What single element of your organisation sets you clearly apart from—and hopefully ahead of—your competition? Many CEOs will find that if they pose this question to their senior managers, they will get as many answers as there are managers. Lack of consensus on what we at DPI call your Driving Force is guaranteed to waste resources and weaken your competitive position.

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Driving Force: The DNA of Strategy

by Greg Carolin —Senior Partner, DPI Africa

To achieve competitive supremacy, and deliver sustainable growth, a company needs to have a strategy that establishes a significant and sustainable point of differentiation — one that enables it to add unique value that competitors will have difficulty duplicating. Of course, most companies have a strategy of some sort. Yet few are able to create a clear definition of that single differentiating factor — if there is one — that has enabled the company to be successful in the past. Still fewer have looked down the road to create a scenario, or strategy, that will enable them to be successful in the environment they will face in the future.

We call that defining factor the Driving Force. It is the component of the business that is unique to that company and is the key determinant of the choices management makes with regard to future products, future customers, and future markets. Without an understanding of, and agreement upon, that Driving Force, management will have a difficult time creating a strategy for the future that will breed supremacy over its competitors.

What Makes Your Strategy Tick?

The best way to determine whether a CEO and the management team have a strategy is to observe them in meetings as they try to decide whether or not to pursue an opportunity. When we have sat in on such meetings, we have noticed that management would put each opportunity through a hierarchy of different filters. The ultimate filter, however, was always whether there was a fit between the products, customers, and markets that the opportunity brought and one key component of the organisation. If they found a fit there, they would feel comfortable with that opportunity, and would proceed with it. If they did not find a fit there, they would pass.

Different companies, however, looked for different kinds of fit. Some companies looked for a fit between similar products. Others were less concerned about the similarity of products than about a fit with the customer base. Still others were not interested in the similarity of products or of the customer base, but rather a fit with the technology involved, or a fit with its sales and marketing method, or its distribution system. Some quick examples:

What fit was Daimler looking for when it bought Chrysler? Obviously, the fit was one between similar products. Johnson & Johnson, on the other hand, looked for an entirely different kind of fit when it acquired Neutrogena creams from one company, and the clinical laboratories of Kodak, each bringing dramatically different products. J&J was looking for a fit between the class of customers served — doctors, nurses, patients, and mothers — the heartbeat of J&J's strategy.

Ten Strategic Areas

The next question that came to mind was: "What are the areas of an organisation that cause management to decide how to allocate resources or choose opportunities?" We discovered that each of the more than five hundred-plus companies we had worked with consisted of ten basic components.

1. Every company offered a *product or service* for sale.

2. Every company sold its product(s) or service(s) to a certain *class of customer or end user*.

3. These customers or end users always resided in certain categories of *markets*.

4. Every company employed *technology* in its product or service.

5. Every company had a *production* facility located somewhere that had a certain amount of *capacity* or certain in-built *capabilities* in the making of a product or service.

Our contention is that one of the ten components of a company's operation is the strategic engine behind the decisions that management makes.

6. Every company used certain *sales or marketing methods* to acquire customers for its product or service.

7. Every company employed certain *distribution methods* to get a product from its location to a customer's location.

8. Every company made use of *natural resources* to one degree or another.

9. Every company monitored its *size and growth* performance.

10. Every company monitored its *return or profit* performance.

As a result of these observations, two key messages emerged. First, all ten areas exist in every company. Second, and more importantly, one of the ten areas tends to dominate the strategy of a company consistently over time. Favouring or leveraging this one area of the business time and again determines how management allocates resources or chooses opportunities. In other words, one component of the business is the engine of the strategy — that company's so-called DNA, or Driving Force. This Driving Force determines the array of products, customers, industries, and geographic markets that management chooses to emphasise more and emphasise less.

In order to explain this concept more clearly, one needs to look at an organisation as a body in motion. Every organisation, on any one day, is an organism that has movement and momentum and is going forward in some direction. Our contention is that one of the ten components of a company's operation is the strategic engine behind the decisions that management makes. Some typical examples follow.

A Strategy Driven by a Single Product or Service

A company that is pursuing a *product*-driven strategy has deliberately decided to limit its strategy to a singular product and its derivatives. Therefore, all future products and the "current" product are linear, genetic extrapolations of the very first product that company ever made. In other words, the look, form, or function of the product stays constant over time. Such companies grow by offering product derivatives that fragment and grow the market. Examples are Coca-Cola (soft drinks), Boeing (airplanes), Michelin (tires), Harley-Davidson (motorcycles), and many of the automobile manufacturers (GM, Toyota, Volkswagen).

Strategy Driven by a User or Customer Class

A company that is driven by a *user or customer class* has deliberately decided to restrict its strategy to a describable and circumscribable class of end users or customers (people). These end users or customers are the only ones the company serves. The company then identifies a common need of the user or customer class and responds with a wide array of genetically unrelated products. Examples are Johnson & Johnson (doctors, nurses, patients, and mothers), AARP (adults over 50), and Cancer Treatment Centers of America (patients with advanced stage or complex cancers). User/customer class companies grow by expanding the pool of users they serve and/or by expanding the set of needs they address.

Strategy Driven by Market Type or Category

A company that is driven by *market category* has deliberately decided to limit its strategy to a describable marketplace or market type. The company identifies a common need among buyers in that market and then responds with a wide variety of genetically unrelated products, adding to this stable as market conditions change. Examples are Staples (supplies for offices), Disney's concept of "wholesome entertainment for the family" and Singapore Technologies Aerospace (the largest non-airline MRO in the world).

Strategy Driven by Technology/Know-How

A *technology*-driven company is rooted in some basic, hard technology, such as chemistry or physics, or some soft technology, such as know-how or expertise. The company then goes looking for applications for its technology or expertise. Once it finds an application, the company develops a product that is infused with its technology for that application, and offers the new product to all the customers in that market with a similar application. While growing that business, the company goes around looking for another application to repeat the same process. Examples are DuPont (chemistry), 3M (polymers), and Intel (microprocessor architecture).

UPS is an example of a company that transformed itself by changing its Driving Force from Distribution Method (package delivery network) to Know-How (logistics), opening up a range of new service opportunities.

Strategy Driven by Production Capability or Capacity

A company driven by *production capacity* has a substantial investment in its production facility. The key phrase heard around the company is "keep it humming" — three shifts per day, seven days per week, 365 days per year. The strategy is to keep the production facility operating at a maximum level of capacity. Examples are steel companies, refineries, and pulp and paper companies. Service related companies, firms such as airlines and hotels, are also often "production capacity" driven.

Any strategy needs to accommodate the environment the company will encounter in the future, and that environment could be very different from the one encountered in the past.

A company driven by production *capability* has incorporated some distinctive capabilities into its production process that allows it to do things to its products that its competitors have difficulty duplicating. As a result, when the company goes looking for opportunities, it restricts its search to opportunities in which these capabilities can be exploited. Specialty converters in a variety of industries fit this category.

Strategy Driven by Sales or Marketing Method

When a strategy is driven by a *sales or marketing method*, the company has a unique or distinctive method of selling to its customers, such as Avon and Mary Kay. All the opportunities it pursues must utilise that selling method.

Strategy Driven by Distribution Method

A company driven by a *distribution method* has a unique or distinctive approach to moving tangible or intangible things from one place to another, such as Wal-Mart, FedEx and NetFlix.

Strategy Driven by Natural Resources

A company whose entire purpose is the pursuit and exploitation of *natural resources* such as oil, gas, ore, gold, timber, or other resources, such as Exxon, Shell, and Newmont Gold.

Strategy Driven by Size or Growth

A company driven by *size or growth* is usually a conglomerate of unrelated businesses. Its sole strategic interest is growth and size for their own sake.

Strategy Driven by Return or Profit

A company whose sole strategic focus is a minimum level of return or profit is also a conglomerate of unrelated businesses. Western examples such as Tyco, AlliedSignal, and General Electric are decreasing, but due to different market and political structures, return/profit firms remain prevalent in Asia, such as Jardine Matheson (Hong Kong), Keppel Group (Singapore), Fuson International (China), CP Group (Thailand) and Chaebol (Korea).

Key Strategic Questions

When we take a client through our Strategic Thinking Process, we ask the CEO and the management team to debate three key questions to enable them to identify the company's current and future Driving Force.

> **QUESTION 1:** Which component of your business is *currently* driving your strategy and has made you look as you look today in terms of *current* products, customers, and markets?

If there are ten people in the room, how many answers do you think we get? Ten, and sometimes more … the reason is simple. Each person has a different perception as to which component of the business is the Driving Force behind the company's strategy, often due to their functional bias. These different interpretations lead to different visions of where the organisation is headed. The difficulty, while this is going on, is that each member of the team makes decisions that pull the company left and right, so the company zigzags its way forward without establishing supremacy in any one sandbox. The inevitable result is that resources are wrongly employed and growth is patchy.

The Driving Force the company chooses as the engine of its strategy will determine the choices its management makes as to the products, customers, and markets that they will and will not emphasise in the future.

The methodology we bring to bear at DPI encourages management to look back at the history of decisions they have made and, by doing so, recognise a pattern. Typically, most of their decisions were made to favour one component of the business. Thus, the management team recognises the *current* Driving Force behind their *current* strategy.

QUESTION 2: Which component of the company *should* be the Driving Force behind the company's strategy *in the future*?

Future strategy should not necessarily be an extrapolation of the current strategy. Any strategy needs to accommodate the environment the company will encounter in the future, and that environment could be very different from the one encountered in the past. This question is the basis for envisioning "breakaway" strategies that explode the assumptions of the current sandbox to envision a new one that offers significantly greater opportunities to establish supremacy over competitors. Such a strategy enables the company to create, or reposition itself in, a future sandbox in a way that offers it more growth and profitability than competitors, and control of that sandbox.

Since different Driving Forces bring different growth characteristics, the desire to achieve higher growth is often the primary rationale behind a *change of Driving Force*. Montblanc is an example; from product (pens) to customer/user class (luxury accessory needs of business executives). Teckwah Industrial Corporation, a DPI client based in Singapore, is a rarity, having successfully changed its Driving Force twice in recent years.

QUESTION 3: What impact will this Driving Force have on the choices the company must make regarding future products, future customers, and future markets?

The Driving Force the company chooses as the engine of its strategy will determine the choices its management makes as to the products, customers, and markets that they will and will not emphasise in the future. These choices will shape the profile of the company, and maybe even the industry, over time. Each Driving Force will cause management to make very different choices that will make the company look very differently than the way it looks today. In other words, just as your personal DNA determines what you look like and why you look differently from other people, the same is true for your corporate DNA. The company component you select as the DNA of its strategy will determine what that company will eventually look like and what will differentiate it from its competitors.

The concept of Driving Force — to us at DPI — is fundamental for any successful CEO to understand. It is the recognition and understanding, by all members of the management team, of that one predominant component of the business — its Driving Force — that will allow the organisation to formulate a strategy based on a distinctive and sustainable advantage that can give it long-term supremacy over its competition.

The perils of failing to gain consensus on the business' Driving Force and resultant strategy can be deadly. At what turned out to be the key crossroads of its story, Digital Equipment Corporation had three different management camps that the CEO never rationalised, leading to schizophrenic strategic behaviour. The company stagnated before eventually being acquired by Compaq (and that's another story!)

Each Driving Force brings with it a requirement to excel in a very different set of skills. No company can outexcel its competitors across the board. One cannot out-muscle every competitor in the market. Therefore, it becomes important to identify the company's Driving Force and the corresponding Areas of Excellence, which are then given preferential treatment. These areas keep the strategy strong and healthy and build a long-term strategic advantage over competitors.