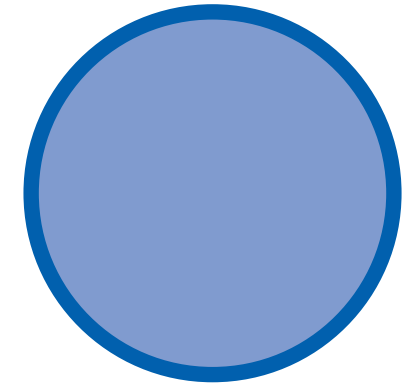


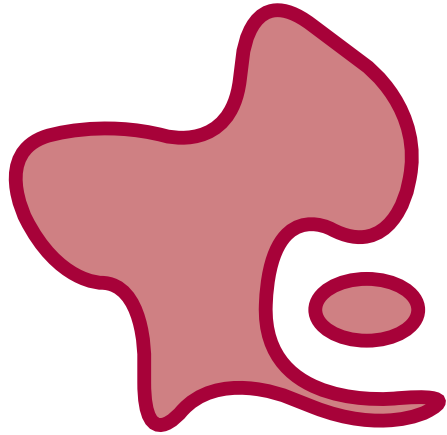
# Simple Strategy



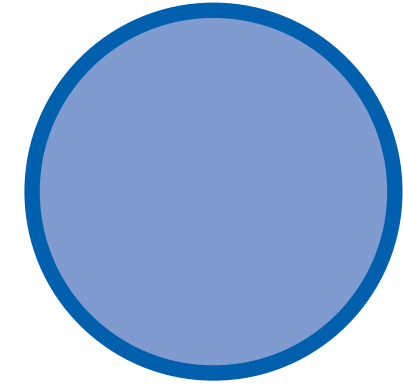
## How to Profit From Your Unique Business Advantage

Derived from : Richard Rumelt; *Good Strategy, Bad Strategy*

**BOOK**  
**RAPPER** **CREATING**  
INNOVATIVE  
ENGINEERING



# Simple Strategy



## How to Profit From Your Unique Business Advantage

### THE BOOK

Richard Rumelt; *Good Strategy, Bad Strategy*

### THE BIG IDEA

Strategy is about making the most of your resources in dealing with your current situation. Yet, most strategy is not strategic. It's a good plan at best. And, ultimately, this undermines your organisations chance of success.

### SPEED RAP

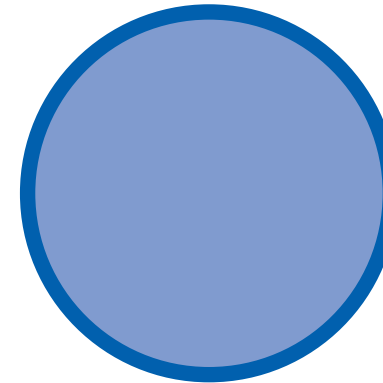
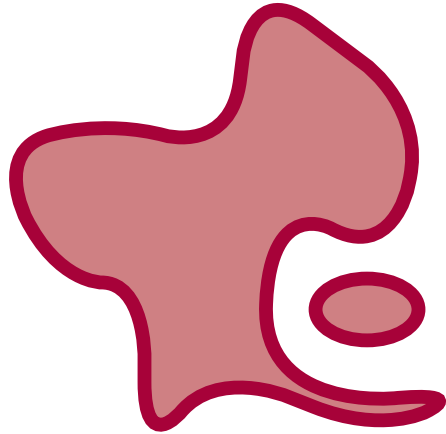
Bad strategy is a loose plan based on fluffy buzzwords, financial goals and lots of hope, all intended to hide a lack of clear thinking. Good strategy diagnoses the challenge you face, defines guiding principles to steer you forward and provides a coordinated set of actions to implement.

### YOUR CHALLENGE

Ready to make the most of what you've got? It's time to sit down and think, ask some hard questions and face the truth. Use this RAP to define your unique business advantage and how you're going to profit from it.

# Contents : Simple Strategy

**Book Rapper** Issues are not direct summaries of the books we review. We take what we consider to be the most important ideas from the book. We then re-package these key ideas so you can easily digest them in about 30 minutes. We also make it clear how you can take decisive action to benefit from these insights. In some parts we follow the book closely and in others we add our own models and interpretations. Given the **Book Rapper** Issue is much smaller than the book we may not cover each chapter. If you want more details than what's in this issue, we say '*buy the book*'.



## BR Review : Good Strategy, Bad Strategy

**RAP1** : Good and Bad

**RAP2** : Bad Strategy

**RAP3** : Strategy For Your Strategy

**RAP4** : Sources of Power

**RAP5** : Think Strategically

**More...**

**Action** : Strategic Questions

# BR Review : Good Strategy, Bad Strategy

Richard Rumelt

**Good Strategy, Bad Strategy : The Difference and Why it Matters**

Profile Books, London, 2011.



## PRÉCIS

- Strips the bluff and fluff from fuzzy strategy and replaces them with a simple strategy structure.

## FEATURES

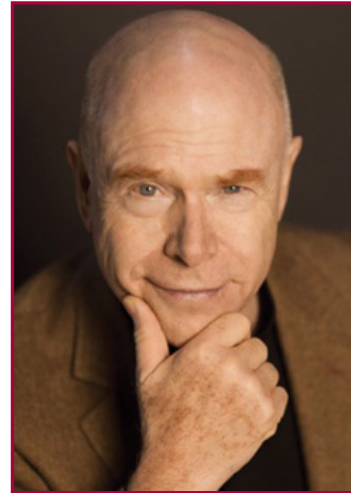
- Numerous case studies illustrate the principles.
- Written by a master strategist with years of experience at the highest level.

## BENEFITS

- The frame of good and bad strategy makes it easy to identify what you've been doing wrong and what you'll now do right - better strategy is assured if you do the work!

## WHO IT'S FOR

- Leaders - of any sized organisation - willing to confront the hard work needed to create good strategy and produce great results.



## RICHARD RUMELT

- *The Economist* profiled him as one of 25 living people who've had the most impact on management concepts and corporate practice.
- *McKinsey Quarterly* described him as 'strategy's strategist' and 'a giant in the field of strategy'.
- Originally trained as an Engineer and worked at JPL on the *Voyager* spacecraft.
- PhD from *Harvard Business School*.
- International business consultant.
- Holds a Chair at *UCLA Anderson School of Management*.
- This book was short listed for the *FT & Goldman Sachs Business Book Award 2011*.
- Author's Blog : [StrategyLand.com](http://StrategyLand.com)



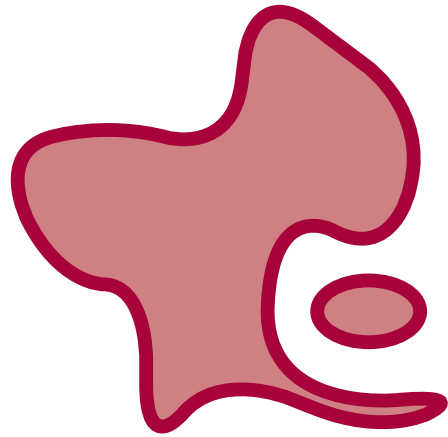
## BOOK RAPPER SAYS...

Timely! Book Rapper needs this as we redesign our business. And, Rumelt's depth and breadth of knowledge would make him a great dinner guest.



# RAP1 : Good and Bad

**PROFIT :** Bad Strategy is not simply strategy that fails to work. It's an approach to organisational design built on misconceptions. It's presented as being strategic and mostly isn't. By pointing out the bad, we can correct mistakes and improve our strategy - and our chance to prosper.

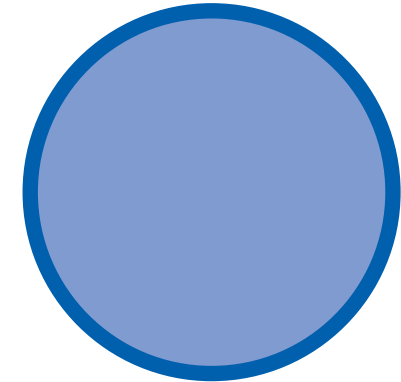


## Bad Strategy

- Talks about broad goals, vision and values
- Avoids analysing the problem & obstacles
- Is goal setting not problem solving
- Fails to provide an action path
- Pursues conflicting objectives
- Does not decide anything
- Tries to please everyone
- Focussed on end results
- Covers up the real issue
- Uses fluffy buzzwords
- Skips the detail

## Good Strategy

- Designs actions to deal with critical factors
- Addresses sources and barriers to success
- Identifies the opportunity in the situation
- Is a cohesive response to the challenge
- Provides analysis not just end results
- Identifies the challenge being faced
- Says no to a series of opportunities
- Includes an allocation of resources
- Takes advantage of opportunities
- Includes the why, what and how
- Focuses and coordinates action
- Identifies points of advantage
- Is based on an inherent logic
- Identifies points of leverage
- Looks simple and obvious
- Reveals the critical factors
- Identifies how to win



## 3 REASONS FOR BAD STRATEGY

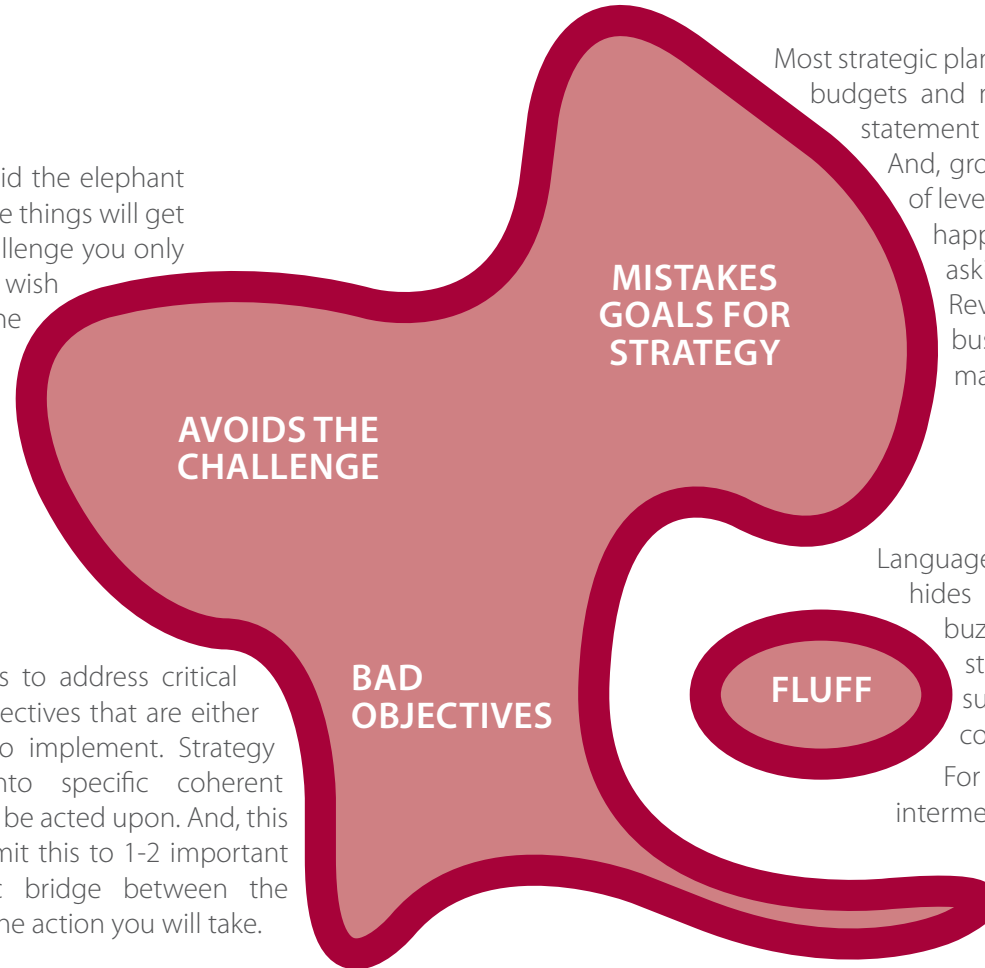
- ① **Active Avoidance** - Bad strategy is easier to create than good strategy. This can stem from an unwillingness or inability to choose between competing forces.
- ② **Template Strategy** - A one-size-fits-all approach that fills in a template report without the proper analysis and design is a short cut to failure.
- ③ **New Thought** - The belief that all you need to win is a good attitude and a shared vision. This defies the logic of allocating resources and developing competencies.

# RAP2 : Bad Strategy

**PROFIT : Bad strategy is not simply the absence of good strategy. Instead, it is built on misconceptions. Here's four hallmarks of bad strategy to avoid.**

Too often strategic plans avoid the elephant in the room. They merely hope things will get better. Without a defined challenge you only have a goal, a budget or a wish list. A strategy anticipates the real world difficulties to be overcome. If you don't define the challenge, you can't evaluate the strategy.

A bad strategic objective fails to address critical issues or pursues multiple objectives that are either in conflict or not practical to implement. Strategy transforms vague goals into specific coherent organisational targets that can be acted upon. And, this requires focus. You need to limit this to 1-2 important objectives. Build a strategic bridge between the challenge you are facing and the action you will take.

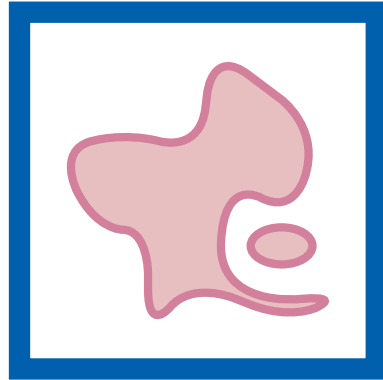
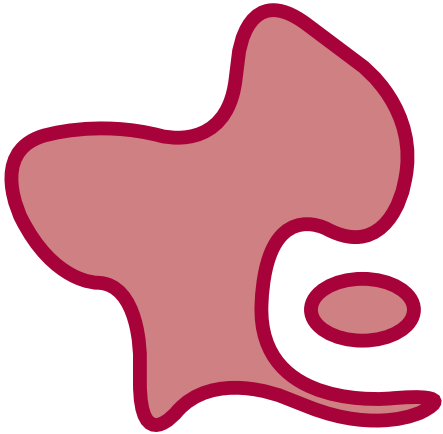


Most strategic plans are 3-5 year performance goals with rolling budgets and market share projections. Strategy is not a statement of desire. It's a plan for overcoming obstacles. And, growth is not a strategy. You need some point of leverage or a rationale to believe that growth will happen. Goals without process and action is like asking for more effort and greater motivation. Reveal the most promising opportunity for your business, channel your energy there and this may result in growth.

Language can be used to reveal or hide. The use of fluff hides the lack of clarity in your thinking. Look for buzzwords, gibberish, esoteric and motherhood statements masquerading as strategy. Also, the superficial restatement of the obvious, half truths, complex drawings, and unnecessary complexity. For example: Our strategy is customer-centric intermediation. What the...?

# RAP3 : Strategy For Your Strategy

**PROFIT :** To create great strategy you need a strategy or a framework to build it upon. Rumelt's Kernel offers a three part process that takes you from examining your situation through to a series of things you can implement.



## Diagnosis

What's going on? Your diagnosis identifies and names the current obstacle or challenge you're facing. Simplify the complex by pointing to the critical elements - let go of the rest. Create a model, a metaphor or analogy to create a new frame of reference. And from this new context you'll be able to redefine your business and your way forward.



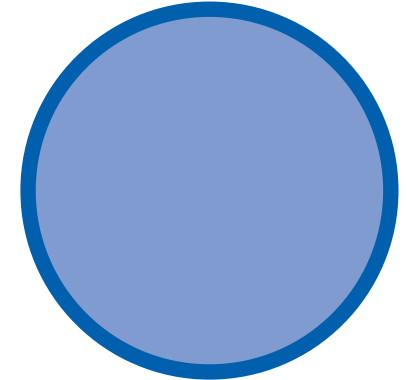
## Guiding Policy

Once you've identified the problem you want to design a broad approach for *how* you will deal with it. Like railway tracks this will define your direction and focus attention. Identify your advantages and weaknesses relative to the situation and your rivals. This is not about goals or end results (what), this is about your method (how).



## Coherent Actions

Now, what are you going to do about it? Create a set of coordinated actions designed to execute, carry out and implement your guiding policy. Refine the broad into the specific. By defining actions you will be forced to deal with resource allocation. Be thorough and remember that your strategy is sharpened through action.



# RAP4 : Sources of Power

**PROFIT :** Strategy is the application of strength against weakness. And, the point behind doing good strategy is to apply that strength to the most promising opportunity. Plus, with fresh insight we can create further strengths and greater advantage. Here we explore these sources of strategic power.

## What's Your Strength?

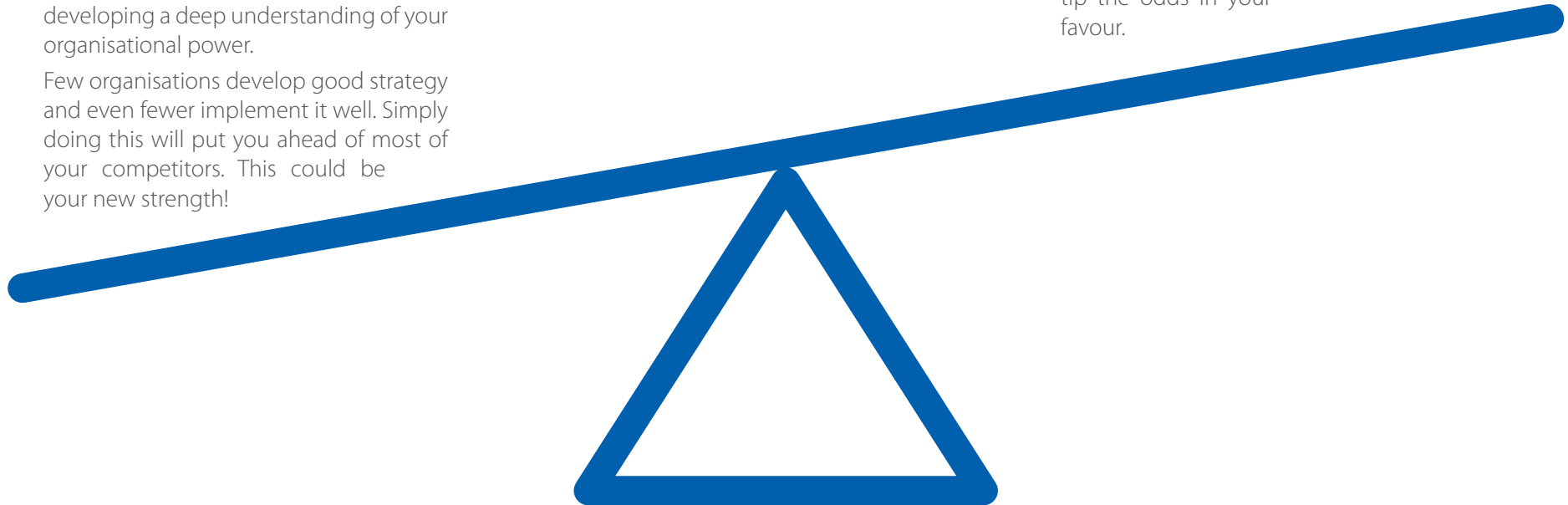
Strengths are relative to the opportunities and risks around you. The story of David and Goliath shows that when you know your strengths you can take on and beat almost any competitor. This is the potential of strategy. And, it relies on developing a deep understanding of your organisational power.

Few organisations develop good strategy and even fewer implement it well. Simply doing this will put you ahead of most of your competitors. This could be your new strength!

## Nine Things

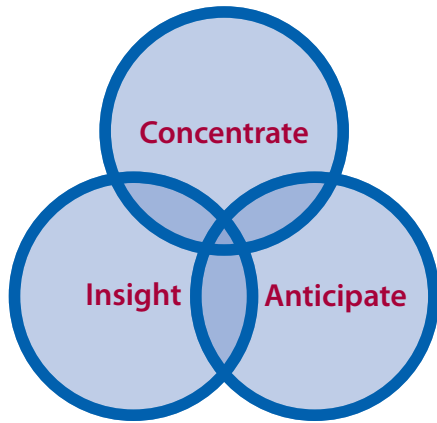
Your challenge is to uncover the hidden power in situations. And, over the next few pages we'll look at nine strategic powers (right) to leverage your situation and tip the odds in your favour.

- ① Using Leverage
- ② Proximate Objectives
- ③ Chain-Link Systems
- ④ Using Design
- ⑤ Focus
- ⑥ Growth
- ⑦ Using Advantage
- ⑧ Using Dynamics
- ⑨ Inertia & Entropy





# Sources of Power...



## ① Using Leverage

The best kind of leverage occurs when you make small changes to achieve big gains. For example, a small innovation may make a big difference in customer perception. Creating strategic leverage comes from a mixture of three elements:

**Anticipate** - First mover advantage is the gain achieved by those who are quickest to fulfil an opportunity. This requires an awareness of what is going on around you. The most critical anticipation is about the behaviour of others - particularly your competitors.

**Insight into Pivot Points** - Insights are important to gaining advantage. And, the critical ones to identify are those where small shifts cause significant impacts, particularly where pent up demand is waiting to be released.

**Concentrate Your Effort** - The more you focus on fewer or more limited objectives the greater the likely payoff, for example dominating a smaller market segment. Consider threshold effects when a critical level of effort is necessary to effect the system and see a benefit. Invest where your resources make the largest and most visible difference.

- What are your competitors doing or about to?
- What are the major and minor shifts occurring in your market right now?
- What are your customers asking for that is not being delivered or is poorly serviced?



## ② Proximate Objectives

Proximate means close and near. And there's power in having objectives that you have a reasonable expectation of fulfilling or even overwhelming. This is particularly important in times of rapid change and uncertainty.

And, it's the leaders role to absorb some of the complexity and ambiguity of what to focus on. And, you can do this by addressing a simple and solvable problem.

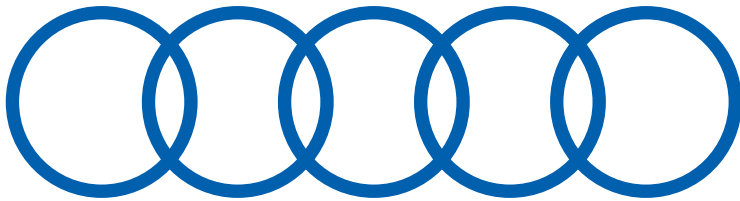
Climbing just the next rung on your ladder may be the best strategy you can have. For as you climb just one rung, a new set of objectives and possibilities will be revealed. This is the advantage of building capability rather than achieving specific outcomes.

- Imagine... if you were allowed to have only one objective. What one single feasible objective, when accomplished, would make the biggest difference?

# Sources of Power...

## ③ Chain-Link Systems

A chain link system is one that is limited by its weakest link or subunit. For instance, an inexpensive rubber o-ring brought down the space shuttle *Challenger*. Both excellence and being stuck are reflections of a chain link logic.

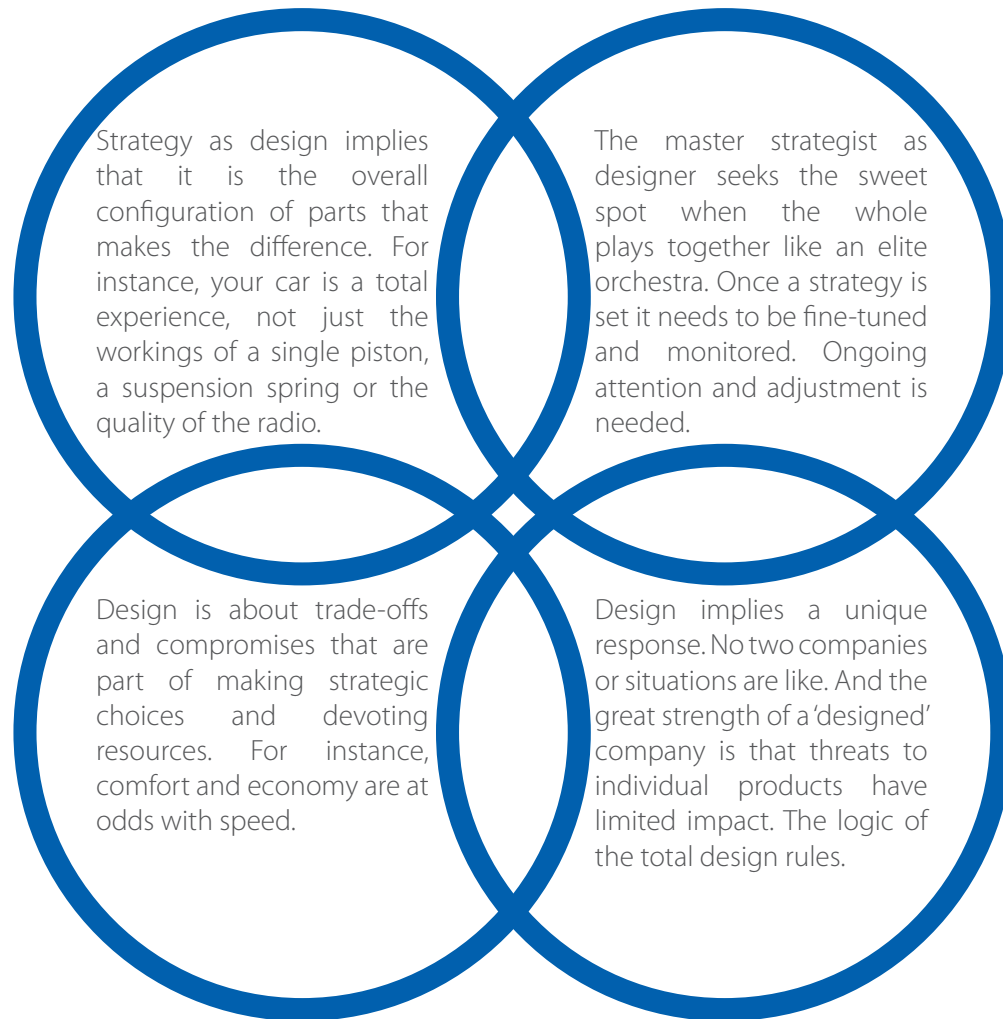


Furniture giant *Ikea* is consistently good across a range of manufacturing, design, distribution and retailing fronts. A good chain link system such as this is difficult to replicate and therefore a strong competitive advantage. You'd have to compete across all fronts to beat them at their game.

In a low-performing organisation, the weakest link can drag down the entire system. An increase in quality in one area may make no difference and possibly make things worse. Quality must be increased or at least consistent across multiple areas. The first step is to identify the bottlenecks. The second is to rethink measures of quality across the entire organisation.

- Is the strength of your organisation in one area?
- Are other areas limiting your strongest division?
- Would you be better off specialising in your strength?
- Or developing fresh capabilities to raise the level of quality across your entire organisation?

## ④ Using Design



Strategy as design implies that it is the overall configuration of parts that makes the difference. For instance, your car is a total experience, not just the workings of a single piston, a suspension spring or the quality of the radio.

The master strategist as designer seeks the sweet spot when the whole plays together like an elite orchestra. Once a strategy is set it needs to be fine-tuned and monitored. Ongoing attention and adjustment is needed.

Design is about trade-offs and compromises that are part of making strategic choices and devoting resources. For instance, comfort and economy are at odds with speed.

Design implies a unique response. No two companies or situations are like. And the great strength of a 'designed' company is that threats to individual products have limited impact. The logic of the total design rules.

- Is your organisation tightly or loosely designed? Explore the possibility of tightening the overall design or specialising into niches.

# Sources of Power...

## 5 Focus

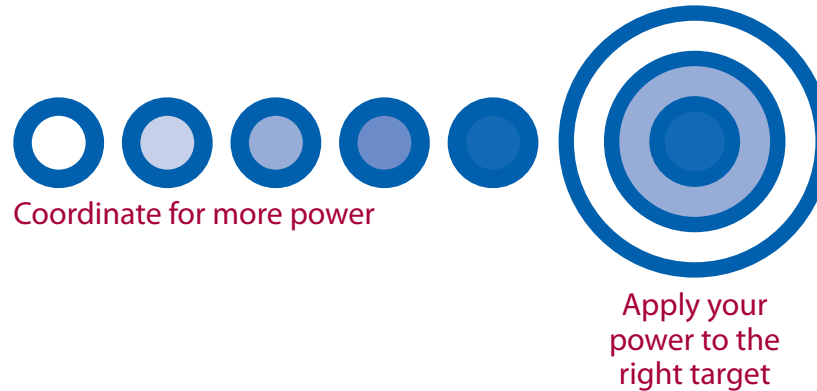
Strategy uses focus to attack one market segment and supply more value than the other players can.

This is applied in two ways: ① Coordinate your effort to produce greater power. ② Apply that power to the right target.

Start by analysing and exploring your competitive situation. Identify the real reasons for the success of your business. They may not be obvious. Dig deep.

Then compare your guiding policies to those norms and standards within your industry.

Pinpoint your advantage and design a coordinated plan to deliver this at an exceptional level.



- What can you do to improve the coordination of your organisation to gain more power?
- Is your business advantage focussed on the right market and to the right audience?

## 6 Growth

'Growing bigger' is not a strategy. It's a result or an outcome. Growth comes from delivering a successful strategy. It derives from building demand for your capabilities or expanding and extending your capabilities. To grow you need to build a superior product or service. And, you achieve this through innovation, efficiency and creative thinking.

Growth by acquisition only works when you buy the company for less than it is worth. Or, you are uniquely placed to add more value to your audience because of your special mix of capabilities.



- Is your strategic plan focussed on growth? Shift your focus to building your capabilities instead.
- Rate yourself on a score between 0-10 - how good is your strategy? How good are you at implementation? Adjust accordingly.

# Sources of Power...

## 7 Using Advantage

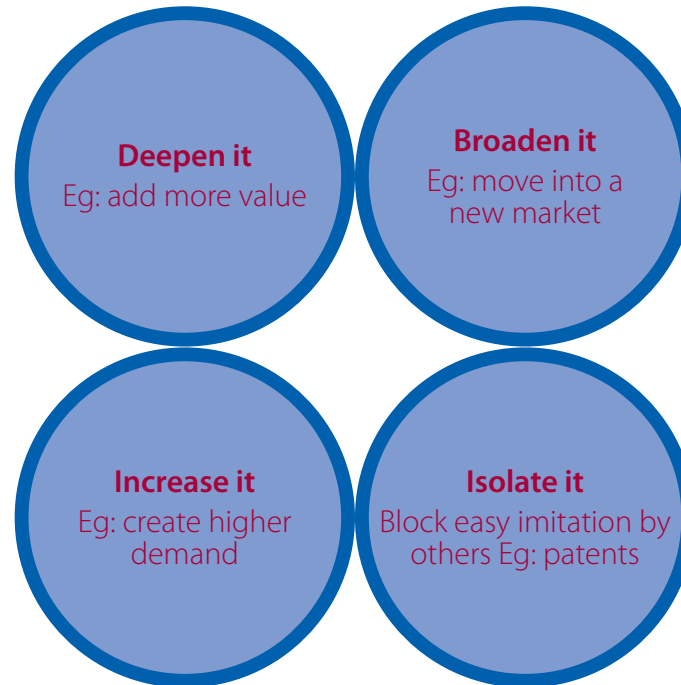
Advantage is sourced in difference. And, it's the leaders job to identify which point of difference can be turned into important advantages.

Your edge is relative to a competitor under certain conditions. No one has an advantage at everything. The game is to press forward when you have an advantage and avoid situations where you don't.

Also, exploit your opponents weaknesses and avoid exposing your own. At a simple level your edge is either to produce something at a lower cost, add more value or a mix of these.

A sustainable advantage can only be maintained if your competitors cannot replicate it (or duplicate the resources that provide that advantage). If an advantage is available to everyone, it's not an advantage.

To profit from your advantage you need an insight into how to increase its value. This must be things you can act upon regularly.



**Four Ways to Use Your Advantage**

- If you could only claim one business advantage, what would it be?
- What can you do to deepen your advantage?
- What can you do to broaden your advantage?
- What can you do to increase your advantage?
- What can you do to isolate your advantage to block your competitors?
- What other advantages do you possess that could be improved or developed?

# Sources of Power...

## ⑧ Using Dynamics

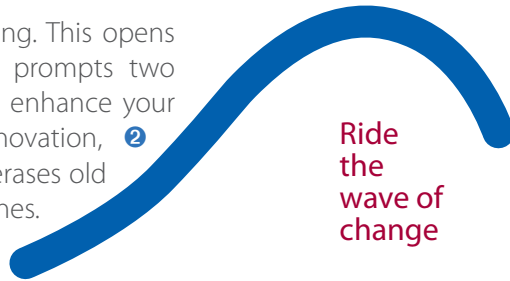
The world is constantly changing. This opens and closes opportunities and prompts two clear strategies: ① Defend and enhance your current position through innovation, ② Exploit a wave of change that erases old advantages and enables new ones.

The challenge is to catch the wave early enough, not by forecasting it, by understanding it. You'll need perspective to assess which are mere ripples and which are true waves of change.

It won't be enough to observe the main effects. Noting an ageing population is too broad. Look for the underlying forces and create scenarios of what this means. How does the older population change buying habits? Much better. Combine several mini-waves to create the biggest opportunities.

In changing and uncertain times, strategy becomes more important. And, a leader doesn't need to get it 100% right, the strategy merely has to be more right than your competitors.

- What are you doing to defend and enhance your current position?
- Which innovation projects will fuel your competitive advantage?
- Which waves are you wanting to catch?



## ⑨ Inertia and Entropy

An organisations greatest threat may not be external - they be the internal effects of entropy and inertia - not changing and renewing.

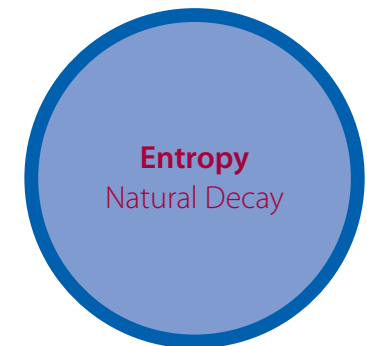
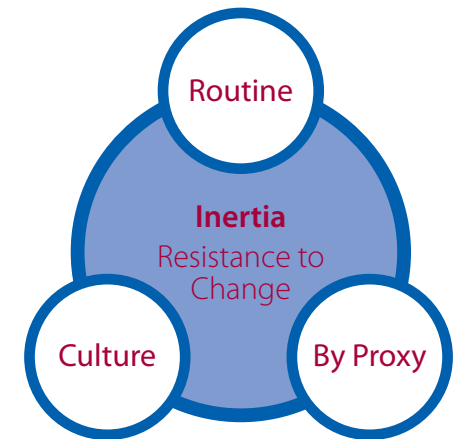
*Inertia* translates as... the bigger the organisation, the more effort required for it to change. Strategy is ultimately a statement for change as you pursue a worthwhile opportunity. Three categories of inertia cause organisations to stumble:

- ① **Routine** and doing things the way they've always been done. The limit here is not just around action, it's about the way we filter changes in the marketplace.
- ② **Culture**, which includes norms and mindsets. These assist and impede action also.
- ③ **By Proxy** - sometimes organisations don't change because their customers don't. This is thin ice as it's easy for competitors to pick off your customers if you don't act.

Successful strategies often owe a great deal to the inertia and inefficiency of rivals - understanding your rivals is as important as understanding your own strengths.

*Entropy* means that all physical systems naturally decay and increase in disorder. Once you create a strategy, you'll need to manage it's implementation as there'll be a natural distraction to wander away from it as day-to-day work unfolds.

- Rate the level of inertia in your organisation. What is this based upon? What could you change?
- Rate the level at which your organisation is changing. Is this too much or too little?
- Rate the level of decay and entropy in your organisation. What's the most important issue that needs addressing?



# RAP5 : Think Strategically

**PROFIT** : In creating strategy it is important to take on the viewpoints of others. However, the most useful shift in viewpoint is thinking about your own thinking. Here's some suggestions for your mindset as you create your strategy.

## The Science of Strategy

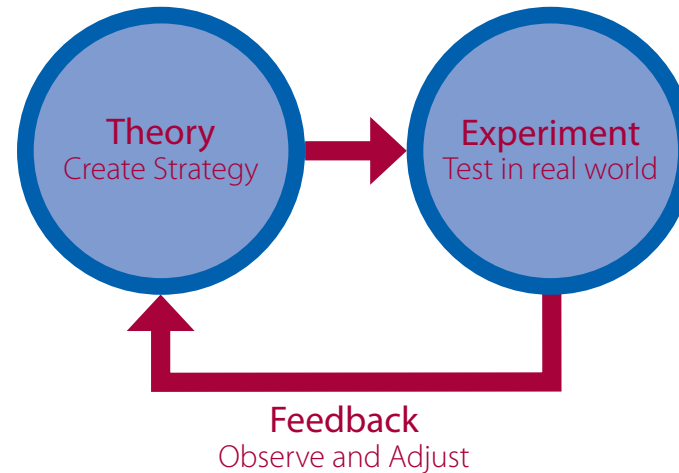
Thinking of strategy through the lens of a scientist provides a clear method for exploring and testing your thinking. It implies that your plan is both logical and based on tests in the real world.

A scientist starts by creating a hypothesis or theory about what is going on. The goal is to define a model for what works, what doesn't and why. This correctly presents the implementation of your strategy as an experiment. Given you're predicting what will work in the future, this is all it can be. It also suggests you manage and monitor your experiment to see what actually works - and that you modify your approach as needed.

Asking for a strategy that is guaranteed to work is not realistic.

And, each time you test and modify your strategy in action you'll learn more about what works and step closer to the sweet spot of your organisational design.

Howard Schultz and *Starbucks*, started with a vision of an Italian espresso cafe and continually modified it until it became to be what it is today - which is almost completely unlike what he started with.



# Think Strategically...

The  
Kernel

## Use Your Head

The one obstacle common to all strategic situations are our own limitations and biases - our own myopia. Being strategic is about being less short-sighted than others.

Our strategic recommendations will be based upon what we know. And what we know will be based on what we observe about the situations we find ourselves in. Whilst first impressions are crucial, organisational strategy is too complex and too important to leave solely to your initial intuition.

Problem  
Solution

The essential skill you need is to be able to choose your approach to your situation. This ability to observe how you observe the situation can be complemented by using a variety of tools and the habit of questioning your own judgement.

Create  
Destroy

## THREE TECHNIQUES

- 1 **The Kernel** (RAP 3) defines the logic of your strategy.
- 2 **Problem - Solution** : It's useful to have tools that make it easy to work back and forth between your diagnosis and guiding policy. It's usually easiest to start with identifying the obstacles (problem) you are wanting to overcome.
- 3 **Create - Destroy** : Be your own worst critic by creating and then destroying your alternatives to expose their faults and internal contradictions. Create a virtual panel of experts. Eg, Ask: What would Steve Jobs do in this situation?

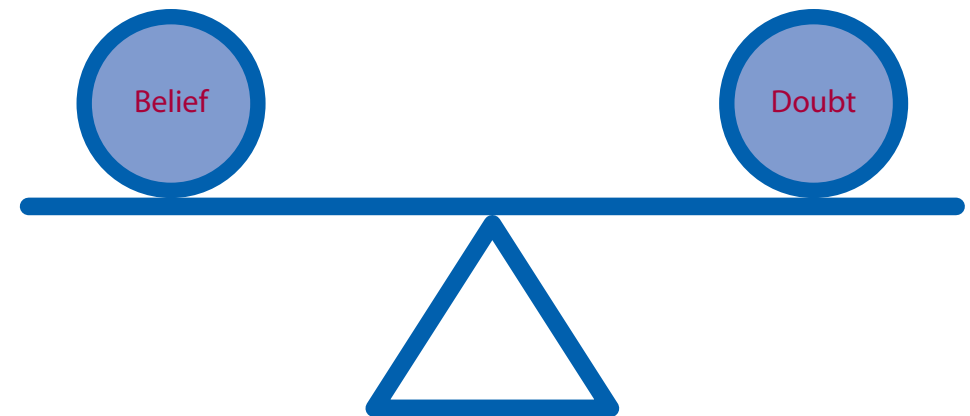
## Keep Your Head

One of the difficulties in defining strategy is that everyone will have an opinion. This is useful to provide a range of alternatives and it can also be misleading.

One of the challenges is the tendency for social herding. We assume that others know what's going on so we follow them without questioning their interpretation. Bad strategy follows the crowd and fails to make independent assessments.

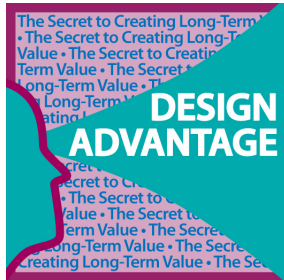
Another common error of judgement occurs with the 'not me' approach. This is when you ignore relevant data because you believe it doesn't apply to your situation or to you.

The challenge is to be independent and strong enough to believe in your opinion and doubtful enough to question your interpretations.



# More...

**PROFIT :** Want more? Here's some additional Book Rapper issues to consider.  
Want more than this? We suggest you buy the book!



## Design Advantage

How to use design to release strategic advantage in your business.  
Derived from Roger Martin, *The Design of Business*

## The Business Model Game

Once you've diagnosed your situation, use this business model tool to map your guiding principles and form the basis of your action plan.  
Derived from Osterwalder and Pigneur, *Business Model Generation*

## Frog Power

A framework for shifting your organisations thinking and giving inertia the flick.  
Derived from: Steve Zaffron and Dave Logan, *The Three Laws of Performance*

## Gloppportunity

How to identify opportunities in your business and your marketplace.  
Derived from Geoff Colvin, *The Upside of the Downside*

## BUY THE BOOK

Buy *Good Strategy, Bad Strategy* on Amazon

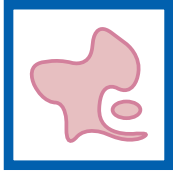


# Action : Strategic Questions

PROFIT : Developing a strategy is a lot like designing a house. It's a complex process that is unique to each situation.

Here we offer some broad questions as a general overview of the strategic process using Rumelt's Kernel (RAP3).

For additional provocation, refer to the questions in red sprinkled throughout the *Sources of Power* section.



## Diagnosis

- What is going on? What's the problem? Describe the current situation and the obstacles your organisation is facing.
- Name or classify this situation. Think of a metaphor, theme or context that captures the essence of what is going on.
- What patterns in the marketplace are you noticing?
- What facts support your assessment of the marketplace?
- Which are the most important issues facing your industry right now?
- Identify ten, yes ten, things that are *changing* in your market right now.

## Guiding Policy

- Outline an overall approach for overcoming the obstacles identified in your diagnosis.
- Identify a broad direction that would resolve these issues. Do not prescribe specific action just yet.
- What methods or approaches can you adopt to overcome these obstacles? Eg. Invest in innovation.
- How are you going to resolve your situation?
- What's the one thing you can focus on that would transform your current situation?

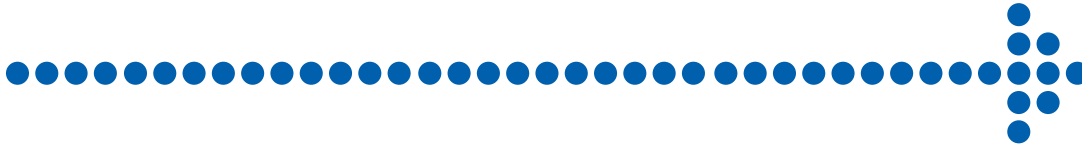
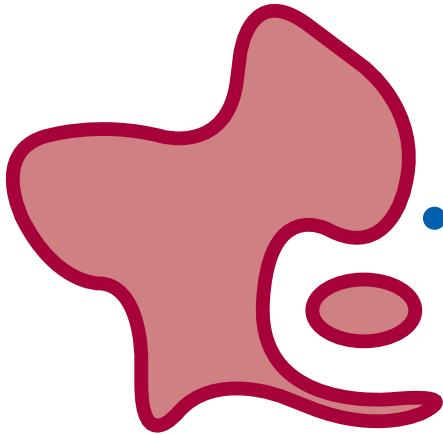


## Coherent Actions

- Translate your broad guiding policy into specific actions. List 10 things you will implement.
- What resources will be needed to effectively implement your strategy?
- Are your actions coordinated? How would you know if they were or weren't? What can you do to make them more coordinated?
- If you took these actions are you confident they would overcome the obstacles identified in your diagnosis?

# More from Book Rapper

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**Geoff McDonald** is a former architect who no longer designs buildings. Instead, as the *Ideas Architect*, he helps individuals and organisations to design, build and sell their ideas.

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