

Berenschot

**THE CEO'S
AGENDA
2010-2012**

Research on strategy trends
in the Netherlands



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RESEARCH ON STRATEGY TRENDS IN THE NETHERLANDS

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Inhoud

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Choices are the hinges of destiny – Pythagoras

Making choices. That's what executives indicate is the most difficult in times of crisis. With the future being more uncertain now than ever, setting course through these tough times appears to be very difficult for many companies. Therefore, top management shies away from these decisions by sticking with proven concepts. This is the main outcome of the annual Berenschot research on trends in strategy among top managers of Dutch companies.

Executives acknowledge the importance of having a competitive advantage, other than cost competition. Controlling costs is considered a strategic issue by many managers, but only a few of them consider distinguishing themselves by becoming a cost leader. Most managers indicate that their companies are moving towards a focus strategy. A majority of companies is striving to distinguish themselves by producing the best product out there. A risky strategy, according to Michael Porter, because this means they still deliver the same product as the competition and are seriously at risk of getting caught in a commodity trap. The good news is that the search for new business models seems to have started for real now. This quest might provide Dutch companies with the options to start making real choices again.

In this report you will find a summary of the insights of over one hundred executives from major Dutch companies. It illustrates:

- how they are trying to distinguish themselves and obtain competitive advantage,
- what they regard as their most important strategic issues, and
- what they find most challenging in crafting a profitable strategy.

We at Berenschot support and encourage executives to make real choices in securing a sustainable competitive advantage.

What will you choose?

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1. Berenschot research on strategy trends in the Netherlands

Berenschot conducted a survey among the participating CEO's and managers, at the top level of well known companies, during Michael Porters', Michael Goldsmiths' and C.K. Prahalads' seminars at Nyenrode through 2009. By asking "what's on the agenda of the Dutch CEO?", Berenschot triggered the participants to share their views on shifts in their strategic focus over the past three years and going into the next three years.¹ 2010 is the first of these three years to come. Let's find out whether these shared thoughts support solving the issues in 2010. In addition, the most important issues within their respective industries and within companies were addressed. We also asked the executives about the constraints they face when developing their strategy.

But before we delve deep into the results of the survey, let's start with some shrewd remarks of professors Porter and Prahalad of the seminars at Nyenrode through 2009.

"A good strategy makes some customers unhappy"

According to Michael Porter, strategy is all about making choices and sticking to them. This implies that a good strategy demands you to ignore the needs of some customer segments and to avoid pleasing everybody. Also, in times of economic hardship, the continuity of your strategy is fundamental in building a competitive advantage. Imitating is not a bad thing, when you have no better solution, why not copy the best practice in the industry?

¹ The conducted research includes answers of 107 participants

But far more important is maintaining uniqueness. Competing with rivals on the same dimensions they compete on is, what Porter calls, the biggest error in strategy.

It takes time to integrate the strategy and to align employees' behavior with that strategy in order to create unique value. Frequent changes of the strategy result in confusion among customers, in the industry and within the organization itself. Above all, it significantly increases costs. This does not mean that strategy should be rigid, says Porter. Organizations should listen to the needs of their customers. In doing so they can perpetually define and adjust their strategic choices without repeatedly and fundamentally changing them.

“People misunderstand growth as the main goal. Profitability is more important” In Porter’s opinion a good strategy starts with defining the appropriate financial goals for the company in terms of profitability. Strategy is about creating an unique and sustainable competitive edge: “do things differently to meet different needs”.

Developing strategy is not easy, admitted Porter. Flawed concepts of strategy are:

- strategy formulated as action (“our strategy is to internationalize”),
- strategy communicated as aspiration (“our strategy is to be the world leader”), or
- strategy limited to a vision (“to provide superior products and services”).

A strategy should indicate how the value proposition meets the needs of specific groups of customers, and against which price these needs are met.

C.K. Prahalad states that operational agility and resilience are best achieved when there is strategic clarity. Volatility of markets creates new requirements for management. You may have to move faster or need to scale up or down, or break even levels should be set at much lower levels of utilization than before.

In such a business environment a clear and consistent strategic direction over time provides purpose and meaning for the entire organization.

2. Differentiation is the name of the game

Berenschot asked the participants about their strategic focus for the past three years and for the coming three years, choosing between low cost, focus or differentiation.

The main outcome is that only a minority of companies changes its strategic focus. Apparently companies make strategic choices for the long term and they do not change it in an economic downturn. This is in line with Michael Porters argument about choosing a strategy for a significant period of time and sticking with it.

The biggest shift is that the share of companies that indicates to be carrying out a low cost strategy in the next three years is roughly halved from 21% to only 11%. It is remarkable that a low cost strategy is not gaining any support in economic downturn. Three years ago, differentiation was the dominant strategy for 44% of the participants. Differentiation will remain the dominant strategy in the near future; in fact, it will become more prevalent. A differentiation strategy means that a company offers unique products or services to large groups of customers. They typically do so by adding value to products, for example by supplying additional services, focusing on product quality, innovation, and / or status. Of the executives polled, 51% states to continue or start a differentiation strategy in the coming years.

A focus strategy is the second most preferred strategy with 35% in the past and 38% for the next three years. A focus strategy implies that a company focuses on a certain segment of the market and offers tailored products of services, specifically aimed at that segment.

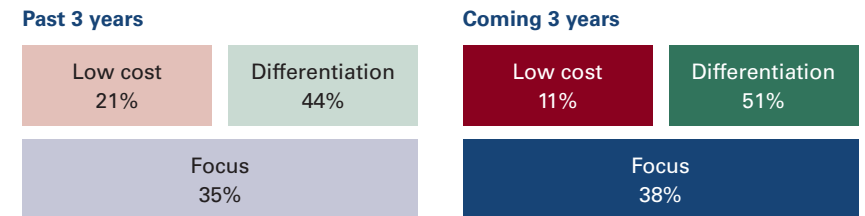


FIGURE 2.1 What was the strategic focus of your firm for the past 3 years? What is the strategic focus of your firm for the coming 3 years

3. Your wish is my command!

In the survey Berenschot asked the participants on which three main aspects their firm distinguishes itself from its competitors. The most important aspect they will compete on is 'product quality', which was mentioned by 55% of respondents. This is a higher percentage than in 2008, when it was also the most dominant aspect.

The second most important element is service, which last year was ranked as 4th most important. It appears that Dutch companies try to offer quality products and high service in order to meet customer requirements. Furthermore, Dutch companies are making more efforts to gain insight in and meet requirements of customers. A good thing, if you want to distinguish yourself by product quality. In order to align products and services with customer needs, companies will apply innovation (33%) and customer insights (19%).

C.K. Prahalad stresses the importance of an innovation orientation, as compared to an extrapolation and budgeting orientation often found in management. You should fold the future of 2015-2020 in your plans. Innovation is not only product or service innovation, but also experience innovation. Co-create new experiences with your customers. According to Prahalad companies have to learn how to deal with activist customers.

Remarkable is the rise of 'brand and image' to 32%, up from only 9% in 2008. This shows that managers expect to strengthen the market position of their company and products in an economic downturn by focusing heavily on brand and image.

The aspects product quality, service, fit to customer requirements, and brand and image all fit well within this year's move away from low cost strategies.

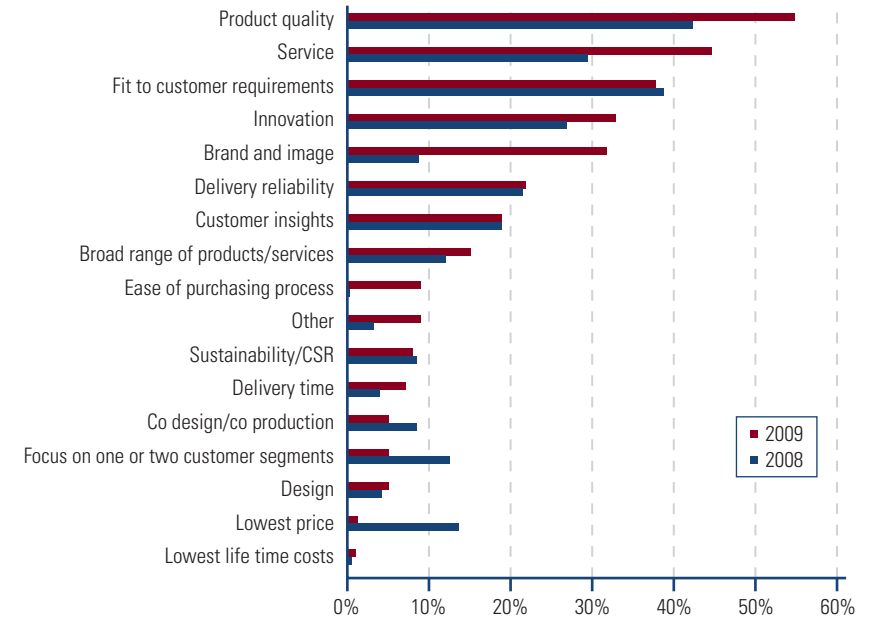


FIGURE 3.1 What are the 3 main aspects on which your firm differentiates itself from its competitors?

Sustainability is not as important, scoring 8% (virtually unchanged from 2008). This raises the question whether CSR is a hype or luxury, or might it still develop into a potential competitive advantage in the future.

4. Human talent is the quintessence

In addition, Berenschot asked the participating Dutch executives what the three most important strategic topics in their industry are.

Unchanged from last year, Dutch executives rate human capital as the most important strategic factor for future business success: 43% scores this factor. Although at present labor markets are less stretched, managers appear to expect that scarcity of talent will soon return.

On his weblog, Michael Goldsmith emphasizes the relevance of human capital for success of companies. “Truly great leaders, recognize how silly it is to believe that a coach or a leader is the key to an organization’s success. The best leaders understand that long-term results are created by all of the great people doing the work — not just the one person who has the privilege of being at the top.”²

Many participants expect that developing ‘new business concepts’ is strategically important (36%), followed once more by ‘brand and image’ (34%). In a market with fierce rivalry amongst competitors, managers look for new ways of doing business to differentiate themselves and increase their brand value.

A new, not easily reproducible business concept is wanted. Only a handful of companies will be able to develop and introduce a new sustainable model. Emphasizing brand and stringently adhering to communication guidelines, however, is within reach of many more companies. Rationalization of brands and product lines can be expected.

² Michael Goldsmith, [http://blogs.hbr.org/goldsmith/2009, 6th of January 2010](http://blogs.hbr.org/goldsmith/2009,6th%20of%20January%202010)

Innovation is an important strategic issue, the score of 33% is consistent with the ambition to differentiate as shown earlier. Innovation, especially requiring investments in new technology or new equipment, is concurring with innovations in business models, which require minimal capital investment. This is evidenced by the fact that ‘private equity’ (0%), ‘merger and acquisitions’ (11%) and ‘globalization’ (6%) all decreased in importance compared to 2008.

Surprisingly, cost competition is a highly rated strategic issue (27%), even though only a limited number of companies wants to distinguish themselves on low costs (see par. 3). CEO’s do not think that globalization, outsourcing and off-shoring are as important as they were last year. ‘Access to capital’ is a major strategic issue in the coming years, for it enables growth as well as day-to-day business when available but restricts operation and expansion tremendously when absent.

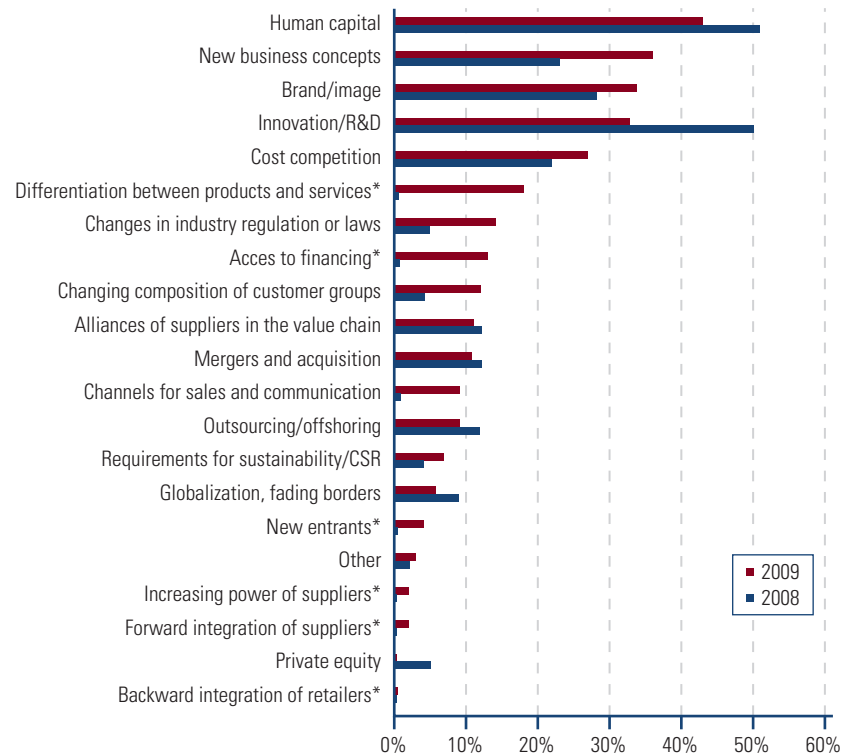


FIGURE 4.1 What are the 3 most important strategic topics in your industry?
Topics marked with an * were not part of the research in 2008

These answers can be placed in Michael Porters's five forces model. Industry rivalry followed by the threat of substitutes are the dominant forces in the coming years. This indicates that in times of economic downturn, companies are primarily occupied with (re-)positioning vis-à-vis direct competitors, and pay less attention to changing relationships or shifts in the distribution of power in the value chain towards suppliers and/or (end) customers.

C.K. Prahalad however recommends companies to have a broader view of this. Companies have to build 'ecosystems' with other suppliers, their collaborative capacity is becoming increasingly more important. Building trust and sharing plans between players in the value chain needs to be more intense in order to achieve growth. Companies have to be more conscious of their double identities as both client and supplier.

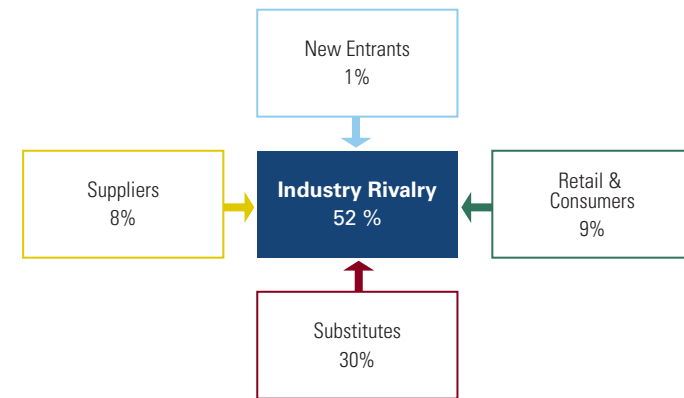


FIGURE 4.2. What are the 3 most important strategic topics in your industry according to Porter's 5 forces?



5. Making real choices is difficult in hard times

Finally, we asked the Dutch executives what constraints they are faced with when developing strategy. 41% answered that they avoid making real choices and 34% indicated they tend to hold on to familiar things. Apparently it is difficult to make real choices when the market is in a downward spiral. Investing in activities that were successful in the past, avoiding experiments or risks and focusing on the demands of current customers is what most companies do. This attitude is emphasized by a perceived high uncertainty about the future. This may result in both not knowing what direction to choose and deliberately keeping all options open. When executives do think about new strategies, 22% concludes that ‘too many people are involved in the process’ of developing strategy, compared to only 14% in 2008. This too shows the managers’ risk avoidant behavior.

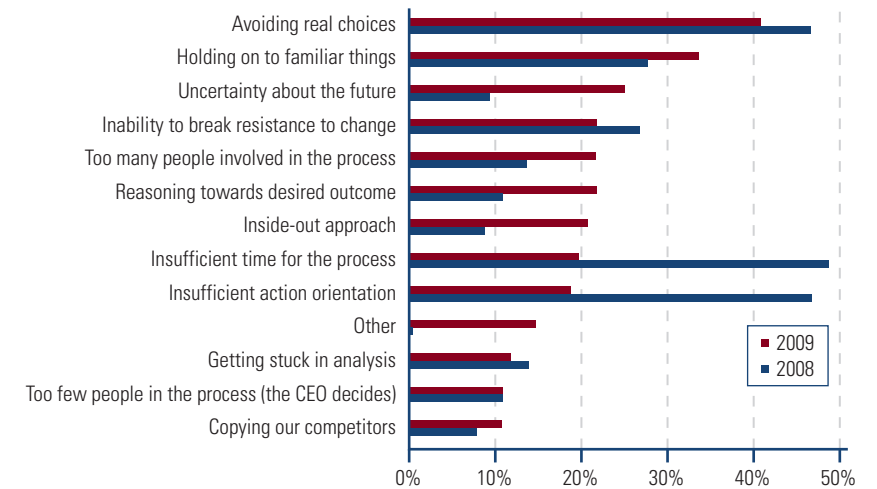


FIGURE 5.1 What, if any, are the main issues you face when developing your strategy?

Last year the main constraints executives experienced were ‘insufficient time for the process’ (49%) and ‘insufficient action orientation’ (47%). In 2009, these are not considered to be major constraints (anymore).

When your focus is on ‘keeping things going’, the analysis is not the issue. Springing into action and selecting one activity over the other is! During the seminar we discussed the outcomes with Michael Porter. According to Porter, strategy is about making choices and distinctiveness not about pleasing everybody. This is exactly where Dutch executives struggle. Scenario planning helps to deal with uncertainty about the future, to let go of familiar responses and to make real choices.

6. Conclusions

This research conducted by Berenschot shows that Dutch executives see human talent, new business concepts, branding and innovation as the most important issues when coping with the economic downturn and high uncertainty. Additionally, they want to avoid a price war by focusing on differentiation instead of cost leadership, though they fear cost competition. Dutch executives try to distinguish themselves by focusing on product quality, service, fit to customer requirements, with innovation and branding as important means to achieve this. In this way they seek to create and maintain a competitive advantage.

The majority of Dutch executives find it difficult to make real choices. Especially now, during the economic downturn, they tend to hold on to familiar things.

Want to stand out from the crowd?

STRATEGIC DIALOGUE

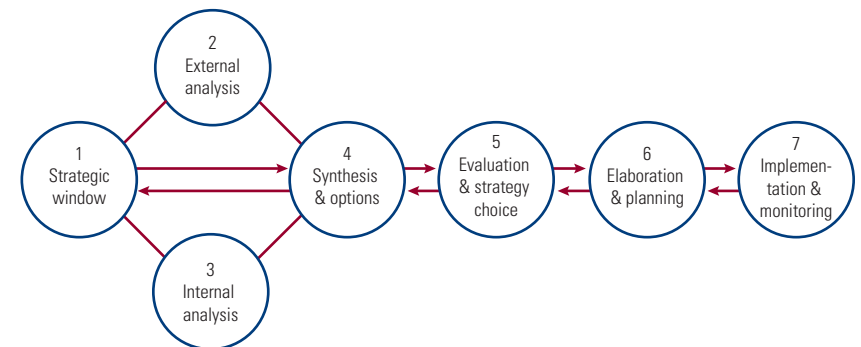


TABLE 6.1 Phases of the Strategic Dialogue

Berenschot's concept of the Strategic Dialogue helps you to make sustainable strategic choices in uncertain times. Nobody knows your business better than you and your employees do. We, on the other hand, know about strategy. In a Strategic Dialogue, we cooperate with your people to make the required analyses, generate strategic options and help you to make the right choices. This gets your entire organization involved and creates a common sense of direction. Depending on the phase, the degree of participation varies (see Table 6.2 below).

PARTICIPATION

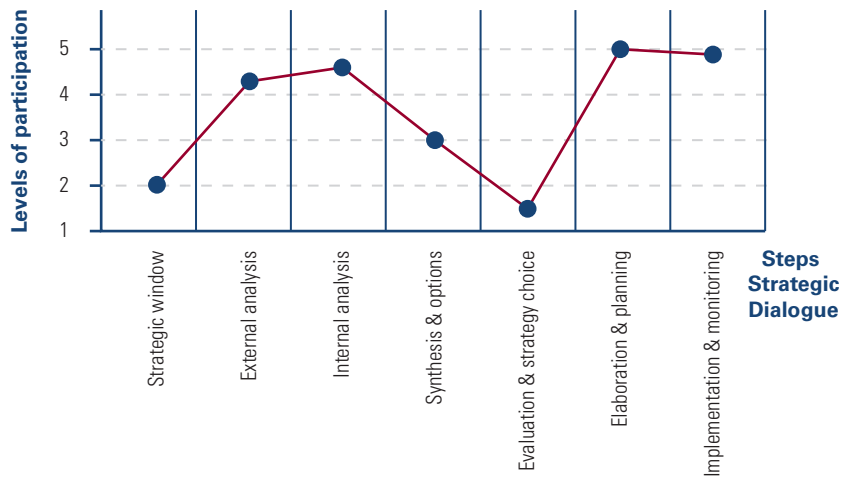


TABLE 6.2 Level of participation in each phase of the Strategic Dialogue

If you like to know more about our strategic dialogue or scenario planning please visit www.berenschot.com or send us an e-mail: pp@berenschot.nl

About Berenschot

Berenschot is an independent consulting firm with 450 consultants in the Benelux. Innovation and creativity are key to everything we do. They form the core of our business. And our clients recognize this. They choose for us because we give them a head start.

Berenschot advises companies on strategy in industries such as financial services, energy, food & agro and industrial goods. Our clients are boards, management teams and works councils of medium sized to multinational companies. We truly believe in close and long term relationships with our clients.

The services we offer are:

- Strategic Dialogue
- Recovery and Restructuring
- Strategy implementation
- Scenario planning
- Market research marketing
- Works council dialogue
- Post-merger integration

Berenschot consultants strives to maximize the competitive advantage and the added value of its clients. We believe that strategic goals are only realized when the chosen strategy is integrated in daily operation. Our goal is not to develop plans, but to implement solutions.

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