

'However beautiful the strategy, you should occasionally look at the results.'
 Winston Churchill (1874–1965), British Prime Minister

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CASE STUDY

Stella International Airways: strategy for the skies



LISTENING AND DISCUSSION

Strategy, goals and values

A Look at the statements below about company goals and strategy. To what extent do you agree? Justify your ideas to your partner by giving examples.

PA = partially agree

PD = partially disagree

CA = completely agree

CD = completely disagree

- 1 Any organisation should only have to communicate its business strategy to management, shareholders and investors.
- 2 A successful business should make a positive contribution to society.
- 3 A good company should mainly focus on competitive pricing and good profits.
- 4 The greatest companies can make an impact on the way consumers shop, think and behave.

B  CD3.1 Listen to the first part of an interview with Marjorie Scardino, CEO of Pearson, the international media group, and improve the summary by adding five or six more details. Use one to five words per detail.

Pearson has always been devoted to content, so, for example, a child can use interactive tools. Pearson starts with the premise that the company has to communicate what it is. Chief Executive Marjorie Scardino believes organisations have a strong company culture. Whenever necessary, she personally writes to all staff in Pearson. Management also makes an effort to communicate in a transparent way so that every one of the company's employees understands.

C  CD3.2 Listen to the second part of the interview. How does Pearson communicate its goals? Write a summary.

D Discuss how you would communicate the goals and values of your place of study/work.



Marjorie Scardino

Watch the interview on the DVD-ROM.



E Read this letter from Marjorie Scardino to investors. Imagine you are a manager talking to a group of staff at Pearson. How would you communicate the strategy in your own words?

Our strategy

- 1 Long-term investment in content
- 2 Digital and services businesses
- 3 International expansion
- 4 Investment through efficiency gains

Reasons to be confident

- We're in a strong financial position (having unfashionably resisted the idea that we should take on a lot of cheap debt during the credit bubble).
- We're now a global rather than a largely US or UK company, so our geographic diversity gives us wider markets and less exposure to two challenged economies.
- We're in a very strong position relative to our competitors, in industries that face both cyclical challenges and structural change.
- We make real products and essential services that meet two genuine consumer needs: the need to understand this fast-moving and interconnected world and the need to be educated to make the most of its opportunities.

F Choose the correct word to make a partnership related to strategy with each word in bold. All the word partnerships appear in the letter in Exercise E.

- | | | | |
|------------------------|------------------------|----------------------|-----------------------|
| 1 digital | businesses / bubble | 5 wider | competitors / markets |
| 2 international | expansion / world | 6 challenged | economies / profits |
| 3 financial | debt / position | 7 strong | position / change |
| 4 geographic | industries / diversity | 8 fast-moving | diversity / world |



G  CD3.3–3.6 Listen to four people talking about companies they admire. How has each company been successful, according to the speakers?

H Look at this advice on business strategy. Which strategies are mentioned by the speakers in Exercise G? Discuss which ones you think are the most valuable.

- 1 It is best not to run before you can walk.
- 2 Holding on to talented staff is one of the biggest challenges.
- 3 Innovation is key.
- 4 Hold back from launching new products or entering new markets and you'll lose out.
- 5 A retailer can differentiate itself through pricing and an affinity with the customer.
- 6 Business leaders must be able to deploy specialist knowledge.
- 7 The goal of a company should be to produce perfect products.
- 8 Big companies must foster the entrepreneurialism that exists in smaller ones.

I Consider the strategy of two companies you admire. What do you think they set out to achieve, and how have they been successful?

READING AND LANGUAGE

‘Long-term planning is essential for any company. It plots where a company wants to go, and how it’s going to get there.’

‘Strategic planning is a complete waste of time. In this day and age, you simply cannot foresee exactly how markets will evolve.’



A Look at the two views about planning on the left. Which do you agree with, and why? Work with a partner to produce a statement about planning that you both agree with.

B In what ways do you think the four companies on the left below have developed good strategies? Read the article on the opposite page quickly and compare your answers.

C Read the article again and complete this summary, using between one and three words in each gap.

According to the article, old-style strategic planning is a thing of the past. However, beyond trying to survive, companies do need a strategy for¹, even in periods of², in order to ensure healthy³ and competitive advantage.

In a paper on strategic development, experts at Boston Consulting Group talk about the concept of⁴. They argue good companies act in five key ways: they respond to⁵ very fast; they try to work with⁶; they perceive changes in⁷; they trial their goods and services effectively; and they work with the best⁸. Strategy has changed, and companies need to be more⁹.

D Discuss these questions.

- 1 Who do you think is the intended audience of the article?
- 2 What is the writer’s purpose? Is there more than one, e.g. to explain/persuade?
- 3 Are there any quotations used in the article? For what purpose are the quotations used?
- 4 What emphatic techniques are used? Are any repeated?

➔ Language reference: rhetorical questions page 137

E Match the words and expressions from the article (1–8) to their definitions and synonyms (a–h).

- | | |
|--|---|
| 1 downturns (lines 23–24) | a) creating some free time when you’re not busy |
| 2 deductive (line 48) | b) periods when business activity is reduced and conditions become worse |
| 3 oversee (line 71) | c) ability to become strong and successful again after a difficult situation or event |
| 4 hidebound (line 77) | d) using the knowledge and information you have in order to form an opinion about something |
| 5 awareness (line 106) | e) continue to exist for a long time |
| 6 resilience (line 107) | f) knowledge or understanding of a particular subject or situation |
| 7 building in some slack (lines 107–108) | g) be in charge of a group of workers and check that the work is done satisfactorily |
| 8 endure (line 114) | h) having old-fashioned attitudes and ideas |

F Replace the words in *italic* in these sentences with the words or phrases from the article in the box.

are alive to free-flowing hardly sharp thriving

- 1 The new shopping mall is *very successful*, but the local shops are closing down.
- 2 Their legal team is *able to think and understand things very quickly*.
- 3 Everyone was relaxed at the meal, and the conversation was *continuous and uninterrupted*.
- 4 This is *not* the best time to make radical changes to our strategy.
- 5 The shoe manufacturers *know about the importance of* the threat posed by foreign imports.

Living strategy and death of the five-year plan

by Stefan Stern

Is strategy dead? Chief strategy officers will deny it. Some strategy consultants may reject the idea, too. But markets are unpredictable. The economic outlook is uncertain. The world has changed. If old-style strategy formulation is not exactly dead, then it is hardly in the best of health.

During periods of recession, many leadership teams have only one strategic goal in mind: survival. Grander visions are filed away or forgotten. In a recent paper, 'Thriving under adversity', senior Boston Consulting Group partners Martin Reeves and Michael Deimler argue that, in recessions, simply cutting costs has not been enough to ensure a healthy recovery. 'If survival buys time, it does not guarantee sustainable competitive advantage,' they write. The winners in downturns have pursued, and achieved, increased sales.

So companies need a strategy for growth. But I began by arguing that the traditional approach to developing strategy – long, internal debate leading to the announcement of three- or five-year plans – seems to belong to another era. So what does smart 21st-century strategy development look like?

Unsurprisingly, some sharp minds in the strategy consultancies have been giving this question some thought. At BCG, the same double act of Reeves and Deimler has produced another paper, 'New bases of competitive advantage', that looks at something they call 'adaptive advantage'. This is strategy, too, but not as we know it.

'Organisations with adaptive advantage recognise the unpredictability of today's environment and the limits of deductive analysis,' they write. New problems are constantly emerging. Well-run businesses respond effectively to them.

How? First, they process relevant data – 'signals' – quickly, and react to

them. Google is an obvious master of this, getting closer than anyone else to understanding how online advertising works. Second, they see clearly how their business fits into a wider context. Amazon has made sure its Kindle e-book reader is supported by a network of valuable partners. Third, they are alive to social change and shifting customer preferences. Toyota managed this with its hybrid Prius car. Fourth, they experiment effectively, as Procter & Gamble does when trialling products. Lastly, they draw on the talents of the best people they can find – whether they employ them or not. Software companies such as Red Hat and TopCoder oversee large networks of programmers, using the best people with great flexibility. Their permanent staff is relatively small. But they have access to many more.

This vision of a far more free-flowing, less hidebound corporation, ready to change strategic direction fast, is shared by Lowell Bryan, a director at McKinsey. He may be a 30-year veteran of the firm, but he discusses these ideas with the enthusiasm of a new hire.

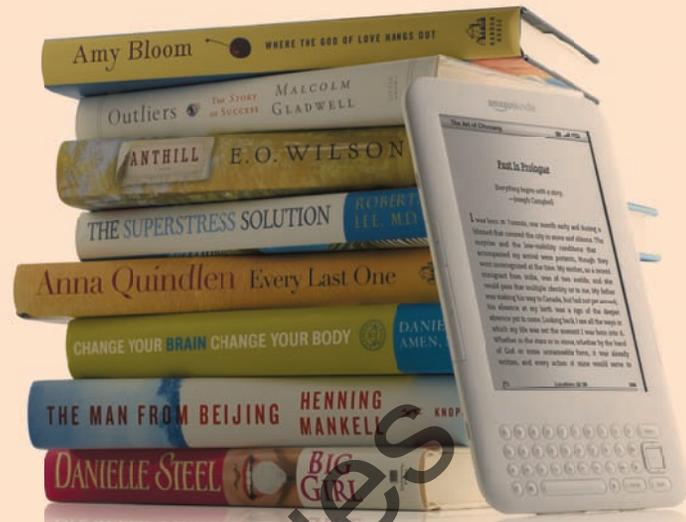
'You have to give up the pretence that you can predict the future,' he says. 'This is about managing much more

dynamically. It is a complex, adaptive world, and leaders have to navigate their way through it. How can you say today what the economy will be like even six months from now?'

Leaders need to show a bit more humility, while living with all this uncertainty. 'Strategy is really an evolving idea which develops over a long period, on a long and winding road,' he says. 'And this new world calls for just-in-time decision-making.'

Adapt to survive. The danger for successful companies, Mr Bryan says, is that over time they lose the very abilities or qualities that earned them their market-leading position in the first place. They no longer have the same flexibility, awareness and resilience they once did. Building in some slack – unscheduled meeting time, for instance – might create the space where some resilience can be re-established, Mr Bryan adds.

Strategy has changed. While the eternal truths – about market position, scale and capabilities – endure, a more dynamic and adaptive approach is now needed. Leaders need to be ready to make necessary adjustments and bigger changes.



G How have businesses you are familiar with adapted to change? You could choose from one of these sectors. Talk about the challenges they faced and how they responded.

- a bank • a supermarket • a mobile phone company • an Internet service provider
- a car manufacturer • a gym chain • a clothes brand • an airline

BUSINESS SKILLS

Brainstorming and creativity



Linus Pauling

A Discuss these questions.

1 What do these quotes on creativity mean? Which do you like best?

‘The way to get good ideas is to get lots of ideas and throw the bad ones away.’

Linus Pauling, chemist and Nobel prize winner

‘Creativity comes from trust. Trust your instincts.’

Rita Mae Brown, writer

‘Decision by democratic majority vote is a fine form of government, but it’s a stinking way to create.’

Lillian Hellman, playwright

- 2 When are you at your most creative? First thing in the morning? Late at night? Working with a group of people or on your own?
- 3 Which of these statements do you agree with most/least? Why?
- The management in an organisation should be responsible for coming up with any new ideas.
 - The typical work environment is not conducive to being creative.
 - Whenever we have brainstorming meetings, any interesting ideas are usually dismissed by some of the more cynical team members.
 - A brainstorming session should represent our customer base. If half our customers are women, then 50 per cent of participants should be women, too.

B **CD3.7 Listen to a trainer discussing brainstorming techniques with some clients. Complete these tips with between one and four words in each gap. Do you know of any other techniques?**

Tips for brainstorming

- Clearly define the¹.
- There shouldn’t be more than².
- Think of as many³ as possible.
-⁴ all ideas, however wild.
- Don’t spend too long⁵.
- Be enthusiastic and⁶ of other people’s⁷.
-⁸ ideas after the session.

C **CD3.8 Listen to the next part of the training session and note down the seven principles of Koinonia.**

D **Look at the expressions in the Useful language box below and decide which ones you would use for a) leading the session, b) contributing and building on ideas, and c) responding to ideas.**

USEFUL LANGUAGE

EXPRESSIONS FOR BRAINSTORMING

- So, who’d like to get the ball rolling?
- I’ve got one! What if we ...? / How about ...?
- Let’s just get the ideas down at this stage.
- That’s a great/wacky/cool/unusual idea!
- Yes, and here’s what I’d add to your suggestion ...
- I’m thinking (more) along the lines of ...
- You’ve taken the words right out of my mouth.

- Does anyone have any more ideas?
- The rule is there are no bad ideas.
- I was just going to say that!
- Try and suspend judgement until later.
- I’d like to expand on that.
- Let’s go around the table once and then open the discussion up.
- Here’s another thought ...
- Yes, I like that.

- E**  CD3.9 Read this information about high-street retailer Ross & Franks. Then listen to a management meeting between the CEO, the Director of Marketing and the Head of Corporate Communications to discuss the brand's future and take notes.

For over 50 years, Ross & Franks (R&F) has been a well-known high-street retailer in the UK serving a wide range of customer needs from food to furniture, clothes to car insurance. R&F is best known for its womenswear, an intensely competitive

market of which it has a 10% share. However, in the past two years, sales have taken a nose-dive. It seems the public has fallen out of love with R&F. On a mission to rejuvenate the brand, R&F's management team is now reviewing the company's marketing strategy.

- F** Hold a meeting to brainstorm a new marketing strategy for R&F.

- G** Look at parts of some mission statements (a–f) and match them to the organisations (1–6). Which ones do you think are the best and most creative?

- | | | |
|----------|--------------------|--|
| 1 Avis | 3 Procter & Gamble | 5 International Committee of the Red Cross |
| 2 Google | 4 Microsoft | 6 The World Bank |

- a) To fight poverty with passion and professionalism for lasting results
- b) We will ensure a stress-free car-rental experience by providing superior services that cater to our customers' individual needs.
- c) To protect the lives and dignity of victims of armed conflict and other situations of violence and to provide them with assistance
- d) To organise the world's information and make it universally accessible and useful
- e) We will provide branded products and services of superior quality and value that improve the lives of the world's consumers.
- f) To help people and businesses throughout the world realise their full potential

- H** Identify four criteria for writing mission statements based on this extract.

How to develop a mission statement

Mission: *Why you do what you do; the organisation's reason for being, its purpose. Says what, in the end, you want to be remembered for.*

Changing the mission – or creating an organisation's first mission statement – is a process of gathering ideas and suggestions for the mission and honing them into a short, sharply focused phrase that meets specific criteria. Peter Drucker says the mission should 'fit on a T-shirt', yet a mission statement is not a slogan. It is a precise statement of purpose. Words should be chosen for their meaning rather than beauty, for clarity over cleverness. The best mission statements are in plain speech with no technical jargon and no adornments. Like the mission statement of Google – *To organise the world's information and make it universally accessible and useful* – they come right out and say something. In their brevity and simplicity is power.

- I** You are developing the mission statement for your organisation. Set your criteria (see Exercise H) and brainstorm some ideas. Write the first draft.

Writing: mission statements

Stella International Airways: strategy for the skies



An airline needs to make strategic changes in order to secure its long-term future

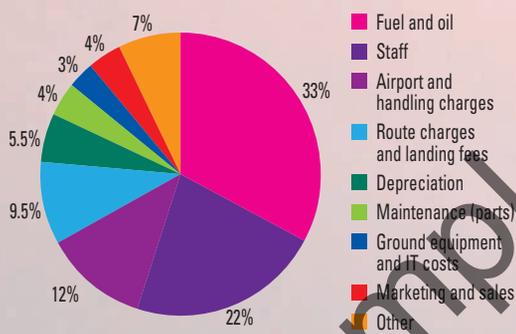
Background

Stella International Airways is a Dutch company with over 250 aircraft. It is one of Europe's leading scheduled carriers, operating both short-haul and long-haul routes. In recent years, structural shifts in the European aviation business have become apparent, with the trend of passengers trading down to low-cost carriers (LCCs).

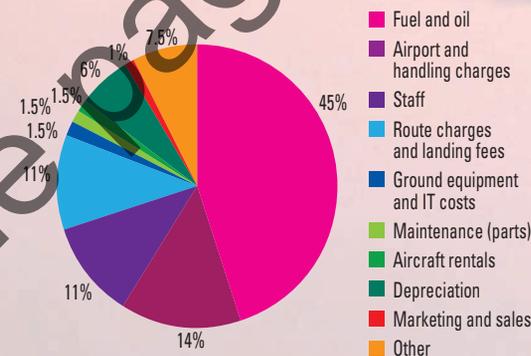
Stella, like other established carriers, has been badly battered by the success of low-cost airlines, losing market share on many short-haul routes. In addition, the rise in oil prices has mirrored the fall in Stella's shares over the past year.

The company has managed to offset much of the rising cost through fuel surcharges passed on to customers, but this has also led to further falls in passenger numbers, and a shift away from first- and business-class to economy travel has become evident. The company is expected to report a second consecutive annual loss this year.

Given this outlook, the airline's CEO has to devise a strategy to secure the long-term future of the business.



Stella International Airways' operating cost breakdown, last quarter



Rival LCC's operating cost breakdown, last quarter

Stella passenger numbers down

Stella's first-class and business passenger numbers fell last month by five per cent. First-class and business passengers are vital to Stella, generating 28 per cent of the airline's revenues, but representing only 14 per cent of capacity. It's evident that a large number of business passengers have chosen price over service, especially on short-haul routes.

Not a stellar quarter

After announcing worse-than-expected results for the first quarter this year, Stella International Airways' CEO, Ted Verhagen, has signalled major change. Although he didn't give details of the plan, it seems certain to include cost reductions.

An alliance with another airline is inevitably one option on the table. Another possibility would be to use a lower-cost vehicle for European operations, such as a subsidiary LCC. But meanwhile, the airline is heavily focused on first-class and business travel, and on the long-haul routes where the airline has a significant market share in the US.

From:

Subject:

I long ago transferred my loyalty back to the scheduled airlines on European routes, but recently had to fly on a budget airline to get to a meeting. It was a crazy experience, the flight attendants were saying, 'buy this and buy that'. I didn't get a minute's peace, and the seat was so cramped that there was no room to stretch my legs or work on my laptop. It's definitely 'no frills', but I'm always willing to pay a premium for business class, so long as it isn't exorbitant.

The CEO asked the management team at Stella to report on the airline's strengths and weaknesses. Listen to these comments and take notes.

🔊 CD3.10–3.12 Managers

🔊 CD3.13–3.15 Staff

Task 1

SWOT analysis

You are the management team at Stella responsible for devising a new strategic plan for the company. Use a SWOT analysis and brainstorm ideas to help you prepare your new strategic vision for the company.

How can you seek to capitalise on the strengths, eliminate the weaknesses, seize the best opportunities and counter the threats?

| | |
|--|--|
| Strengths (internal) <i>safety record</i> | Weaknesses (internal) <i>losses over two consecutive years</i> |
| Opportunities (internal and external) <i>reducing operating expenses, esp. staff costs</i> | Threats (internal and external) <i>competition from LCCs</i> |

Task 2

Brainstorming

Brainstorm a marketing campaign for this alliance based on the new strategy.

Stella International Airways has agreed the terms of a strategic alliance with the Australian carrier Victoria Jets. 'The deal will create a strong group capable of competing more effectively,' Ted Verhagen, Stella's CEO, said. 'Both airlines will achieve significant advantages as a combined force.' The airlines have yet to decide a name for the new alliance. Shares in both companies rose at the announcement of the deal.

Watch the Case study commentary on the DVD-ROM.



Writing

Prepare a summary of your proposals to present to the company's board of directors.

➔ Writing file pages 146–147