they earn bonuses), leading to staff resignations, and thus stopping our growth.



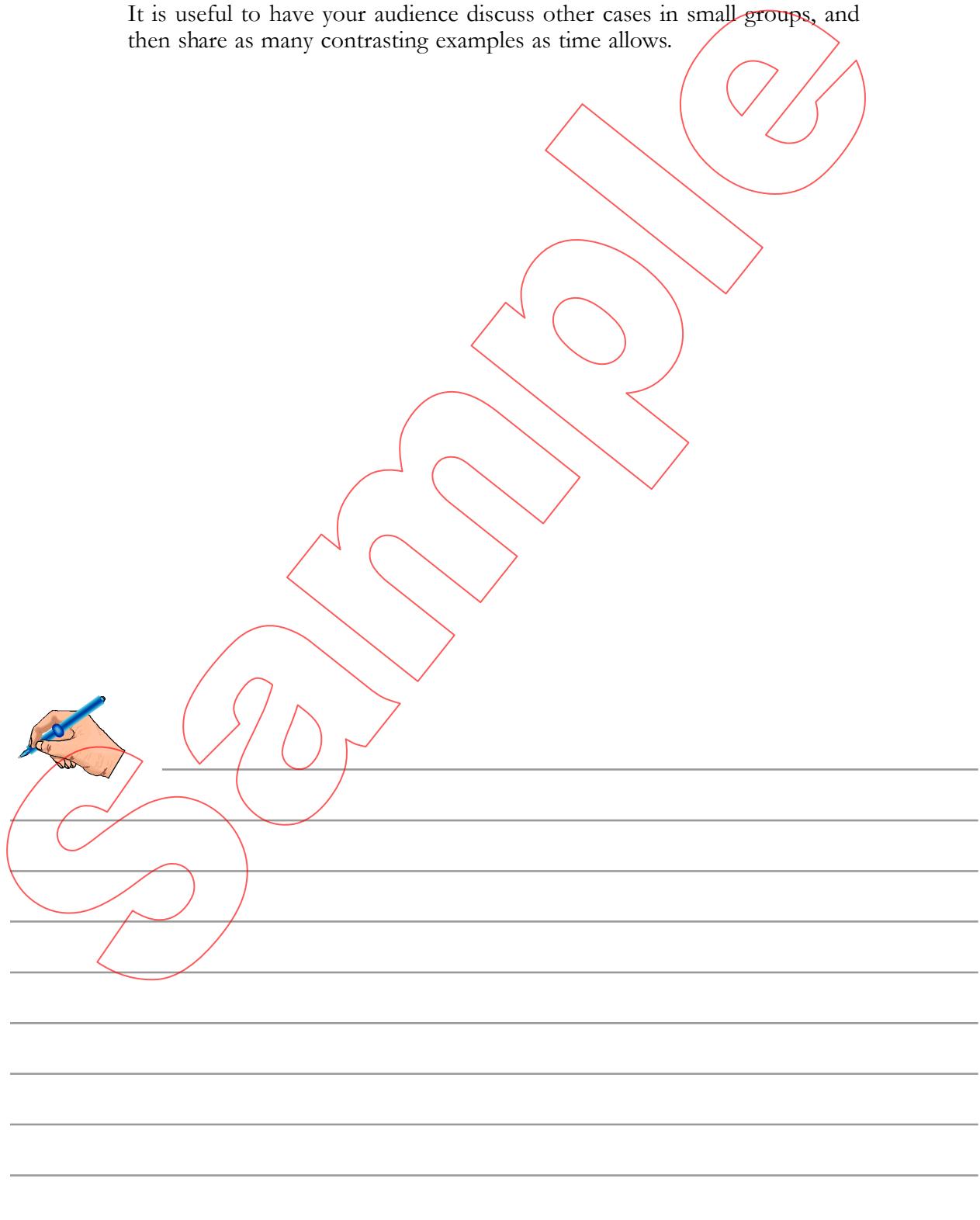
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The reasoning set out on this slide is universal, applying to every business or social system.

SUGGESTIONS

It is useful to have your audience discuss other cases in small groups, and then share as many contrasting examples as time allows.



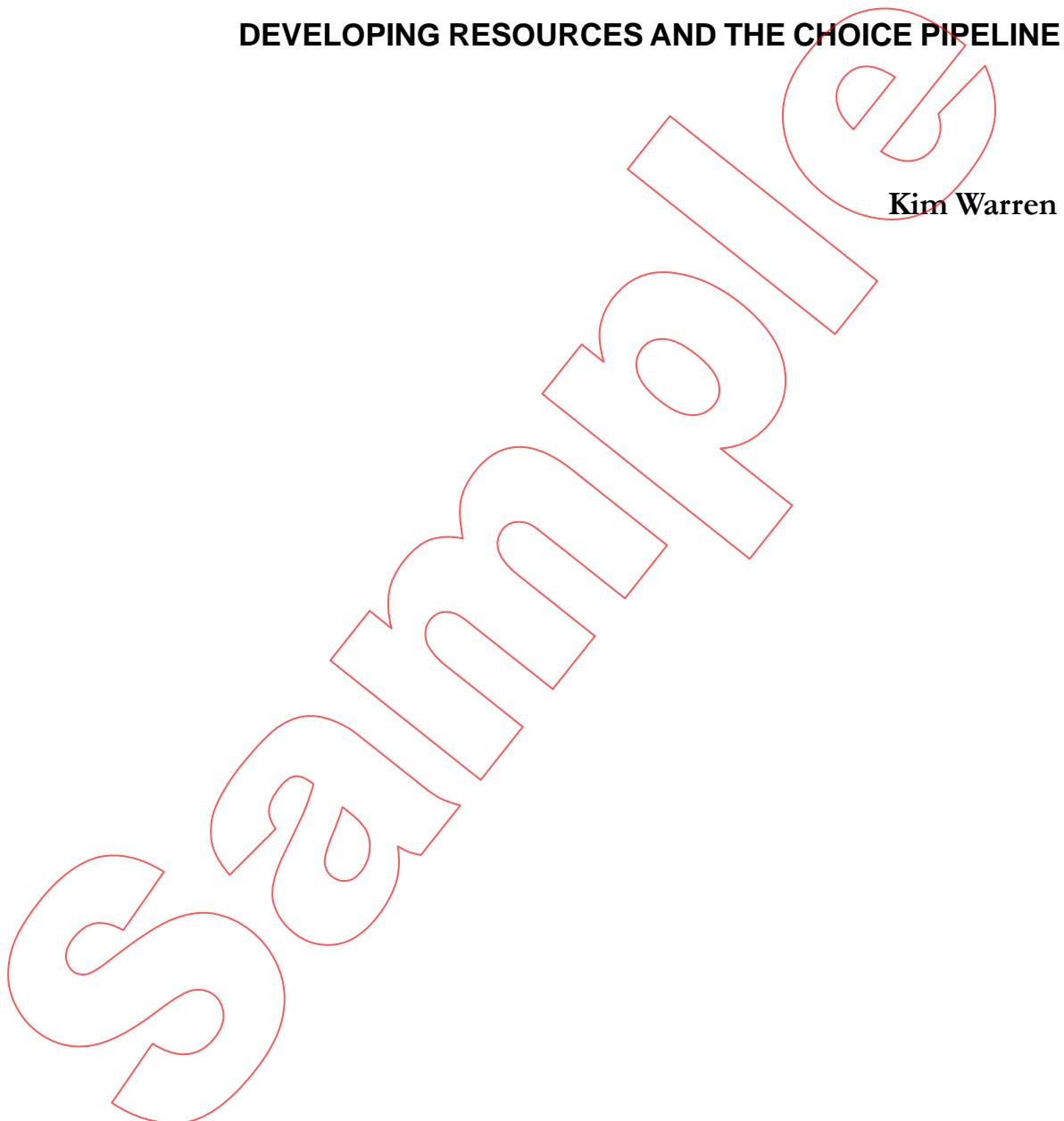
Section 5 : The Core Strategic Architecture - How Resources Work Together

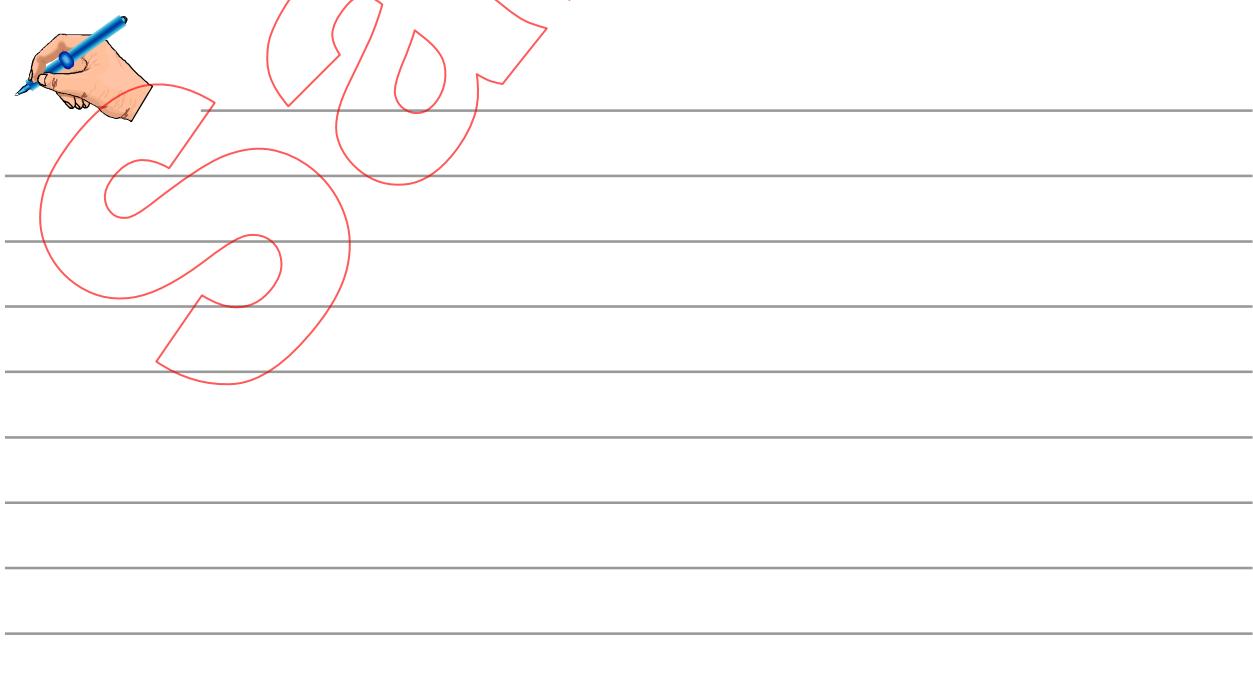
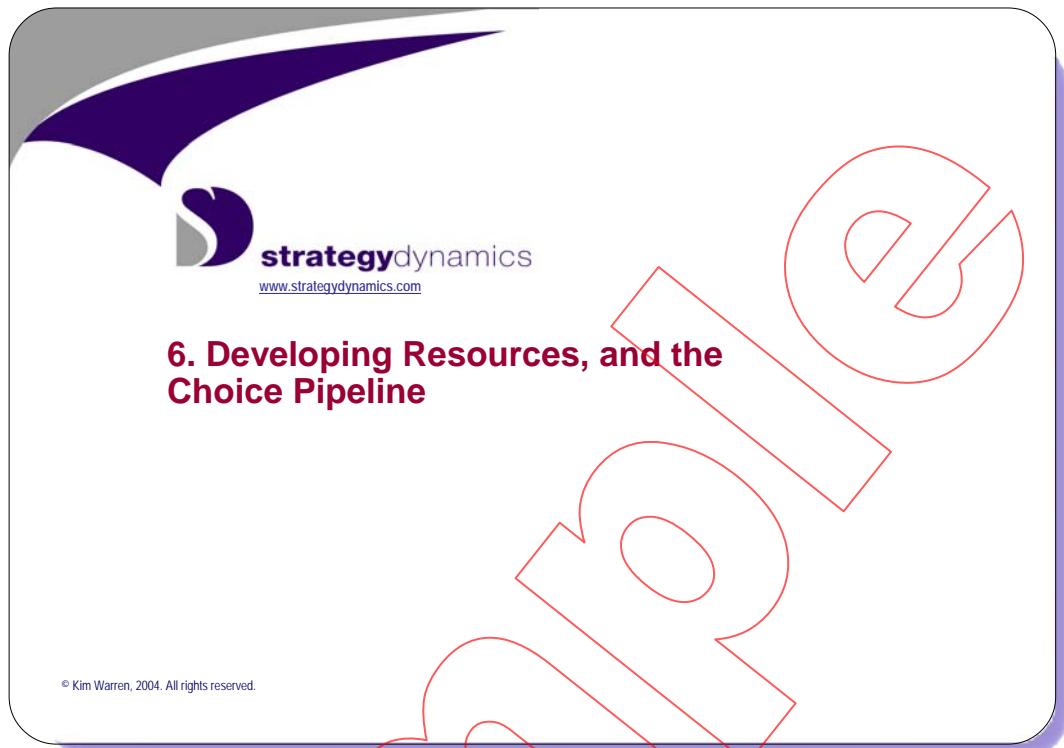
	pg	extra*
• The Core Strategic Architecture - How Resources Work Together	2	
• Building up the logic of how resources combine to form a Strategic Architecture that explains performance through time	4	
• Resources depend on each other - e.g. building a brand	6	
• Mutual dependence amongst resources creates the 'strategic architecture' which drives performance	8	
• Stage 1 : Sketch out the time-path of the performance challenge : e.g. low-fare airline	10	
• Stage 2 : Resources that directly drive performance e.g. airline	12	
• Stage 3 : What drives performance in each period?.....back to the resources	14	
• Stage 4 : Explain how flows are changing resource levels through time	16	
• Stage 5 : Determine what is driving the resource-flows - including management decisions	18	
•continued.....Stage 5 : Determine what is driving the resource-flows – including management decisions	20	
• Stage 6 : Put it all together for the core 'strategic architecture'	22	
• How can this future for the airline be improved?	24	AS
• Option 1 : cut costs, especially staff	26	AS
• Option 2 : cut fares, (or raise them)	28	AS
• Option 3 : spend more on marketing	30	AS
• Option 4 : hire more staff	32	AS
• Option 4 : hire more staff - plausible outcome	34	AS
• Summary : building a Strategic Architecture that explains performance, and using it to develop Strategy	36	
• Outline of 'Strategy Dynamics in Action'	38	

extra - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS*

Section 6

DEVELOPING RESOURCES AND THE CHOICE PIPELINE





This section of slides introduces the first important extension to the Core Concepts. As well as winning resources [driving the inflow to our organisation], and retaining resources [slowing the outflow], many resources must be developed, i.e. moved from stage to stage.

An obvious example is staff, who are promoted through increasingly senior positions. But there are many more examples, some of which we rarely consider.

- Customers move from occasional, disloyal users of our product or service to being loyal buyers.
- Products move from being speculative ideas into a development stage, and finally feature as established items in our catalogue.
- People move from being overweight, to a stage where they start to suffer from mild diabetes, and on through stages of increasing severity of the disease.
- Donors to voluntary organisations may occasionally put coins in a collecting tin, make regular donations, or decide to make a substantial bequest.

Furthermore, these development chains extend beyond the boundary of the organisation, and include stages that are important for us to drive.

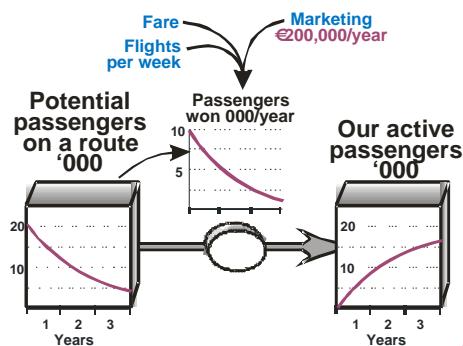
- Customers move from being unaware of us, through stages of awareness, then understanding our product, before finally becoming active buyers.
- Similarly, people who might work for us are initially unaware, then become aware of us, interested in working for us, and finally apply to work for a job.
- Universities go through a similar process to attract students – after which their graduates become alumni who retain an interest, and ultimately (hopefully) offer substantial financial support.

SUGGESTION

Before starting on the slides that follow, it can be useful to ask groups to come up with their own examples of resources that develop through various stages, and highlight any challenges they can see that the organisation faces in managing this process to their advantage.



Developing a potential resource, e.g. airline passengers on a single route



- Fares, marketing and schedule are constant
- ... so the remaining potential passenger group is the only factor determining our win-rate
- The initial win-rate is so fast that, if it continued, the entire potential would be used up within 1 year
- ... but as the potential is used up, the win-rate slows.



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This first example shows the principle of developing a potential customer-base, taking the example of an airline on a single route. Points to note:

- this illustration does not match the airline case example developed in the Core Concepts section, because that example included adding more routes – this example focuses on a single route
- the causal arrows all conform to our rule – if we know each of the 4 causes, we can estimate the rate passengers are won
- the illustration assumes that fares, marketing and schedule are constant, so the only remaining factor is the number of remaining potential passengers – this is a common feature of resource-building, often ignored, that the ‘potential’ resource is a dominant, and changing, constraint on the development rate
- the declining win-rate implies that potential passengers become increasingly difficult to persuade, so we get easy-to-win passengers quickly, and early – leaving a declining win-rate as time passes

SUGGESTION

- Note that this slide shows how these customers are expected to behave in this case .. a blank slide below invites your audience to consider how potential customers might behave in their own situation, or other cases with which they are familiar.
- Similar issues arise in public service and non-profit cases – e.g. a charity offering support to a group whose needs have not previously been served may expect to develop the number of beneficiaries they serve to develop over time.
- The two resource-stocks of potential and active passengers are ‘mutually exclusive and collectively exhaustive’ – everyone who is, or might become, travellers on the route are in one or other of these two states. [There are some complications to this principle that we will cover in later slides].



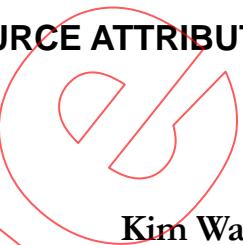
Section 6 : Developing Resources and the Choice Pipeline

	pg	extra*
• Developing Resources and the Choice Pipeline	2	
• Developing potential resource, e.g.. Airline passengers on a single route	4	
• Management choices affecting the resource-development rate - e.g. lower marketing spend on a new airline route	6	
• Changing management choices to alter the resource-development rate -e.g. making an increase in marketing spend on a new airline route	8	
• Resource-development template for your own case	10	
• The 'Bass Diffusion Model' : a standard framework for new technology uptake, e.g. launch of a durable product	12	O
• Bass Diffusion' Model framework for your case	14	O
• Example : Developing a potential resource - e.g. homes for cable TV in a single town	16	O
• Example : Multi-stage development - e.g. homes subscribing to cable TV	18	O
• Example : Problems caused by resource - development in fund-management	20	O
• Recruitment and development implications of growth e.g. investment-fund firm	22	O
• Recruitment and development implications of growth (illustrative)	24	OA
• Common resource-flow structures: Staff development	26	O
• Customers cannot be simply switched on - they must be developed through stages along a 'choice pipeline'	28	O
• Revenues (and earnings!) only arise from developed customers	30	O
• Example : Moving children along the 'choice pipeline' for Disney Princess dolls	32	O
• Accumulating evidence wins support from key opinion leaders (KOLs)	34	O
• Word-of-mouth between existing and potential customers accelerates the pipeline	36	O
• Similar choice pipelines operate in others situations e.g. organisational change	38	
• The impact of Rejecters on the dynamics of organisational change	40	
• Common resource-flow structures: Customer choice pipeline	42	

extra - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS*

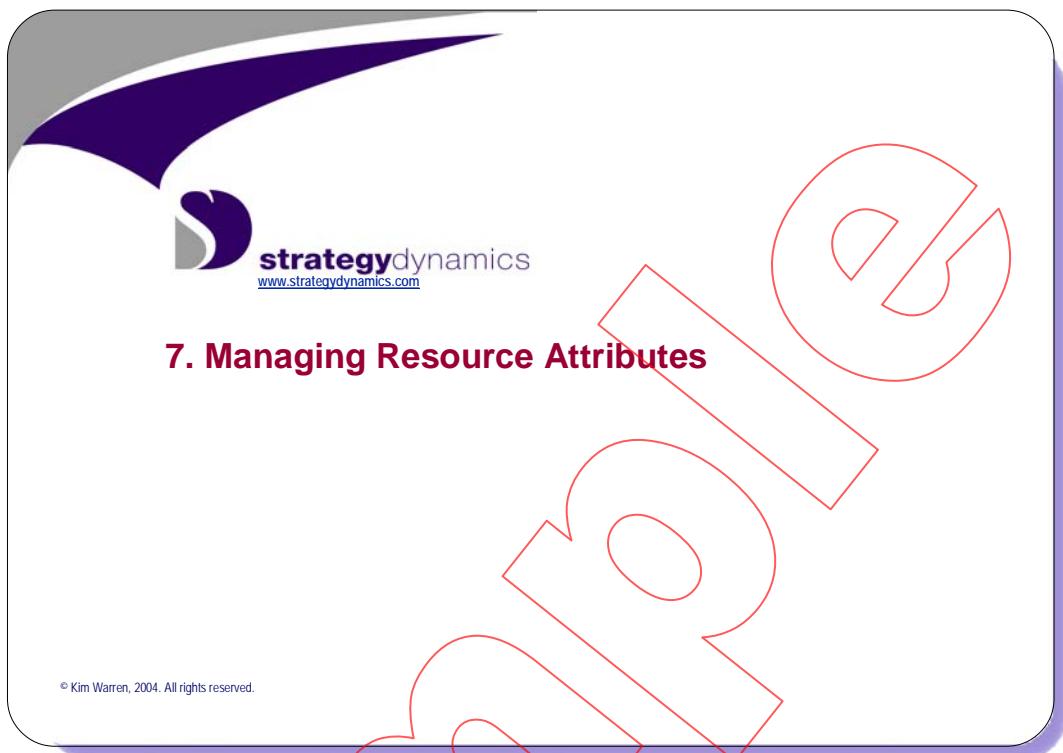
Section 7

MANAGING RESOURCE ATTRIBUTES

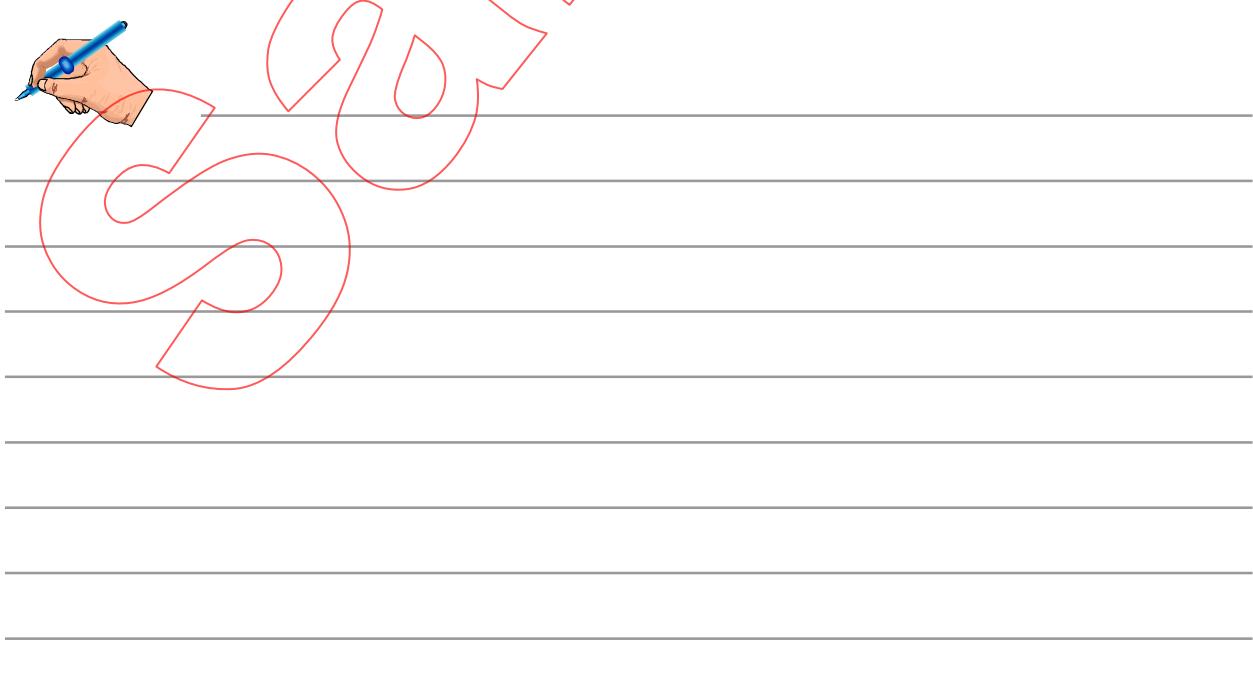


Kim Warren





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This section of slides introduces the second important extension to the core concepts of the Strategy Dynamics approach – dealing with the varying quality of resources. Customers vary in how much sales and profit they generate for us, staff vary in their skill-levels and experience, dealers or stores vary in the number of end-customers they reach, products vary in the number of customers who may want them, and so on. Similar principles apply in public sector and voluntary organisations – people differ in how much demand they put on health services, donors to charities vary in the value of their donations, etc.

The term ‘attribute’ is used [rather than ‘quality’], since it suggests some feature that resources carry with them [each customer ‘carries’ a certain contribution to our annual profits], and because some attributes may not be desirable qualities [e.g. the demand from each patient on health-care services, or the frequency of crimes committed by criminals]

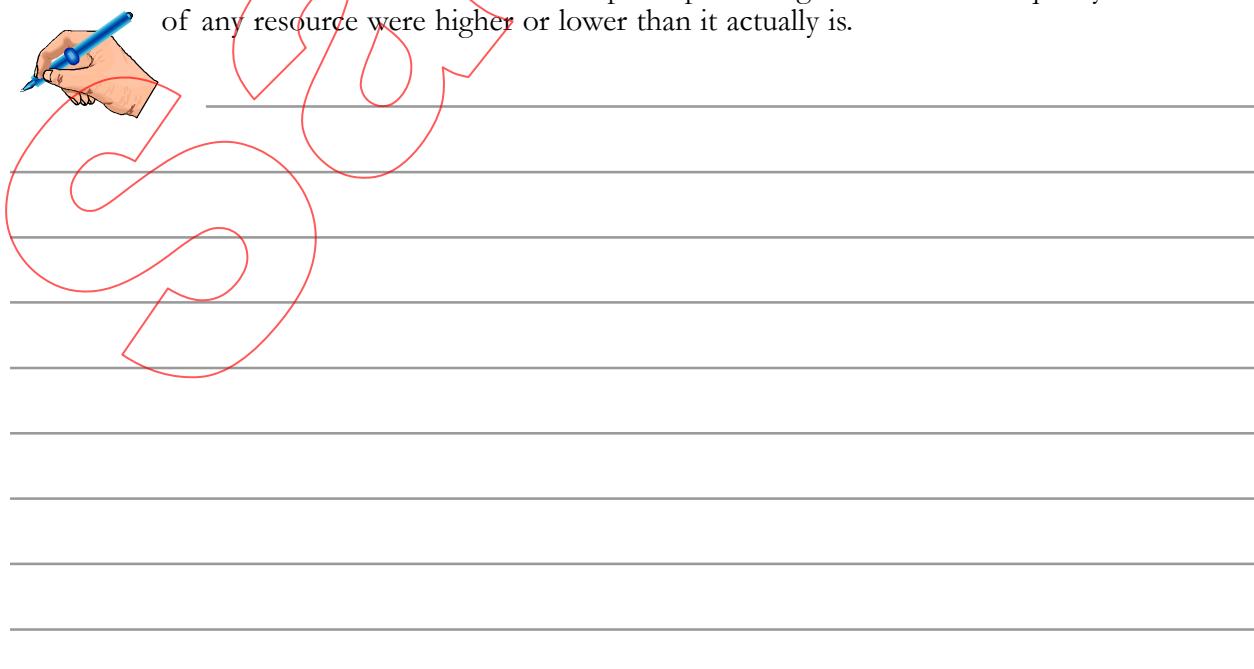
SUGGESTION

Invite examples from your audience of resources that exhibit some important quality that varies. It can be helpful to divide these into:

- demand-drivers – e.g. customers, clients, dealers, stores
... or in non-commercial cases, clients or beneficiaries
- supply-side factors – notably staff and products/services

It is helpful to explore what exactly is the ‘quality’ of each resource that matters, e.g. is it ‘average revenue per customer’ or ‘average profit per customer’ we are interested in. Is it the ‘average experience [years]’ of staff in a particular group that determines their effectiveness, or ‘average skill’ of staff?

It is also helpful – to clarify the importance of this quality issue – to ask how much difference it would make to participants’ organisations if the quality of any resource were higher or lower than it actually is.

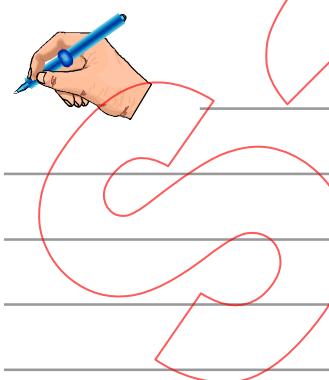


Resource Attributes – resources have important characteristics that vary amongst individuals

Sector	Resource	Attribute	Measure
many	customers	purchase rate	\$ per customer per year
many	staff	experience	years
many	staff	staff-cost	\$ per person per year
many	distributors	market-reach	end-customers served
manufacturing	production facilities	capacity	annual units
e-commerce	web-pages	appeal	time spent per page
banking	loans	value	\$'000
transport	routes	potential traffic	potential passengers
pharmaceuticals	drugs	potential market	people with each disease
retailing	branches	catchment market	people



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This slide illustrates some of the diversity of attributes that resources may possess. It also makes the point, common to the whole Strategy Dynamics approach, that specifying measures for every item is important.

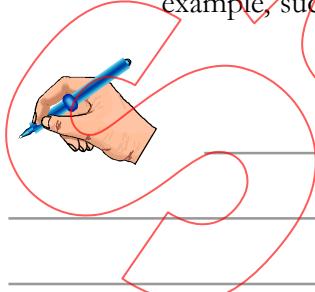
Issue analysis. Adding any extra factor to the consideration of real-world challenges increases the complexity of the strategy analysis that has to be done, so it is important to select only those that really make a difference to the performance issue under investigation. So, for example, if there is an issue with poor customer profitability, but the sales-force skill is not felt to be a problem, then 'customer profitability' would be an important attribute to assess, but 'sales force skill' would not.

Overall strategy. In principle, when developing an overall strategy, every significant attribute of every significant resource should be considered. This quickly becomes impractical in real cases, so assessing any specific resource and its attributes may need to be separated out and examined in isolation. Care needs to be taken, though, when working out the interactions between this specific resource and the rest of the system. For example, if we are considering how 'staff experience' in product development may develop as part of our overall strategy, we would need to consider how the rest of the business may be driving staff loss-rate [which will drain experience] and how staff experience will drive other resources – new product development rate in this case.

SUGGESTION

If your audience includes participants who work in a single organisation or industry sector, it can be useful to build a list of the key resources that apply to their situation. Then, taking each resource in turn, identify attributes and measures for each.

If you are working with an audience from a variety of backgrounds, you can gain the same benefit by asking them to work with a well-known business example. Consumer sectors are likely to be best known, such as retailing, airlines, banks, or consumer goods. It is generally best to pick a specific example, such as Home Depot in the US, or Easyjet in Europe.



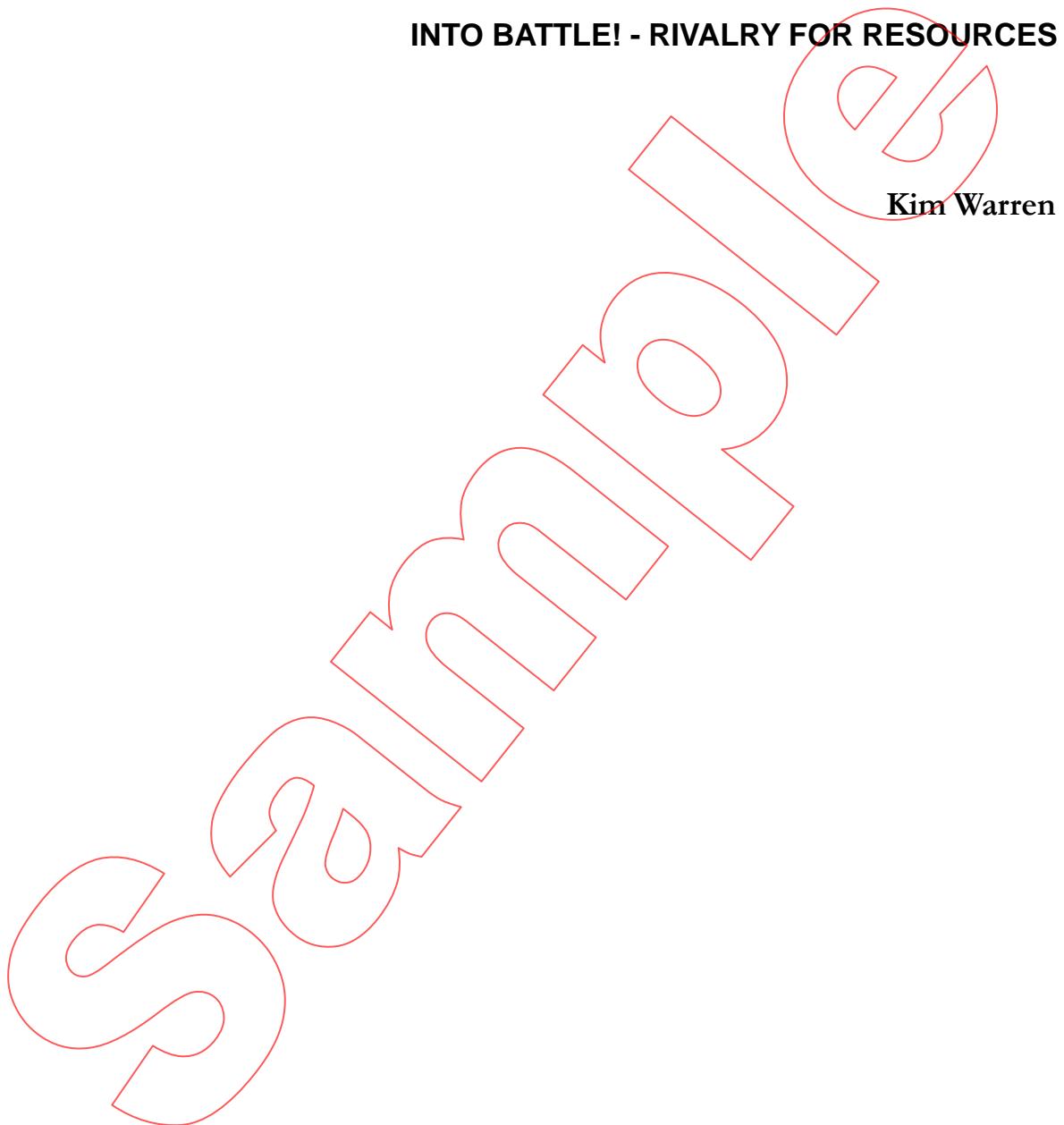
Section 7 : Managing Resource Attributes

	pg	extra*
• Managing Resource Attributes	2	
• Resource Attributes - resources have important characteristics that vary amongst individuals	4	
• Resource Attributes - resources may not have more than one important attribute	6	
• Resource Attributes - in non-commercial situations	8	
• Resource Attributes for your case	10	
• Three ways for resource attributes to change	12	
• Changing attributes - the bath-tub analogy	14	
• A. Directly change resource attributes e.g. increasing usage by mobile-phone customers	16	
• A. Directly change resource attributes e.g. losing client-business in consultancy services	18	
• A. How resource attributes are being directly added or lost in your case	20	
• B. Adding resources with different attributes (the 'co-flow structure') - e.g. win lower-use customers in mobile-phones	22	
• B. How resource attributes are changing due to resources being added in your case	24	
• C. Losing resources with different attributes e.g. closing small customers	26	
• C. Losing resources with different attributes in your case	28	
• Changing attributes - the bath-tub analogy	30	
• Usually, there is a mix of customer sizes: e.g. customers for a large business-to-business firm	32	
• Skewed vs. uniform customers	34	
• Customers also differ in the profit contribution they make	36	
• Size is not the same as value!	38	
• Strategic questions arising from the 'resource-quality' curve	40	
• Other examples of resource-attributes: population reached by large retailer as remaining opportunities get smaller	42	O
• Other examples of resource-attributes: hiring staff with higher skill levels	44	O
• How resource attributes are being changed by all mechanisms in your case	46	
• Attributes vs. the 'causes' of business performance	48	
• Attributes vs. the 'causes' of business performance (2)	50	
• Adding resource attributes	52	

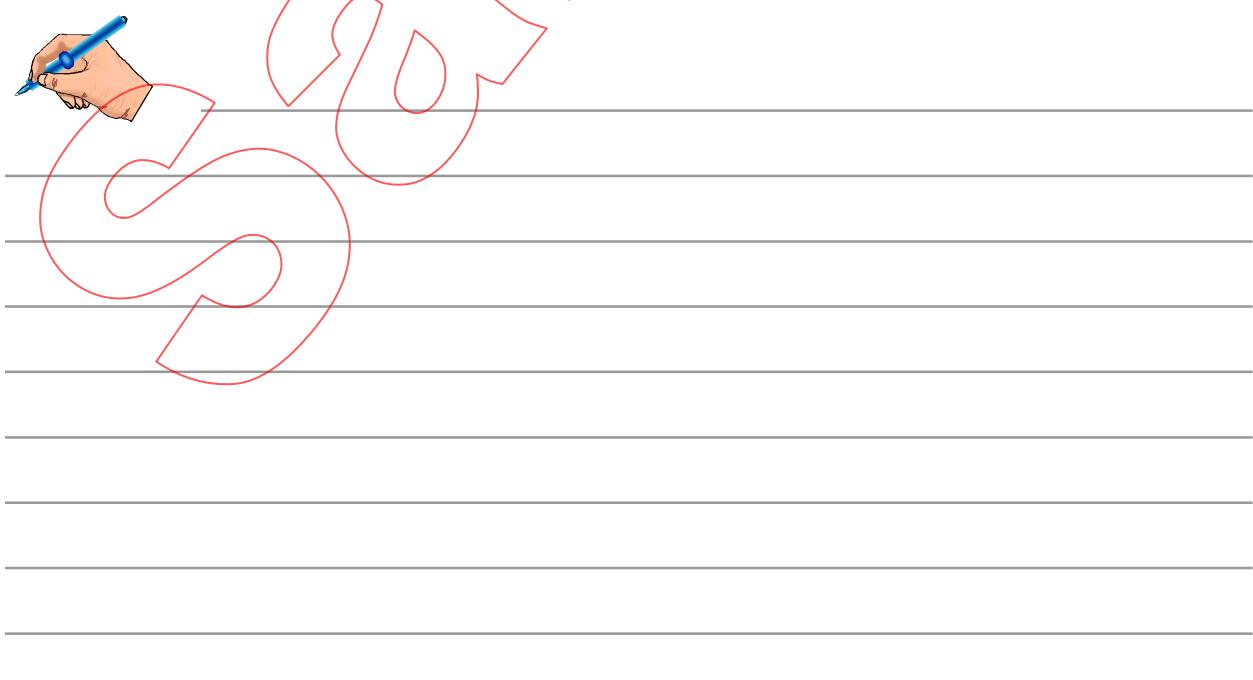
extra* - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS

Section 8

INTO BATTLE! - RIVALRY FOR RESOURCES



Kim Warren



This slide set shows how the core Strategy Dynamics frameworks are extended to deal with the critical issue of competitive rivalry. Whilst established strategy tools deal with competitive processes and policy at an overall level, the dynamics frameworks tackle the specifics of emerging interactions with particular rivals for particular resources.

Like the extensions covered in sections 6 and 7, these rivalry frameworks are often useful on their own, not just as extensions to the core architecture. We frequently find organisations needing to focus on short or medium-term competitive battles that are taking place, against a background of reasonable confidence that the business as a whole is in a good state.

It is important for non-commercial organisations to recognise that they, too, are engaged in competitive rivalry, even though they may not be pursuing financial returns in a market for products or services. Rivalry occurs wherever there are limited resources that more than one organisation wishes to capture and retain for its own use. Whilst customers may be the most obvious example, organisations also compete for scarce staff and other groups. Voluntary organisations compete for supporters and their donations, just as businesses compete for investors. Public services compete for staff, and may also compete for real estate, or government funding.

SUGGESTION

It is useful to ask your audience for examples of resources over which their organisations compete, and to widen the discussion to include a wide range of other situations, including non-commercial organisations. The importance of this topic can be demonstrated by asking about the consequences of such competitive rivalry. Downward pressure on prices and profit margins is the obvious example, but others may be important too, such as

- the cost and risk of marketing efforts required to simply retain existing business, let alone to drive growth,
- the need constantly to develop new products and services, increasingly fast, and at great cost,
- the management effort required on hiring, in highly competitive labour markets.

The rivalry frameworks in this section become quite complex, so you may need to consider carefully which of the optional slides are appropriate for your audience.



Just three forms of rivalry cover all situations

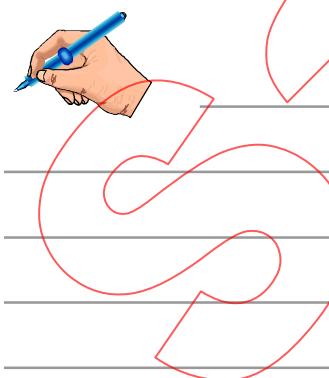
Rivalry type...

1. the race to exploit an undeveloped pool of potential customers
2. the fight to switch established customers away from rivals (and prevent the reverse)
3. competition for share of business to customers who buy from more than one firm

... plus the same three mechanisms for other contested resources
(suppliers, staff, distributors ...)



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These three mechanisms are each developed in the slides that follow, together with the interactions between them.

Before discussing the frameworks that capture these three mechanisms, it is useful to think about the different circumstances in which each apply.

- Type 1 is most clearly seen in markets for new products and services – e.g. flatscreen TVs. The process continues, however, wherever new customers become available – e.g. children needing their first shoes, or elderly people requiring care.
- Type 2 takes over as the dominant mechanism as markets mature – e.g. the supply of house insurance [although type 1 continues, has new households are started]. Type 2 is especially widespread in mature business to business markets, where very few new customers are formed.
- Type 3 rivalry occurs whenever customers continue to take products or services from more than one supplier – e.g. consumers buy two or more brands of beer, breakfast cereal or clothing, and choose constantly amongst restaurants. Type 3 rivalry therefore operates alongside type 1 and 2 in many markets. Type 1 and 2 rivalry only arise in their pure form when it is impractical or uneconomic for customers to continue buying from multiple suppliers – e.g. purchasing domestic power, or mobile phone subscriptions.

It is useful to discuss situations where rivalry takes place for other resources than customers. Many sectors feature rivalry for key staff [although type 3 rivalry for staff is unusual – most employees have a single, major employment]. Retail markets feature rivalry for real estate, airlines compete for routes, financial services firms compete for the support of financial advisers, and so on.

It is also useful to consider how these competitive processes work in non business situations. Public sector organisations clearly compete for staff, not only amongst themselves, but also against commercial organisations – e.g. young graduates may compare the merits of a career in teaching versus opportunities in commercial careers. Charities compete for donors, and for the efforts of volunteers, political parties compete for voters, and many public sector organisations compete for government funding.



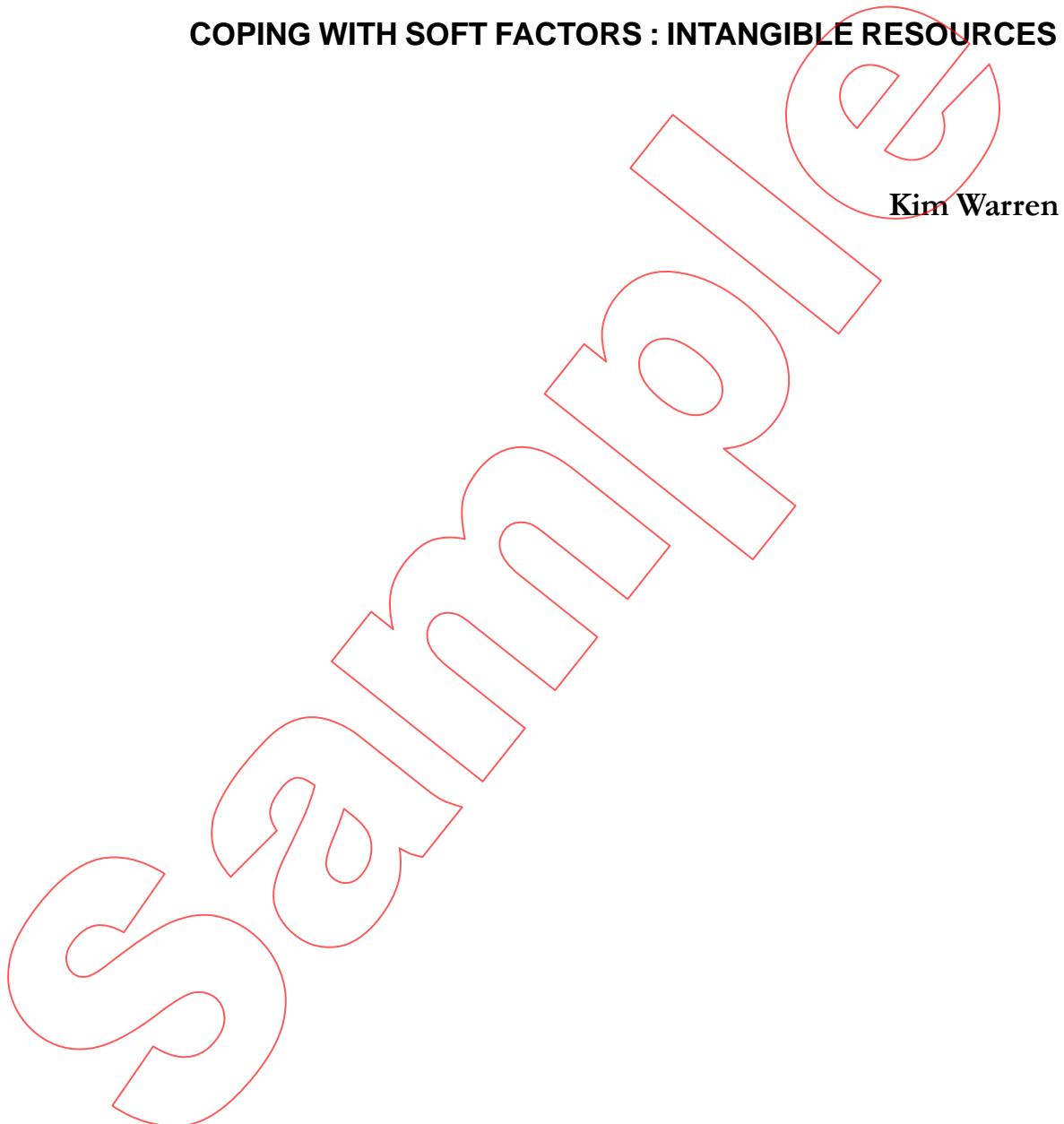
Section 8 : Into Battle! - Rivalry for Resources

	pg	extra*
• Into Battle! - Rivalry for Resources	2	
• Just three forms of rivalry cover all situations	4	
• Type-1 : Rivalry to develop potential customers	6	
• Consumables vs. Durables	8	
• The potential customer-base itself may change (e.g. China mobile-phones)	10	
• Type-1 Rivalry example: Disney Princess take on Barbie	12	
• Rivalry is not just for customers, e.g. type-1 rivalry for staff	14	
• Dealing with multiple competitors in type-1 rivalry	16	
• So, for multi-competitor, type-1 rivalry	18	
• Type 1 rivalry: blank for your issue (core only)	20	
• Type 1 rivalry: blank for your issue (complete)	22	O
• Type-2 Rivalry: tug-of-war to make established customers switch	24	
• Type-2 Rivalry: Disney Princesses take on Barbie	26	O
• Type 2 Rivalry: blank for your issue	28	
• Dealing with multiple competitors in type-2 Rivalry	30	O
• Our gains and losses against 2 rivals	32	O
• Gains and losses for 3 firms competing in a mature market, with no new customers, and no customers closing	34	O
• So, for multi-competitor, type-2 rivalry	36	O
• Type 3 Rivalry : fighting for share of business to business (disloyal) customers	38	
• Fighting over shared (disloyal) customers	40	
• Fighting over disloyal customers (showing detailed flows)	42	
• Specific tactics to manage each flow of customers	44	
• Blank for your tactics to manage flows of loyal and disloyal customers against rivals	46	
• And share of sales to disloyal customers may reflect control of other resources (e.g. retailer shelf-space)	48	
• Type 3 Rivalry : Barbie v. Disney Princesses	50	O
• Type 3 rivalry : blank for your issue	52	
• Type 2 & 3 rivalry + share of access - blank for your issue	54	

extra - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS*

Section 9

COPING WITH SOFT FACTORS : INTANGIBLE RESOURCES



Kim Warren



This slide set shows how the core Strategy Dynamics frameworks are extended to deal with the impact of 'soft' factors, sometimes known as 'intangibles'. Note that Finance professionals and those concerned with corporate performance have a well-developed perspective on reporting intangible assets. This slide-set, however, takes a Strategic Management perspective, focusing on

- understanding intangibles in their own terms [rather than their implicit financial value],
- assessing their impact on the 'hard', tangible business resources and their performance,
- working out how to manage the growth and depletion of intangibles.

Since the impact of intangible resources on the overall strategic architecture is generally substantial, they usually must be considered [even if only to check that they are OK]. However, it is often also useful to consider how isolated intangible factors affect a single, closely-related tangible resource, e.g. how staff morale affects productivity or staff turnover, or how reputation limits the effectiveness of marketing investments.

Naturally, intangible factors are as important to public-service, voluntary and other non-commercial organisations as they are to businesses.

SUGGESTION

It is useful to ask your audience for examples of cases they know of where intangible factors have had an important impact on an organisation. See if you can collect examples of 3 types:

- 'positive' factors, if in a good state, can enhance performance, e.g. strong reputation wins customers .. strong morale drives high productivity
- .. so absence of positive factors holds back resource building and performance
- 'negative' factors, if in a poor state, can undermine resource-building, worsen resource-losses and damage performance, e.g. customer-annoyance reduces sales rates and increases customer-losses .. staff stress levels raise attrition and damage service

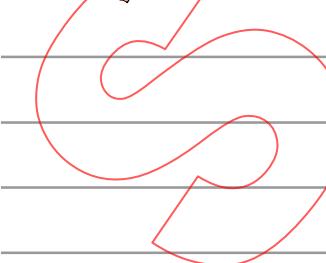


Intangible resources reflect how people feel – their ‘state of mind’ - which may be positive or negative.

	Positive feelings	Negative feelings
Customers	Satisfaction with product quality	Irritation with service problems
Employees	Motivation to work hard	Hostility towards management
Investors	Confidence in business leadership	Anxiety about business prospects
Suppliers	Inclination to cooperate with customers' requests	Concern about reliance on few large customers
Competitors	Confidence in their competitive advantage	Fear of our pricing behaviour



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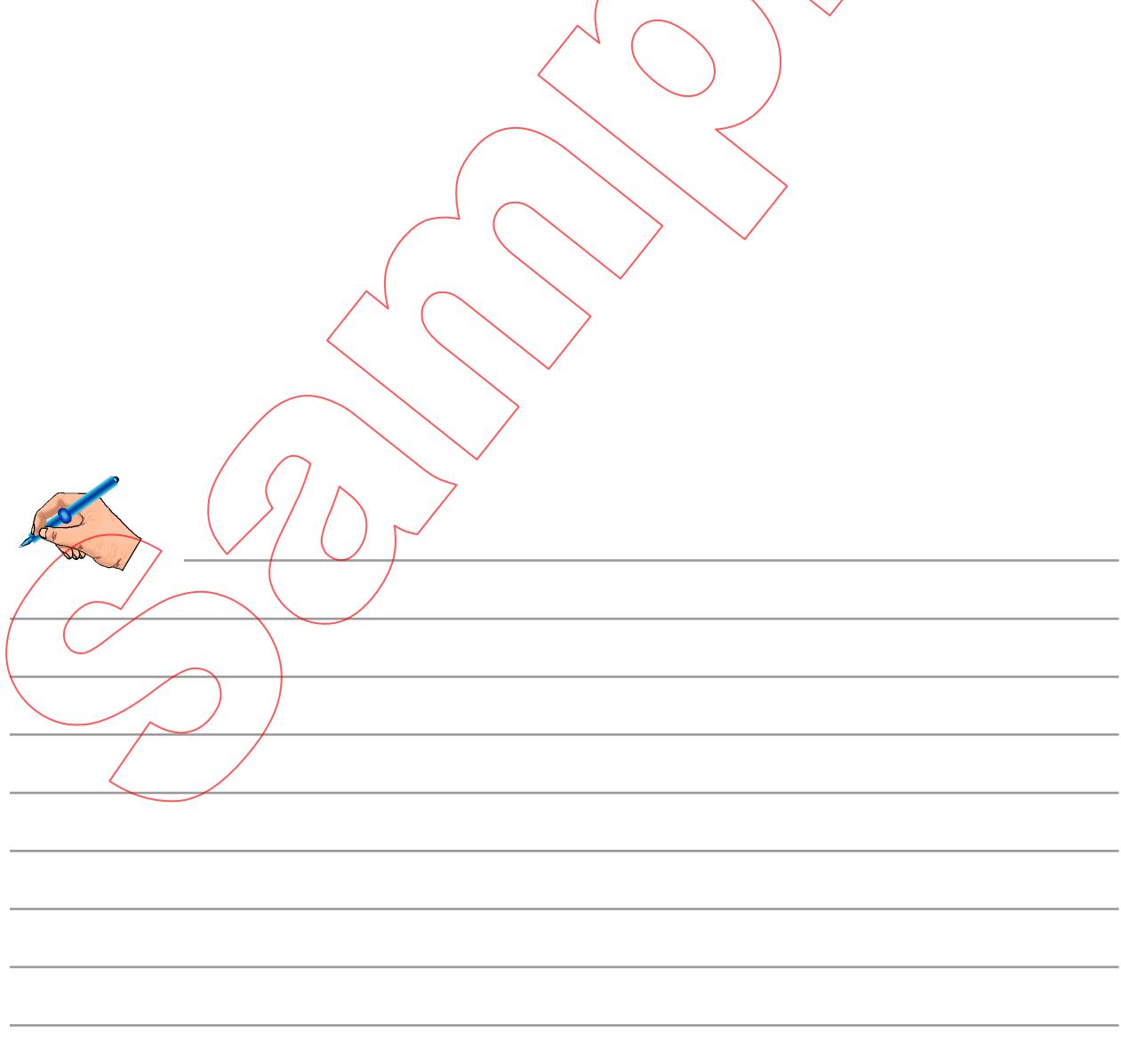


The principle that ‘state of mind drives behaviour’ is at the heart of cognitive psychology, and thus underpins much of what we know about organisational behaviour and marketing.

Note that we are taking a relatively simple approach to what are, in reality, complex and multi-faceted issues. This simplification is nevertheless sufficient to tackle many strategic challenges.

It is important to be clear exactly what we mean by any particular intangible factor of interest – hence the quite long phrases on this slide. Talking about ‘customer satisfaction’ without specifying the item[s] to which this satisfaction relates risks creating misunderstanding between team members.

It is also helpful to limit your attention to factors that influence the behaviours of key groups in key parts of the situation – a long list of incidental factors will cause unhelpful debate and distract from the important issues.



Section 9 : Coping with Soft Factors : Intangible Resources

	pg	extra*
• Coping with Soft Factors : Intangible Resources	2	
• Intangible resources reflect how people feel - their 'state of mind' - which may be positive or negative	4	
• Intangible resources reflect how people feel - their 'state of mind' - which may be positive or negative (2)	6	O
• Intangible resources - other examples	8	
• Characteristics of intangible resources	10	
• Measures for intangible resources	12	
• Two distinct classes of 'behaviour' are of importance to performance outcomes	14	
• Changes in rates of activity - other examples	16	O
• Changes from one state to another - other examples	18	O
• State of mind' drives behaviour - (A) doing more or less of something	20	
• State of mind' drives behaviour - (B) moving from one state to another	22	
• Framework for intangibles driving changes in activity	24	O
• Framework for intangibles driving switching from one state to another	26	O
• Frequency and scale of experiences drive change in state-of-mind - mitigated by 'forgetting'	28	
• Negative' resources also arise - triggering undesirable behaviours	30	
• Framework for frequency and scale of events driving change in attitude	32	O
• Reflecting limits to growth of intangible resources	34	O
• Impact of intangible resources : e.g. Software firm growth efforts fail - why?	36	
• Software firm growth puts pressure on staff, damaging quality, and losing clients	38	
•further damage to reputation makes things worse, and	40	
• ...staff morale collapses, attrition rises, so pressure on staff stays high	42	
• Software firm growth efforts destroyed by intangible factors - reputation and morale	44	

extra - extra slides available to the teacher i.e. Optional = O / Answer-sheet = AS / Optional Answer-Sheet = OAS*