Top-10 frameworks you have to know to develop successful strategy

Every company develops one at least twice in its life time. We are talking about strategy - an instrument that is crucial for defining how a company will achieve its long- or medium-term goals. Since 2010, our Moscow Consulting Group has developed a strategy for over large companies in various industries.

What are the typical components of a strategy? Exhibit 1 outlines the key areas covered by each strategic project:

1. External market situation (overall trends and competition analysis),
2. Internal business assessment (business processes effectiveness, risks and growth opportunities),
3. Company's financial prospective (financial models for various scenarios).

Exhibit 1.
Types of analyses consultants perform in a typical corporate strategy development project

Area	1. External situation		2. Internal situation		3. Financial prospectives
	1.1. Market analysis	1.2. Competitive environment	2.1. Business model analysis	2.2. Risks & Growth opportunities	
Type of analysis	• Market definition • Industry size, growth drivers/trends • Market penetration • Value chain • Regulatory threats • Industry revenue volatility • Level of consolidation • Products substitution	• Competitive intensity and strategies • Competitive positioning • Cost/margin benchmark • Price benchmarking • Market entry conditions	• Customer satisfaction level • Revenue volatility • Customer diversification • Sales force productivity • Production & IT diagnostic • Cost curve	• Company business plan analysis • EBITDA and revenue projection • Company-specific cost drivers • Vertical/horizontal integration options assessment • Georgraphical expansion	• Assessment and prioritization of potential exit options • Evaluation and risk assessment of available exit options

In this article we would like to share the most popular frameworks and tools deployed by consultants performing strategic projects. These frameworks had been widely used by management consultants of all calibers from all over the world.

We have selected the top-10 strategic frameworks that are well-known by strategy specialists. Exhibit 2 contains the areas where these frameworks are mostly applicable.
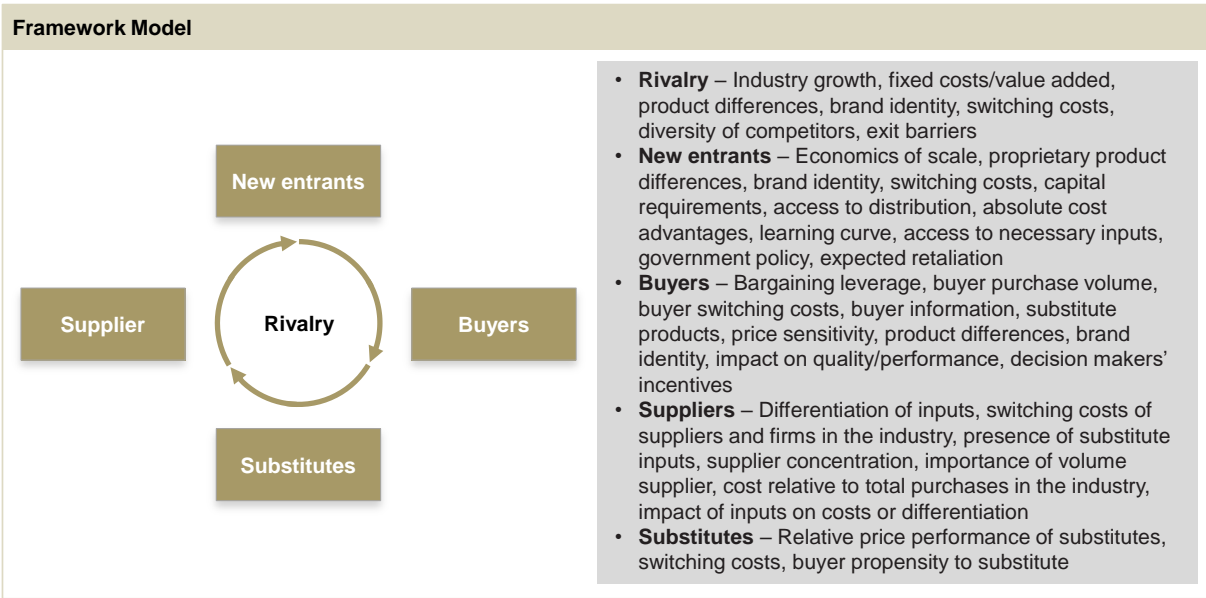
Exhibit 2.
Top-10 frameworks are used by consultants to assess industry and business current state and potential during a strategy development projects

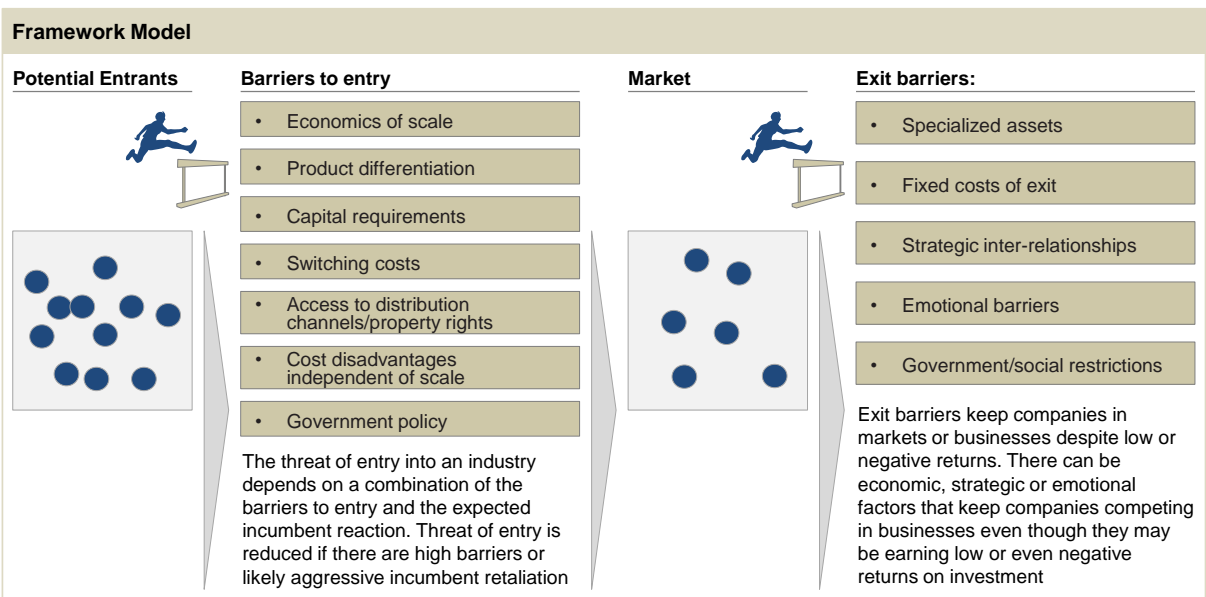|	Framework	Relevant areas of deployment				Key goals
1	Porter's Five Forces	1.1				Assessment of the attractiveness and profit potential of an industry or a firm
2	Entry/Exit Barriers	1.1				Estimation of the likelihood of new entrants or business leaving the industry
3	Industry Lifecycle	1.1	1.2			Forecast likely industry changes and assess company's maturity stage
4	Maturity-Competitive Position Matrix	1.1	1.2			Evaluation of available strategies on the market for a firm or its Strategic Business Units (SBU)
5	Competitive Landscape		1.2	2.1		Identification of competitors and assessment of potential for improvement of competitive positioning
6	The McKinsey 7-S Framework			2.1		Analysis of organization and its internal resources use effectiveness
7	Value Chain				2.2	Analysis of cost and revenue structure in comparison to industry
8	Value Drivers				2.2	Identification of key drivers, which affect industry's or company's revenue base and cost structure
9	5-C Situation Analysis	1.1	1.2	2.1	2.2	Assessment of both external and internal factors influencing company's situation
10	BCG Growth-Share Matrix		1.2	2.1		Assessment of available strategies and investment requirements within different business units

1. Porter's Five Forces. The framework is used to assess the attractiveness and profit potential of an industry or firm by analyzing the 5 key forces active upon it.

❶ Porter's Five Forces
FRAMEWORK

Framework Model

- **Rivalry** – Industry growth, fixed costs/value added, product differences, brand identity, switching costs, diversity of competitors, exit barriers
- **New entrants** – Economics of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages, learning curve, access to necessary inputs, government policy, expected retaliation
- **Buyers** – Bargaining leverage, buyer purchase volume, buyer switching costs, buyer information, substitute products, price sensitivity, product differences, brand identity, impact on quality/performance, decision makers' incentives
- **Suppliers** – Differentiation of inputs, switching costs of suppliers and firms in the industry, presence of substitute inputs, supplier concentration, importance of volume supplier, cost relative to total purchases in the industry, impact of inputs on costs or differentiation
- **Substitutes** – Relative price performance of substitutes, switching costs, buyer propensity to substitute

2. Entry/ Exit barriers. This framework helps determine the strength of competition in an industry. The size of barriers to entry and to exit can help to estimate the likelihood of new entrants or of business leaving the industry.

❷ Entry/Exit Barriers
FRAMEWORK

Framework Model

Potential Entrants	Barriers to entry	Market	Exit barriers:

Barriers to entry
- Economics of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels/property rights
- Cost disadvantages independent of scale
- Government policy

The threat of entry into an industry depends on a combination of the barriers to entry and the expected incumbent reaction. Threat of entry is reduced if there are high barriers or likely aggressive incumbent retaliation

Exit barriers:
- Specialized assets
- Fixed costs of exit
- Strategic inter-relationships
- Emotional barriers
- Government/social restrictions

Exit barriers keep companies in markets or businesses despite low or negative returns. There can be economic, strategic or emotional factors that keep companies competing in businesses even though they may be earning low or even negative returns on investment

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3. Industry lifecycle. The Industry Lifecycle is a theoretical behavioral model of a typical industry. Positioning an industry along the lifecycle can help to identify the industry future trends.

❸ Industry Lifecycle
FRAMEWORK
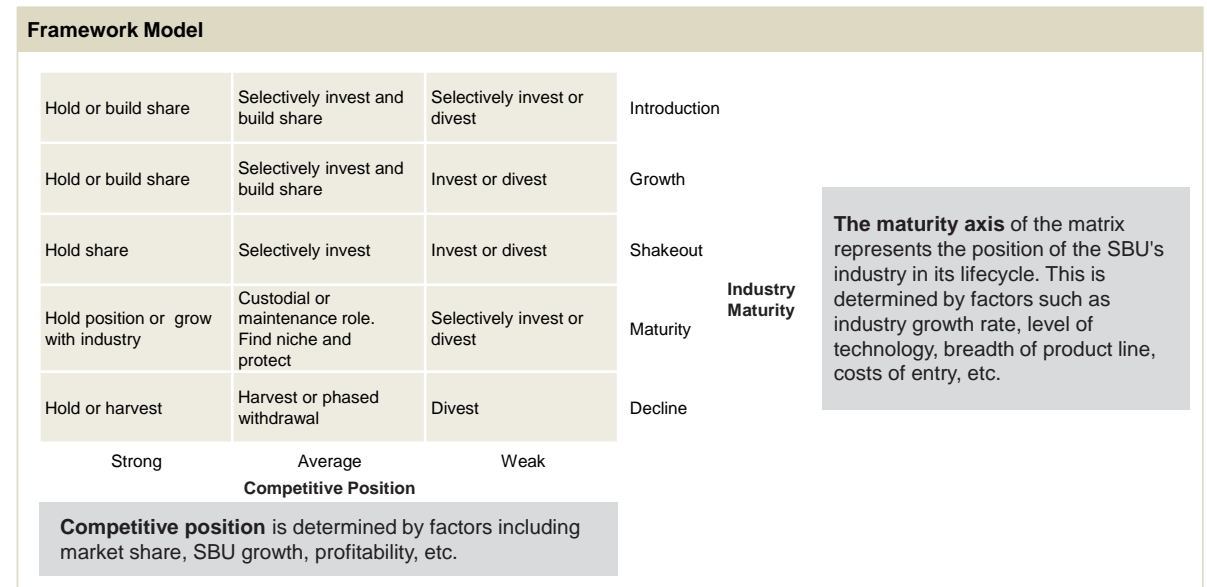
Framework Model

Total industry revenue

Total industry profit

Industry cycle

	Intro	Growth	Maturity	Decline
Industry characteristics				
• **Growth**	Explosive	Rapid	Little	Negative
• **Technology**	Rapid changes	Wide spread	Stable	Stable
• **Customer allignment with producers**	No	Low	High	High
• **Barriers to entry**	Low	Medium	High	High
• **Competition**	None	Growing	Many	Reduced
• **Market shares**	Changing	Stabilizing	Stable	Consolidating
Company's marketing strategy				
Objective	**Gain awareness**	**Stress difference**	**Maintain brand**	**Harvest**
• **Product**	One	More versions	Full portfolio	Best sellers
• **Price**	Penetrate	Gain share	Defend share	Stay profitable
• **Place**	Limited	More outlets	Multi-channel	Consolidate
• **Promotion**	Educate	Differentiate	Remind	Minimize

4. Maturity-completive positon matrix. The framework is used to asses relative position of a firm or its Strategic Business Units (SBUs) and its available strategies with respect to industry maturity and competitive positions.

❹ Maturity-Competitive Position Matrix
FRAMEWORK

Framework Model

Strong	Average	Weak	Industry Maturity
Hold or build share	Selectively invest and build share	Selectively invest or divest	Introduction
Hold or build share	Selectively invest and build share	Invest or divest	Growth
Hold share	Selectively invest	Invest or divest	Shakeout
Hold position or grow with industry	Custodial or maintenance role. Find niche and protect	Selectively invest or divest	Maturity
Hold or harvest	Harvest or phased withdrawal	Divest	Decline

Competitive Position

The maturity axis of the matrix represents the position of the SBU's industry in its lifecycle. This is determined by factors such as industry growth rate, level of technology, breadth of product line, costs of entry, etc.

Competitive position is determined by factors including market share, SBU growth, profitability, etc.

5. Competitive landscape. Construction of an industry landscape, evaluation of the degree of competition in different segments of the industry.

⑤ Competitive Landscape
FRAMEWORK

Framework Model

Example of Industry Landscape

Identify the least populated area on the landscape map

Value Chain

Consumer | SMB | Enterprise

Customer segments

A number of characteristics for the vertical and horizontal axes can be selected. A few commonly used terms include:
- Industry value chain
- Customer segments served
- Profitability/Financial performance
- Growth expectations

6. The McKinsey 7-S framework. The framework is used to evaluate an organization and its effectiveness. The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

⑥ The McKinsey 7-S Framework
FRAMEWORK

Framework Model

- **Structure:** the way the organization is structured and who reports to whom

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition

- **Skills:** the actual skills and competencies of the employees working for the company

- **Staff:** the employees and their general capabilities

Structure
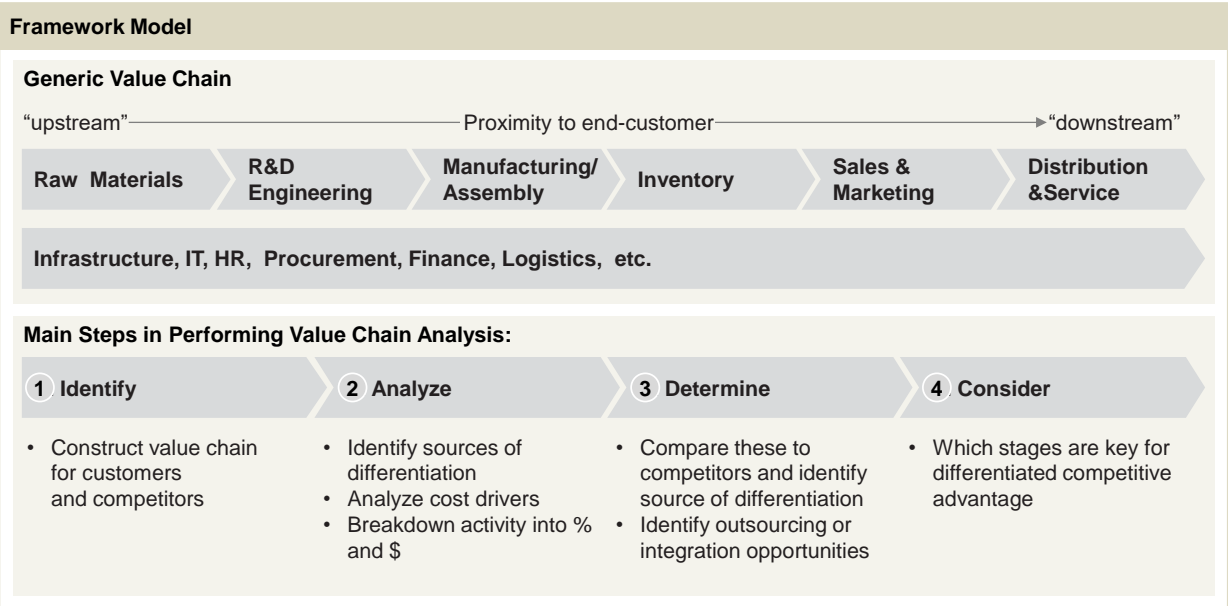
Strategy

Systems

Shared Values

Skills

Style

Staff

- **Systems:** the daily activities and procedures that staff members engage in to get the job done

- **Shared Values:** called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic

- **Style:** the style of leadership adopted

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7. Value Chain. A value chain is a sequential map of all activities within a business or an industry. The framework disaggregates a business into its 'value' activities. It can be used to compare industries and companies or to determine and analyze costs.

⑦ Value Chain
FRAMEWORK

Framework Model

Generic Value Chain

"upstream" —————————— Proximity to end-customer —————————► "downstream"

| Raw Materials | R&D Engineering | Manufacturing/ Assembly | Inventory | Sales & Marketing | Distribution &Service |

Infrastructure, IT, HR, Procurement, Finance, Logistics, etc.

Main Steps in Performing Value Chain Analysis:

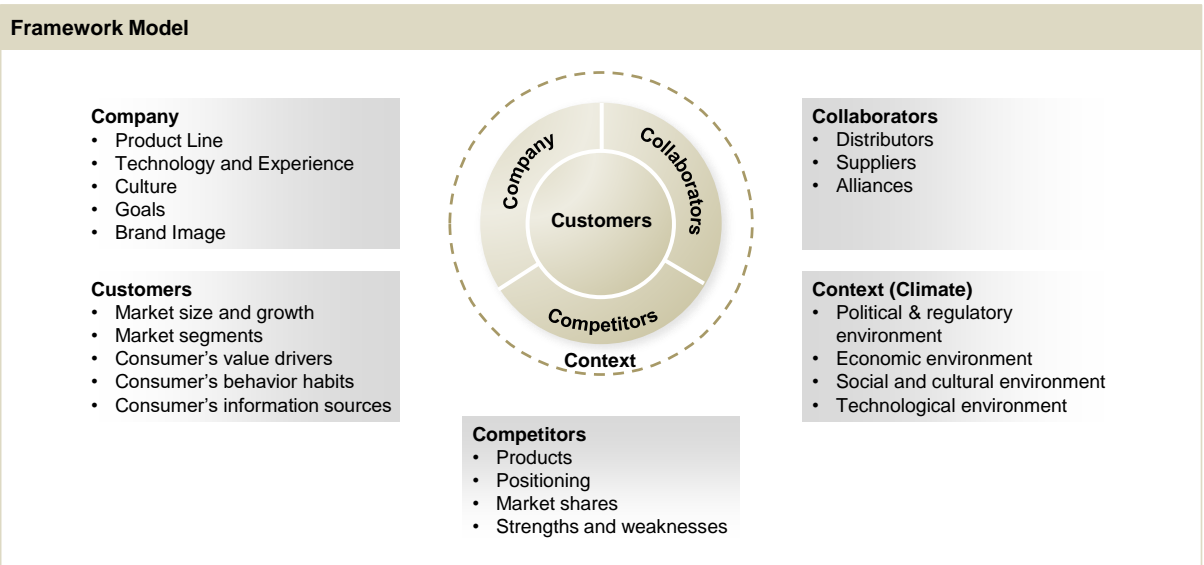| **1 Identify**	**2 Analyze**	**3 Determine**	**4 Consider**
• Construct value chain for customers and competitors	• Identify sources of differentiation • Analyze cost drivers • Breakdown activity into % and $	• Compare these to competitors and identify source of differentiation • Identify outsourcing or integration opportunities	• Which stages are key for differentiated competitive advantage

8. Value Drivers. Value drivers are the business activities or items that most directly impact a firm's or industry's cost structure or revenue base. Each industry is unique and has its own set of value drivers.

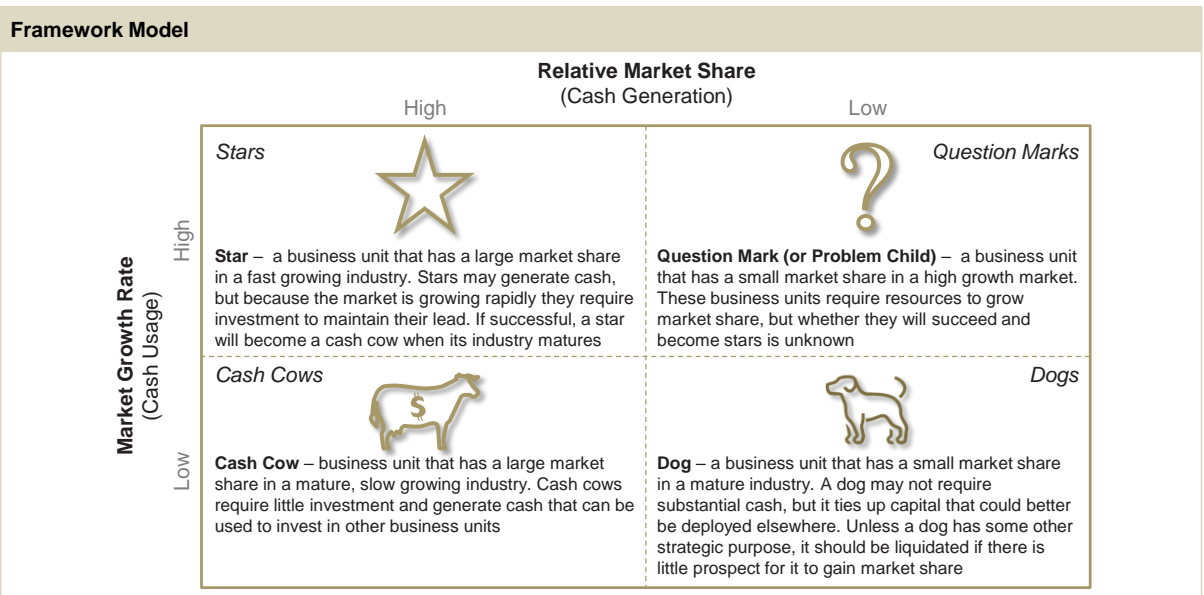## ⑧ Value Drivers
FRAMEWORK

Framework Model
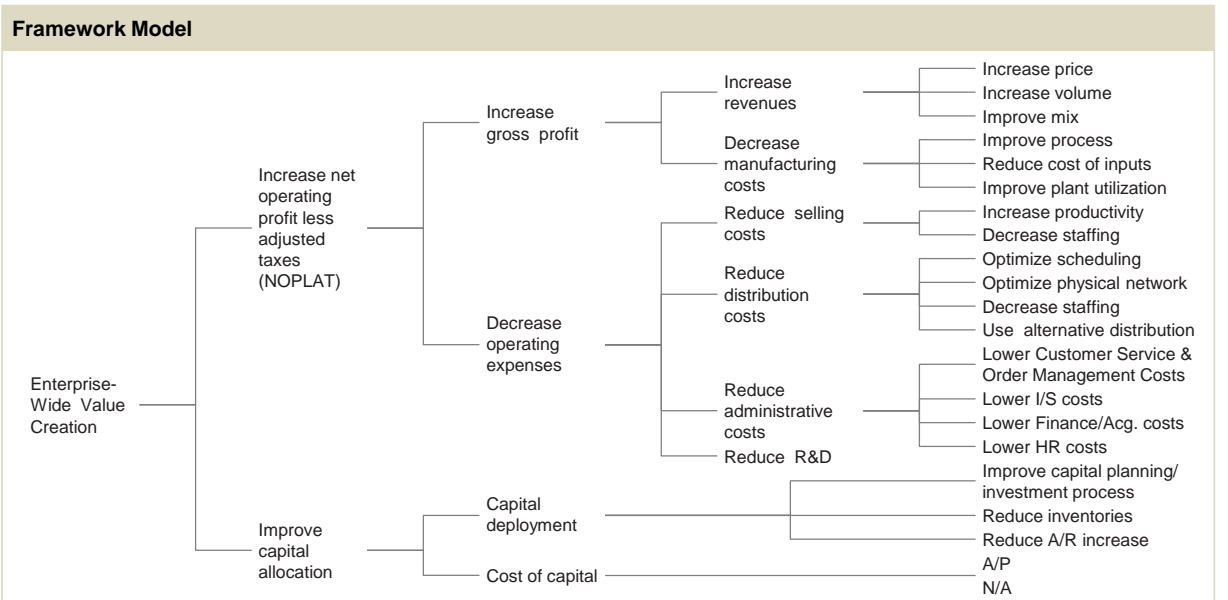
9. **5-C Situation analysis.** This framework is used for a general company situation analysis and helps understand both external and internal factors, including market environment, customers and the company's capabilities

⑨ 5-C Situation Analysis
FRAMEWORK

Framework Model

Company
• Product Line
• Technology and Experience
• Culture
• Goals
• Brand Image

Customers
• Market size and growth
• Market segments
• Consumer's value drivers
• Consumer's behavior habits
• Consumer's information sources

Collaborators
• Distributors
• Suppliers
• Alliances

Context (Climate)
• Political & regulatory environment
• Economic environment
• Social and cultural environment
• Technological environment

Competitors
• Products
• Positioning
• Market shares
• Strengths and weaknesses

(Diagram: concentric circles — Customers in center, surrounded by Company, Collaborators, Competitors, Context)

10. **BCG growth-share matrix.** The framework is used to position different business units in the quadrants of growth-share matrix in order to develop an optimal allocation of resources and investments between them.

⑩ BCG Growth-Share Matrix
FRAMEWORK

Framework Model

Relative Market Share
(Cash Generation)

High — Low

Market Growth Rate
(Cash Usage)
High — Low

Stars

Star – a business unit that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures

Question Marks

Question Mark (or Problem Child) – a business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown

Cash Cows

Cash Cow – business unit that has a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units

Dogs

Dog – a business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share

It's not necessary to use all the frameworks every time you are developing a strategy. Instead choose those that will provide the best answers to the strategic questions the company is facing at the moment.

Important note: please remember that all the outlined frameworks are just tools. Their usefulness and applicability very much depend on the skills and and thoughtfulness of the people deploying them.

About the authors

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About Moscow Consulting Group

Moscow Consulting Group was established by management consultants from McKinsey & Company to provide high quality consulting services for companies of different sizes in Russia and CIS. MCG offers its clients unique flexible business model by combining in-house consultants with carefully selected independent consultants with experience in top tier global firms. MCG works with more than 500 consultants and 1000 experts across different industries. MCG focuses on strategic and operational management consulting projects. For more information about Moscow Consulting Group please visit mcgroup.ru or contact us at info@mcgroup.ru .