

## **Strategic Breakthrough**

### **Guide**

#### Executive Summary from Strategic Momentum

Are you struggling to achieve the financial results you know your company can achieve? Is your organization unwilling or unable to have the authentic, honest conversations needed to produce a strategic breakthrough?

Not achieving financial expectations is the number one challenge facing senior executive teams. In fact, underperformance, not ethics, is the primary reason CEOs get fired, according to a survey by Booz Allen Hamilton (*strategy + business*, Summer 2005).

CEO turnover now matches the normal attrition rate for all employees, about 12 percent per year (excluding layoffs and temporary employees). CEO dismissals and other forced departures increased 300 percent during the last decade, and are up 74 percent in the last 3 years alone (*Forbes*, Feb. 27, 2006). Through June 2006 turnover for CEOs is on a record pace averaging six per business day (USA Today, July 12, 2006; Challenger, Gray & Christmas study).

#### **The Not-Enough Runway Dilemma**

Of course the CEO is often the first to grasp the underperformance problems of the company. Unfortunately, it is not unusual for the CEO to fail to grasp the urgency of the situation.

Continued underperformance can send a company into a downward spiral until they reach a point of no return. Starting to innovate too late is just as bad as no innovation at all. Waiting to take bold action to fix cash flow pressures, loss of market share, high turnover, higher cost structures or flagging reputation can be deadly.

Each passing day reduces the CEO's window of opportunity. Like a cargo plane that spent too much time idly taxiing, the companies that started to innovate too late might not have enough runway left to get airborne. What these companies need is a strategic breakthrough so they can correct the situation before it is too late to invest in the innovation and recruiting of key talent they desperately need. Of course, if the CEO and the senior executive team knew what to do, they would do it. Most try to self-diagnose the problem as part of the day-to-day business operations. That compounds the problem, especially if the organization is unwilling or doesn't know how to have the authentic, honest conversations needed to gain the insight necessary to change the situation.

## **A Strategic Breakthrough Approach That Works**

At Strategic Momentum we work with companies in the electronics, software and telecommunications industry who are not achieving the financial results they know they can get. We have a 16-year track record of helping companies achieve strategic breakthroughs resulting in 400-800% growth in 3-5 years.

Unlike typical strategic planning consultants, Strategic Momentum has a battle-hardened process that has been empirically validated with more than 1,700 technology companies. Our proprietary process helps unleash executive team innovation and trains them to embed the methodology as part of the company's standard operating procedure. In addition, we help companies learn how to have the authentic dialogue that is needed to achieve breakthroughs.

Much of our work is based on the research of Igor Ansoff known as, "the father of strategic management". In addition to his work at the Rand Corporation, Dr. Ansoff served as Professor at Carnegie Mellon University, Founding Dean and Professor of Management at Vanderbilt University, and Professor at the Stockholm School of Economics. He has also applied his methodologies with companies such as IBM, Westinghouse, ABB, Bayer, Fiat, General Electric, Gulf Oil and more.

We also understand that a real strategic breakthrough begins and ends with ongoing, authentic conversations about important questions. To support the shift in mindset need to bring about a strategic breakthrough, we use a biological, linguistic and philosophical perspective to help companies learn how to have the authentic conversations needed to produce dramatic change. Our work is based on the teachings of language scholars Martin Heidegger, one of the most influential philosophers of the 20<sup>th</sup> century, Humberto Maturana, Fernando Flores, and John Searle.

### **The 11 Step Strategic Breakthrough Process™**

#### **Introduction**

The purpose of this 11 Step Strategic Breakthrough Process is to provide a proven methodology to accelerate the revenue and profit growth of electronic, software and telecom companies.

When using this 11 Step Strategic Breakthrough Process you should recognize the process is iterative and not linear. We expect the Company to move through the 11 steps in phases, developing possibilities, creating opportunities and designing action with the aim of converging on a consistent and coherent strategic direction and a strategic implementation capable of achieving the Company's breakthrough objectives.

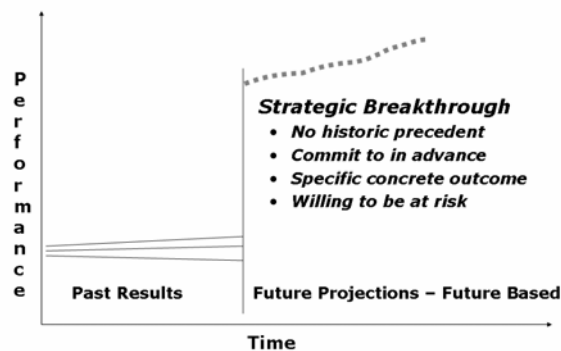
The 11 Step Strategic Breakthrough Process determines the most attractive Strategic Business Areas and the basis of competition that will provide the Company with a long-term sustainable competitive advantage. The ultimate goal is to create a strategic breakthrough capable of producing extraordinary results.

Creating a strategic breakthrough requires an outside-in approach where the environment drives the opportunities as well as creating an internal open communications mindset that will enable the strategic breakthrough.

First, the strategic breakthrough process is based largely on Dr. Igor Ansoff's unique strategic management school of thought, an empirically driven method with over 1,700 companies and in a great variety of industries. The focus, and unique characteristic, is that the environment drives the strategic breakthrough. A company achieves a strategic breakthrough if they align their strategy and operational capabilities with the turbulence of the environment.

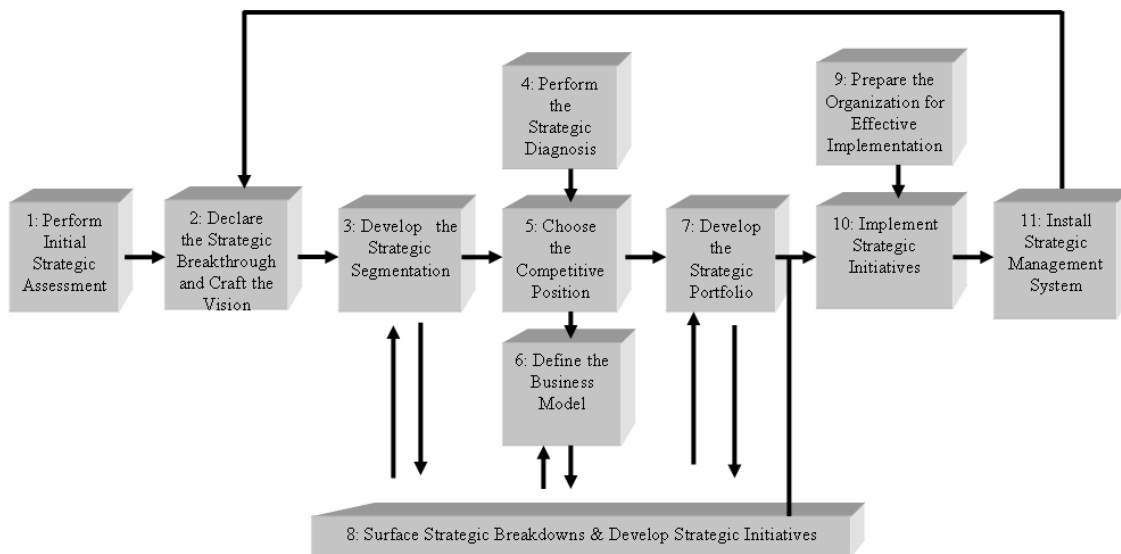
Second, a strategic breakthrough requires an ongoing conversation focusing on developing and maintaining a superior competitive position in a constantly changing environment. Only in this way, can you and your executive team ensure the ongoing viability of your organization. The strategic breakthrough has to be a living, dynamic process, which communicates the decisions made, at a specific point in time, and then becomes the basis for revising those decisions over time, as required. The design process has to include the structures and processes necessary to keep the strategic conversation self-generating.

When we talk about declaring a strategic breakthrough we are talking about creating a significant jump in business performance that has no historic precedent. You have to be willing to commit to a specific outcome in the absence of knowing how to do it at the time you make the commitment. You have to be willing to live with the risk inherent in the breakthrough you are willing to declare



The following 11 step Strategic Breakthrough Process will guide you through the steps necessary to create a strategic breakthrough.

## 11 Step Strategic Breakthrough Process™



### Step 1: Strategic Assessment

To start the process you have to address the question, “What’s so?” The purpose of Step 1 is to obtain a high-level overview of the current state, identify the critical issues and the potential root causes. It provides a common baseline to support future discussions and it will form a context for the strategic breakthrough.

To be as comprehensive as possible, the strategic assessment step has an internal and an external focus. Internally, interviews are conducted with the executive team and key operating managers. Externally, interviews are conducted with a sample of customers, lost prospects, competitors and analysts.

The assessment process should determine the Critical Success Factors (CSFs) of the industry. The CSFs arise out of the industry dynamics occurring within a market environment. They are variables within the industry and its environment which are critical to the success of any company operating within the industry. These variables or factors are industry-dependent and company-independent.

### Step 2: Declare the Strategic Breakthrough and Craft the Vision

In order to achieve a strategic breakthrough you have to address the following questions:

- How do you get your mind around creating a strategic breakthrough?

- How do you overcome the past, skepticism and commit to goals you will not know how to achieve when you commit to them?
- How do we overcome the fear of letting go of what you know you can do, and to commit to what you don't know you can do?

You cannot create a strategic breakthrough by extrapolating the past into the future. Achieving a strategic breakthrough requires creating a future from the future. This requires the team to let go of the past and step into the future without carrying the “baggage” of the past with them. The process has to allow the planning team to develop a strong relationship and trust with one another. We claim the relationship and trust the planning team is able to build will shape the breath and depth of the vision, strategy and commitment to the resulting action plan.

The first principle of creating a strategic breakthrough is to unconditionally and unequivocally commit to the vision and the breakthrough before you start planning. The possibility has to come into existence by an act of declaration. Essentially, to create a breakthrough, you deliberately create a breakdown by committing to a result you do not know how to achieve. You create a “gap” between your commitment and your current situation. The gap can be looked at as an **“Energetic Gap”** pulling the best creativity and innovation from the team to close the gap with new, previously unthought-of approaches. In order to create this pull, you have to make the commitment first, create the breakdown and then plan from the commitment back. The team has to stay in the conversation for possibility until they invent a structure for fulfillment they believe will produce the breakthrough.

Breakdowns only occur in the context of a commitment. A breakdown is a demand for action. A bigger the commitment will lead to a bigger breakdown, which then in turn will require a bigger demand for creativity and innovation.

When the executive team understands what is involved in declaring a strategic breakthrough and they understand the process and key distinctions necessary to support bringing a breakthrough into reality, they are ready to craft the vision and declare the strategic breakthrough.

Once the mindset is created the team's focus is to create a compelling strategic vision capable of producing breakthrough results for the Company. This creates a powerful context for action. The strategic vision creates a clear picture of a competitively superior company at some point in the future. Developing a powerful strategic vision means going beyond a linear extension of the present business. It incorporates anticipated changes in the business, and provides a picture of how the company will thrive and prosper in the projected environment.

Developing a strategic vision includes developing a Purpose, defining Core Values and Principles, establishing the specific Mission and Strategic Objectives to be accomplished within a two to three year planning horizon. All of this has to be encapsulated into a vision statement that is compelling and engaging to the organization. The test of a great vision statement is whether it creates excitement, provides direction, focuses attention and galvanizes people to put forth their best efforts toward a compelling goal. In other words, does the vision create a “game” worth playing?

Once the strategic breakthrough is declared the team has to deal with the first breakdown. What is the first breakdown? You do not know how to achieve the breakthrough for which you declared your commitment! If you did know how to do it, you could not call it a breakthrough. Steps 3 through 10 help you create the structure for fulfillment (a pathway) to achieve the breakthrough.

### **Step 3: Develop the Strategic Segmentation**

This step answers the question; "can we find new Strategic Business Areas (SBAs) to implement the declared breakthrough?" The focus of this step is to identify a broad range of possible SBAs from an outside-in perspective. This is a creative and innovative process focus on creating possibilities. For anything to come into existence it has to be envisioned as a possibility first.

Strategic segmentation is an outside-in, environment driven process to identify segments in the market that must be managed differently. The objective of this step in the process is to divide the future environment into distinct segments. Each segment will have different growth, profitability and risk (turbulence) prospects, and each segment will need different success factors to be successful in that segment.

Strategic Segmentation has five dimensions to clearly identify these segments. It begins by identifying the different concerns that could exist in the future environment regardless of your current offering. A properly structured Purpose and Mission Statement (as done in Step 2) will help define the boundaries of this future environment. Each of the concerns is then coupled with a technology that could be available to take care of the concern. Each of the concern-technology couplets is then divided into the geographic areas and customer types where the need exists and the technology could be used. A final dimension is the distribution system that could be used.

### **Step 4: Perform the Strategic Diagnosis**

This step answers the questions, "do we have alignment between the environmental turbulence represented by each SBA and our capabilities as a management team? If not, what is the "Turbulence Gap" and what do we have to do to close it?"

The first step in Strategic Diagnosis is to diagnose the expected future Environmental Turbulence in the SBA. This will establish the Strategic Aggressiveness and General Management Capability Responsiveness required for a strategic breakthrough. The next step is to diagnose the existing Strategic Aggressiveness and General Management Capability Responsiveness in the organization. The third step is to identify the "**Turbulence Gaps**" between the expected future Environmental Turbulence and the existing Strategic Aggressiveness and General Management Capability Responsiveness. These "Turbulence Gaps" that must be closed will then provide the basis for planning the changes that must take place to realize optimum performance in the future.

At this point, it is important that we quickly clarify the two types of gaps we are dealing with in our methodology:

- **Energetic Gap:** This is the gap between your current performance and the commitment you have made for the strategic breakthrough. The larger this gap, the more profound the strategic breakthrough. You want to have the largest possible energetic gap that remains possible.
- **Turbulence Gap:** this is the gap between your current capabilities and the turbulence of your future environment. This gap you want to minimize, as you want to make sure you have the capabilities in place that match the environment. The smaller your turbulence gap, the greater your success for a strategic alignment, and the greater your ability to create a larger energetic gap.

### **Step 5: Choose the Competitive Position**

This step answers the question, "what competitive strategy we will employ to create the strategic breakthrough?" This includes the question of competitive positioning and competitive posture. In this step you develop an understanding of the future attractiveness of the SBA and the future competitive position.

The future attractiveness of the SBA is where we compare the relative priorities of the company's commitment for growth, profitability and risk in terms of threats and opportunities. For the selected SBAs, you will develop estimates of future growth, profitability and risk prospects.

The future competitive position is measured by how well the company's strategy; functional management capability and level of strategic investment will satisfy the strategic breakthrough within the SBA. In order to determine the future competitive position we look at the extrapolated competitive position and the desired competitive position.

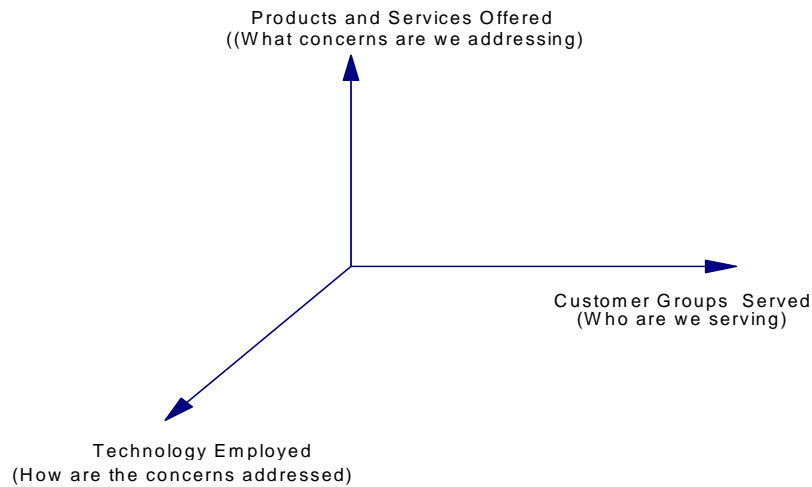
### **Step 6: Defined the Business Model for Each SBA**

This step answers the question, "which business model is best for each SBA?" By developing the business model, we define the business for each SBA.

Defining the business starts with addressing the question; "what business is the SBA in today?" This question addresses what the SBA is doing now and what concerns is the SBA taking care of. The next questions are, "what business should the SBA be in the future to maintain the Company's long-term growth and viability?" .

In defining the business, consideration needs to be given to the basis for differentiation and the sources of competitive advantage. The business definition for each SBA is the single most important determinant of an overall business strategy and the subsequent marketing and sales strategies.

A business model is defined in three dimensions. Customer groups describe categories of customers (market segments), or who the company serves. The products and services offered describe the customer concerns being addressed, or what the company provides. Technologies describe the way, or how customer concerns are taken care of.



It is important to estimate the strategic investment required for each SBA. Look to see if the opportunity represented by the SBA matches the strategic investment required to exploit the opportunity.

### **Step 7: Develop the Strategic Portfolio**

This step addresses the question, “what is the best mix of SBAs we should be involved in to create a strategic breakthrough?” The team decides on the actual strategic portfolio to pursue, consistent with their declared breakthrough. They also look at the attractiveness of each SBA and the synergistic relationship between SBAs.

After determining the strategic diagnosis, competitive position and business model for each SBA, this step in the process is optimization of the strategic portfolio to determine which combination of SBAs will best satisfy the objectives of the company and the strategic breakthrough commitment within the constraint of available funds for strategic investment. There are three dimensions utilized in determining Portfolio Optimization. These are Scope, Coherence and Diversity.

### **Step 8: Surface Strategic Breakdowns and Develop Strategic Initiatives**

This step answers the question, “how can we surface the potential breakdowns that could negatively impact achievement of the declared breakthrough.” After surfacing the strategic breakdowns, then develop strategic initiatives to effectively handle the breakdown.

In turbulent environments there are high levels of uncertainty that preclude absolute accuracy in planning. These environments generate fast moving issues that must be resolved on an ongoing basis and in line with the general direction of the company.

Implementing a strategic breakdown management system, Step 11, is necessary to assure that issues do not become strategic surprises because they were not identified and acted on in a timely manner.



This is an ongoing process where the company keeps track of signals from the environment that may indicate trends, threats or opportunities. Trends are the accumulations of events that trigger changes in the level of Environmental Turbulence. Threats and opportunities are singular events that result in Strategic Breakdowns.

The breakdowns will determine the specific actions or strategic initiatives necessary to achieve the strategic breakthrough. Breakthroughs are achieved by handling successive breakdowns efficiently and effectively.

### **Step 9: Prepare the Organization for Effective Implementation**

This step answers the question, "what do we have to do to enroll and prepare the organization to successfully implement the declared strategic breakthrough." This step also includes developing the financial and budget plans to insure the availability of resources and capital. The Energetic and Turbulence Gaps will be addressed in this step.

When determining your readiness to take on the desired competitive position for achieving the strategic breakthrough, it is important that you align your functional management capability. This is a combination of capabilities for the general management, sales and marketing, production, finance, R&D and other essential functions to support future success strategies in the SBA.

This step is focused on creating the organizational effectiveness necessary to implement the strategic vision. The organizational design has to establish and develop the organization's **interrelationships** which best enable those **interactions** which will produce the quality of thinking and synergy required to fulfill the vision of the organization while developing each individual's capability as a team member. Preparing the organization for effective implementation encompasses the design choices that determine the ability of the organization to collaborate and coordinate action together efficiently and effectively

As part of this step, it is important to determine the strategic investment required to fulfill the strategic breakthrough. Strategic investment includes all of the costs associated to close the gaps as well as the investment in new technology, product and market development.

### **Step 10: Implement Strategic Initiatives**

This step answers the question, "what do we have to do to structure the implementation and execution of the strategic initiatives?" This step defines the project structure of the strategic initiatives and the management and control of the strategic initiatives.

The results of the Strategic Breakthrough Process have to be translated into action. With the strategic initiatives identified, in this step project plans are created to build the capabilities, systems, structures, processes and tools necessary to carry out the strategy and fulfill the strategic breakthrough declared by the organization. Specific implementation accountabilities are set up and specific metrics are established to measure progress.

It often requires significant changes in behavior, once you make the commitment to achieve a strategic breakthrough and you take the actions to close gaps in the general management capability and the aggressiveness of the strategy. However, these changes will produce resistance to change that you should take into consideration when you start implementing the different strategic initiatives.

### **Step 11: Install Strategic Management System**

The final step answers the question, “how will we anticipate future breakdowns that could jeopardize us achieving our declared breakthrough?”

Strategic breakthroughs are worthless without a strong emphasis on strategic management. This means carrying through the actions called for in the strategic breakthrough and managing the strategy throughout the planning horizon. Processes and performance metrics have to be created which support an on-going environmental scanning process and to facilitate mid-course changes if they are necessary to achieve the breakthrough.

As part of installing a strategic management system you will need the strategic information in order to support a strategic breakthrough and anticipate strategic breakdowns that could jeopardize achievement of the breakthrough. Looking for the strategic information allows us to address the areas that we have to learn and unlearn.