

The Berkeley Partnership



unspun18

**Set the right
direction and
stay on course**

*Exploring various aspects
of business strategy*



Testing the water

It can be hard to reject a proposed strategy. But sometimes it's the right thing to do, as Wessex Water discovered

When a business is conducting a strategy review, momentum can gather behind a proposed course of action, making it difficult to decide not to proceed. Emotions can cloud the issue and the review process becomes more about building a case for the proposed strategy than about asking objectively: should we be doing this?

This was the balancing act facing Wessex Water. Two years ago, the Bath-based water and sewerage company came up with the idea of creating a shared services operation to handle a range of its back office functions, such as billing, IT, procurement and customer services.

Utilities companies tend to handle such functions inhouse or outsource them to external providers. But Wessex Water felt there could be a third way. David Elliott, the company's Director of Planning and Asset Management, explains: "In the traditional outsourcing model, companies pay for the service they receive. Although the price might be competitive initially, to win your business, over time that price is likely to creep up. What we were considering doing was creating a template co-owned by a number of different companies. The more people who got involved, the lower the transactional costs would become, so everyone who participated would see a long-term benefit. The price would be stable or come down – and in our business price stability is really important."

Building a clearer picture

The company brought in the Berkeley Partnership to help it conduct a strategic review to explore whether these back-office functions, not generally regarded as an

“The exercise was about demonstrating value, not about outsourcing a problem”

area where it is possible to compete, could become a means of improving competitiveness and even a source of unregulated income.

David says: “We sat down and worked through our thinking about what exactly it was that we wanted and put together some key metrics to benchmark with other sectors. We examined the opportunities among other utilities companies. Then we started to pull together a strategy plan. The really good thing was that the review involved all the senior people from day one, setting no untenable expectations. It was about building up the picture on a daily basis. We were challenging each other constantly.”

The review then moved onto discussions with potential partners. David says: “We used the metrics to engage with suppliers in the sector, those who would normally run shared ventures, and seeing what they came back with as options. We had some very interesting conversations with firms such as Oracle, SAP and IBM, which helped us understand the scale the business would have to reach before it started becoming beneficial to us.”

Taking a tough decision

The company got as far as finding one or two players who were interested in signing up to the shared services model. Eventually, however, after a process lasting several months, the review concluded that the strategy had the potential to deliver benefits but that these benefits were marginal compared to the risks involved before the operation grew to a certain size. “To do that we would have needed to bring in big players and when we looked at where other companies were in the procurement cycle, the timing just wasn’t right,” says David.

So how did Wessex Water deal with the uncertainty stirred up during the course of the review? Staff working in the affected departments were understandably concerned about what would happen to their roles, but David says that everyone was kept fully informed of what was happening and why. “The review managed expectations effectively and was run in

an objective, logical way. Of course some people were worried about their jobs but we tried to be as inclusive as possible. The exercise was about demonstrating value, not about outsourcing a problem. We presented it as an opportunity rather than a threat.”

Although the review ultimately rejected the proposed strategy, the process itself had many positive effects. “It turned us into an informed client, a smart client. We are much better able now to understand the cost of these back office services and are able to manage them much more effectively.”

Wessex Water may even revisit the strategy in future. David adds: “The more difficult the financial environment becomes, the more likely it is that some of the problems will be overcome. We haven’t ruled out the idea – it is an opportunity we have sitting there if we decide in future the conditions are right.”



*David Elliott
Director of Planning
and Asset Management
Wessex Water*





Recipe for success

*It can be hard to get your strategy to deliver.
But include these four ingredients and you'll be
well on the way to success*

Too often, strategy exercises lead to nothing or fall far short of original expectations. Most of us have seen an example of an overall business or functional strategy (e.g. a Marketing, IT or HR strategy) that has launched with much fanfare and many good intentions, only to be viewed as a disappointment a year or two later.

So why is this and, more importantly, what can be done to improve the chances of success?

BE CLEAR ON YOUR STARTING POINT

There can be many different triggers for a strategy study. In some organisations, it may be part of a regular planning process, but in most cases there is an explicit trigger. The organisation may be underperforming and failing to meet its targets. There may be a change in the external environment – such as new regulation or new technological developments. Customer habits and demands may have shifted or new competitors emerged. Or there may simply be a new boss wanting to put their own stamp on things.

Whatever the reason, it is important to be clear on the focus and objectives for the exercise. What are the key questions to be answered? What should be taken as given and what is up for grabs? What are the outputs required?

Without this frame of reference it is all too easy to spend effort on the wrong things. Worse still, you get half way through and have to change tack.

TAILOR YOUR APPROACH

No two strategy exercises are the same, so don't assume you can apply a standard methodology. Think through what is appropriate. Some knowledge will already be at your finger tips, some will require digging out. Certain information may be crucial to the choices you have to make but some may be just 'nice to have'. For example, how important is it to get a really thorough understanding of market trends or of competitors' activities? How important is it to feed your thinking with stories of best practice or innovation from other, analogous, organisations? What level of detail do you need on your internal capabilities and performance? To what extent is your target market and positioning a given, or is it a key choice to be made? A strategy exercise will typically follow a pattern: initially generating a wide range of ideas and potential opportunities and gradually funnelling

these down until there is a single chosen direction with clear rationale and justification. But the nature of the choices and questions to be answered en route may vary considerably, as will the approach to

answering them. Some may demand lots of data analysis; some may call for the identification and evaluation of numerous options; some may need extensive consultation; and others may simply require discussion time amongst the management team.

COMBINE PRAGMATISM WITH RIGOUR

Strategy is about making choices. Deciding what you will not do is as important as deciding what you will do. So opening up the options and possibilities is a part of this. Real clarity of focus and objectives, combined with rigorous challenge of implicit assumptions and the introduction of fresh perspectives and models, can act as a surprising catalyst for the generation of additional options. But narrowing the options down needs pragmatism as well as rigour. Beware analysis paralysis!

In general, strategy teams are a lot better at answering the "what" questions than the "how". Perhaps the "what" questions (e.g. what business are we in? where does our competitive advantage come from? what is our value proposition?) are seen as more intellectually engaging. But the "how" questions (e.g. how will the operation work in practice? how will people on the ground react? how will systems and processes need to change?) are of equal importance. The "how" questions need closer knowledge of today's operational detail – to be able to assess the realism of proposals and their practical implications.

Some typical strategy questions...

- What business are we in? What is the purpose and scope of our activity?
- What is our vision? More specifically, where do we want to be in 3 or 5 years time?
- What are our values? What are the principles to guide how we will behave?
- What is our target market? What customers are we trying to serve?
- What is our customer offer? What is the value proposition? Why should they buy our products or use our services?
- How will we organise our operations to deliver the offer? What is critical to success? What capabilities do we need to have in place? What physical facilities? What types of suppliers and for what activities? What supporting systems? What people? With what impact on our financial performance?
- What changes are needed to get there? At what cost? In what sequence? What will it take to deliver the changes? What are the risks? How can we manage them?

This detail may not be so readily available to the core team, but trying to short cut this thinking is why so many strategies remain as 'slide ware' only, never to be implemented.

So rigour is needed to make sure the "how" is as thoroughly thought through and evaluated as the "what". And pragmatism is needed to make the necessary judgements when analysis runs dry – just what will realistically work?

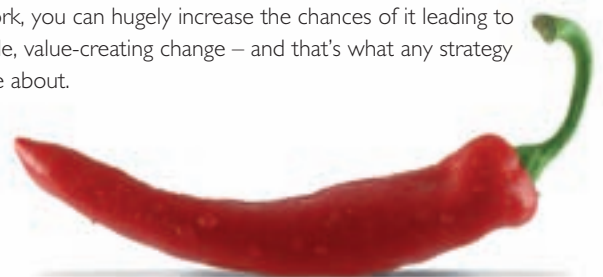
INVOLVE THE RIGHT PEOPLE

The fourth and most critical recommendation is about involving the right people. Strategy development is as much a social and political process as an analytical one.

Perhaps the single biggest success factor that many organisations fail to grasp is the need to involve the management team who will ultimately have to deliver the strategy. They themselves should be the core team – supplemented by others to provide structure and management of the process, external challenge or specific expertise – but only supplemented, never replaced. They must be on the inside, working through the ideas and options for themselves and thinking through what it will take to deliver, rather than being on the receiving end of a recommendation. And if this means the exercise has to take a little longer, because they can't be full time, so be it. Better a later recommendation that needs no selling to those who have to deliver on it than an earlier one that ends up stalling!

CONCLUSION

To be 100% sure of success as you embark on your strategy study is a challenge, but by adopting these four suggestions, and most importantly by centrally involving the management team in the work, you can hugely increase the chances of it leading to sustainable, value-creating change – and that's what any strategy should be about.



“Strategy is about making choices. Deciding what you will not do is as important as deciding what you will do”

No PAIN, no GAIN

Strategic planning can be a time-consuming process. So is it really worth all that effort? Below are some of the arguments people use for or against developing a strategic plan. What is your view?

“FOR

“It provides a clear view of where we’re going and how we get there”

It sets the context and direction for the medium to long term, and enables clear leadership;

It enables people at all levels to understand what the organisation is trying to achieve;

It should be as much about what not to do as what to do.

“It ensures that the organisation is aligned to its delivery”

Strategic plans should set out clear plans for delivery with tangible outcomes and milestones;

Everyone involved understands how they support its delivery, with aligned incentives;

If well communicated it prevents wasted activity/effort.

AGAINST

“We don’t need to worry about strategic planning right now – it’s a distraction”

Having a good short-term operational plan is far more important;

My business doesn’t change enough to warrant a strategic plan;

There are more urgent or business-critical issues that need to be sorted out.

“It takes such a long time”

Strategic planning can be a long drawn out process, with endless analysis;

It’s far too time consuming and diverts resources away from the here and now.



“FOR

“It considers the changing environment, so we don’t get left behind”

Regularly reviewing strategic plans ensures that changing market conditions and customer needs/expectations are understood and incorporated;

Regular reviews can prevent the latest fad or ideas diverting attention;

It is about the sensible management of risk and uncertainty.

“Strategic planning applies to any component of the business – it doesn’t all have to be done at once”

It is not just about top-level corporate strategy; a strategic plan can be developed for any part of the business;

Strategic planning does not need to be performed all at once – it can be phased into short-sharp pieces of work.

“The direction set within the strategic plan can be used to engage external stakeholders and align them to its successful delivery”

External stakeholders, such as shareholders or suppliers, can be made aware of how they can benefit from and contribute to its success.

AGAINST

“It’s too theoretical – who knows what the future holds?”

Regardless of the amount of analysis, the future can’t be predicted sufficiently accurately;

The minute a strategy’s produced it starts becoming out of date.

“It doesn’t go anywhere”

Strategic plans contain great ideas, but these are rarely seen through;

Either they’re not practical or we lose focus and fail to deliver.

“We would never agree it”

Everyone in the business has a different view – we’d never get them all to agree on what the long term picture looks like.

“We don’t know how to do it”

It’s too complex and requires specifically skilled people that we don’t have.

“It tends to be something that is ‘done to us’”

Strategic plans tend to be developed by an isolated group or with a third party

As a result there’s little ownership across the wider organisation and nothing changes.



What is your view?

Register your comments at

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