Charting Your Company’s Future

by W. Chan Kim and Renée Mauborgne
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Most STRATEGIC PLANNING

involves preparing dense
documents filled with numbers
and jargon. But building the
process AROUND A PICTURE
yields much better results.

by W. Chan Kim and
Renée Mauborgne

JOHN REED OF CITICORP was known for insisting that his executives get the big picture. As chairman and CEO, he demanded that business unit heads present their proposed strategies in no more than a few slides. Executives who failed to meet Reed’s exacting standards for brevity met with his unconcealed displeasure. And if it happened too often, they ran the risk of being left out of the loop on future strategy sessions.

Many leaders share Reed’s obsession with the big picture, yet our research shows that few companies actually have a clear strategic vision. The problem, we believe, stems from the strategic-planning process itself. The process usually involves the preparation of a large document—culled from a mishmash of data provided by people from various parts of the organization who often have conflicting agendas and poor communication. The report typically begins with a lengthy description of the industry and the competitive situation. There follows a discussion of how to increase market share here and there, capture new segments, or cut costs, which leads to an outline of numerous goals and initiatives. A full budget is almost invariably attached, as are lavish graphs and a surfeit of spreadsheets.
Revealing Your Strategic Profile

Academics and consultants have developed an armory of tools to help companies understand their strategic positioning, and many of those tools have yielded successful strategies. Our approach – drawing a strategy canvas – is unique because it does three things in one picture. First, it shows the strategic profile of an industry by depicting very clearly the factors that affect competition among industry players, as well as those that might in the future. Second, it shows the strategic profile of current and potential competitors, identifying which factors they invest in strategically. Finally, our approach draws the company’s strategic profile – or value curve – showing how it invests in the factors of competition and how it might invest in them in the future. The basic component of our strategy canvas, the value curve, is a tool we developed in our research and consulting work. (For a full description, see our previous HBR articles “Value Innovation: The Strategic Logic of High Growth,” January–February 1997, and “Creating New Market Space,” January–February 1999.)

To illustrate how a strategy canvas works, we’ll take you through one we’ve created for the short-haul airline industry. In the exhibit “The Strategy Canvas of the Short-Haul Airline Industry,” the factors of competition for the industry are listed on the horizontal axis. The vertical axis indicates the degree to which airlines and the providers of alternative services invest in the competitive factors. A relatively low position means a company invests less and, hence, offers less in that factor – or, in the case of price, asks for less. If you look at meals, for example, Southwest provides little in the way of free refreshment, though not as little as you would get if you drove yourself. By connecting the dots across all the factors for each player, you reveal the strategic profiles of Southwest, its direct competitors, and its main alternative, the car.

Southwest Airline’s profile is a perfect example of a good strategy, because it shows the three complementary qualities that characterize an effective strategy: focus, divergence, and a compelling tag line. If your company’s strategic profile does not clearly reveal those qualities, your strategy will likely be muddled, undifferentiated, and hard to communicate.

Focus. Every great strategy has focus, and a company’s strategic profile, or value curve, should clearly show it. Looking at Southwest’s profile, for example, you can see at once that the company emphasizes just three factors: friendly service, speed, and frequent point-to-point departures. By focusing in this way, Southwest has been able to price against car transportation; it doesn’t make extra investments in meals, lounges, and seating choices. By contrast, Southwest’s traditional competitors invest in all the airline industry’s competitive factors, which makes it much more difficult for them to match Southwest’s prices. Across-the-board investing is often a sign that competitors’ moves are setting a company’s agenda.

Divergence. When a company’s strategy is formed reactively as it tries to keep up with the competition, it loses its uniqueness. Consider the similarities in most airlines’ meals and business-class lounges. On the strategy canvas, therefore, reactive strategists tend to share a profile. Indeed, in the case of Southwest, we found that the value curves of the company’s competitors were virtually identical, which is why they share the same value curve in the exhibit. By contrast, the value curves of innovators’ strategies always stand apart. They might eliminate or substantially reduce investments in certain factors, or they might dramatically increase investments in others. Sometimes they even create new factors, thereby changing the industry’s overall profile. Southwest, for instance, pioneered point-to-point travel between midsize cities; previously, the industry operated through hub-and-spoke systems.

Compelling tag line. The final test of a good strategy picture is how well it lends itself to a tag line. “The speed of the plane at the price of the car – whenever you need it.” That’s the tag line of Southwest Airlines, or at least it could be. What could Southwest’s competitors say? Even the most proficient ad agency would have difficulty reducing the conventional offering of lunches, seat choices, lounges, and hub links with standard service, slower speeds, and higher prices into a memorable tag line. A good tag line must not only deliver a clear message but also advertise an offering truthfully, or else customers

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**W. Chan Kim** is the Boston Consulting Group Bruce D. Henderson Chair Professor of International Management at Insead in Fontainebleau, France. **Renée Mauborgne** is the Insead Distinguished Fellow and Affiliate Professor of Strategy and Management, and president of ITM, a strategy research group in Fontainebleau. Their last HBR article, “Knowing a Winning Business Idea When You See One,” appeared in the September–October 2000 issue. They can be reached at chan.kim@insead.edu and renee.mauborgne@insead.edu.
will lose trust and interest. If you can’t come up with a strong and authentic tag line, chances are you don’t have a strong strategy, either.

**Drawing Your Strategy Canvas**

Drawing a strategy canvas is never easy. Even identifying the key factors of competition is far from straightforward. As we shall see, the final list is usually very different from the first draft.

Assessing to what extent your company and its competitors offer the various factors is equally challenging. Most managers have a strong impression of how they and their competitors fare along one or two dimensions within their own scope of responsibility, but very few are able to see the overall dynamics of their industry. The catering manager of an airline, for instance, will be highly sensitive to how his airline compares in terms of refreshments. But that focus makes consistent measurement difficult; what seems to be a very big difference to the catering manager may not be so important to customers, who look at the complete offering. Some managers will define the competitive factors according to internal benefits. For example, a CIO might prize his company’s IT infrastructure for its data-mining capacity, a feature lost on most customers, who are more concerned with speed and ease of use.

Over the years, we’ve developed a structured process for drawing and discussing a strategy canvas that results in the creation of distinct and communicable strategies. It was recently adopted by a 150-year-old financial services group that we’ll call European Financial Services (EFS). Through the process, EFS developed a strategy that has boosted overall revenues by 30%.

**Visual Awakening.** A common mistake people make is to discuss changes to strategy before resolving differences of opinion about the current state of play. Another problem is that executives are often slow to accept the need for change; they may have a vested interest in the status quo, or they may feel that time will eventually vindicate their previous choices. Indeed, when we ask executives what prompts them to introduce change, they usually say that it takes a very determined leader or a real crisis.

Fortunately, we’ve found that asking executives to draw the value curve of their company’s strategy brings forcefully home the need for change. It serves as a wake-up call. That was certainly the experience at EFS, which had been struggling for a long time with an ill-defined and poorly communicated strategy. The company was also deeply divided: The top executives of EFS’s regional subsidiaries bitterly resented what they saw as the arrogance of the corporate executives. That conflict made it all the more difficult for EFS to come to grips with its strategic problems; before executives can chart a new strategy, they must reach a common understanding of the company’s current position.

EFS began the strategy process by bringing together more than 20 senior managers from subsidiaries in Europe, North America, Asia, and Australia and splitting them into two teams. One team was responsible for producing a value curve depicting EFS’s current strategic profile in its traditional corporate foreign exchange business relative to its competitors. The other team was charged with the same task for EFS’s emerging online foreign exchange business. They were given just 90 minutes because if EFS had a clear strategy, it would surely emerge quickly.

It turned out to be a painful experience. Both teams had heated debates about what constituted a competitive

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**The Strategy Canvas of the Short-Haul Airline Industry**

The strategic profile of Southwest Airlines differs dramatically from those of its competitors in the short-haul airline industry. Note how Southwest’s profile has more in common with the car’s than with the profile of other airlines.
factor and what the factors were. Different factors were important, in different regions and even for different customer segments. For example, Europeans argued that in its traditional business, EFS had to offer consulting services on risk management, given the perceived risk-averse nature of its customers. Americans, however, dismissed that as largely irrelevant; they stressed the value of speed and ease of use. Many people had pet ideas of which they were the sole champions. One person in the on-line team argued, for instance, that customers would be drawn in by the promise of instant confirmations of their transactions—a service no one else thought necessary. Despite these difficulties, the teams completed their assignments and presented their pictures in a general meeting of all participants. Their results are shown in the exhibit “The Strategy Canvas of Corporate Foreign Exchange.”

The pictures clearly revealed defects in the company’s strategy. EFS’s traditional and on-line value curves both demonstrated a serious lack of focus; the company was investing in diverse and numerous factors in both businesses. What’s more, EFS’s two curves were very similar to competitors’. Unsurprisingly, neither team could come up with a memorable tag line that was true to the team’s value curve. The pictures also highlighted contradictions: The on-line business, for example, had invested heavily in making the Web site easy to use—it had even won awards for this—but it became apparent that speed of use had been overlooked. EFS had one of the slowest Web sites in the business, which might explain why such a well-regarded site did a relatively poor job of attracting customers. The sharpest shocks, perhaps, came from comparing EFS’s strategy with its competitors’. The on-line group realized that its strongest competitor, which we’ve called Clearskies, had a focused, original, and easily communicable strategy: “One click E-Z FX.”

Faced with direct evidence of the company’s shortcomings, EFS’s executives could not defend what they had shown to be a weak, unoriginal, and poorly communicated strategy. Trying to draw the strategy canvases had made a stronger case for change than any argument based on numbers and words could have done.

**Visual Exploration.** Getting the wake-up call is just the first step; a strategy still must be conceived. So the next step is to send a team into the field, putting managers face-to-face with what they have to make sense of: how people use their products. This may seem obvious, yet we have found that managers all too often outsource this part of the strategy-making process. They rely on reports that other people (often at one or two removes from the world they report on) have put together.

There is simply no substitute for seeing for yourself. Great artists don't paint from other people's descriptions or even from photographs—they like to see the subject for themselves. The same is true for great strategists. Michael Bloomberg, New York City’s mayor, was hailed as a business genius for his realization that the providers of financial information needed also to provide on-line analytics to help users make sense of the data. But he would be the first to tell you that the idea should have been obvious to anybody who had ever watched traders using Reuters or Dow Jones Telerate. Before Bloomberg, traders used paper, pencil, and handheld calculators to take down price quotes and figure fair market values before making buy and sell decisions, which cost them both time and money and built in errors. Great strategic insights like this are less the product of genius than of getting into the field.

Obviously, the first port of call should be the customers. But you should not stop there. You should also go after lost customers, competitors’ customers, and, where relevant, the customers’ customers. And when the customer is not the same as the user, you need to extend your observations to the users, as Bloomberg did. You should not only talk to these people but also watch them in action. Identifying the array of complementary products and services that are consumed alongside your own may give you insight into bundling opportunities. For example, couples who go to the movies will engage a babysitter for the
night. Adding on-site child care services helped the Bert Claeyts Group, owners of the cinema chain Kinepolis, fill theaters in Europe. Finally, you need to look at how customers might find alternative ways of fulfilling the need that your product serves. For instance, driving is an alternative to flying, so its distinct advantages and characteristics should also be examined.

EFS sent its managers into the field for four weeks. Each was to interview and observe ten people involved in corporate foreign exchange, including lost customers, new customers, and the customers of EFS’s competitors. The managers also reached outside the industry’s traditional boundaries to companies that did not yet use corporate foreign exchange services but that might in the future, such as Internet-based companies with a global reach like Amazon.com. They interviewed the end users of corporate foreign exchange services—the accounting and treasury departments of companies. And finally, they looked at ancillary products and services that their customers used—in particular, treasury management and pricing simulations.

The field research overturned many of the conclusions managers had reached in the first step of the strategy creation process. For instance, account relationship managers, which nearly everyone had agreed were a key to success, and on which EFS prided itself, turned out to be the company’s Achilles’ heel. Customers hated wasting time dealing with relationship managers.

To everyone’s astonishment, the factor customers valued most was getting speedy confirmation of transactions, which only one manager had previously suggested was important. EFS’s managers saw that their customers’ accounting-department personnel spent a lot of time

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**The Strategy Canvas of Corporate Foreign Exchange**

![Strategy Canvas](image)

When EFS executives compared the strategic profiles of the main players in the traditional corporate foreign exchange business, they discovered some alarming similarities. In fact, EFS and its nonbank competitors actually shared the same profile. The profile of commercial banks, the other providers of corporate foreign exchange serviced, also resembled the EFS profile in many respects.

In this strategy canvas, EFS executives compared their company’s on-line strategy with that of Clearskies and other competitors. Note how focused and unique Clearskies’ profile is, while EFS’s is virtually identical to that of the other on-line foreign exchange service providers.
making phone calls to confirm that payments had been made and to check when they would be received. Numerous calls were also received on the same subject, and the time wasted in handling them was compounded by the necessity of making further calls to the foreign exchange provider, namely EFS or a competitor.

EFS’s teams were then sent back to the drawing board. This time, though, they had to propose a new strategy. Each team had to draw six new and different value curves, each one depicting a strategy that would make the company stand out in its market. By demanding six pictures from each team, we hoped to push managers to create innovative proposals. For each visual strategy, the teams also had to write a compelling tag line that captured the essence of the strategy and spoke directly to buyers. Suggestions included “Leave It to Us,” “Make Me Smarter,” and “Transactions in Trust.”

**Visual Strategy Fair.** After two weeks of drawing and redrawing, the teams presented their strategy canvases at what we call a “visual strategy fair.” Attendees included senior corporate executives but consisted mainly of representatives of EFS’s external constituencies, the kinds of people the managers had met with during their field trips. In just two hours, the teams presented all 12 curves, figuring that any idea that takes more than ten minutes to communicate is probably too complicated to be any good. The pictures were hung on the walls so that the audience could easily see them.

After the 12 strategies were presented, the judges—the invited attendees—were each given five Post-it Notes and told to put one next to their favorites. They could put all five on a single strategy if they found it that compelling. The transparency and immediacy of this approach freed it from the politics that sometimes seem endemic to the strategic-planning process. Managers had to rely on the originality and clarity of their curves and their pitches. One began, for instance, with the line “We’ve got a strategy so cunning that you won’t be our customers, you’ll be our fans.”

After the notes were posted, the judges were asked to explain their picks, adding another level of feedback to the strategy-making process. Judges were also asked to explain why they did not vote for value curves.

As the teams synthesized the judges’ common likes and dislikes, they realized that fully one-third of what they had thought were key competitive factors were, in fact, marginal to customers. Another third either were not well articulated or had been overlooked in the visual-awakening phase. It was clear that they needed to reassess some long-held assumptions, such as EFS’s separation of its on-line and traditional businesses. They also learned that buyers from all markets had a basic set of needs and expected similar services. If you met those particular needs, customers would happily forgo everything else. Regional differences became significant only when there was a problem with the basics. This was news to many people who had claimed that their regions were unique.

Following the strategy fair, the teams were finally able to complete their mission. They could draw a value curve that was a truer likeness of the existing strategic profile than anything they had produced earlier, partly because the new picture ignored the specious distinction that EFS had made between its on-line and off-line businesses. More important, they were now in a position to draw a new curve that would both be distinctive and speak to a true but hidden need in the marketplace. See the exhibit “EFS: Before and After.”

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**EFS: Before and After**

This picture was the final result of EFS’s strategy creation process. Since then, investment decisions have been made on the basis of how they will enable the company to shift from the old curve to the new one. The “before” curve has been revised to combine the on-line and off-line businesses, and a number of nonessential factors were removed from consideration in the process. The “after” strategy changes the industry’s overall strategic profile by eliminating relationship management and adding confirmation and tracking services.
As the graphic shows, the new strategy completely eliminated relationship management and reduced investment in account executives, who, from this point on, were assigned only to “AAA” accounts. EFS’s new strategy emphasized ease of use, security, accuracy, and speed. These factors would be delivered through computerization, which would allow customers to input data directly to a compelling tag line: “The Federal Express of corporate foreign exchange: easy, reliable, fast, and trackable.”

**Visual Communication.** Once the new strategy is set, the last step is communicating it in a way that can be easily understood by any employee. EFS distributed the one-page picture showing its new and old strategic profiles so that every employee could see where the company stood and where they had to focus their efforts. The senior managers who participated in developing the strategy held meetings with their direct reports to walk them through the picture, explaining what needed to be eliminated, reduced, raised, and created to achieve the new strategy. Those people passed the message on to their direct reports. Employees were so motivated by the clear game plan that many pinned up a version of the picture in their cubicles as a reminder of EFS’s new priorities and the gaps that needed to be closed.

The new picture became a reference point for all investment decisions. Only those ideas that would help EFS move from the old to the new value curve were given the go-ahead. When, for example, regional offices requested the IT department to add links on the Web site, which in the past would have been agreed to without debate, IT asked them to explain how the new links helped move EFS toward its new profile. If the regional offices couldn’t provide an explanation, the request was denied. Likewise, when the IT department pitched a multimillion-dollar back-office system to top management, the system’s ability to meet the new value curve’s strategic needs was the chief metric by which it was judged.

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Drawing a strategy canvas is not, of course, the only part of the strategic-planning process. At some stage, numbers and documents must be compiled and discussed. But we believe that the details will fall into place more easily if managers start with the big picture. Completing the four steps of visualizing strategy will put strategy back into strategic planning, and it will greatly improve your chances of coming up with a winning formula. As Aristotle pointed out: “The soul never thinks without an image.”

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**Using Strategy Canvases at the Corporate Level**

Visualizing strategy can greatly inform the dialogue among individual business units and the corporate center. When business units present their strategy canvases to one another, they deepen their understanding of the other businesses in the corporate portfolio. Moreover, the process also fosters the transfer of strategic-planning best practices across units.

To see how this works, consider how Samsung Electronics of Korea used strategy canvases at its corporate conference in 2000, which was attended by more than 70 top managers, including the CEO. Unit heads presented their canvases and implementation plans to senior executives and to one another. Discussions were heated, and a number of unit heads argued that the freedom of their units to form new strategies was constrained by the degree of competition they faced; poor performers felt they had little option but to match their competitors’ offerings. That hypothesis was proved false when one of the fastest-growing units – the mobile phone business – presented its strategy canvas. Not only did the unit have a distinctive value curve, it also faced the most intense competition.

Do your business unit heads lack an understanding of the other businesses in your corporate portfolio? Are your strategic-planning best practices poorly communicated across your business units? Are your low-performing units quick to blame their competitive situations for their results? If you answered yes to any of these questions, try drawing, and then sharing, the strategy canvases of your business units.

Instead of having to send a fax to EFS. This action would also free up corporate dealers’ time, a large portion of which had been spent completing paperwork and correcting errors. Even though their numbers were reduced, corporate dealers would now be able to provide richer market commentary, a key success factor. Using the Internet, EFS would send automatic confirmations to all customers. And it would offer a payment-tracking service, just as FedEx and UPS do for parcels. The foreign exchange industry had never offered these services before.

The new value curve exhibited the criteria of a successful strategy. It displayed more focus than the previous strategy—investments that were made were given a much stronger commitment than before. It also stood apart from the industry’s existing me-too curves and lent itself

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