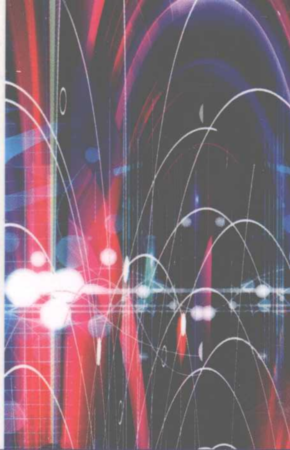
Harvard Business Review

CASE STUDIES



KEEPING STRATEGY ON TRACK

The Pitfalls of Parenting Mature Companies
John Strahinich

Go Global—or No?
Walter Kuemmerle

Stick to the Core—or Go for More?
Thomas J. Waite

Growing for Broke
Paul Hemp

Cross Selling or Cross Purposes?
Ford Harding

A Rose by Any Other Name
Daniel B. Stone

HBR CASE STUDIES

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Keeping Strategy on Track

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CONTENTS

JULIA KIRBY

Introduction

In *Alice in Wonderland*, Lewis Carroll provides no end of wisdom to business leaders. Consider the famous words of the Red Queen: "Here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!" (That sad fact of competition was the basis of a *Harvard Business Review* article called "The Red Queen Effect," by Stuart Kauffman.) Carroll's Duchess seems to have something of the executive coach in her—or at least the organizational psychologist's penchant for making the commonplace abstruse: "Be what you would seem to be," she states as her moral. "Or if you'd like it put more simply—'Never imagine yourself not to be otherwise than what it might appear to others that what you were or might have been was not otherwise than what you had been would have appeared to them to be otherwise.' "

But perhaps Carroll's greatest business insight comes in the form of an exchange between Alice and the Cheshire Cat.

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where—" said Alice.

"Then it doesn't matter which way you go," said the Cat.

For businesspeople, the analogy is obvious, and so is the question it raises. What good is flawless execution, if it's only taking you more rapidly down the wrong strategic path? Deciding on the best way forward to serve the mission and profit goals of the company is the essence of strategy, and it's the problem facing every character in this collection of *Harvard Business Review* case studies.

Strategy as Story

Each month, the case study department of *Harvard Business Review* offers a short work of fiction centering on a business dilemma. Four experts in fields related to the issue at hand are then invited to provide their insight and advice.

In general, the format lends itself most frequently to "people problems"—the psychological knottiness of which can be better explored in a fictional example than in frameworks. Over several years of managing the case study department, however, I personally have become convinced that the format is just as valuable for exploring strategic issues. This is, in part, because it takes the aspects of management science that are in some ways most intellectually challenging, and makes them engaging. In a review of a "business novel"—*The Cure*, by Dan Paul (a former strategic planner for CEO Jack Welch at General Electric) and business writer Jeff Cox—*Publisher's Weekly* found the same kind of value. The book, it said, offered "a pleasant spoonful of literary sugar for business types who want to absorb the latest management trends." But beyond the sugar coating, the case's fictional format has a lesson to teach: that no part of business is free of people—and because strategy is left to the most powerful individuals in an organization, the drama surrounding it is all the greater. Strategic decision making, so often treated in the abstract and even numerically (think Porter's five forces, McKinsey's seven S's), is driven just as much by passions, biases, and all the dynamics that can develop between driven executives.

Chances are, your own organization is facing some of the same strategic issues as the companies depicted in these six cases, and the advice provided by the commentaries will be immediately useful. More long range, it's likely that in the course of a business career you'll encounter them all. Where should you start reading, then? Here are some brief summaries to help you decide.

The Pitfalls of Parenting Mature Companies

The first case in the collection, by John Strahinich, takes a jab at a mainstay of strategy theory—Bruce Henderson's famous "growth share matrix" for setting investment priorities. The matrix focuses diversified companies on their rising stars, based on market growth rate and market share, and counters a common tendency to overinvest in mature businesses. These "cash cows," it says, should be milked for funds to invest in business units with better growth potential. But what if you're the manager herding one of those "cows"? In this case, Charlie Crescent is in that position, and he isn't content to see his division ride slowly into the sunset. He sees opportunities for innovation, and wants to plow some of the division's ample profits back into its own business. This puts Charlie's bosses in a dilemma. He's a great performer, but as his unwillingness to follow current strategy mounts, should they simply replace him? Perhaps another manager would be easier to keep down on the farm.

Most of the commentators on the case see the problem not as a clash of managerial ambitions, but as a more basic failure of growth strategy. Michael Goold of Ashridge Strategic Management Centre simply rejects what he calls "the portfolio management game." Management, he says, should think about the intrinsic merits of the company's different businesses and figure out how to add the most value to each of them. Orit Gadiesh of Bain & Company stops short of condemning portfolio management, but stresses that the case company, Sargon Corporation, must be more clear whether its intent is to be a pure portfolio company or a "value-added parent" that makes the whole greater than the sum of its parts. Harvard Business School's David Collis agrees with Goold that the whole notion of cash cows funding emerging businesses is wrongheaded. He points out that the capital markets are the most efficient allocators of capital; each of Sargon's businesses should have a sufficiently credible strategy that the corporation can raise the necessary finances on its behalf. As Sargon management works to clarify its strategic plan, Jane Warner, president of Randall Textron, suggests it may want to bring in some outside resources. Given how long the current team has worked together, the issues may be clouded by old patterns of interaction.

Go Global—or No?

Walter Kuemmerle's case study brings up two sets of issues: strategy formulation around foreign markets, and the extent to which a first-mover must overextend itself to scale up fast and fend off fast-following competition. The company involved, DataClear, is young, and its basic software could be developed and marketed in any number of directions. The big decision facing its CEO, Greg McNally, is whether to focus on creating new applications for other industries domestically, or on going global with its current core product. Or must it do both at once? An emerging competitor on the European scene seems to turn up the heat on the question.

Only the first of the four commentators is gung ho on the prospect of going global. Heather Killen, senior vice president of international operations at Yahoo!, says that remaining a domestic U.S. player is simply not an option. DataClear is right to be considering alliances as the way to gain a foothold, but instead of joint venturing with a small niche player, it should find a partner with the scale of an SAP. But BCG's Alison Sander urges the CEO to consider other options like licensing the software, selling it on the Web, or hiring local sales representatives. Both she and the third commentator, venture capitalist Barry Schiffman, advise McNally to keep the company on its current course, building close relationships in domestic markets with companies that will give it global access over time. For Schiffman, the issue is one of insufficient managerial experience and capital to expand more aggressively. Scott Schnell's commentary strikes the balance. Head of marketing at a Massachusetts-based software company, Schnell concedes that DataClear will have to expand internationally at some point, but believes the challenge is not so immediate as to cause panic. McNally should take a few months to personally lead the formulation of a strategy, and meanwhile remember that businesses win by building from a strong, defensible market position with a top-performing product and supporting organizational infrastructure.

Stick to the Core—or Go for More?

When a business is doing one thing extremely well—as in an advertising firm that does terrific creative work—should it stick to its knitting, and grow by finding more customers to buy that one thing? Or should it move beyond that core competence and find ways to serve more of its loyal customers' needs? That's the essential strategic dilemma addressed in this case by Tom Waite. The two cofounders and leading talents of advertising agency Advaark are in disagreement about the way forward, after one opportunistic foray into a new area, product strategy consulting, proves successful. George Caldwell reminds his partner that "when we formed this business, we agreed that the key to our long-term success was staying focused on what we do best—creating unforgettable ads." But Ian Rafferty counters with his own logic: Doing more business with existing clients would reduce the overall cost of sales. "We know we want to grow, and here we have a client begging us to provide it with a new service. Why on earth wouldn't we do that?"

The commentators' answers to that question are, naturally, divided. John Whitney of Columbia Business School reminds us that "the corporate junk pile is littered with companies that overlooked risks to their core business while pursuing new opportunities." He tells Advaark to keep its focus on ad making. The opposite advice is given by Roland Rust of the University of Maryland. An outspoken advocate of pursuing "customer equity," Rust says Advaark's goal should be to increase the lifetime value of its customers. Rafferty, he says, "should be given free rein to bring Advaark's business into line with what customers are saying they want." Gordon McCallum, in charge of group strategy at Virgin, agrees—but for different reasons. This is not simply a strategic issue, he says, but an organizational one. The greatest danger is that the crack team of Caldwell and Rafferty will split up over the disagreement. Why not let Rafferty give it a try, in a limited, low-risk way? In the end, strategic elegance is less important than talent. At Virgin, McCallum says, "we have found that the abilities of the people leading the organization determine whether we end up with a pig or a pony." In a final commentary, Chris Zook, a director at Bain & Company—who can be expected, as author of *Profit from the Core*, to advise a tight strategic focus—throws us an interesting hook by damning not only Advaark's potential wanderings from its core, but