

Components of a Strategy

Key Points:

- Most strategies reflect very little consistency in the underlying components.
- Management researchers Hambrick and Frederickson identify five key elements of a business strategy: 1) Arenas; 2) Vehicles; 3) Differentiation; 4) Staging; 5) Economic Logic. Each of these elements, along with an example, are discussed below.
- Managers can use these elements to effectively critique their current—and future—business strategy.

Main Thoughts:

Whether explicit or not, every organization has a strategy. Unfortunately, when it comes to describing the components that actually comprise a strategy, there is very little consistency in practice. Some managers state that their vision and mission constitute their high-level strategy. Others believe that their most important projects—such as acquiring a competitor—really encapsulate their strategy. Most refer to their strategic plan or Balanced Scorecard and state confidently that contained therein are all the relevant elements of their strategy. While these different viewpoints provide some insight regarding what a strategy is, they don't really provide any insight regarding what constitutes a fully integrated strategy. This begs the question: what are the components of a business strategy?

In their article, '*Are you sure you have a strategy?*' management researchers Don Hambrick and James Fredrickson provide a useful model that presents five elements they argue constitute a comprehensive business strategy. They are each described below.

Arenas: where will we be active? Arenas represent perhaps the most basic choices for the organization regarding market segments and customers that will be served, the products and/or services will be offered, where geographically these will be provided, what core technologies will be used and the states of value-creation—in essence aspects of the value chain—the organization will emphasize in delivery of those products and services.

Vehicles: how will we get there? Once decisions are made regarding where the organization will be active, the means to delivering products and services to those segments, markets and geographies need to be identified. Will the organization deliver this themselves via internal processes? Will parts of the delivery chain be outsourced? Will joint-ventures be established? Will licensing agreements be put in place.

Differentiation: how will we win in the marketplace? Once an organization has specified *where* it will compete and *how* it will compete, then it's essential for the leaders to think through how the organization will *win* in those markets. Here is where Porter's generic strategies can be used to help determine the overarching nature of how the organization will compete (see Low Cost, Differentiation and Focus Strategies *Planning through Performancesm* summaries for further information).

Staging: what will be our speed and sequence of moves? In order successfully execute the aspects of the strategy highlighted above, a series of moves (e.g. strategic projects or initiatives) need to be made over the planning horizon. What are the sequences of the moves? Which key move will occur first? Second? How will they be coordinated? Will penetration of existing customers occur followed by identification of new customers or will both of these occur simultaneously? Since these will require focused application of resources, making these decisions is critical to success.

Economic logic: how will we obtain our returns? At the core of the strategy is economic logic. Most managers think of this in terms of revenues less costs equal profits. While this is true, strategists more commonly think in terms of Economic Profit—the amount by which the return generated by the asset base exceeds the cost of that asset base. Understanding this logic and How the other choices impact the generation of profit is a key consideration—and result, of the strategy execution.

The authors point out that comprehensiveness within and among each of these elements is critical in designing a strategy. They observe that many organizations—as we indicated at the outset—emphasize one or two without adequately addressing the others. A complete strategy requires managers deliberately consider each one sequentially and then collectively.

As an Example:

The following example—taken from the Hambrick and Frederickson’s article—profiles IKEAs strategy.

IKEA (a Scandinavian furniture company)

Arenas: IKEA provides inexpensive, Scandinavian styled, contemporary furniture and home furniture to young, white collar customers globally where the IKEA concept will be supported

Vehicles: IKEA’s means for reaching its customers is through company owned stores. The company’s presence and entry into new markets comes through organic growth—mergers and joint ventures are not emphasized.

Differentiators: The company wins by targeting low priced offerings at younger segments, through stores that convey an open and fun environment and through fulfillment that is immediate versus the week to 10 day shipment that most traditional furniture providers offer.

Staging: IKEA expands internationally on a country by country basis by first establishing a single store in target markets establishing a foothold and then by adding other locations from there.

Economic Logic: The company generates economic profit by emphasizing efficiency and replication, leveraging long standing relationships with suppliers and by providing easy to manufacture (and build) product designs.

Editorial

The five elements of strategy provided by Hambrick and Frederickson fill a wide gap in business strategy thinking—that of specifying the *elements that constitute a comprehensive and integrated business strategy*. Managers responsible for constructing business strategies would be well serviced to perform the following activities as part of their strategy making process: First, create a table that lists each of the elements on the vertical access and then profiles current organizational performance. Then—as the strategic planning process is being completed—fill out another column in the table in order to compare the current and future elements of the strategy.

For More Information See:Magazines & Journals

Harvard Business Review

References:

Hambrick, D. C. and Frederickson, J. W., Are you sure you have a strategy?, *Academy of Management Executive*, November 2001, Vol 15, Issue 4, pg 48-59.