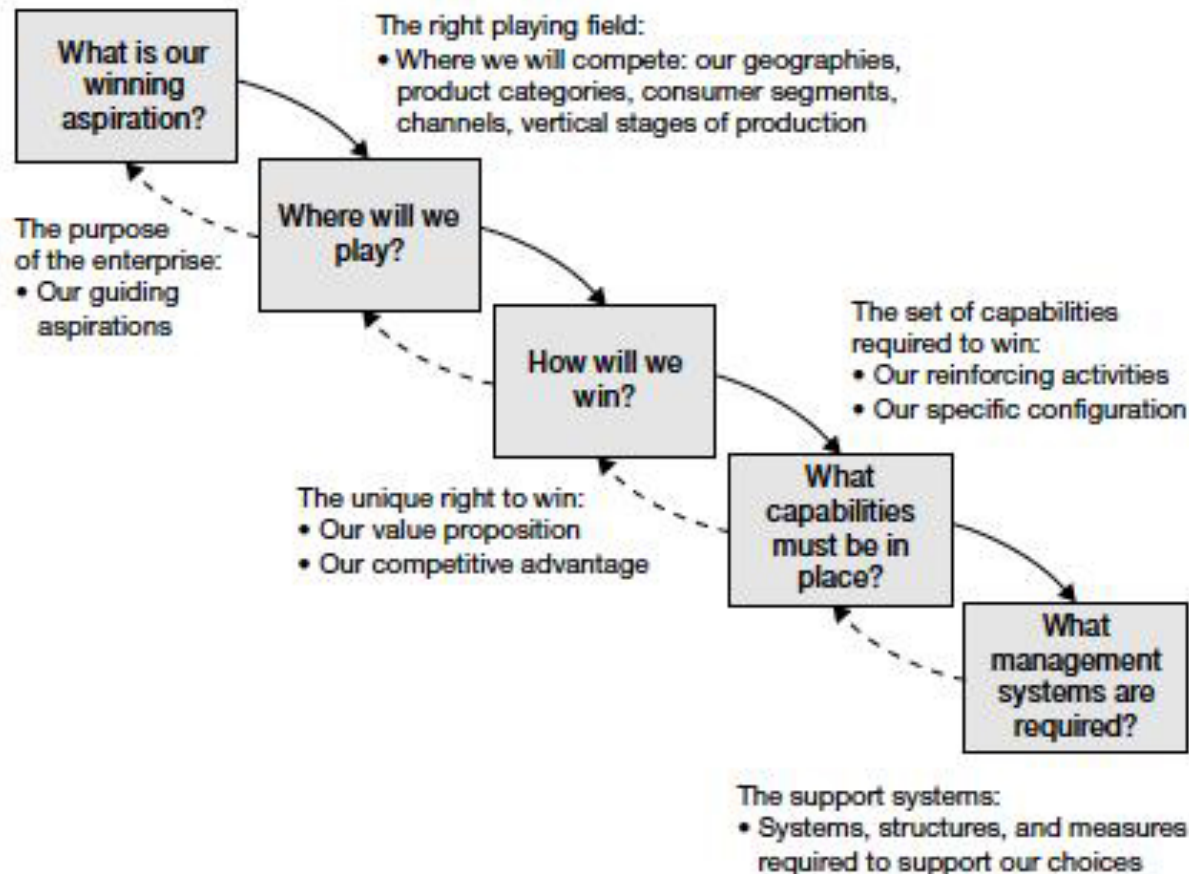


Playing to Win

AG Lafley & Roger L Martin
2013, 260pp

The Strategy Cascade



“I treat strategy-making as developing a set of answers to five interlinked questions.

The questions — which cascade logically from the first to the last — are “depicted on the left

The trick is to have five answers that are consistent with one another and actually reinforce one another.

To create a strategy, you have to iterate — think a little bit about Aspirations & Goals, then a little bit about Where to Play and How to Win, then back to Aspirations & Goals to check and modify, then down to Capabilities and Management Systems to check whether it is really doable, then back up again to modify accordingly.

Nested Choice Cascades – In larger organizations, there are multiple levels of strategy cascades, at the corporate-level (P&G), category level (Hair Care) and brand-level (Head & Shoulders)

Strategy is Choice

- Strategy practice synonymous with management until the 1950s, when it began to emerge as its own discipline
 - Relatively young field
 - A fully agreed, universal definition of strategy yet to emerge
- M&L (Martin & Lafley) define Strategy as about making specific choices to win in the marketplace
 - Michael Porter: a firm creates a sustainable competitive advantage over its rivals by “deliberately choosing a different set of activities to deliver unique value”. Hence Strategy is making explicit choices.
 - M&L define it as “an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to competition”
 - Strategy is a coordinated and integrated set of five choices: a winning aspiration, where to play, how to win, core capabilities, and management systems. This is depicted in a strategy cascade (see prev page)
 - There is no one perfect strategy; find the distinctive choices that work for you. (see next slide)

“Don't mistake non-choices for strategy”

(<http://www.bridgespan.org/publications-and-tools/strategy-development/roger-martins-unconventional-wisdom.aspx#.VMS8MxOSyoX>)

- The very essence of strategy is explicit, purposeful choice. Strategy is saying explicitly, proactively: "We're going to do these things and not those things for these reasons."
- The problem with a lot of strategies is that they are full of non-choices. Probably most of us have read more than a few so-called strategies that say something like, "Our strategy is to be customer centric." But is that really a choice?
 - You only know that you've made a real strategic choice if you can say the opposite of what that choice is, and it's not stupid. So, think about 'customer centric.' The opposite would be what? We ignore our customers? How does that work? Can you point out many companies that succeed and make lots of money ignoring their customers? Well, then being customer centric is not a strategic choice.
 - Here's another example: "We're going to be operationally effective. We're going to show attention to execution." You see these sentences all the time in strategies, but they're not strategic choices. Always think of the opposite. "We're not going to be operationally effective." If the opposite is stupid and is demonstrated by the fact that nobody who's had any kind of success has ever done it, then it's not strategy. You get a little bit of credit for that—like getting a D-minus grade—but I would hope that most nonprofits aspire to be greater than that.
- I often use the mutual fund industry as an example of where the leading players have made real choices. Vanguard's founder John Bogle says, "Picking stocks is stupid. It's bad for the investors. It wastes their money. Just buy index funds." That's all Vanguard offers. How do we know it's non-stupid, that it has a strategy? Because Fidelity says the opposite, "Portfolio managers are the absolute heart of the strategy. We put together portfolios that are customized to our clients' needs." So we have two super successful mutual fund companies making the opposite choices. That's strategy, and that's what you should seek.

This is not from the book, but from an interview of Roger Martin. Included because it illustrates a key strategic tenet.

1. Winning Aspiration

- Winning aspiration defines the purpose of your enterprise, its guiding mission and aspiration in strategic terms
 - What does winning look like for this organization?
- Unless an aspiration is not meaningful and powerful enough, it will not motivate the lowest-level employee. A winning aspiration has to connect into a deeper idea of what the organization exists to do.
- Start with people (consumers), and frame your ambitions around them
 - Peter Drucker said, “the purpose of an organization is to create a consumer”
 - Be wary of Marketing Myopia (Theodore Levitt) – and look at everything through the product lens
 - A winning aspiration that is crafted around solving the consumers’ problems will help avoid us getting too product focused
 - P&G’s home care business has “reinvent cleaning experiences, taking the hard work out of household chores” as its aspiration, not having the most powerful cleanser or bleach
 - From unresolved consumer tensions come insights that lead to big ideas
- Do not try to express winning aspiration in financial terms
- Do think about winning relative to competition – think beyond your traditional competitors (Ford has to worry not just about Chrysler, BMW but also about Tesla and Zipcar)
- P&G winning aspiration
 - “Meaningfully improve the lives of the world’s consumers by delivering the most valuable value-creating brands in every category and industry in which P&G chose to compete, and thereby achieve leadership sales, profit and value creation”
- Olay winning aspiration
 - “Becoming a leading skin-care brand, helping establish a key pillar in the P&F beauty-care business, and win convincingly in our chosen channels and markets”

2. Where to play

- Where to play represents the set of choices that define where the company will compete
 - In which markets (geography)
 - With which consumers
 - What group of consumers will you target? In which price tier? Meeting which consumer need?
 - Don't attack walled cities or take on your strongest competitors head-to-head if you can help it
 - Through which products
 - What kind of products and services will you offer?
 - Through which channels
 - How will you reach your consumers? What will you offer?
 - At which stages (vertical) of the industry
 - Where along the value chain will you engage?
 - Don't dismiss the entire industry --- there are always high-margin segments in any industry
- Where to play is about selecting regions, consumers, products, channels and stages of production that fit well together – that are mutually reinforcing and marry well with real consumer needs.
 - Sometimes it is a broad consumer category within a narrow geographic segment, sometimes vice versa... context matters
- Choosing where to play is also choosing where not to play – you cant choose to serve all markets or categories well
-

3. How to win

- There are broadly 2 generic ways of winning
 - Cost leadership
 - Cost leaders can create advantage at many different points – sourcing, design, production, distribution etc
 - Differentiation
 - Differentiators can create a strong price premium in brand, on quality, on a particular kind of service etc
- Once you adopt a particular strategy, you also need to structure yourself in consonance with that
 - A cost-leader is staffed very differently from a differentiator. Standardization becomes core driver of value.
- Keep in mind that routes-to-market also include partnerships / JVs / licensing etc and you need not go it alone
- Where to play and how to win are not independent variables – the best strategies have mutually reinforcing choices at their heart
 - They are actually intertwined and should be considered together
 - What how-to-win choices make sense with which where-to-play choices?
 - Which combination makes the most sense for your company in light of the context, its strengths etc

4. What capabilities must be in place?

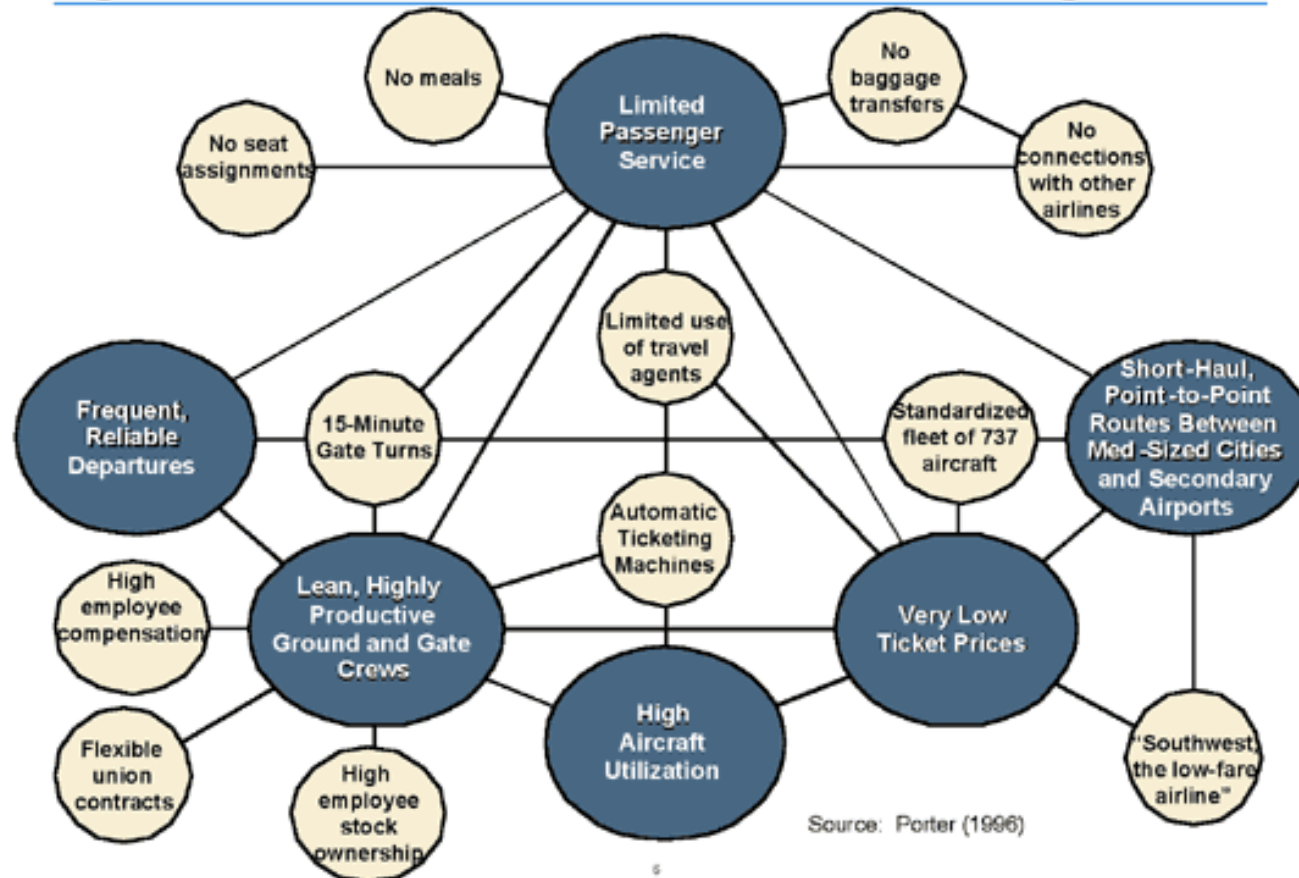
- Capabilities refers to the range of activities and competencies (strengths) that underpin the where-to-play and how-to-win choices
 - Organizations need to make distinctive choices on where to play and how to win, and tailor an activity system to deliver on these choices
 - P&G's key capabilities (there are many but these are absolutely fundamental to winning in the places and manner that it has chosen) are deep consumer understanding, innovation (translating consumer understanding to must-use products), brand-building, go-to-market ability and global scale
 - In isolation, each capability is strong, but insufficient to generating true competitive advantage over the long-term. Rather the way all of them work together and reinforce each other is what generates enduring advantage. That combination is hard for competitors to match
- Capabilities are best understood as operating as a system of reinforcing activities (Michael Porter) -
 - A visual representation (map) of these activities is called activity system⁸
(see map next page)

Activity System Map

Michael Porter

The activity system is a visual representation of the firm's competitive advantage, capturing on a single page the core capabilities of the firm. The core capabilities are shown in blue ovals, and the links between these nodes represent subordinate nodes, which reinforce the core capabilities, and make them stronger

Figure 1: Southwest Airlines: Low Cost Advantage



4. What capabilities must be in place? (contd)

- When articulating core capabilities, you need to distinguish between generic strengths and the critical, mutually-reinforcing activities that create distinctiveness (manufacturing strength is not as critical a capability as consumer understanding)
 - Capabilities should not be taken as given – you should not look to win with the capabilities that you have – instead work backwards from your aspirations and where-to-play + have-to-win choices to determine the capabilities that you need. Only then can you see what you need to **start doing, keep doing and stop doing** in order to win
- Once you have determined the core capabilities, draw an action plan for them and determine how much to invest in these, and which to hone etc
- An activity system is of now value unless it supports a particular where-to-play and how-to-win choice
- 3 questions must be answered before you finally decide on the activity system
 - Is it feasible (realistic from an investment pov, managable to sustain)?
 - Is it distinctive (does it confer a competitive advantage over your peers)
 - Is it defensible?

Multilevel Capability Planning

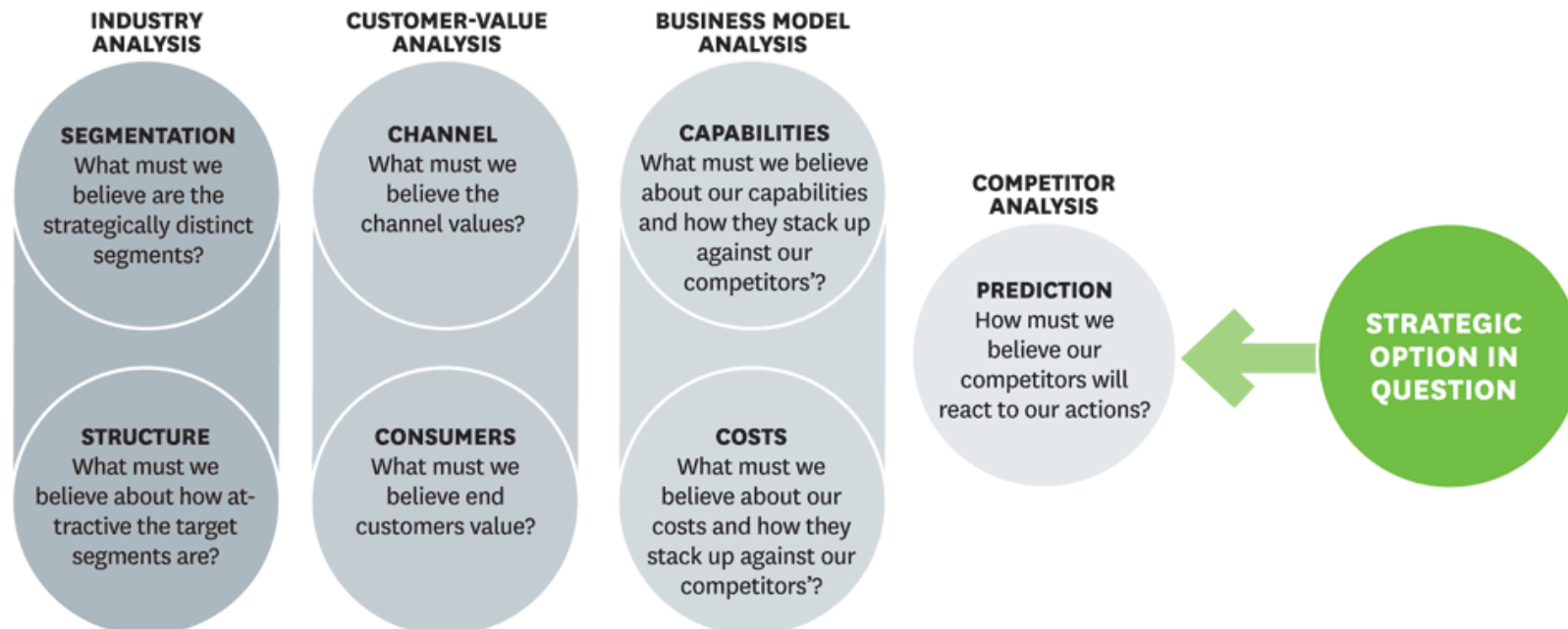
- Reinforcing Rods – In a multi-brand / multi-category organization, there are certain core capabilities common to all brands / categories / SBUs. These shared core capabilities are called reinforcing rods – they run through multiple divisions and link different parts of the organization together
- When building activity systems across multiple levels, start from the lowest level and build up.
- The capabilities at the indivisible (lowest) level drive the ones above
- All levels above the indivisible (ground-level) activity system are aggregations that must add net competitive advantage in some way
 - Since aggregation involves some cost (overhead), it has to provide more than a countervailing benefit – else those businesses are better off separate. These benefits could be through
 - Shared activities – cost-savings
 - Knowledge and skill transfer
 - The aggregator’s primary job is to help the level below compete effectively through shared activities and transfer of skills
 - Activities that don’t add value to activity systems below should be reduced because they destroy value
 - Only if the hair-care category can demonstrate value via sharing and skill transfer, that is greater than the financial and admin cost it imposes on H&S, Pantene etc should it exist as a level of aggregation in the corporation. Else, it should be eliminated.

5. What management systems do we need?

- These are the systems that foster, support and measure the strategy
 - To be truly effective, they must be purposefully designed to support the choices and capabilities
 - Don't stop at capabilities – ask what management (Recruitment, Brand Management, Research etc) systems are needed to foster those capabilities
- While these systems may differ across companies, they should ensure that
 - Choices (and strategy) are communicated to the whole co
 - Essentially at P&G they communicated 3 points, in simple evocative language
 - Who the end consumer of the product was
 - How to win the consumer value equation (by widening gap between value it offered to consumers and the cost of delivering that value)
 - Win the 2 most important moments of truth (in-store and during use)
 - In addition to formal communication by top mgt downwards, strategy reviews and discussions also help spread the above message
 - Employees are trained to deliver on choices and leverage capability
 - Plans are made to invest in and sustain core capabilities (activity system key nodes) over time
 - Effectiveness of the choices and progress towards aspirations / goals are measured ('what gets measured gets done')
 - These may include dashboards, reviews etc
 - Reviews could use the OGSM (Objectives, Goals, Strategy, Measures) document to ensure common ground on strategy

Strategy Logic Flow

- How do you arrive at the choice of where to play and how to win?
- The Strategy Logic Flow framework provides a means to think through the process of deciding where to play and how to win
- It asks you to look at 4 dimensions of strategy choice— industry, customers, relative position and competitor reaction (see below and next 2 slides)



Strategy Logic Flow...contd.

Dimension	Sub-Component	Questions to ask	Keep in mind
(1) Industry Analysis To determine Where to Play – ideally tilt yourself towards structurally attractive industries. Once you have determined relative attractiveness you can decide whether to invest more or divest or migrate...	Segmentation	What might be the distinct segments of the industry (by geography, by consumer benefit, by channel etc)? Map all possible segments.	Consumer benefits (kind of like a jobs to be done) can change --- cavity care became generic and healthy mouth became relevant
	Attractiveness	What is the relative attractiveness of those segments, now and in future?	To understand structural attractiveness of various industry segments, use Porter's 5-forces model (see penultimate slide)
(2) Customer Value Analysis How well do you understand the pain points and needs of your consumers and your channel partners	Channel	Understand the channel value equation. Does the trader prefer high margins or low? What will help trade increase their ROI?	Understanding channel concerns requires deep engagement – co-locating teams, joint exercises to shave off costs all help.
	End Consumer	What do consumers want, need and value	Go beyond quanti surveys, Ethnographic approaches help understand unspoken desires

Strategy Logic Flow...contd.

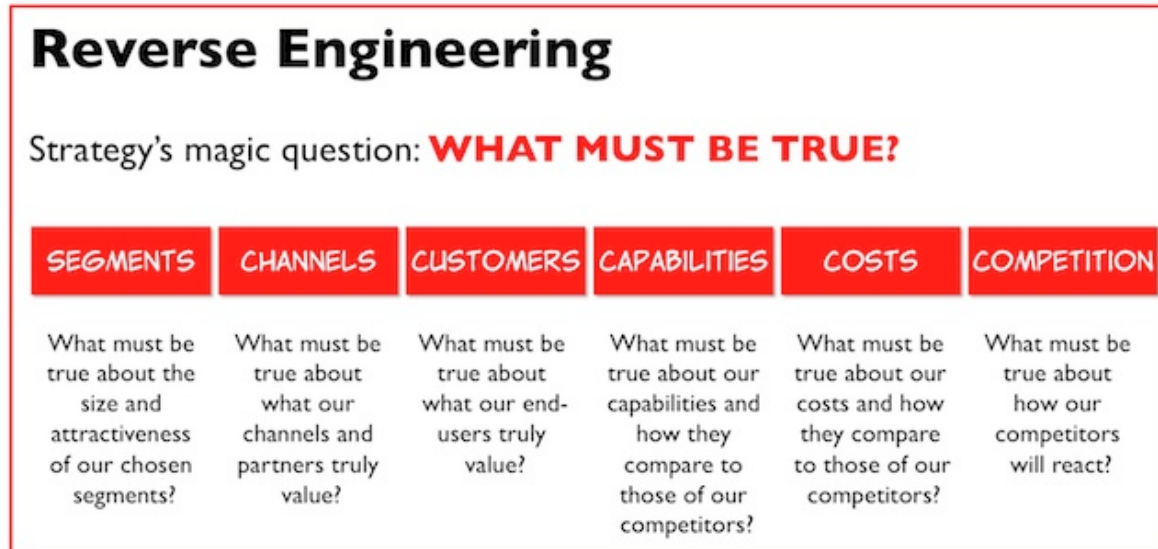
Dimension	Sub-Component	Questions to ask	Keep in mind
(3) Analysis of Relative Position Explore your relative position on two fronts: capabilities and costs	Capabilities	How do your capabilities stack up, against those of your competitors in meeting the identified needs of consumers (and channels)?	Can you configure your capabilities to enable your co to meet the needs of consumers in a distinctively valuable way, underpinning a differentiation strategy or a cost-leadership approach, so as to achieve a sustainable competitive advantage?
	Costs	What is the degree to which the co can achieve approximate cost parity, or distinctly lower costs than competitors?	Does the co have a scale, branding, learning curve or product dev advantage that enables it to achieve cost parity or leadership?
(4) Competitive Analysis Is there some competitive response that could undermine or trump the where-to-play and how-to-win choices?		Anticipate competitive response. Your competitor is unlikely to be sitting still. How hard will he protect his position? This is guesswork to some extent but still worth doing.	You don't want to design a strategy that a competitor can copy overnight. Only those strategies that yield a sustainable competitive advantage are worth investing in.

Reverse Engineering Process

Reverse Engineering is the ideal process to ensure that you make the sound strategic choice

- Make sure you work through the strategy framework and logic flow in a social context - it needs a diverse team with each bringing their distinct perspective to bear on the problem. Collaboration is key
- Ask yourself the critical question – **what would have to be true for this to work?** – to find out the best strategy for the business
 - The process for exploring what would have to be true goes through 7 steps
 1. Frame the choice : convert issues into atleast 2 mutually independent options (criteria: both cannot be pursued)
 2. Generate a bunch of strategic possibilities (where-to-play + how-to-win) that will help us achieve the above choices. Don't restrict yourself only to the seemingly realistic – explore unusual choices as well
 3. Reverse-engineer the logic of each possibility by specifying what must be true for the possibility to be a terrific choice. Note this is not about arguing what is true, but what would conditions or criteria have to hold or be true for the this to work? (See next page)
 - Make sure that the options are reviewed and reverse-engineered by someone other than the person who first suggested the possibility. Have a external facilitator ideally...
 - Use Assertive Inquiry, not Advocacy as the rhetorical method (see last slide)

Reverse Engineering Process...contd



4. (contd). For each of the strategic possibilities, come up with statements / conditions that explain what has to be true for each of the boxes in Strategy Logic Flow

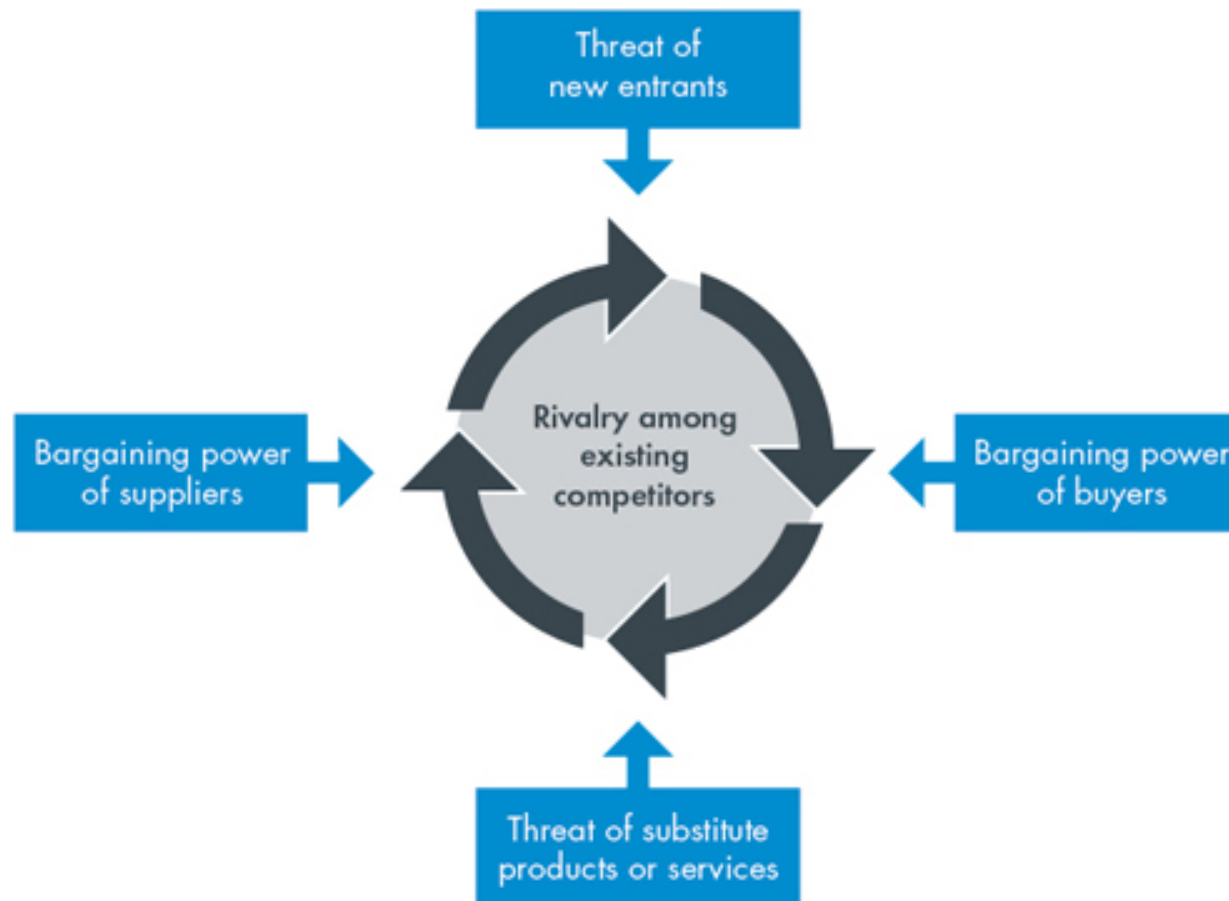
- Once a full set of conditions is articulated, ask yourself: if all the other conditions were found to hold but not this, would this eliminate the possibility? This helps you distinguish between nice-to-have and must-have conditions
- The process of reverse engineering is final only when all members involved in the process agree on the same must-have and nice-to-have conditions for all the possibilities

Reverse Engineering Process...contd

4. Identify barriers to choice: Assess which of the conditions your team believes are the least likely to hold true
 - Which conditions worry the team the most and which ones the least?
 - These conditions constitute the barriers that keep you and the team from choosing the possibility. Until you know if they are true or not, you cannot move ahead
5. Design valid tests to find if these barriers hold (conditions are true)
 - These can be through surveying a 1,000 consumers or by talking to 1 supplier. It could be purely quanti or quali.
 - The critical issue is whether the decision-making group (and its most skeptical member) regards the test as valid
 - Sometimes you may need multiple tests to estimate validity
6. Conduct the test for the condition you are most unsure of. If that holds, then eliminate the entire possibility, without testing any other condition (since an essential test has been failed)
 - Since testing is often the most expensive + time-consuming part, the fewer the tests the better
 - Now move on to the possibility with the next most unsure condition, and so on until you are left with the final choice
7. Choose!

Porter Five Forces Analysis

Michael Porter



- The vertical axis – threat from new entrants and threat of substitute products – determines how much value is generated by the industry (and can be split up amongst the industry players).
- The horizontal axis determines which entity – suppliers, producers or buyers – will capture the industry value

Assertive Inquiry (vs Simple Advocacy)

Chris Argyris

In the book, [*Playing to Win: How Strategy Really Works*](#), Lafley reveals his principles for fruitful conversation.

- In any conversation, organizational or otherwise, people tend to overuse one particular rhetorical tool at the expense of all the others. People's default mode of communication tends to be advocacy-argumentation in favor of their own conclusions and theories, statements about the truth of their own point of view.
- "The stance we tried to instill at P& G was a reasonably straightforward but traditionally underused one: It is called **Assertive Inquiry** and was popularized by Organization Theorist Chris Argyris.
- This approach blends the explicit expression of your own thinking (advocacy) with a sincere exploration of the thinking of others (inquiry). In other words, it means clearly articulating your own ideas and sharing the data and reasoning behind them, while genuinely inquiring into the thoughts and reasoning of your peers.
- In other words, It says 'I have a view worth hearing, but I may be missing something.' It sounds simple, but this stance has a dramatic effect on group behavior if everyone in the room holds it. One, they advocate their view as a possibility, not as the single right answer. Two, they listen carefully and ask questions about alternative views."
- So how do you employ "assertive inquiry?" Here are three steps:
 - **Advocate** your own position, then invite responses. Try saying, "This is how I see the situation and why. How do you see it?"
 - **Paraphrase** the other person's view and ask for their take. "It sounds to me like your argument is this. Is that what you're saying?"
 - **Explain a gap in understanding.** "It sounds like you think this acquisition is a bad idea. Could you tell me how you came to that conclusion?"