Please kill your phones.

SMART STRATEGY

PLAYING TO WIN

Our mission

To simplify opioid addiction treatment, for better managed clinics and better patient outcomes.

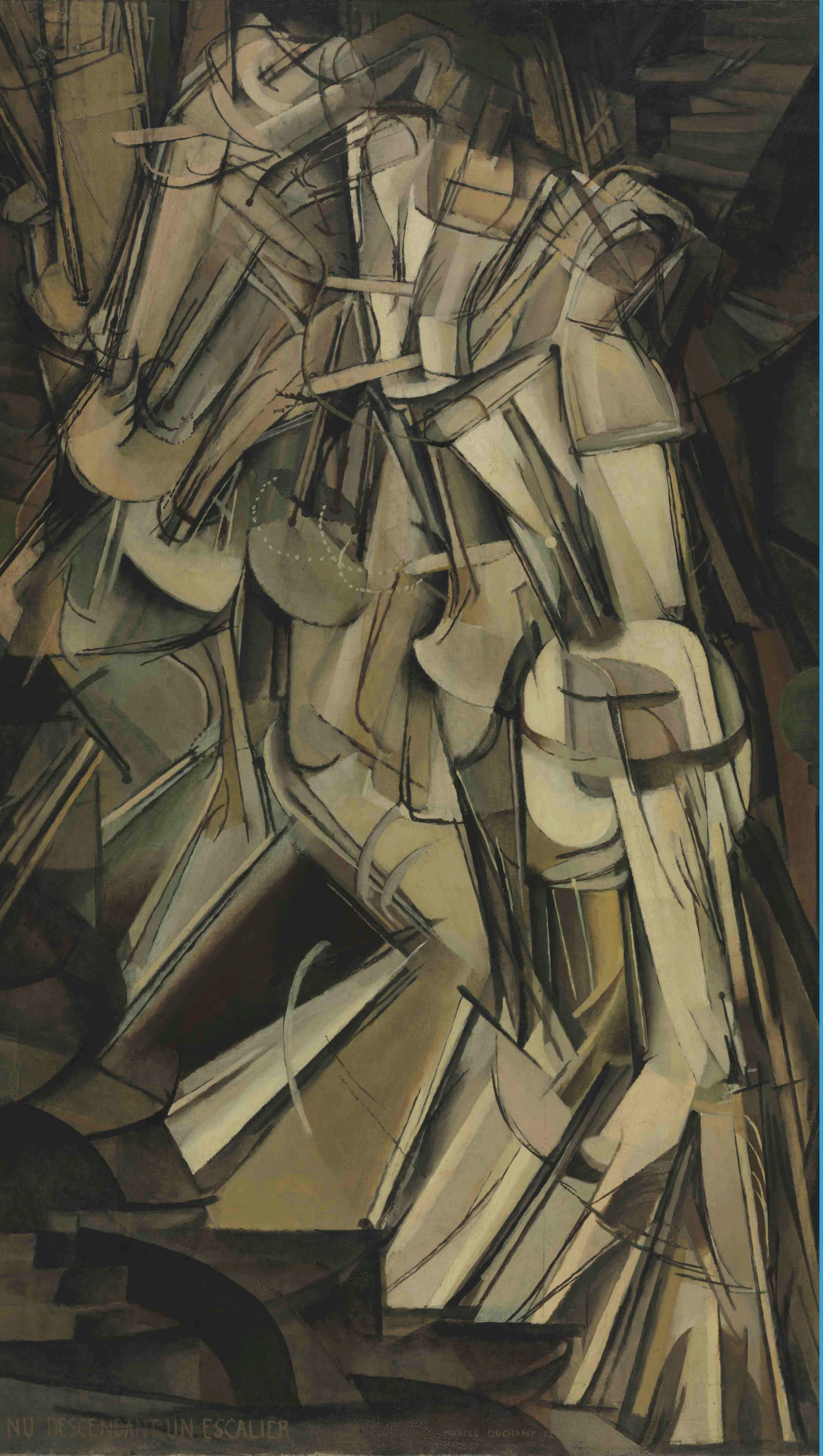
What we're doing here

1. Learning the framework.

2. Generating possibilities.

3. Choosing our strategy.

At the end of this process, everyone at Smart will have a one-page strategy to guide the decisions they make every day.



DAY 1

Learning

What is strategy

The essence of strategy is choosing to perform activities differently than rivals do.
– Michael Porter

Strategy is an integrated set of choices that collectively position the firm in its industry so as to create sustainable advantage relative to competition and deliver superior financial returns.
– Roger Martin

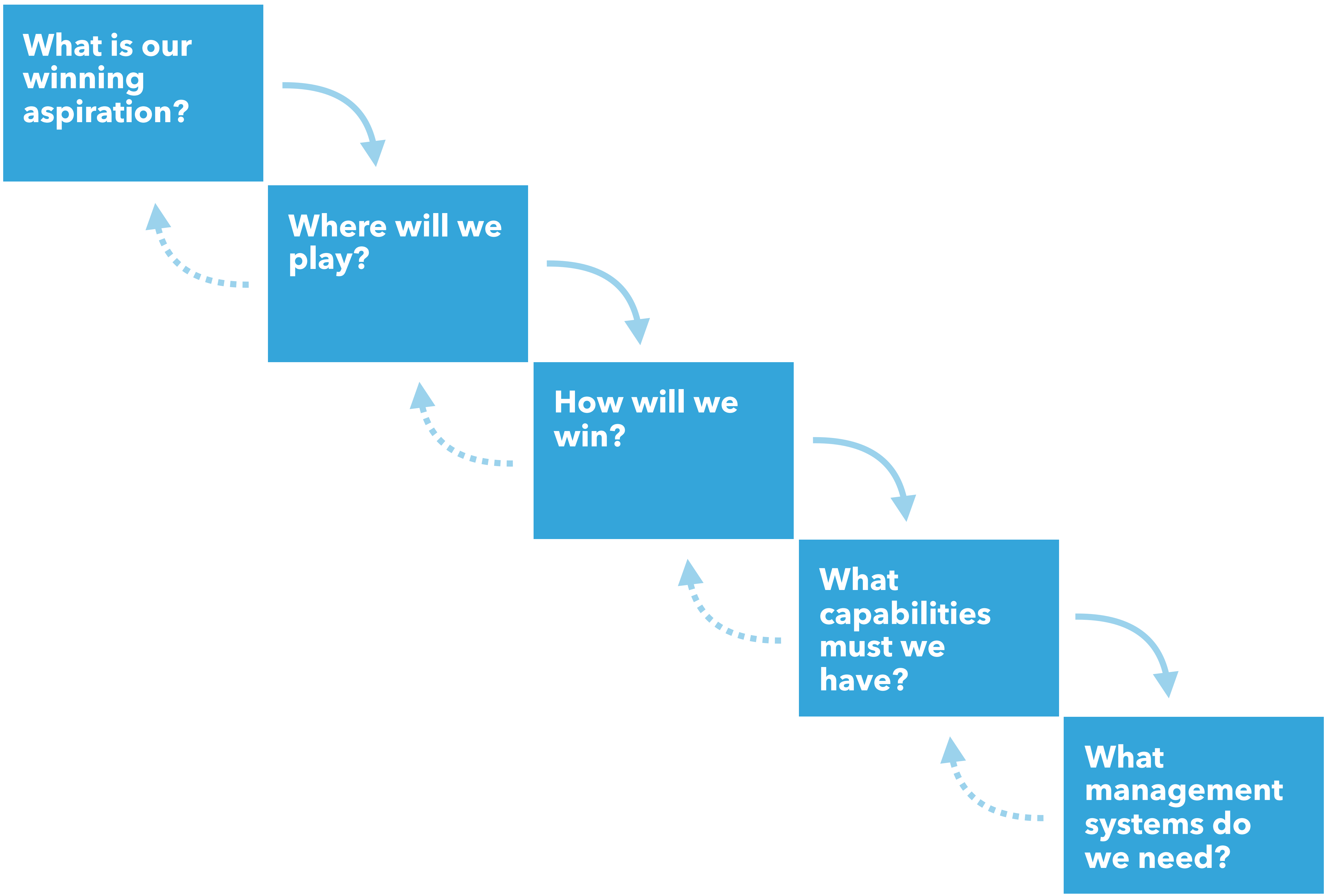
If you think about it, they're reluctant or even afraid because once you make a choice, it takes away your options. A lot of managers want to keep their options open. Strategy is the opposite of that. It's about narrowing your options: what is a win, where to play. It's counterintuitive and psychologically uncomfortable if you're a manager. You're taking on risk if you choose, because if your (announced) strategy fails, you fail.
– A.G. Lafley

This

At general management's core is strategy: defining a company's position, making trade-offs, and forging fit among activities.

– Michael Porter

Playing To Win (1h)



Olay's Choices

What is our winning aspiration?

- Become a leading skin-care brand.
- Help establish a key pillar in the P&G beauty-care business, along with hair care.
- Win convincingly in our chosen channels and markets.

Where will we play?

- Move upmarket (in “masstige” channel) with existing mass retailers.
- Target younger women in their 30s and 40s who are beginning to want and need anti-aging products.
- Sell in major geographies (North America and the UK).

How will we win?

- Better anti-aging skin-care products.
- Winning marketing campaign connected to consumer insights (“Fight the Seven Signs of Aging”).
- Establish a “masstige” segment to compete directly against prestige brands in department and specialty stores.

What capabilities must we have?

- Leverage P&G’s capabilities to the company’s context in consumer understanding, brand building, innovation, going to market, and scale.
- Partner to build full range of beauty, design, innovation, and marketing capabilities needed to win with consumers, channels, and influencers.

What management systems do we need?

- Leverage P&G systems.
- Channel and partner system.
- “Love the job you’re in.”

What's our winning aspiration?

A Playing to Win aspiration should set a higher bar. It should articulate winning in a specific way (e.g., leading market share, highest customer satisfaction) rather than in general (e.g., to be the preeminent brand).

Winning is the only real path to sustainability. If you don't try to win, your chances of accidentally doing so are very low.

Playing To Play

- Doesn't have a winning element, but focuses on simply serving a customer segment.
- Is focused on an internal metric, such as "We'll sell 25% more than we did last year."

Playing To Win

- Starts with people rather than money: What does it mean to win *with* your customers?
- Has a competitive dimension: Who are you winning *against*?

Where will we play?

Customers: An organization can compete in different demographic segments (e.g., *Fortune* 100 companies, 18- to 24-year-old men, suburban families).

Channels: It can participate in B2B direct sales, online marketplaces, mass-merchandise retail, or other channels.

Product or service type: It can compete across any number of services, product lines, or categories.

Geography: It can compete locally, nationally, internationally, by region, or by country.

Stage of production: It can participate in just one stage of production or be vertically integrated.

Where Not To Play

Companies may find it appealing to try to serve as many customers as possible; by trying to appeal to everyone, they don't meet anyone's needs well. Choose the customers who most matter to you, and seek to delight them.

It Isn't Inevitable

Your current geographies, products, and customers may represent the path of least resistance, but they aren't the only choice you have.

How will we win?

When it comes to how to win, an organization must figure out what will enable it to create value distinct from its competition. Choosing how to win is about finding and building on sources of competitive advantage. There are only two kinds of competitive advantage: to operate with sustainably lower costs, or to differentiate by offering a significantly better product or service. Do not try to do both.

Cost leaders and differentiators behave very differently. At cost leaders (e.g., Walmart and Southwest Airlines), managers work to understand cost drivers, to remove costs from the system, and to standardize their offerings. At differentiators (e.g., Whole Foods and Procter & Gamble), managers work to deepen their understanding of customers, to build their brand(s) with customers in mind, to delight current customers, and to attract new ones.

What capabilities must we have?

Organizations do many things. But a subset of activities makes the difference between winning and losing. These strategic capabilities are the map of activities that, when performed at the highest level, enable the organization to bring its where-to-play and how-to-win choices to life.

Capabilities are not necessarily the activities at which you are currently really, really good. They are the activities at which you would *need* to excel in order to play where you want to play and win how you want to win.

Powerful and sustainable competitive advantage is unlikely to arise from any one capability (e.g., having an outstanding sales force or the best technology), but rather from a well-fit and reinforcing set of capabilities.

What management systems do we need?

The last of the five essential questions is about management systems that build, support, and measure a strategy. Organizations often neglect this last question, but it is crucial. Without supporting structures, the strategy will simply be a wish list that may or may not amount to anything.

Systems are rules, norms, processes, and measures that tell you how well the strategy is working. They include budgeting processes, strategy reviews, and performance metrics. Some specific examples include customer relationship management (CRM) systems, innovation reviews, performance and incentive management processes, and customer referral systems.

You’re Amazon

3 teams.

You’re Amazon, Southwest, or Discovery House. Shout it out.

Answer the 5 key questions.

Refer back to these slides. Do a little research online. Review the questions on the next slide.

Work to capture what is unique about the company and what helps it to win.

When you’re done, post on Slack.

Questions to consider

What is this company's winning aspiration?

What is it proud to accomplish?

What is an obvious win for it? Against whom?

Where does it play?

Who are its customers?

What products or services does it offer?

In what geographies? What are its key markets?

Through what channels? How does it sell its products to its customers?

In what stages of production does it participate?

How does it win?

Why do customers choose this company over the competition? Does it compete on low cost or differentiation?

What is its competitive advantage? How is its competitive advantage linked to its where-to-play choices?

What capabilities support its competitive advantage?

What are the four or five capabilities that the company needs to be really good at in order to win in this way?

What are its key management systems?

What systems build its capabilities and support its strategic choices?

How does it measure its strategy's success?

Look at us

It's essential to start the P2W process with a depiction of the current state. New possibilities should be distinct from our current plan-in-action.

2 teams.

You may want to start with the Where and How questions, then going back to the Aspiration.

Refer back to these slides. Review the questions on the next slide.

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How does it measure its strategy's success?

Ask questions

Have we captured the essence of our current strategy? Is this who we are?

What concerns do we have about our current strategy, if any?

What opportunities do we see, in light of our current strategy?

Homework

Think about our strategic problems.

How am I doing?

DAY 2

Generating

Smart Management

What is our winning aspiration?

To be perceived as the most valuable product in the market compared to our competitors.

Where do we play?

U.S.-based OTP clinics, in 26 states. Direct channels.

How do we win?

Smart owned and managed its own clinics. We provide both the tool and the expertise.

What capabilities are in place?

Stable systems from top to bottom (software, processes, supporting tools), extensive expertise (people, SME, domain knowledge), adaptability, and capacity planning.

What management systems are in place?

Operational standup, leadership planning, and incentive plan/checkins.

Is this us?

Have we captured the essence of our current strategy? Is this who we are?

What concerns do we have about our current strategy, if any?

What opportunities do we see, in light of our current strategy?

Today

We will

- Define a strategic problem, frame a choice, and generate possibilities to solve that problem.
- Explore those possibilities by creating a strategy cascade for each one.
- Design tests of what would have to be true for each possibility to be a great strategy.

Reverse engineering will increase our odds of winning. It will take less time than typical strategy processes, because it involves analyzing and testing only the things that really matter to making strategy choices.

1. **Define the problem**: At the strategic level, what are our most pressing issues?

2. **Frame the choice**: Convert issues into at least two mutually independent options that might resolve the problem.

3. **Generate strategic possibilities**: Broaden the list to ensure consideration of an inclusive list of possibilities.

4. **Specify conditions**: For each possibility, specify what conditions must hold true for it to be strategically sound.

5. **Identify the barriers to choice**: Determine which conditions you feel least confident are true.

6. **Design valid tests**: For each key barrier, design a valid test sufficient for generating commitment.

7. **Conduct tests**: Conduct hypothesis-driven analysis, testing the conditions with the lowest confidence first.

8. **Choose**: Compare test results to key conditions, and make informed choice.

Tips

We're generating ideas, not evaluating them (yet).

We should be arguing for and against ideas (that's how we get anywhere), but we don't need to decide anything today. No need for lots of evidence and analysis.

There is no such thing as the perfect strategy or the perfect phrasing (unless your Billie Holiday), so not wordsmithing.

Step 1: What's our problem?

Framing the problem is as important as, and often more difficult than, solving the problem. Before diving into strategy work, it's important to define the problem that the group is attempting to solve.

Use the categories and representative problems on the following slide as a starting point.

Typically, in a Playing to Win process, participants will generate a number of problems to be solved. Start by capturing all the strategic problems on a whiteboard. Then, identify where problems may be linked and are pieces of a broader problem. For example, customers who no longer value your offering may be a function of the new technology that your competition has introduced to the market. And the resulting decline in your market share may worsen your cost position relative to that competitor. In this instance, the problem could be articulated this way: Competitive dynamics have shifted against us, due to a technology advance by a competitor that is undermining our profit equation.

Sample problems

Industry Segments

The growth of the segment(s) in which we compete has slowed, and competitors in other segments are growing more quickly; if this continues, we may be left behind.

Industry Structure

It's getting harder to make a profit in the segments in which we compete, because of new competitors or because existing competition is becoming more intense; if it gets much worse, we won't be able to earn an attractive return.

Channel Value

Our distribution channel partners don't value our offering the way they used to; if this continues, it may threaten our profitable access to our end customers.

Customer Value

Our end customers are less enthusiastic about our offering than they used to be; as a consequence, our market share is declining.

Relative Capabilities

Our key competitor has launched an offering using a new technology that we don't have; if customers value that new technology, our whole business is in jeopardy.

Relative Costs

Our key competitor keeps lowering its prices to an apparently unsustainable level, but according to the competitor's quarterly results, it seems to be doing just fine. The competitor may have developed a superior cost position to ours.

Competitor Reaction

Our key competitor's reaction to our latest initiative caught us off guard; we need to develop a sound response to its new strategy.

Step 2: Frame the choice

Framing a strategic choice is a crucial moment in the strategy process. When the group sees more than one option for solving the problem, it can focus on figuring out an optimal solution rather than studying or analyzing the problem.

For example, consider the following problem:

Our distribution channel partners don't value our offering the way they used to; if this continues, it may threaten our profitable access to our end customers.

The group could frame this problem as a choice in the following way:

We could fundamentally alter our offering to restore the existing channel's enthusiasm. Or we could abandon this channel and develop a relationship with a different set of channel partners.

Or consider the same relative capabilities problem:

Our key competitor has launched an offering using a new technology that we don't have; if customers value that new technology, our whole business is in jeopardy.

The group could frame a choice as follows:

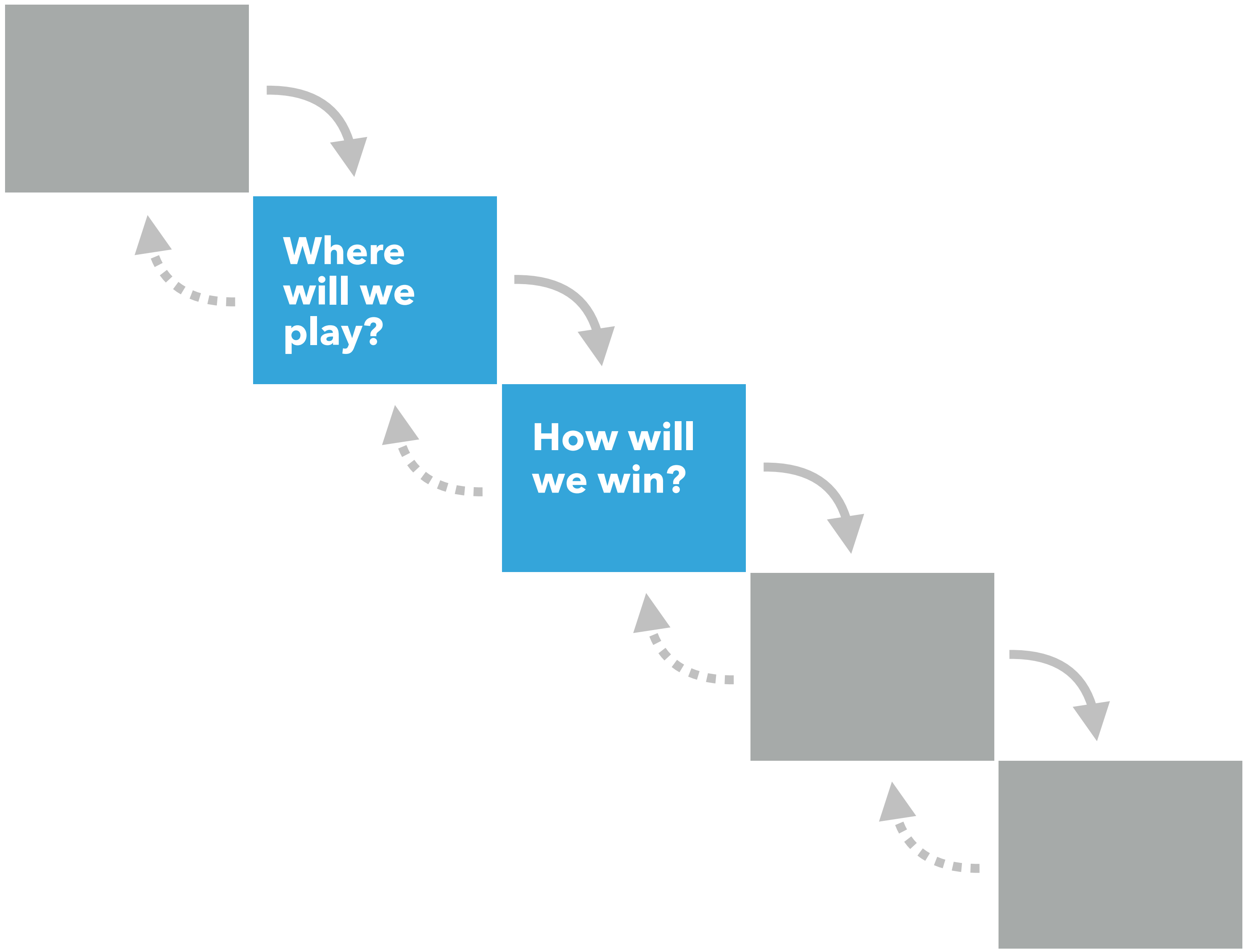
We could invest heavily and quickly to match the competitor's technology in order to neutralize its advantage. Or we could invest in early-stage projects to leapfrog the competitive offering with a still more appealing technology.

Step 3: Generate strategic possibilities

Once the team has articulated a clear strategic choice, move on to generating possibilities for where to play and how to win. This involves two steps:

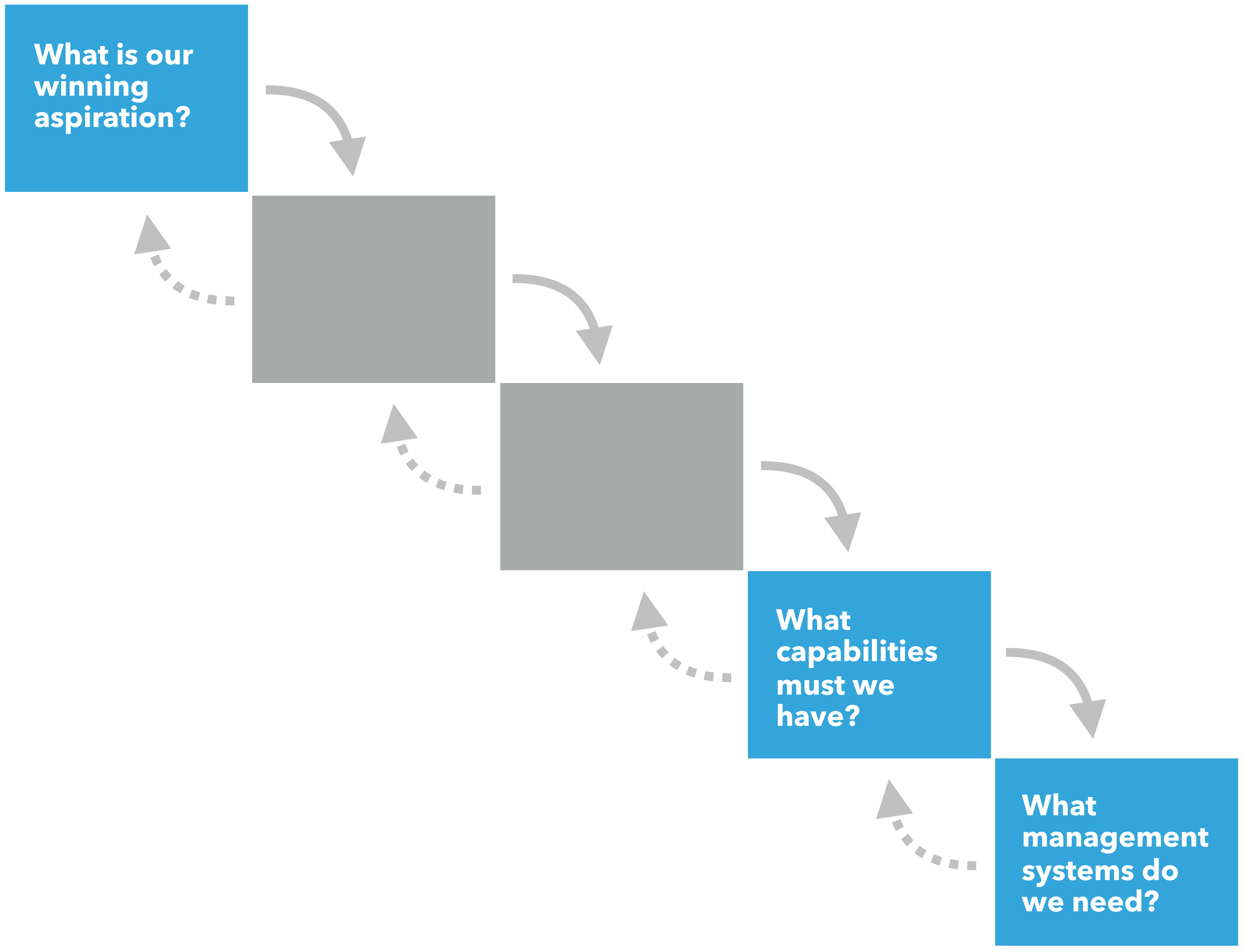
- Brainstorm where-to-play and how-to-win possibilities.
- Cluster similar possibilities together and then narrow them down.

Get down to 3-5 possibilities, including the current strategy.



Step 4: Draft a cascade for each possibility

You now have several where-to-play and how-to-win possibilities. Draft a new winning aspiration in light of these possibilities. Then fill in the last two boxes of each five-box cascade: capabilities and management systems.



Step 5: Specify conditions

The first step of reverse engineering is to identify, for each possibility, the conditions that would have to be true for it to be a great strategy. Use the following questions across seven categories (below).

Once you've listed all conditions, review all the conditions with this question in mind: If this condition weren't true, and everything else were true, would we still move ahead with this strategy? If the answer is yes, remove the condition.

After each person has added conditions to the list, ask the group, "If all these conditions were true, would you support this strategic possibility?" If the answer is yes, you're ready to move on to the next step. If anyone answers no, ask the person what additional conditions need to be included for him or her to say yes.

Industry

Segments
What must we believe are the strategically distinct segments?

Structure
What must we believe about how attractive the target segments are?

Customer Value

Channels
What must we believe the channel values?

End Customers
What must we believe end customers value?

Relative Position

Capabilities
What must we believe about our capabilities and how they stack up against our competitors?

Costs
What must we believe about our costs and how they stack up against our competitors?

Competitors

Reaction
How must we believe our competitors will react to our actions?

Step 6: Identify the barriers

After you've captured the conditions, ask, "Of all the things that would have to be true for us to be confident in this strategic possibility, which conditions do we most worry aren't true?"

For each possibility, you'll end up with a list of two to four barriers that you can test, in order of concern. Ask all team members to state which conditions they are most worried about. Counting up the votes, order the barriers from most to least worrisome.

The vote isn't about whether the conditions are important. It is about which conditions seem least likely to be true.

Step 6: Design tests

After you rank the barriers, move on to designing tests. Testing is a critical step in giving you greater confidence that the strategy will succeed. Don't skip tests for any of the most worrisome barriers.

Depending on your time, money, and resources, here are three types of tests to use:

- **Guerrilla-style tests** are the simplest, lowest cost, and fastest. They indicate if investment in more-expensive tests is needed. In some cases, they may produce enough confidence for you to move ahead without further testing.
- **Small-scale tests** often require new data, low to moderate investment, and more time. They can provide reasonable levels of confidence in a strategic possibility, but may also indicate the need for more-definitive tests.
- **Definitive tests** often include pilot and large-scale in-market tests and require the highest level of investment–and produce the highest level of confidence.

Use the simplest test you can, bearing in mind how much tests cost–in time and money. For example, if everyone agrees that the results from a guerrilla test would allow the group to endorse or eliminate a particular possibility, start there. If anyone in the group is concerned that the guerrilla test won't provide enough evidence, use a small-scale test. You can always move on to more-substantial tests if your early tests produce positive results and the group is still skeptical that the condition will hold.

Step 6: Design tests (continued)

Design tests for the top barriers for one of your strategic possibilities. If one possibility is obviously more attractive to the team than the others, start testing there. And begin by designing the test for its most worrisome condition.

Decide which type of test to conduct, and create a measurable and testable hypothesis using an if/then format. For example, “If we’re able to convince 60% of our channel partners to carry upmarket products, then I would support this possibility.” The if/then approach will produce a pass-or-fail standard for the test (e.g., “Yes, we will be able to convince 60% of channel partners” or “No, we will not be able to convince 60% of channel partners”).

JJS Cleaning Company

JJS is a family-owned cleaning company that has served the Chicago area for 30 years. Second-generation owner Josie Schneider has seen the company grow into the leading office-cleaning company in the region on the basis of great service.

She builds deep relationships with clients, hires friendly and reliable staff, and ensures that every client has the service structure that suits his or her individual needs. She has a stable of loyal clients willing to pay a premium over the lowest-price competitors.

The strategy has been working well, but Josie worries that growth is slowing. She wonders how to retain what is great about JJS while finding a new way to grow.

Current Strategy

What is our winning aspiration?

- To be the leading office-cleaning company in Chicago
- To have the highest client loyalty and level of repeat business in our industry

Where will we play?

- **Customers:** Small and medium enterprises
- **Channel:** Direct
- **Product:** Service contracts for regular office cleaning (daily, weekly) plus à la carte specialty deep-cleaning offers
- **Geography:** Regional, Chicago area

How will we win in chosen markets?

Differentiation through service excellence

- **Deep Relationships:** Knowing the decision maker better than our competitors can
- **Customization:** Tailoring our offerings to client needs
- **Familiarity:** Friendly and knowledgeable staff each and every time

What capabilities must we have?

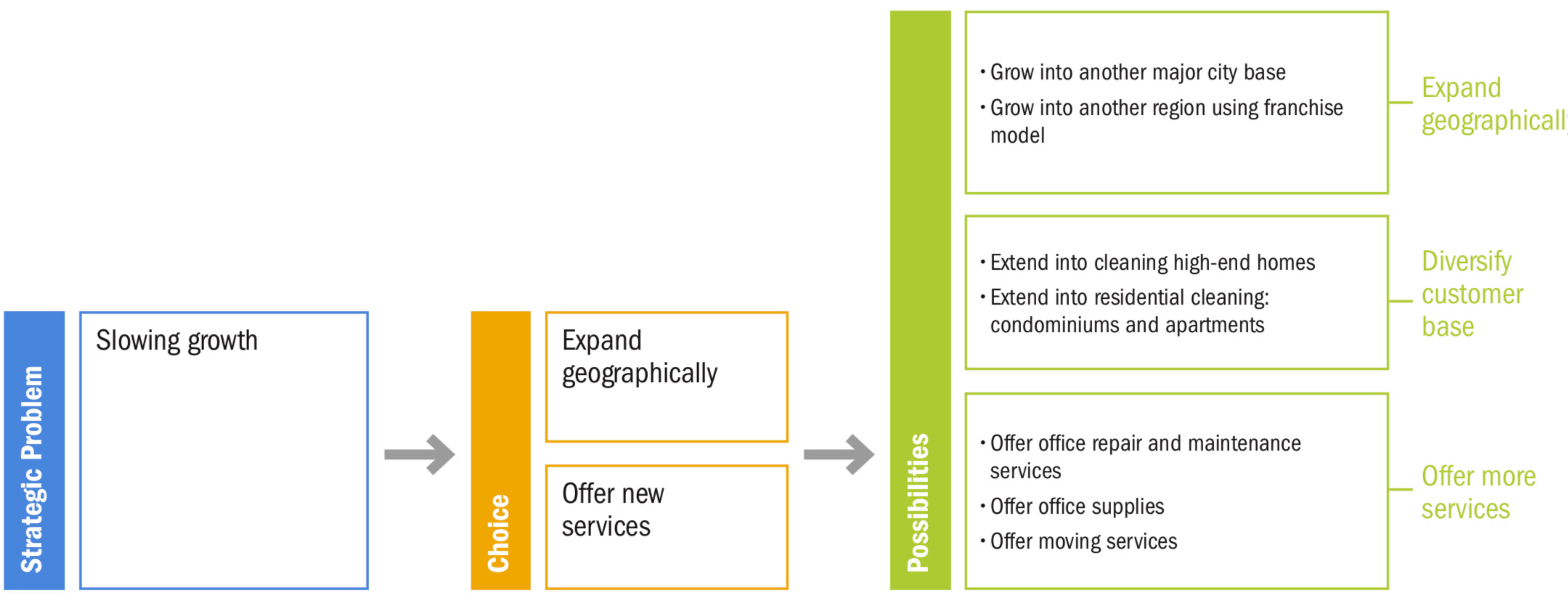
- Retention and recruiting (building adaptable, service-oriented teams)
- Sales and customer service
- Quality control and accountability

What management systems do we need?

- Logistics and fleet management
- Compensation and rewards systems
- Customer relationship management (CRM)

Strategic choice

Having defined its strategic problem as slowing growth, the JJS team then framed its strategic choice as expanding geographically or offering new services. From these two, the team then generated specific possibilities and clustered them by themes:



Strategic possibilities

The JJS team then culled the possibilities down to the three it felt were most promising:

Strategic Possibility #1

Geographic Growth

Grow beyond Chicago into all major cities in the Midwest, using a franchise model.

Strategic Possibility #2

Extend to Residential

Expand into residential cleaning by adding property management firms to customer base, using a B2B model.

Strategic Possibility #3

Office Service Company

Add more services to offerings (e.g., moving and basic maintenance and repairs) and products (e.g., basic office supplies such as water, coffee, and paper towels).

Possibility #1: Geographic Growth

What is our winning aspiration?

- To be the leading office-cleaning company in the Midwest
- To have the highest client loyalty and level of repeat business in our industry

Where will we play?

- **Customers:** Small and medium enterprises
- **Channel:** Franchise model (outside Chicagoland) with direct-to-customer in Chicago
- **Product:** Service contracts for regular office cleaning (daily, weekly) plus à la carte specialty deep-cleaning offers
- **Geography:** Major cities in the Midwest

How will we win in chosen markets?

Branded Differentiation

- Clear brand positioning as the office-cleaning experts

Excellent customer service

- Standardized set of service offerings
- Deep relationships with office managers
- Friendly and familiar staff each and every time

What capabilities must we have?

- Marketing and communications
- Franchise development and oversight (training, recruiting, contracting)
- Quality control and accountability
- Sales and business development

What management systems do we need?

- Logistics and fleet management
- Net promoter score (NPS)
- Training programs
- Customer relationship management (CRM)

The team then delved more deeply into its three strategic possibilities by drafting a five-box cascade for each, starting with expanding geographically using a franchising model across the Midwest.

Possibility #2: Extend to Residential

What is our winning aspiration?

- To be the leading cleaning company in Chicago for residential and office buildings
- To have the highest customer satisfaction, client loyalty, and level of repeat business in our industry

Where will we play?

- **Customers:** Small and medium enterprises, property management firms
- **Channel:** B2B and direct
- **Product:** Service contracts for regular office and residential cleaning (daily, weekly) plus à la carte specialty deep-cleaning offers
- **Geography:** Chicago area

How will we win in chosen markets?

Scale and efficiency

- Become supplier of choice to property managers with a suite of residential and office buildings
- Efficient servicing of large buildings (scale, speed, cost savings)
- Partnering with property managers, with enough scale to deliver across their portfolios (broadest offering vs. competitors)

What capabilities must we have?

- Sales and business development
- Sophisticated account management
- Quality control and accountability
- Cost management and supply chain expertise

What management systems do we need?

- Logistics and fleet management
- Large-client CRM, account management
- 24/7 support system
- Procurement systems

The team also delved into their second strategic possibility of diversifying their customer base by expanding into cleaning for residential buildings.

Possibility #3: Office Service Company

What is our winning aspiration?

- To be the one-stop shop for office customers' service needs
- To have the highest customer satisfaction, client loyalty, and level of repeat business in our industry

Where will we play?

- **Customers:** Small and medium enterprises
- **Channel:** Direct
- **Product:** Service contracts for regular office cleaning, basic maintenance, small repairs, and regularly ordered office products (paper towels, large-format water, coffee)
- **Geography:** Chicago area

How will we win in chosen markets?

- Simplicity and ease for customers (seamless, comprehensive support for all office maintenance)
- "We worry about it for you"—simplified caretaking of the customers' office space
- Customized routines and regimens to suit each client
- Trusted brand with specific staff expertise

What capabilities must we have?

- Project and process management
- Comprehensive maintenance routines
- Efficient, timely service
- Partnering with specialized suppliers
- Sales and business development

What management systems do we need?

- Logistics and fleet management
- 24/7 support system
- Procurement and partner management
- Training and development, evaluation

Finally, the team delved into the third strategic possibility of offering more services to small- and medium-sized businesses, including maintenance and office-product delivery.

Reverse Engineering

The team then analyzed what conditions would have to be true for each strategy to work.

This process is called reverse engineering. It isn't about evidence—yet. That comes in the testing phase. It isn't about what is true either, but rather about *what would have to be true* for the team to be confident in choosing this particular possibility as the new strategy.

The JJS team looked at conditions in seven categories relating to the industry, customer value, relative position, and competitors. Once they listed all the conditions, they reviewed them and for each one asked: If this weren't true, and everything else were true, would we still move ahead with this strategy? If they answered "yes," they considered the condition "nice to have" rather than essential and crossed it out.

Reverse Engineering: Geographic Growth

It would have to be true that…

Industry

Segments

- There is a large and stable or growing number of urban small and medium enterprises (SMEs) in the Midwest who:
    - Care about high-quality cleaning
    - Choose cleaning services based on brand and reputation (and not just low price)
- There is a large potential number of franchisees in neighboring urban areas who would be attracted to this opportunity
- Demographics indicate that franchisees would be able to recruit and train employees in their local markets

Structure

- Expansion markets are populated by small local players, who will not impede our brand development
- Regulations that cause barriers to entry (e.g., unionization) are not excessive in target areas
- Few substitutes (e.g., landlords who provide cleaning services under lease agreements) are available

Customer Value

Franchisees

- Value having a brand with a reputation across the Midwest
- Value being a part of franchised network of companies, over time
- Value the ability to offer a standardized product
- Value developing deep relationships with office managers within their defined geographic boundaries

SME Customers

- Value cleaning services from a branded, bonded company
- Value a standardized set of service offerings for office cleaning
- Value friendly and familiar staff for their cleaning services
- ~~Value giving feedback by participating in NPS measurement~~

Relative Position

Capabilities

- We can build a recognizable brand among office managers in the Midwest
- We can recruit, train, and manage franchisees to our standards
- We can maintain quality of service and brand reputation with franchisees through legal and financial mechanisms
- We can build standardized best practices for cleaning that are applicable to the majority of SME offices
- We can leverage NPS as a feedback tool for franchisees and direct customers
- We can maintain our reputation and roster of clients during and after the franchise development period

Costs

- We can operate the franchising model at a level that is affordable to the franchisee
- Franchising revenues will exceed the cost of building the franchise system

Competitors

Reaction

- Independent cleaning companies will not replicate this approach to expansion in the same ways and geographic areas
- Competitors in our current market will not reduce service fees below current levels
- Competitors in franchisee markets will not reduce service fees to an unreasonable level
- Franchisers (across industries)
    - Will not offer financial arrangements for franchises that greatly exceed our value proposition to franchisees

Reverse Engineering: Extend to Residential

It would have to be true that...

Industry

Segments

- There is a large and stable or growing number of property management companies that manage multiple office and residential buildings in Chicago
- These companies require regular cleaning services and are:
  - Willing to choose a large, single supplier
  - Willing to engage in contracts across a number of properties
  - Driven by factors other than price

Structure

- Existing residential building service providers are small and fragmented
- Building superintendents in residential properties do not serve as adequate substitutes for cleaning services
- Property management companies will not coordinate to exert excessive buyer power
- Reputational excellence and strong customer relationships create barriers to new entrants

Customer Value

Property Managers

- Value partnering with one cleaning service company across multiple office and residential properties
- Value consistency and certainty in cleaning services
- Value coordination of services through a centralized support system

Office Workers and Residents

- Value regular and standardized cleaning services
- Value cleaning services from a recognizable and reputable company

Relative Position

Capabilities

- We can build standardized cleaning best practices that can be used for residential and office buildings
- We can develop relationships with property managers to build brand reputation
- We can build and maintain systems for 24/7 support to maintain cleaning standards across clients
- We can hire, train, and retain service-oriented staff who can work in both residential and office environments
- Across multiple sites, we can:
  - Manage the logistics for mobilizing people and resources
  - Assess and reward quality of cleaning and service

Costs

- Cost advantage can be created through scale in materials and supplies
- Travel costs and time between sites are manageable (e.g., gas costs below $3.70/ gallon)
- Additional equipment requirements do not undermine our cost structure

Competitors

Reaction

- Independent office-cleaning companies:
  - Will not replicate this approach to service in the same way in the Chicago area
  - Will not expand into residential cleaning services
- ~~Will not hire whole intact teams from us~~

Reverse Engineering: Office Service Company

It would have to be true that...

Industry

Segments

- There is a large and stable or growing number of SMEs in the Chicago area who require a comprehensive solution for their cleaning services, office maintenance and repair, and office product supply needs
- These SMEs are:
  - Willing to pay for holistic office service and product management
  - Willing to switch from their current office maintenance and office product suppliers

Structure

- Relationships with office managers serve as a barrier to new entrants in cleaning or repair services
- Building managers (or landlords) are not adequate substitutes for cleaning, maintenance, and repairs
- The structure of the combined cleaning, maintenance, and repair industry is structurally more attractive than any one of the industries alone

Customer Value

Office Managers

- Value the simplicity and convenience of a single point of contact for all office-cleaning services, maintenance, repair, and supplies
- Value partnering with a cleaning services company for their office maintenance and supply needs
- Value routines and regimens for cleaning and maintenance of the office

Office Workers

- Value an uninterrupted work experience

Relative Position

Capabilities

- We can define basic and complex maintenance and repairs, and build contracts accordingly
- We can build attractive comprehensive service packages
- We can build partnerships with specialized suppliers for office products and repairs
- We can recruit, train, and retain staff who can both clean and perform basic maintenance and repairs
- We can build a system for dispatching staff to manage a diverse set of resources
- We can build deep relationships with office managers to increase sales in all three areas of service and sales

Costs

- We can source supplies and office products at competitive costs and deliver at comparable prices
- We can create cost advantage through scale in materials and supplies
- We can manage inventory costs to avoid decreasing our return on investment

Competitors

Reaction

- Independent cleaning companies will not replicate this approach in the same way in the Chicago area
- Players in office product sales or office repair and maintenance will not attempt to broaden into office-cleaning services

Reverse Engineering: Current Strategy

It would have to be true that…

Industry

Segments

- There is a large and stable or growing number of small and medium enterprises (SMEs) who require cleaning services in Chicago
- There is a segment of SMEs who want to be served by a branded service provider and are not swayed solely by the lowest price

Structure

- Strong reputation confers advantages to large incumbents, creating some barriers to entry
- Few substitutes (e.g., landlords who provide cleaning services under lease agreements) are available to SMEs

Customer Value

Decision Makers

- Value the contribution of a regular cleaning services to the operation of their office
- Value deep relationships with sales and service staff
- Value specialized cleaning services
- Value responsive customer service and issue management for cleaning services (and will pay for these additional services)

Office Workers

- Value familiarity with a regular cleaning staff
- Value and reinforce the choice of a cleaning service made by a decision maker

Relative Position

Capabilities

- We can recruit and train flexible customer service-oriented staff
- We can maintain a low staff turnover rate
- We can manage client-by-client customizations as requested
- We can assess and improve the quality of cleaning

Costs

- Labor costs will continue to be less than 50% of operating costs
- Travel costs and time between client sites remain manageable
- Fuel prices remain below $3.70 per gallon

Competitors

Reaction

- Independent cleaning companies:
  - Will not replicate this approach to service in the same way in the same geographic region
  - Will not hire whole intact teams from us

Identify barriers

After the JJS team had captured all the conditions that would have to be true for the geographic growth strategy to work, they then asked themselves: Which of these conditions do we most worry aren't true? In other words, what are the greatest barriers to this strategy being successful?

The team voted on which they thought were most worrisome and identified four that topped the list (see the following page for the barriers to expanding geographically).

The team then repeated this process for each of the possibilities and the current strategy. For illustrative purposes, we'll show you this process for just one of the possibilities.

Identify barriers: Geographic Growth

It would have to be true that...

Industry

Segments

- There is a large and stable or growing number of urban SMEs in the Midwest who:
  - Care about high-quality cleaning
  - Choose cleaning services based on brand and reputation (and not just low price)
- 2 There is a large number of franchisees in neighboring urban areas who would be attracted to this opportunity
- Demographics indicate that franchisees would be able to recruit and train employees in their local markets

Industry Structure

- Expansion markets are populated by small local players, who will not impede our brand development
- Regulations that cause barriers to entry (e.g., unionization) are not excessive in target areas
- Few substitutes (e.g., landlords who provide cleaning services under lease agreements) are available

Customer Value

Franchisees

- Value having a brand with a reputation across the Midwest
- Value being a part of franchised network of companies, over time
- Value the ability to offer a standardized product
- Value developing deep relationships with office managers within their defined geographic boundaries

Direct SME Customers

- Value cleaning services from a branded, bonded company
- Value a standardized set of service offerings for office cleaning
- Value friendly and familiar staff for their cleaning services
- ~~Value giving feedback by participating in NPS measurement~~

Relative Position

Capabilities

- We can build a recognizable brand among office managers in the Midwest
- We can recruit, train, and manage franchisees to our standards
- 1 We can maintain quality of service and brand reputation with franchisees through legal and financial mechanisms
- 4 We can build standardized best practices for cleaning that are applicable to the majority of SME offices
- We can leverage NPS as a feedback tool for franchisees and direct customers
- We can maintain our reputation and roster of clients during and after the franchise development period

Costs

- We can operate the franchising model at a level that is affordable to the franchisee
- Franchising revenues will exceed the cost of building the franchise system

Competitors

Reaction

- Independent cleaning companies will not replicate this approach to expansion in the same ways and geographic areas
- Competitors in our current market will not reduce service fees below current levels 3
- Competitors in franchisee markets will not reduce service fees to an unreasonable level
- Franchisers (across industries)
  - Will not offer financial arrangements for franchises that greatly exceed our value proposition to franchisees

Design barrier tests

After highlighting the four most worrisome barriers to their geographic growth strategy, the JJS team moved on to designing tests of those barriers, starting with the most worrisome—the one the team felt was least likely to hold up.

The tests would not provide absolute assurance that this strategy was perfect, but they would improve the odds of the team choosing a successful strategy.

They designed three types of tests: guerrilla-style, small-scale, and definitive.

• Guerrilla-style tests are the simplest and the lowest-cost, and take the shortest amount of time. They indicate if investment in more-expensive tests is needed. In some cases, they may produce enough confidence to move ahead without further testing.

• Small-scale tests often require new data, low to moderate investment, and more time. They can provide reasonable levels of confidence in a strategic choice, but may also indicate the need for more-definitive tests.

• Definitive tests often include pilot and large-scale in-market tests and require the highest level of investment—and provide the highest level of confidence.

Starting with their most worrisome condition—ability to maintain service quality and brand reputation with franchisees—the JJS team decided to use the guerrilla-style test because it would save them time and money. They knew that they could always move on to one of the more substantial tests if the guerrilla test produced positive results and the team still felt skeptical of the condition.

Barrier Tests: Geographic Growth

BARRIER #1

Relative Position: Capabilities

We can maintain quality of service and brand reputation with franchisees through legal and financial mechanisms.

Concern

Consistency of quality and brand are difficult to manage, so we will need assurance we can create effective mechanisms on this front. An underlying assumption is that legal and financial mechanisms are the best tools available for franchise-based organizations to maintain consistency in quality and brand.

Guerrilla-Style Test

Objective

To learn how other industries' franchise businesses use legal and financial mechanisms to maintain service quality and brand reputation.

Test

Interview owners of at least two analogous franchise businesses (e.g., Magicuts hair care and Qualicare in-home health care). Learn from these franchise owners where their franchise systems work well and where there may be challenges.

If/Then Hypothesis

If other franchise businesses are able to use legal and financial mechanisms to maintain consistency in quality and brand, then we will be able to do the same in the cleaning industry.

Standard of Proof

All the franchise owners we interview report being able to overcome challenges in managing consistency in quality and brand using legal and financial mechanisms.

Small-Scale Test

Objective

To identify the ways in which we may apply legal and financial mechanisms to maintain quality and brand consistency.

Test

Get an expert opinion from a lawyer and/or an accountant who specializes in supporting franchise businesses. The expert can provide information about:

- Effectiveness of using legal and financial mechanisms
- Best practices to ensure consistency in quality and brand
- Areas in which the mechanisms enable or limit success

If/Then Hypothesis

If we know in advance how legal and financial mechanisms can help overcome specific challenges around maintaining consistency in quality and brand, then we will be able to use those mechanisms in our franchise model.

Standard of Proof

The expert's insights point to specific parameters that we can use to construct a franchise opportunity that maintains consistency in quality and brand.

Definitive Test

Objective

To test our ability to use legal and financial mechanisms to maintain quality consistency and brand reputation by creating a prototype franchise model.

Test

For six months, reward the team as franchisees would be, and assess how well they maintain our quality of service and brand reputation. Utilize customer and employee surveys to determine variance with other locations. Review and assess team behavior and outcomes during this period.

If/Then Hypothesis

If we are able to create a prototype franchise model with appropriate financial and legal mechanisms in one market, then we'll be able to replicate in other markets.

Standard of Proof

Client satisfaction will remain at least at current levels.

The prototype cleaning team will not require additional training and support.

The prototype team will acquire at least three new customers during the trial.

Test and analyze

Once the JJS team had identified the most worrisome conditions for each of its three strategic possibilities and designed tests of the barriers to those conditions, it was time to conduct the tests. Testing would either increase their confidence in each possibility being a great strategy—or provide evidence that the most worrisome conditions would not hold true.

The team felt that expanding geographically was the most attractive possibility—if it panned out—so it began by testing its barrier #1: "We can maintain quality of service and brand reputation with franchisees through legal and financial mechanisms."

Since the definitive test—an in-market prototype—would be time-consuming and expensive, the group decided to start with a guerrilla-style test, studying two franchise businesses in analogous industries—hair care and in-home health care. The franchise owners the team interviewed were each able to overcome challenges in managing consistency in quality and brand using legal and financial mechanisms, and the JJS team noted enough similarities with the cleaning industry that it decided to move on to the definitive test.

JJS set up a pilot franchise with an existing, high-performing cleaning crew to further test their ability to maintain quality of service and brand reputation. They set success parameters around client satisfaction, training levels, and new-customer acquisition.

After six months, the results were negative. Coordination costs and brand risk were considerably higher than anticipated. Rather than acquiring new clients, JJS lost two of the cleaning team's clients and had to establish regular, paid coordination and mentoring sessions with the team lead.

The definitive test indicated that the most worrisome condition had failed the test (i.e., it did not hold true that JJS could "maintain quality of service and brand reputation with franchises through legal and financial mechanisms").

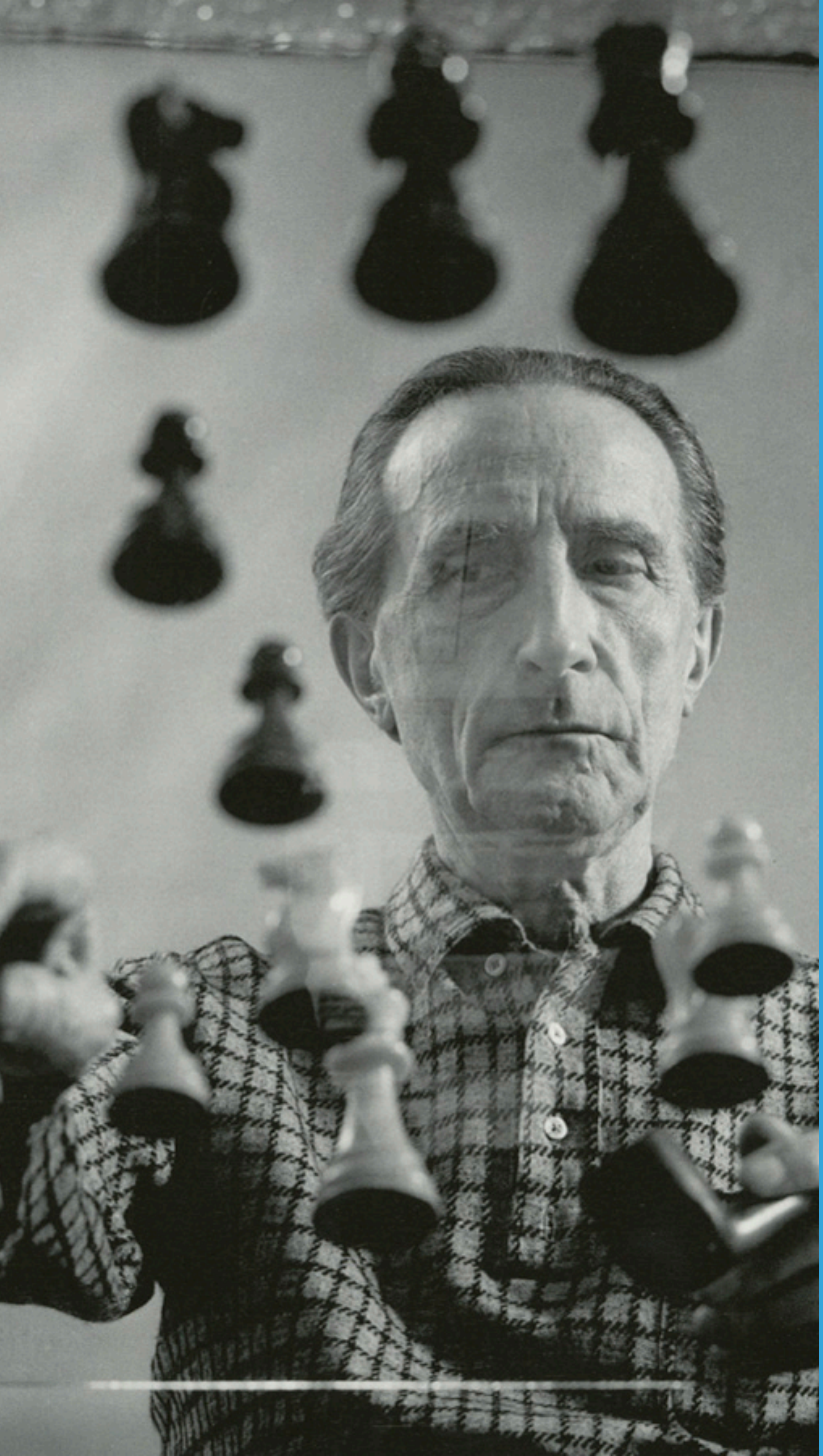
The team dropped the geographic expansion possibility and began testing in parallel the top barrier conditions for the other two possibilities.

Next steps

Once the JJS team concludes its tests, they'll be ready to review results and choose the strategic possibility that seems most likely to succeed.

Which strategy will work for them? Can they win by extending their customer base to serve residential clients? Or should they expand their offerings to include new services and products?

How am I doing?

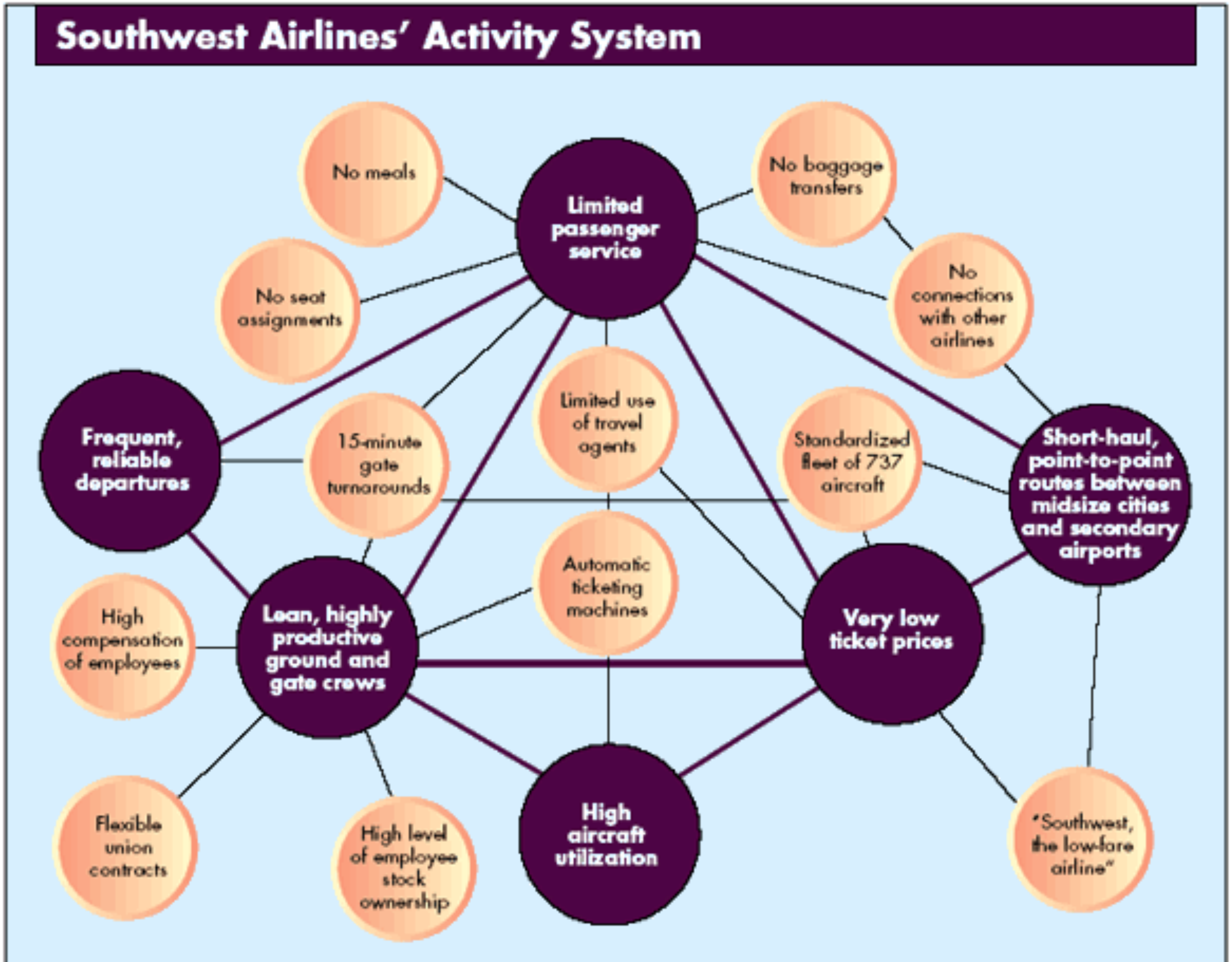


DAY 3

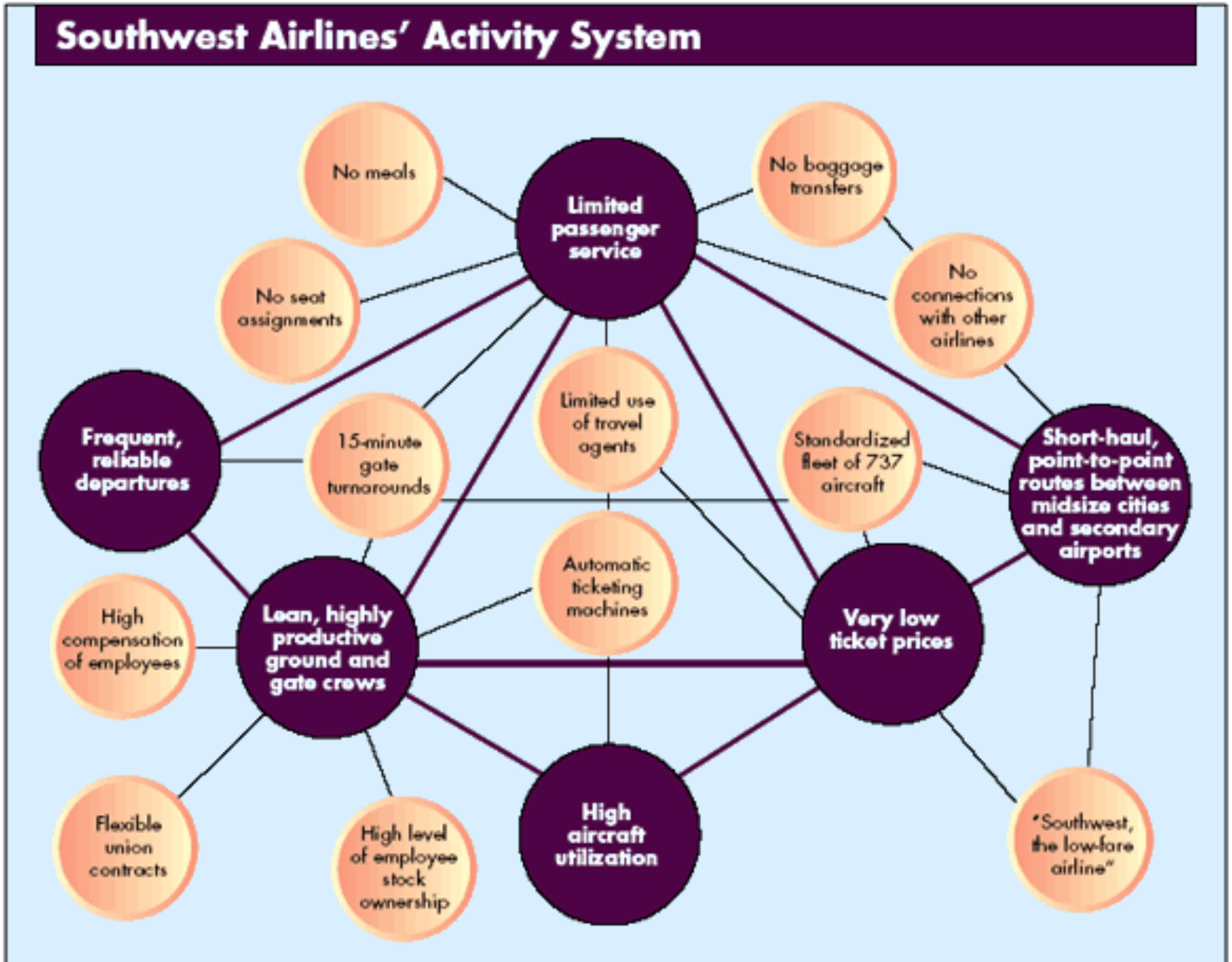
Choosing

APPENDIX

Activity Map***



Activity Map***



Oil of Olay

What is our winning aspiration?

To become a leading skin care brand again.

Where will we play?

The Oil of Olay brand stayed with its mass market retailers (e.g., Target and Walmart) rather than the prestige stores (e.g., Macy's). But it positioned itself as a "masstige" product -- higher end (and higher priced) than the traditional mass market beauty product.

How will we win?

Among Oil of Olay's winning strategy was producing a better anti-again skin care product -- a product at the right price (e.g., not too low) that would entice the prestige customer base.

What capabilities must be in place?

Oil of Olay, for example, was able to leverage P&G's strengths in consumer understanding and brand building.

What management systems are required?

Oil of Olay was also able to leverage P&G's systems as well as its channel and partner systems.

Capabilities

How do you know if something is a capability?

1. Opportunity: Provides significant expansion of existing opportunities, or a new solution to existing or new problems.

2. Value Proposition: Provides significant improvements in cost, reliability, and/or functionality (perceived by customer).

3. Competitive Advantage: Source of unique, sustainable competitive advantage when incorporated into products.
 Unique and sustainable relative to competitors - difficult for competitors to imitate.
 Must combine individual technologies to create competitive advantage.