READING 3.1

Are You Sure You Have a Strategy?

Donald C. Hambrick and James W. Fredrickson

Executive Overview

After more than 30 years of hard thinking about strategy, consultants and scholars have provided an abundance of frameworks for analyzing strategic situations. Missing, however, has been any guidance as to what the product of these tools should be—or what actually constitutes a strategy. Strategy has become a catchall term used to mean whatever one wants it to mean. Executives now talk about their "service strategy," their "branding strategy," their "acquisition strategy," or whatever kind of strategy that is on their mind at a particular moment. But strategists—whether they are CEOs of established firms, division presidents, or entrepreneurs—must have a strategy, an integrated, overarching concept of how the business will achieve its objectives. If a business must have a single, unified strategy, then it must necessarily have parts. What are those parts? We present a framework for strategy design, arguing that a strategy has five elements, providing answers to five questions—arenas: where will we be active? vehicles: how will we get there? differentiators: how will we win in the marketplace? staging: what will be our speed and sequence of moves? economic logic: how will we obtain our returns? Our article develops and illustrates these domains of choice, particularly emphasizing how essential it is that they form a unified whole.

Consider these statements of strategy drawn from actual documents and announcements of several companies:

> *"Our strategy is to be the low-cost provider." "We're pursuing a global strategy."*
>
> *"The company's strategy is to integrate a set of regional acquisitions."*
>
> *"Our strategy is to provide unrivaled customer service."*
>
> *"Our strategic intent is to always be the first-mover."*
>
> *"Our strategy is to move from defense to industrial applications."*

What do these grand declarations have in common? Only that none of them is a strategy. They are strategic threads, mere elements of strategies. But they are no more strategies than Dell Computer's strategy can be summed up as selling direct to customers, or than Hannibal's strategy was to use elephants to cross the Alps. And their use reflects an increasingly common syndrome—the catchall fragmentation of strategy.

After more than 30 years of hard thinking about strategy, consultants and scholars have provided executives with an abundance of frameworks for analyzing strategic situations. We now have five-forces analysis, core competencies, hypercompetition, the resource-based view of the firm, value chains, and a host of other helpful, often powerful, analytic tools.[1] Missing, however, has been any guidance as to what the product of these tools should be—or what actually constitutes a strategy. Indeed, the use of specific strategic tools tends to draw the strategist toward narrow, piecemeal conceptions of strategy that match the narrow scope of the tools themselves. For example, strategists who are drawn to Porter's five-forces analysis tend to think of strategy as a matter of selecting industries and segments within them. Executives who dwell on "co-opetition" or other game-theoretic frameworks see their world as a set of choices about dealing with adversaries and allies.

This problem of strategic fragmentation has worsened in recent years, as narrowly specialized academics and consultants have started plying their tools in the name of strategy. But strategy is not pricing. It is not capacity decisions. It is not setting R&D budgets. These are pieces of strategies, and they cannot be decided—or even considered—in isolation.

Imagine an aspiring painter who has been taught that colors and hues determine the beauty of a picture. But what can really be done with such advice? After all, magnificent pictures require far more than choosing colors: attention to shapes and figures, brush technique, and finishing processes. Most importantly, great paintings depend on artful combinations of *all* these elements. Some combinations are classic, tried-and-true; some are inventive and fresh; and many combinations—even for avant-garde art—spell trouble.

Strategy has become a catchall term used to mean whatever one wants it to mean. Business magazines now have regular sections devoted to strategy, typically discussing how featured firms are dealing with distinct issues, such as customer service, joint ventures, branding, or e-commerce. In turn, executives talk about their "service strategy," their "joint venture strategy," their "branding strategy," or whatever kind of strategy is on their minds at a particular moment.

Executives then communicate these strategic threads to their organizations in the mistaken belief that doing so will help managers make tough choices. But how does knowing that their firm is pursuing an "acquisition strategy" or a "first-mover strategy" help the vast majority of managers do their jobs or set priorities? How helpful is it to have new initiatives announced periodically with the word strategy tacked on?

When executives call everything strategy, and end up with a collection of strategies, they create confusion and undermine their own credibility. They especially reveal that they don't really have an integrated conception of the business.

Many readers of works on the topic know that strategy is derived from the Greek *strategos*, or "the art of the general." But few have thought much about this important origin. For example, what is special about the general's job, compared with that of a field commander? The general is responsible for multiple units on multiple fronts and multiple battles over time. The general's challenge—and the value-added of generalship—is in orchestration and comprehensiveness. Great generals think about the whole. They have a strategy; it has pieces, or elements, but they form a coherent whole. Business generals, whether they are CEOs of established firms, division presidents, or entrepreneurs, must also have a strategy—a central, integrated, externally oriented concept of how the business will achieve its objectives. Without a strategy, time and resources are easily wasted on piecemeal, disparate activities; mid-level managers will fill the void with their own, often parochial, interpretations of what the business should be doing; and the result will be a potpourri of disjointed, feeble initiatives.

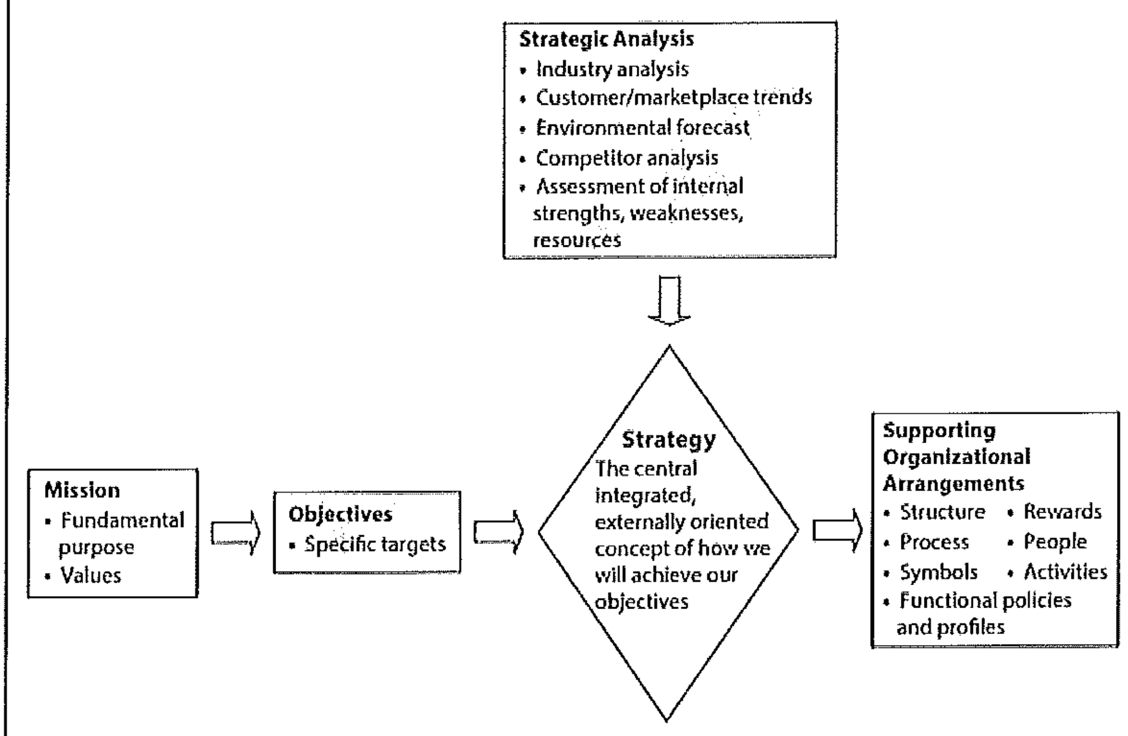
Examples abound of firms that have suffered because they lacked a coherent strategy. Once a towering force in retailing, Sears spent 10 sad years vacillating between an emphasis on hard goods and soft goods, venturing in and out of ill-chosen businesses, failing to differentiate itself in any of them, and never building a compelling economic logic. Similarly, the once-unassailable Xerox is engaged in an attempt to revive itself, amid criticism from its own executives that the company lacks a strategy. Says one: "I hear about asset sales, about refinancing, but I don't hear anyone saying convincingly, 'Here is your future.'"[2]

A strategy consists of an integrated set of choices, but it isn't a catchall for every important choice an executive faces. As Figure 1 portrays, the company's mission and objectives, for example, stand apart from, and guide, strategy. Thus we would not speak of the commitment of the *New York Times* to be America's newspaper of record as part of its strategy. GE's objective of being number one or number two in all its markets drives its strategy, but is not strategy itself. Nor would an objective of reaching a particular revenue or earnings target be part of a strategy.

Similarly, because strategy addresses how the business intends to engage its environment, choices about internal

FIGURE 1

Putting Strategy in Its Place



organizational arrangements are not part of strategy. So we should not speak of compensation policies, information systems, or training programs as being strategy. These are critically important choices, which should reinforce and support strategy; but they do not make up the strategy itself.[3] If everything important is thrown into the strategy bucket, then this essential concept quickly comes to mean nothing.

We do not mean to portray strategy development as a simple, linear process. Figure 1 leaves out feedback arrows and other indications that great strategists are iterative, loop thinkers.[4] The key is not in following a sequential process, but rather in achieving a robust, reinforced consistency among the elements of the strategy itself.

The Elements of Strategy

If a business must have a strategy, then the strategy must necessarily have parts. What are those parts? As Figure 2 portrays, a strategy has five elements, providing answers to five questions:

- Arenas: where will we be active?
- Vehicles: how will we get there?
- Differentiators: how will we win in the marketplace?
- Staging: what will be our speed and sequence of moves?
- Economic logic: how will we obtain our returns?

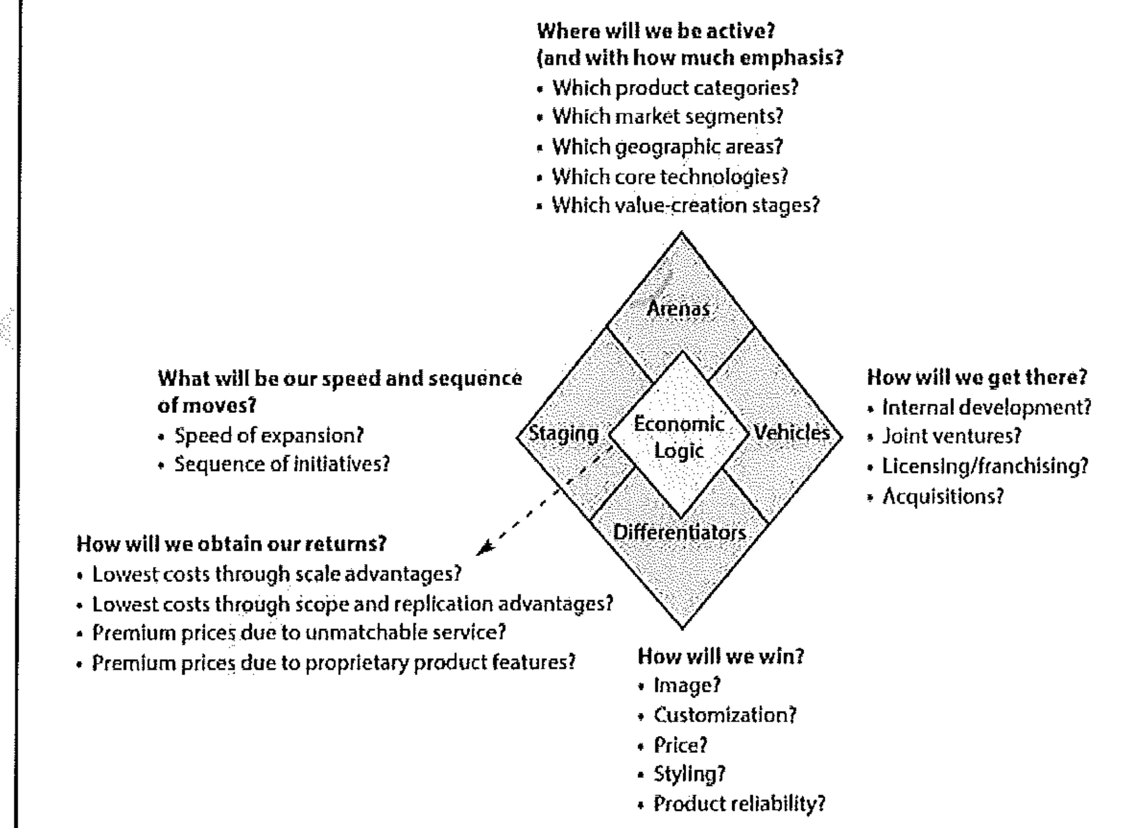
This article develops and illustrates these domains of choice, emphasizing how essential it is that they form a unified whole. Where others focus on the inputs to strategic thinking (the top box in Figure 1), we focus on the output—the composition and design of the strategy itself.

Arenas

The most fundamental choices strategists make are those of where, or in what arenas, the business will be active. This is akin

FIGURE 2

The Five Major Elements of Strategy



to the question Peter Drucker posed decades ago: "What business will we be in?"[5] The answer, however, should not be one of broad generalities. For instance, "We will be the leader in information technology consulting" is more a vision or objective than part of a strategy. In articulating arenas, it is important to be as specific as possible about the product categories, market segments, geographic areas, and core technologies, as well as the value-adding stages (e.g., product design, manufacturing, selling, servicing, distribution) the business intends to take on.

For example, as a result of an in-depth analysis, a biotechnology company specified its arenas: the company intended to use T-cell receptor technology to develop both diagnostic and therapeutic products for battling a certain class of cancers; it chose to keep control of all research and product development activity, but to outsource manufacturing and a major part of the clinical testing process required for regulatory approvals. The company targeted the U.S. and major European markets as its geographic scope. The company's chosen arenas were highly specific, with products and markets even targeted by name. In other instances, especially in businesses with a wider array of products, market segments, or geographic scope, the strategy may instead reasonably specify the classes of, or criteria for, selected arenas—e.g., women's high-end fashion accessories, or countries with per-capita GDP over $5,000. But in all cases, the challenge is to be as specific as possible.

In choosing arenas, the strategist needs to indicate not only where the business will be active, but also how much emphasis will be placed on each. Some market segments, for instance, might be identified as centrally important, while others are deemed secondary. A strategy might reasonably be centered on one product category, with others—while necessary for defensive purposes or for offering customers a full line—being of distinctly less importance.

Vehicles

Beyond deciding on the arenas in which the business will be active, the strategist also needs to decide how to get there. Specifically, the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage should be the result of deliberate strategic choice. If we have decided to expand our product range, are we going to accomplish that by relying on organic, internal product development, or are there other vehicles—such as joint ventures or acquisitions—that offer a better means for achieving our broadened scope? If we are committed to international expansion, what should be our primary modes, or vehicles—green-field startups, local acquisitions, licensing, or joint ventures? The executives of the biotechnology company noted earlier decided to rely on joint ventures to achieve their new presence in Europe, while committing to a series of tactical acquisitions for adding certain therapeutic products to complement their existing line of diagnostic products.

The means by which arenas are entered matters greatly. Therefore, selection of vehicles should not be an afterthought or viewed as a mere implementation detail. A decision to enter new product categories is rife with uncertainty. But that uncertainty may vary immensely depending on whether the entry is attempted by licensing other companies' technologies, where perhaps the firm has prior experience, or by acquisitions, where the company is a novice. Failure to explicitly consider and articulate the intended expansion vehicles can result in the hoped-for entry's being seriously delayed, unnecessarily costly, or totally stalled.

There are steep learning curves associated with the use of alternative expansion modes. Research has found, for instance, that companies can develop highly advantageous, well-honed capabilities in making acquisitions or in managing joint ventures.[6] The company that uses various vehicles on an ad hoc or patchwork basis, without an overarching logic and programmatic approach, will be at a severe disadvantage compared with companies that have such coherence.

Differentiators

A strategy should specify not only where a firm will be active (arenas) and how it will get there (vehicles), but also how the firm will win in the marketplace—how it will get customers to come its way. In a competitive world, winning is the result of differentiators, and such edges don't just happen. Rather, they require executives to make upfront, conscious choices about which weapons will be assembled, honed, and deployed to beat competitors in the fight for customers, revenues, and profits. For example, Gillette uses its proprietary product and process technology to develop superior razor products, which the company further differentiates through a distinctive, aggressively advertised brand image. Goldman Sachs, the investment bank, provides customers unparalleled service by maintaining close relationships with client executives and coordinating the array of services it offers to each client. Southwest Airlines attracts and retains customers by offering the lowest possible fares and extraordinary on-time reliability.

Achieving a compelling marketplace advantage does not necessarily mean that the company has to be at the extreme on one differentiating dimension; rather, sometimes having the best combination of differentiators confers a tremendous marketplace advantage. This is the philosophy of Honda in automobiles. There are better cars than Hondas, and there are less expensive cars than Hondas; but many car buyers believe that there is no better value—quality for the price—than a Honda, a strategic position the company has worked hard to establish and reinforce.

Regardless of the intended differentiators—image, customization, price, product styling, after-sale services, or others—the critical issue for strategists is to make up-front, deliberate choices. Without that, two unfortunate outcomes loom. One is that, if top management doesn't attempt to create unique differentiation, none will occur. Again, differentiators don't just materialize; they are very hard to achieve. And firms without them lose.

The other negative outcome is that, without up-front, careful choices about differentiators, top management may seek to offer customers across-the-board superiority, trying simultaneously to outdistance competitors on too broad an array of differentiators—lower price, better service, superior styling, and so on. Such attempts are doomed, however, because of their inherent inconsistencies and extraordinary resource demands. In selecting differentiators, strategists should give explicit preference to those few forms of superiority that are mutually reinforcing (e.g., image and product styling), consistent with the firm's resources and capabilities, and, of course, highly valued in the arenas the company has targeted.

Staging

Choices of arenas, vehicles, and differentiators constitute what might be called the substance of a strategy—what executives plan to do. But this substance cries out for decisions on a fourth element—staging, or the speed and sequence of major moves to take in order to heighten the likelihood of success.[7] Most strategies do not call for equal, balanced initiatives on all fronts at all times. Instead, usually some initiatives must come first, followed only then by others, and then still others. In erecting a great building, foundations must be laid, followed by walls, and only then the roof.

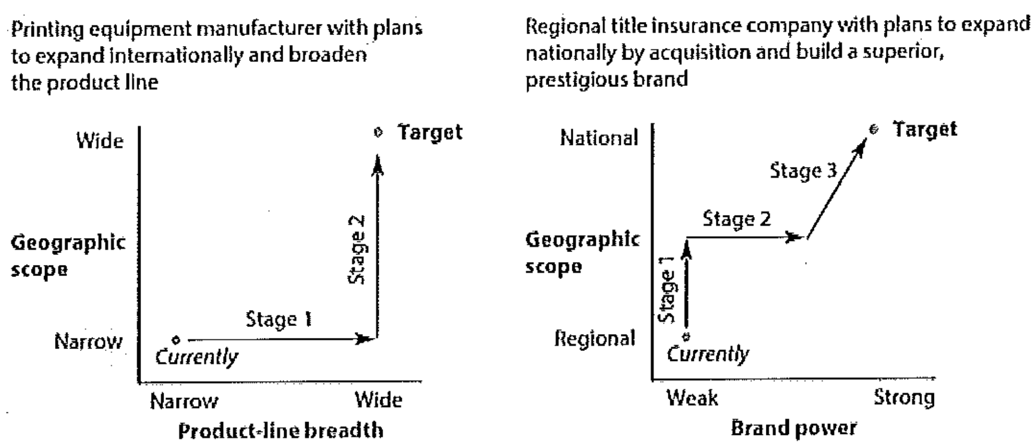
Of course, in business strategy there is no universally superior sequence. Rather the strategist's judgment is required. Consider a printing equipment company that committed itself to broadening its product line and expanding internationally. The executives decided that the new products should be added first, in stage one, because the elite sales agents they planned to use for international expansion would not be able or willing to represent a narrow product line effectively. Even though the executives were anxious to expand geographically, if they had tried to do so without the more complete line in place, they would have wasted a great deal of time and money. The left half of Figure 3 shows their two-stage logic.

The executives of a regional title insurance company, as part of their new strategy, were committed to becoming national in scope through a series of acquisitions. For their differentiators, they planned to establish a prestigious brand backed by aggressive advertising and superb customer service. But the executives faced a chicken-and-egg problem: they couldn't make the acquisitions on favorable terms without the brand image in place; but with only their current limited geographic scope, they couldn't afford the quantity or quality of advertising needed to establish the brand. They decided on a three-stage plan (shown in the right half of Figure 3): 1) make selected acquisitions in adjacent regions, hence becoming a super-regional in size and scale; 2) invest moderately heavily in advertising and brandbuilding; 3) make acquisitions in additional regions on more favorable terms (because of the enhanced brand, a record of growth, and, they hoped, an appreciated stock price) while simultaneously continuing to push further in building the brand.

Decisions about staging can be driven by a number of factors. One, of course, is resources. Funding and staffing every envisioned initiative, at the needed levels, is generally not possible at the outset of a new strategic campaign. Urgency is a second factor affecting staging; some elements of a strategy may face brief windows of opportunity, requiring that they be pursued first and aggressively. A third factor is the achievement of credibility. Attaining certain thresholds—in specific arenas, differentiators, or vehicles—can be critically valuable for attracting resources and stakeholders that are needed for other parts of the strategy. A fourth factor is the pursuit of early wins. It may be far wiser to successfully tackle a part of the strategy that is relatively doable before attempting more challenging or unfamiliar initiatives. These are only some of the factors that might go into decisions about the speed and

FIGURE 3

Examples of Strategic Staging



sequence of strategic initiatives. However, since the concept of staging has gone largely unexplored in the strategy literature, it is often given far too little attention by strategists themselves.

Economic Logic

At the heart of a business strategy must be a clear idea of how profits will be generated—not just some profits, but profits above the firm's cost of capital.[9] It is not enough to vaguely count on having revenues that are above costs. Unless there's a compelling basis for it, customers and competitors won't let that happen. And it's not enough to generate a long list of reasons why customers will be eager to pay high prices for your products, along with a long list of reasons why your costs will be lower than your competitors'. That's a sure-fire route to strategic schizophrenia and mediocrity.

The most successful strategies have a central economic logic that serves as the fulcrum for profit creation. In some cases, the economic key may be to obtain premium prices by offering customers a difficult-to-match product. For instance, the *New York Times* is able to charge readers a very high price (and strike highly favorable licensing arrangements with on-line information distributors) because of its exceptional journalistic quality; in addition, the *Times* is able to charge advertisers high prices because it delivers a large number of dedicated, affluent readers. ARAMARK, the highly profitable international food-service company, is able to obtain premium prices from corporate and institutional clients by offering a level of customized service and responsiveness that competitors cannot match. The company seeks out only those clients that want superior food service and are willing to pay for it. For example, once domestic airlines became less interested in distinguishing themselves through their in-flight meals, ARAMARK dropped that segment.

In some instances, the economic logic might reside on the cost side of the profit equation. ARAMARK—adding to its pricing leverage—uses its huge scale of operations and presence in multiple market segments (business, educational, healthcare, and correctional-system food service) to achieve a sizeable cost advantage in food purchases—an advantage that competitors cannot duplicate. 6KN Sinter Metals, which has grown by acquisition to become the world's major powdered-metals company, benefits greatly from its scale in obtaining raw materials and in exploiting, in country after country, its leading-edge capabilities in metal-forming processes.

In these examples the economic logics are not fleeting or transitory. They are rooted in the firms' fundamental and relatively enduring capabilities. ARAMARK and the *New York Times* can charge premium prices because their offerings are superior in the eyes of their targeted customers, customers highly value that superiority, and competitors can't readily imitate the offerings. ARAMARK and 6KN Sinter Metals have lower costs than their competitors because of systemic advantages of scale, experience, and know-how sharing. Granted, these leads may not last forever or be completely unassailable, but the economic logics that are at work at these companies account for their abilities to deliver strong year-in, year-out profits.

The Imperative of Strategic Comprehensiveness

By this point, it should be clear why a strategy needs to encompass all five elements—arenas, vehicles, differentiators, staging, and economic logic. First, all five are important enough to require intentionality. Surprisingly, most strategic plans emphasize one or two of the elements without giving any consideration to the others. Yet to develop a strategy without attention to all five leaves critical omissions.

Second, the five elements call not only for choice, but also for preparation and investment. All five require certain capabilities that cannot be generated spontaneously.

Third, all five elements must align with and support each other. When executives and academics think about alignment, they typically have in mind that internal organizational arrangements need to align with strategy (in tribute to the maxim that "structure follows strategy"), but few pay much attention to the consistencies required among the elements of the strategy itself.

Finally, it is only after the specification of all five strategic elements that the strategist is in the best position to turn to designing all the other supporting activities—functional policies, organizational arrangements, operating programs, and processes—that are needed to reinforce the strategy. The five elements of the strategy diamond can be considered the hub or central nodes for designing a comprehensive, integrated activity system.[10]

Comprehensive Strategies at IKEA and Brake Products International

IKEA: Revolutionizing an Industry

So far we have identified and discussed the five elements that make up a strategy and form our strategy diamond. But a strategy is more than simply choices on these five fronts: it is an integrated, mutually reinforcing set of choices—choices that form a coherent whole. To illustrate the importance of this coherence we will now discuss two examples of fully elaborated strategy diamonds. As a first illustration, consider the strategic intent of IKEA, the remarkably successful global furniture retailer. IKEA's strategy over the past 25 years has been highly coherent, with all five elements reinforcing each other.

The arenas in which IKEA operates are well defined: the company sells relatively inexpensive, contemporary, Scandinavian-style furniture and home furnishings. IKEA's target market is young, primarily white-collar customers. The geographic scope is worldwide, or at least all countries where socioeconomic and infrastructure conditions support the concept. IKEA is not only a retailer, but also maintains control of product design to ensure the integrity of its unique image and to accumulate unrivaled expertise in designing for efficient manufacturing. The company, however, does not manufacture, relying instead on a host of long-term suppliers who ensure efficient, geographically dispersed production.

As its primary vehicle for getting to its chosen arenas, IKEA engages in organic expansion, building its own wholly owned stores. IKEA has chosen not to make acquisitions of existing retailers, and it engages in very few joint ventures. This reflects top management's belief that the company needs to fully control local execution of its highly innovative retailing concept.

IKEA attracts customers and beats competitors by offering several important differentiators. First, its products are of very reliable quality but are low in price (generally 20 to 30 percent below the competition for comparable quality goods). Second, in contrast to the stressful, intimidating feeling that shoppers often encounter in conventional furniture stores, IKEA customers are treated to a fun, non-threatening experience, where they are allowed to wander through a visually exciting store with only the help they request. And third, the company strives to make customer fulfillment immediate. Specifically, IKEA carries an extensive inventory at each store, which allows a customer to take the item home or have it delivered the same day. In contrast, conventional furniture retailers show floor models, but then require a 6- to 10-week wait for the delivery of each special-order item.

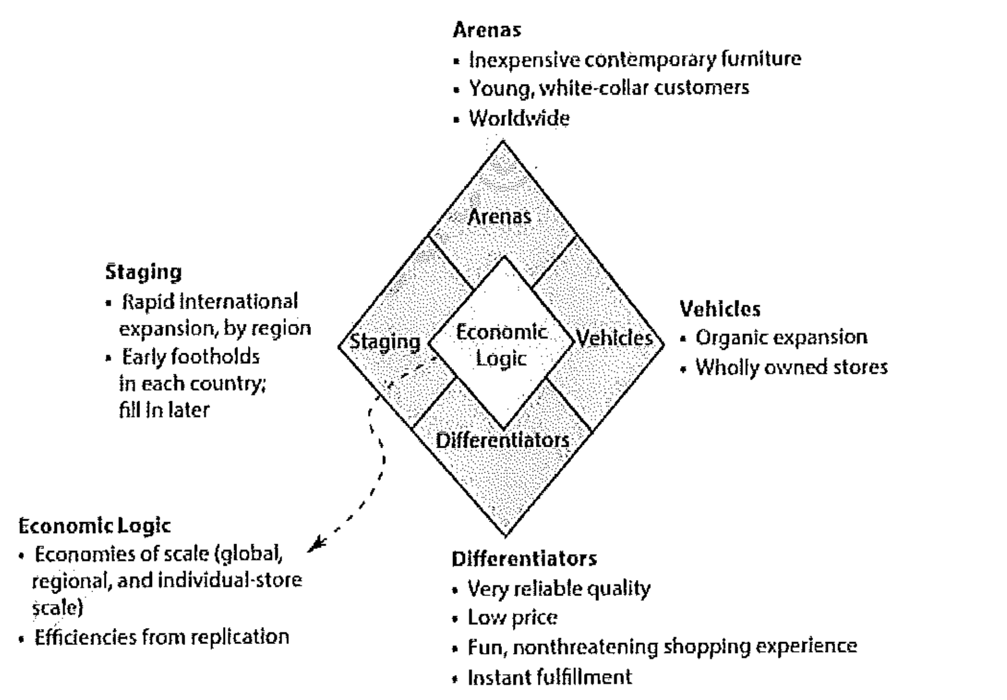
As for staging, or IKEA's speed and sequence of moves, once management realized that its approach would work in a variety of countries and cultures, the company committed itself to rapid international expansion, but only one region at a time. In general, the company's approach has been to use its limited resources to establish an early foothold by opening a single store in each targeted country. Each such entry is supported with aggressive public relations and advertising, in order to lay claim to the radically new retailing concept in that market. Later, IKEA comes back into each country and fills in with more stores.

The economic logic of IKEA rests primarily on scale economies and efficiencies of replication. Although the company doesn't sell absolutely identical products in all its geographic markets, IKEA has enough standardization that it can take great advantage of being the world's largest furniture retailer. Its costs from long-term suppliers are exceedingly low, and made even lower by IKEA's proprietary, easy-to-manufacture product designs. In each region, IKEA has enough scale to achieve substantial distribution and promotional efficiencies. And each individual store is set up as a high-volume operation, allowing further economies in inventories, advertising, and staffing. IKEA's phased international expansion has allowed executives to benefit, in country after country, from what they have learned about site selection, store design, store openings, and ongoing operations. They are vigilant, astute learners, and they put that learning to great economic use.

Note how all of IKEA's actions (shown in Figure 4) fit together. For example, consider the strong alignment between

FIGURE 4

IKEA's Strategy



its targeted arenas and its competitive differentiators. An emphasis on low price, fun, contemporary styling, and instant fulfillment is well suited to the company's focus on young, first-time furniture buyers. Or consider the logical fit between the company's differentiators and vehicles—providing a fun shopping experience and instant fulfillment requires very intricate local execution, which can be achieved far better through wholly owned stores than by using acquisitions, joint ventures, or franchises. These alignments, along with others, help account for IKEA's long string of years with double-digit sales growth, and current revenues of $8 billion.

The IKEA example allows us to illustrate the strategy diamond with a widely familiar business story. That example, however, is admittedly retrospective, looking backward to interpret the company's strategy according to the framework. But the real power and role of strategy, of course, is in looking forward. Based on a careful and complete analysis of a company's environment, marketplace, competitors, and internal capabilities, senior managers need to craft a strategic intent for their firm. The diamond is a useful framework for doing just that, as we will now illustrate with a business whose top executives set out to develop a new strategy that would allow them to break free from a spiral of mediocre profits and stagnant sales.

Brake Products International: Charting a New Direction

The strategy diamond proved very useful when it was applied by the new executive team of Brake Products International (BPI), a disguised manufacturer of components used in braking and suspension systems for passenger cars and light trucks. In recent years, BPI had struggled as the worldwide auto industry consolidated. Its reaction had been a combination of disparate, half-hearted diversification initiatives, alternating with across-the-board expense cuts. The net result, predictably, was not good, and a new management team was brought in to try to revive performance. As part of this turnaround effort, BPI's new executives developed a new strategic intent by making critical decisions for each of the five elements—arenas, vehicles, differentiators, staging, and economic logic. We will not attempt to convey the analysis that gave rise to their choices, but rather (as with the IKEA example) will use BPI to illustrate the articulation of a comprehensive strategy.

For their targeted arenas, BPI executives committed to expanding beyond their current market scope of North American and European car plants by adding Asia, where global carmakers were rapidly expanding. They considered widening their product range to include additional auto components, but concluded that their unique design and manufacturing expertise was limited to brake and suspension components. They did decide, however, that they should apply their advanced capability in antilock-braking and electronic traction-control systems to develop braking products for off-road vehicles, including construction and farm equipment. As an additional commitment, executives decided to add a new service, systems integration, that would involve bundling BPI products with other related components, from other manufacturers, that form a complete suspension system, and then providing the carmakers with easy-to-handle, preassembled systems modules. This initiative would allow the carmakers to reduce assembly costs significantly, as well as to deal with a single suspension-system supplier, with substantial logistics and inventory savings.

The management team identified three major vehicles for achieving BPI's presence in their selected arenas. First, they were committed to organic internal development of new generations of leading-edge braking systems, including those for off-road vehicles. To become the preferred suspension-system integrator for the major auto manufacturers, executives decided to enter into strategic alliances with the leading producers of other key suspension components. Finally, to serve carmakers that were expanding their operations in Asia, BPI planned to initiate equity joint ventures with brake companies in China, Korea, and Singapore. BPI would provide the technology and oversee the manufacturing of leading-edge, high-quality antilock brakes; the Asian partners would take the lead in marketing and government relations.

BPI's executives also committed to achieving and exploiting a small set of differentiators. The company was already a technology leader, particularly in antilock-braking systems and electronic traction-control systems. These proprietary technologies were seen as centrally important and would be further nurtured. Executives also believed they could establish a preeminent position as a systems integrator of entire suspension assemblies. However, achieving this advantage would require new types of manufacturing and logistics capabilities, as well as new skills in managing relationships with other component companies. This would include an extensive e-business capability that linked BPI with its suppliers and customers. And finally, as one of the few brakes/suspension companies with a manufacturing presence in North America and Europe—and now in Asia—BPI executives concluded that they had a potential advantage—what they referred to as "global reach"—that was well suited to the global consolidation of the automobile industry. If BPI did a better job of coordinating activities among its geographically dispersed operations, it could provide the one-stop, low-cost global purchasing that the industry giants increasingly sought.

BPI's executives approached decisions about staging very deliberately. They felt urgency on various fronts, but also realized that, after several years of lackluster performance, the firm lacked the resources and credibility to do everything all at once. As is often the case, decisions about staging were most important for those initiatives where the gaps between the status quo and the strategic intent were the greatest. For example, executives decided that, in order to provide a clear, early sign of continued commitment to the major global auto manufacturers, a critical first step was to establish the joint ventures with brake manufacturers in Asia. They felt just as much urgency to gain a first-mover advantage as a suspension-system integrator. Therefore, management committed to promptly establish alliances with a select group of manufacturers of other suspension components, and to experiment with one pilot customer. These two sets of initiatives constituted stage one of BPI's strategic intent. For stage two, the executives planned to launch the full versions of the systems-integration and global-reach concepts, complete with aggressive marketing. Also in this second stage, expansion into the off-road vehicle market would commence.

BPI's economic logic hinged on securing premium prices from its customers, by offering them at least three valuable, difficult-to-imitate benefits. First, BPI was the worldwide technology leader in braking systems; car companies would pay to get access to these products for their new high-end models. Second, BPI would allow global customers an economical single source for braking products; this would save customers considerable contract administration and quality-assurance costs—savings that they would be willing to share. And third, through its alliances with major suspension-component manufacturers, BPI would be able to deliver integrated-suspension-system kits to customers—again saving customers in purchasing costs, inventory costs, and even assembly costs, for which they would pay a premium.

BPI's turnaround was highly successful. The substance of the company's strategy (shown in Figure 5) was critically important in the turnaround, as was the concise strategy statement that was communicated throughout the firm. As the CEO stated:

> *We've finally identified what we want to be, and what's important to us. Just as importantly, we've decided what we don't want to be, and have stopped wasting time and effort.*

FIGURE 5

BPI's Strategy