

Strategy Is Choice

By the late 1990s it became clear that P&G really needed to win in skin care. Skin care (including soaps, cleansers, moisturizers, lotions, and other treatments) constitutes about a quarter of the total beauty industry and has the potential to be highly profitable. When done well, it can engender intense consumer loyalty compared with other beauty categories like hair care, cosmetics, and fragrances.¹ Plus, there's significant knowledge and skill transfer from skin care to these other categories in terms of technology and consumer insights. To be a credible player in the beauty business, P&G needed leading hair-care and skin-care brands. Skin care was the weak link. In particular, Oil of Olay was struggling. It wasn't P&G's only skin-care brand, but it was by far the largest and best known.

Unfortunately, the brand had baggage. Oil of Olay was seen as old-fashioned and no longer relevant. It had come to be derisively called "Oil of Old Lady," a not entirely unfair characterization, as its customer base was growing older every year. More and more, when selecting a skin-care regimen, women were passing over Oil of Olay in favor of brands with more to offer. Oil of Olay's core product (pink cream in a simple plastic bottle), sold mainly through drugstores at the bargain-basement price of \$3.99, just wasn't competitive against an ever-growing range of skin-care alternatives. By the late 1990s, Oil of Olay sales were clocking in below \$800 million a year, nowhere close to the industry leaders in the \$50 billion skin-care category.

All this presented a difficult strategic choice and generated a number of possible responses. P&G could maintain status quo on Oil of Olay and launch a more relevant alternative under a different brand name to

compete for a new generation of consumers. But building a skin-care brand from scratch to market leadership could take years, even decades. P&G could go for an immediate fix, buying an established skin-care leader (think Estée Lauder’s Clinique or Beiersdorf’s Nivea brand) to more credibly compete in the category. But an acquisition would be both expensive and speculative. Plus, over the previous decade, P&G had actively pursued several opportunities for leading brands with no success. P&G could attempt to extend one of its leading beauty brands, like Cover Girl, into the skin-care category. This too would be highly speculative. How easily could even a leading cosmetics brand gain traction in skin care? Finally, P&G could attempt to revive a fading but still valuable Oil of Olay to compete in a new segment. This meant finding a way to reinvent the brand in the minds of consumers, a big investment with no guarantee of success. But P&G believed that the Oil of Olay brand had potential, especially with the right push behind it.

The good news was that there was still widespread consumer awareness of Oil of Olay, and as every good marketer knows, awareness precedes trial. Michael Kuremsky, Oil of Olay’s North American brand manager at the time, summed up the state of affairs: “There was still a lot of promise. [But] there was really no plan.”² The team wanted to turn the promise into a plan. The plan was to remake Oil of Olay—its brand, its business model, its package and product, its value proposition, and even its name. Out went “Oil of,” and the brand was rechristened “Olay.”³

Rethinking Olay

Together with Susan Arnold, then president of global beauty, we focused on the mid- and long-term strategy for beauty, working to establish P&G as a credible contender in the sector. As P&G learned the beauty game, it could win across the categories. So, P&G invested in the SK-II brand (a super-premium Japanese skin-care line acquired when P&G bought Max Factor in 1991), Cover Girl (P&G’s leading cosmetics brand), Pantene (its biggest shampoo and conditioner brand), Head & Shoulders (its leading antidandruff shampoo line), and Herbal Essences (its hair-care brand aimed at a younger demographic). The company bought Wella and Clairol, to create a position in hair styling and color. And it pursued acquisitions that could build leadership in skin care. The Olay team, meanwhile, worked to reinvent the brand.

Led by Gina Drosos (then general manager for the skin-care business), the team set to work to understand its consumers and its competition. The team members discovered, to no one's surprise, that Olay's existing customers were price sensitive and only minimally invested in skin care. Conventional wisdom was that the most attractive consumer segment was women aged fifty-plus and concerned with fighting wrinkles. These women would pay significant premiums for promising products, and this was where the leading brands tended to focus. But, Drosos recalls, "We found, as we looked at consumer needs in the market, that there was real growth potential with consumers who were thirty-five-plus, when they noticed their first lines and wrinkles. Before that, a lot of women were still using hand and body lotions on their face or really nothing at all."⁴ The midthirties seemed to be a potential point of entry in women's skin care. At this age, consumers become more aware of, and committed to, a regimen—cleansing, toning, and moisturizing and using day creams, night creams, weekly facials, and other treatments to keep the appearance of youthful, healthy skin. In their midthirties, women tend to become more highly committed to skin care and are more willing to pay for quality and innovation. They seek out a preferred brand on a regular basis and try new offerings from it. They become loyal devotees. These were the consumers Olay needed, but to play in this segment, Olay would have to up its game significantly.

Traditionally in the beauty industry, department store brands have taken the lead on innovation, developing new products and better products that, over time, trickle down to the mass market. Given P&G's greater scale, lower distribution costs, and considerable in-house R&D capabilities, there was an opportunity to lead on innovation from the middle of the market. "We could flip this consumer paradigm that the best technology trickles down," Drosos says. "We could have the best technology come from Olay." So, P&G scientists went to work on sourcing and developing better and more-effective compounds—skin-care products that could dramatically outperform existing products in the market. Rather than focus exclusively on wrinkles as a product benefit, Olay broadened the value proposition.

The research showed that wrinkles were but one of many concerns. Joe Listro, Olay's R&D vice president, notes, "Besides wrinkles, there was dry skin, age spots, and uneven skin tone problems. Consumers were telling us, 'We have these other needs.' We were working on technologies from a skin-biology and noticeable-appearance standpoint.

We identified a material combination called VitaNiacin that showed noticeable benefits across a range of these factors that could actually improve the appearance of skin.”⁵ Olay sought to redefine what anti-aging products could do. The result was a series of new products, beginning with Olay Total Effects in 1999, that combined consumer insights with better active ingredients to fight the multiple signs of aging. The products marked a significant improvement in skin-care performance for consumers.

The new, more effective products could credibly be sold in department stores like Macy’s and Saks, the *prestige channel* that accounted for more than half of the market. Olay had traditionally been sold only in the mass channel, through drugstores and discount retailers. These mass retailers, including Walgreens, Target, and Walmart, were P&G’s biggest and best customers across multiple categories. But the company had precious little experience in, and influence with, department stores, where it sold in just a few categories. To play to P&G’s strengths, it made sense to stay in mass channels, but only if department store consumers would defect there for Olay. To win with Olay in mass, the company had to bridge the mass and prestige markets, creating what it would come to call a *masstige* category. Olay needed to shift the perception of beauty care in the mass channel, selling higher-end, more prestigious products in a traditionally high-volume environment. It needed to attract consumers from both the mass and the prestige channels. To do so, the product itself was only a part of the battle; Olay also needed to shift consumer perception of the brand and channel through its positioning, packaging, pricing, and promotions.

First, Olay needed to convince skin-care-savvy women that the new Olay products were just as good as, or better than, higher-priced competitors. It began with advertising in the same magazines and on the same television shows as those populated by the more expensive brands; the idea was to put Olay into the same category in the consumer’s mind. Ads highlighted Olay as the way to fight “the seven signs of aging,” and outside experts were enlisted to bolster claims relating to the new and better ingredients. Drosos explains, “We developed a breakthrough external-relations and credentialing program. We determined who would be the key influencers for consumers. We opened our labs to some of the top dermatologists to come in to see the work we were doing.” Independent tests, which showed Olay products performing as well as or better than department store brands costing hundreds of dollars more,

helped reframe consumer perceptions of performance and value. All of a sudden, Olay was seen as offering high-quality products at an affordable price.

Olay also needed to look the part. The packaging had to represent an aspiration, but also effectively deliver the product. Recalls Listro, “Most products in mass, and even prestige to some extent, were sold either in squeeze bottles or in generic jars. What we were looking for was a technology that could deliver a thick cream elegantly, more like a lotion. We found this design that could actually pump creams.” The result: a package that would look distinctive and impressive on the shelf, but also work effectively once the product was at home.

Pricing was the next element. Traditionally, Olay products had sold, like most drugstore brands, in the sub-\$8 price category (compared with department store brands, which could be priced anywhere from \$25 to \$400 or more). As Drosos explains, in skin care, there was the pervasive belief “that you get what you pay for. Women felt the products available in the mass-market channel were just not as good.” Olay’s advertising and packaging promised a high-quality, effective product that could compete with department store brands. Its pricing needed to hit the perfect note as well—not so high that mass consumers would be turned off, but not so low that prestige consumers would doubt its efficacy (no matter what those independent experts said).

Listro recalls the testing that went on to determine the pricing strategy for Olay Total Effects: “We started to test the new Olay product at premium price points of \$12.99 to \$18.99 and got very different results at those price points.” At \$12.99, there was a positive response and a reasonably good rate of purchase intent (a stated intention to buy the product in the future). But most of the subjects who signaled a desire to buy at \$12.99 were mass shoppers. Very few department store shoppers were interested at that price point. “Basically,” explains Listro, “we were trading people up from within the channel.” That was good, but not enough. At \$15.99, purchase intent dropped considerably. Then, at \$18.99, purchase intent went back up again—way up. “So, \$12.99 was really good, \$15.99 not so good, \$18.99 great. We found that at \$18.99, we were starting to get consumers who would shop in both channels. At \$18.99, it was a great value to a prestige shopper who was used to spending \$30 or more.” The \$18.99 price point was just below Clinique and considerably below Estée Lauder. For the prestige shopper, it was great value, but not too cheap to be credible. And for the mass shopper, it

signified that the product must be considerably better than anything else on the shelf to justify such a premium. Listro continues: “But \$15.99 was no-man’s-land—way too expensive for a mass shopper and really not credible enough for a prestige shopper.” So, with a strong push from the senior leadership team, Olay took the leap to \$18.99 for the launch of Olay Total Effects. It was set as the manufacturer suggested retail price, and the team worked hard to convince retailers to stick to that price.

Momentum started to build. Olay followed up with an even more expensive premium brand, with a yet-better active ingredient: Olay Regenerist. Then, it introduced Olay Definity and then the still-higher premium Olay Pro-X—which sold at a \$50 price point, something inconceivable ten years earlier. The team built and deepened capabilities around the new strategy. For most of the 1990s, P&G’s skin-care business had grown at 2 to 4 percent per year. Following the 2000 relaunch, Olay had double-digit sales and profit growth every year for the next decade. The result: a \$2.5 billion brand with extremely high margins and a consumer base squarely in the heart of the most attractive part of the market.

What Strategy Is (and Isn’t)

Olay had a strategic problem that many companies struggle with—a stagnant brand, aging consumers, uncompetitive products, strong competition, and momentum in the wrong direction. So, why was Olay able to succeed spectacularly where so many fail? The people at Olay aren’t harder working, more dedicated, bolder, or luckier than everyone else. But their way of thinking about the choices they made was different. They had a clear and defined approach to strategy, a thinking process that enabled individual managers to effectively make clearer and harder choices. That process, and the approach to strategy that underpins it, is what made the difference.

Strategy can seem mystical and mysterious. It isn’t. It is easily defined. It is a set of choices about winning. Again, it is an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to the competition. Specifically, strategy is the answer to these five interrelated questions:

1. *What is your winning aspiration?* The purpose of your enterprise, its motivating aspiration.

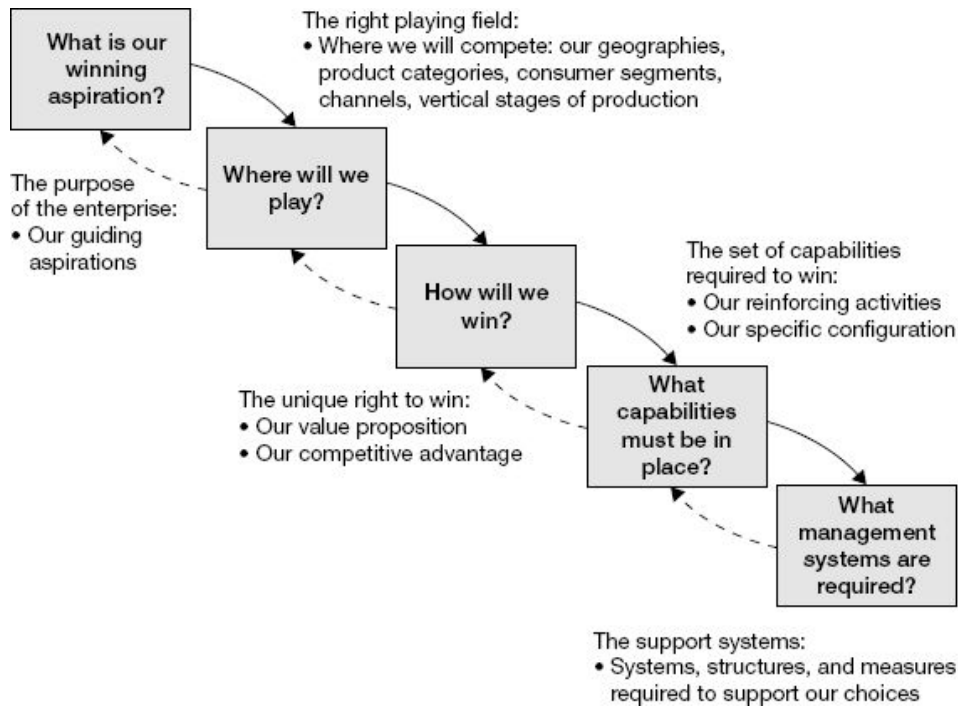
2. *Where will you play?* A playing field where you can achieve that aspiration.
3. *How will you win?* The way you will win on the chosen playing field.
4. *What capabilities must be in place?* The set and configuration of capabilities required to win in the chosen way.
5. *What management systems are required?* The systems and measures that enable the capabilities and support the choices.

These choices and the relationship between them can be understood as a reinforcing cascade, with the choices at the top of the cascade setting the context for the choices below, and choices at the bottom influencing and refining the choices above ([figure 1-1](#)).

Must Read

FIGURE 1-1

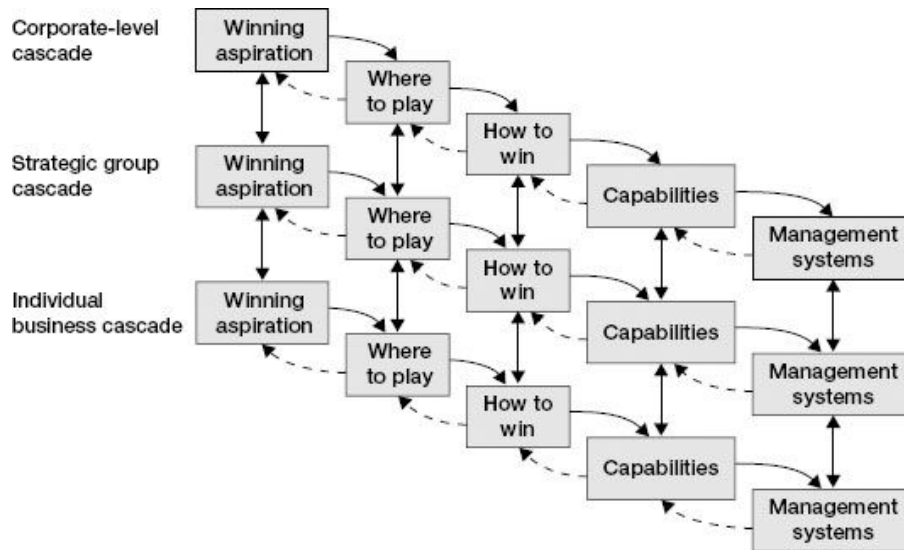
An integrated cascade of choices



In a small organization, there may well be a single choice cascade that defines the set of choices for the entire organization. But in larger companies, there are multiple levels of choices and interconnected cascades. At P&G, for instance, there is a brand-level strategy that articulates the five choices for a brand such as Olay or Pampers. There is a category strategy that covers multiple related brands, like skin care or diapers. There is a sector strategy that covers multiple categories, for example, beauty or baby care. And finally, there is a strategy at the company level, too. Each strategy influences and is influenced by the choices above and below it; company-level where-to-play choices, for instance, guide choices at the sector level, which in turn affect the category-level and brand-level choices. And the brand-level choices influence the category-level choices, which influence the sector- and company-level choices. The result is a set of nested cascades that cover the full organization ([figure 1-2](#)).

FIGURE 1-2

Nested choice cascades



The nested cascades mean that choices happen at every level of the organization. Consider a company that designs, manufactures, and sells yoga apparel. It aspires to create fierce brand advocates, to make a difference in the world, and to make money doing it. It chooses to play in its own retail stores, with athletic wear for women. It decides to win on the basis of performance and style. It creates yoga gear that is both technically superior (in terms of fit, flex, wear, moisture wicking, etc.) and utterly cool. It turns over its stock frequently to create a feeling of exclusivity and scarcity. It draws customers into the store with staff members who have deep expertise. It defines a number of capabilities essential to winning, like product and store design, customer service, and supply-chain expertise. It creates sourcing and design processes, training systems for staff, and logistics management systems. All of these choices are made at the top of the organization.

But these choices beget more choices in the rest of the organization. Should the product team stay only in clothing or expand to accessories? Should it play in menswear as well? Should the retail operations group stay in bricks and mortar or expand online? Within retail, should there be one store model or several to adapt to different geographies and customer segments? At the store level, how should the staff person serve

the customer, here and now, in order to win? Each level in the organization has its own strategic choice cascade.

Consider the salesperson in the Manhattan store. She defines winning as being the best salesperson in the store and having customers who are delighted with her service. From not only her daily sales numbers but also her interactions with repeat customers and feedback from her peers, she knows she's succeeding. Her where-to-play choice is largely defined by the folks who walk in the door, but she may notice that there are types of customers, times of day, or parts of the store where she can best bring her skills to bear. She consequently turns her attention there. In terms of how to win, she may have one approach for customers who are new to yoga and intimidated by all the choices (offering advice not just on attire but on how to get started, as well as reassurance that it will all make sense in time), another for aficionados (highlighting the technical specs of the gear but also swapping stories about classes and instructors), and another for the fashion crowd who seek yoga pants not for athletics but for running errands (pointing out racks of new arrivals, emphasizing unique colors and designs). She chooses to develop her own capabilities in clear communication, understanding technical specs, and practicing different forms of yoga. She builds her own management systems, like a personal cheat sheet for products and styles and a directory of her favorite local studios and instructors.

These frontline choices may not seem as complex as the choices facing the CEO, but they are indeed strategic choices. Like the CEO, a salesperson must make the best choices she can under constraints and uncertainty. Her constraints came from the choices made above her in the organization, from the demands of her customers, and from the strategies of her competitors. For the CEO, the constraints came from the expectations of the capital markets, the company's cash reserves, and the directions of the board of directors. Both the salesperson and her CEO are making strategic choices and acting upon them—the only difference is the scope of the choices and the precise nature of the constraints.

Strategy can be created and refined at every level of the organization using the choice cascade framework. Each box of the choice cascade is the subject of an upcoming chapter, but for now, we'll explain a little about each one, using Olay brand-level and P&G company-level choices as illustrations.

Winning Aspirations

The first question—what is our winning aspiration?—sets the frame for all the other choices. A company must seek to win in a particular place and in a particular way. If it doesn't seek to win, it is wasting the time of its people and the investments of its capital providers. But to be most helpful, the abstract concept of winning should be translated into defined aspirations. Aspirations are statements about the ideal future. At a later stage in the process, a company ties to those aspirations some specific benchmarks that measure progress toward them.

At Olay, the winning aspirations were defined as market share leadership in North America, \$1 billion in sales, and a global share that put the brand among the market leaders. A revitalized and transformed Olay was expected to establish skin care as a strong pillar for beauty along with hair care. Establishing and maintaining leadership of a new masstige segment, positioned between mass and prestige, was a third aspiration. This set of aspirations served as a starting point to define where to play and how to win, enabling the Olay team to see the larger purpose in what it was doing. Clarity about the winning aspirations meant that actions at the brand, category, sector, and company level were directed at delivering against that ideal.

At the overall company level, winning was defined as delivering the most valuable, value-creating brands in every category and industry in which P&G chose to compete (in other words, market leadership in all of P&G's categories). The aspiration was to create sustainable competitive advantage, superior value, and superior financial returns. P&G's statement of purpose, at the time, read as follows: "We will provide products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper." Improving consumers' lives to drive leadership sales, profit, and value creation was the company's most important aspiration. It drove all subsequent choices.

Aspirations can be refined and revised over time. However, aspirations shouldn't change day to day; they exist to consistently align activities within the firm, so should be designed to last for some time. A definition of winning provides a context for the rest of the strategic choices; in all cases, choices should fit within and support the firm's aspirations. The

question of what a winning aspiration is will be further explored in [chapter 2](#).

Where to Play

The next two questions are where to play and how to win. These two choices, which are tightly bound up with one another, form the very heart of strategy and are the two most critical questions in strategy formulation. The winning aspiration broadly defines the scope of the firm's activities; where to play and how to win define the specific activities of the organization—what the firm will do, and where and how it will do this, to achieve its aspirations.

Where to play represents the set of choices that narrow the competitive field. The questions to be asked focus on where the company will compete—in which markets, with which customers and consumers, in which channels, in which product categories, and at which vertical stage or stages of the industry in question. This set of questions is vital; no company can be all things to all people and still win, so it is important to understand which where-to-play choices will best enable the company to win. A firm can be narrow or broad. It can compete in any number of demographic segments (men ages eighteen to twenty-four, midlife urbanites, working moms) and geographies (local, national, international, developed world, economically fast-advancing countries like Brazil and China). It can compete in myriad services, product lines, and categories. It can participate in different channels (direct to consumer, online, mass merchandise, grocery, department store). It can participate in the upstream part of its industry, downstream, or be vertically integrated. These choices, when taken together, capture the strategic playing field for the firm.

Olay made two strategically decisive where-to-play choices: to create, with retail partners, a new masstige segment in mass discount stores, drugstores, and grocery stores to compete with prestige brands and to develop a new and growing point-of-entry consumer segment for anti-aging skin-care products. Many other where-to-play options were considered (like moving into prestige channels and selling through department and specialty stores), but to win, Olay's choices on where to play needed to make sense in light of P&G's company-level where-to-play choices and capabilities. P&G tends to do well when the consumer is highly involved with the product category and cares a good deal about

product experience and performance. It excels with brands that promise real improvement when the consumer puts in effort on a regular basis, as part of a well-defined regimen. P&G also does well with brands that can be sold through its best customers, retailers with which it has strong relationships and with which it can create significant shared value. So, the Olay team decided where to play with the P&G choices and capabilities in mind.

Corporately, when it came to where to play, the company needed to define which regions, categories, channels, and consumers would give P&G a sustainable competitive advantage. The idea was to play in those areas where P&G's capabilities would be decisive and to avoid areas where they were not. The concept that helped P&G leaders sort one area from the other and to define the strategic playing field clearly was the idea of *core*.

We wanted to play where P&G's core strengths would enable it to win. We asked which brands truly were core brands, identifying a set of brands that were clear industry or category leaders and devoting resources to them disproportionately. We asked what P&G's core geographies were. With ten countries representing 85 percent of profits, P&G had to focus on winning in those countries. We asked where consumers expected P&G brands and products to be sold, that is, mass merchandisers and discounters, drugstores, and grocery stores. Core became a theme in innovation as well. P&G scientists determined the core technologies that were important across the businesses and focused on those technologies above all others. We wanted to shift from a pure invention mind-set to one of strategic innovation; the goal was innovation that drove the core. Core consumers were a theme too; we pushed businesses to focus on the consumer who matters most, targeting the most attractive consumer segments. Core was the first and most fundamental where-to-play choice—to focus on core brands, geographies, channels, technologies, and consumers as a platform for growth.

The second where-to-play choice was to extend P&G's core into demographically advantaged and structurally more attractive categories. For example, the core was to move from fabric into home care, from hair care into hair color and styling, and more broadly into beauty, health, and personal care.

The third where-to-play choice—to expand into emerging markets—was driven by demographics and economics. The majority of babies

would be born, and households formed, in emerging markets. Economic growth in these markets will be as much as four times as high as in the OECD (Organisation for Economic Co-operation and Development) developed markets. The question was how many markets P&G could take on and in what priority order. The company started with China, Mexico, and Russia, building capability and reach over time to include Brazil, India, and others. As Chip Bergh, former group president for global grooming and now CEO of Levi Strauss & Co., notes, “In 2000, about 20 percent of P&G’s total sales were in emerging markets compared to Unilever and Colgate, which were already up near 40 percent. We were a company of premium-priced products, always going after product superiority. We tended to play, as a company, in the premium tiers in almost all categories.”⁶ To compete in the developing world, Bergh says, a change in orientation was required: “We needed to begin broadening our portfolio and developing competitive propositions, including cost structures that would allow us to reach deeper into these emerging markets. There are a billion consumers in India, and we were reaching the top 10 percent of them.”

Emerging markets would be an important where-to-play choice, but not all emerging markets all at once. China and Russia represented unique opportunities, as their markets opened to all comers at the same time. P&G had focused on these countries first and established strong, strategic leading positions in both markets. Now, the company thought hard about which emerging markets to target next, and with which products and categories. Baby care in Asia, for instance, made great sense—since, for the foreseeable future, most of the world’s babies would be born in Asia. Laundry and beauty also made sense in emerging markets, for reasons of brand equity, scale, and consumer preference. So, P&G sought to make inroads in Asia, in those three categories, and it did. By 2011, 35 percent of total sales came from the developing world.

In sum, there were three critical where-to-play choices for P&G at the corporate level:

- Grow in and from the core businesses, focusing on core consumer segments, channels, customers, geographies, brands, and product technologies.
- Extend leadership in laundry and home care, and build to market leadership in the more demographically advantaged and structurally attractive beauty and personal-care categories.

- Expand to leadership in demographically advantaged emerging markets, prioritizing markets by their strategic importance to P&G.

In [chapter 3](#), we'll return to the question of where to play, exploring the different ways to define your playing field and the lessons that can be learned from brands like Bounty and Tide.

How to Win

Where to play selects the playing field; how to win defines the choices for winning on that field. It is the recipe for success in the chosen segments, categories, channels, geographies, and so on. The how-to-win choice is intimately tied to the where-to-play choice. Remember, it is not how to win generally, but how to win within the chosen where-to-play domains.

The where-to-play and how-to-win choices should flow from and reinforce one another. Think of the contrast between two kinds of restaurant empires—say, Olive Garden versus Mario Batali. Both specialize in Italian food, and both are successful across multiple locations. But they represent very different where-to-play choices.

Olive Garden is a midpriced, casual dining chain with considerable scale—more than seven hundred restaurants around the world. As a result, its how-to-win choices relate to meeting the needs of average diners and focus on achieving reliable, consistent outcomes when hiring thousands of employees to reproduce millions of meals that will suit a wide array of tastes. Mario Batali, on the other hand, competes at the very high end of the fine-dining space and does so in just a few places—New York, Las Vegas, Los Angeles, and Singapore. He wins by designing innovative and exciting recipes; sourcing the very best of ingredients; delivering superlative, customized service; and sharing his cachet with his foodie patrons—cachet generated by Batali's Food Network celebrity and friendships with the likes of actress Gwyneth Paltrow.

In great strategies, the where-to-play and how-to-win choices fit together to make the company stronger. Given their where-to-play choices, it would not make sense for Olive Garden to try to win by increasing the celebrity status of its head chef, nor for Batali to even

contemplate making each location look just like the others. But if Batali wanted to seriously expand to a lower-priced, casual dining range, as Wolfgang Puck has done, Batali would need to expand his how-to-win choices to fit the new, broader where-to-play choice. If he failed to do so, he would likely fail to engage the new market. Where-to-play and how-to-win choices must be considered together, because no how-to-win is perfect, or even appropriate, for all where-to-play choices.

To determine how to win, an organization must decide what will enable it to create unique value and sustainably deliver that value to customers in a way that is distinct from the firm's competitors. Michael Porter called it competitive advantage—the specific way a firm utilizes its advantages to create superior value for a consumer or a customer and in turn, superior returns for the firm.

For Olay, the how-to-win choices were to formulate genuinely better skin-care products that could actually fight the signs of aging, to create a powerful marketing campaign that clearly articulated the brand promise (“Fight the Seven Signs of Aging”), and to establish a masstige channel, working with mass retailers to compete directly with prestige brands. The masstige choice, which was a decision to win in the channels P&G knew best, required significant changes in product formulation, package design, branding, and pricing to reframe the value proposition for retailers and consumers.

Corporately, P&G chose to compete from the core; to extend into home, beauty, health, and personal care; and to expand into emerging markets. The how-to-win choices needed to work optimally with these where-to-play choices. To be successful, how-to-win choices should be suited to the specific context of the firm in question and highly difficult for competitors to copy. P&G's competitive advantages are its ability to understand its core consumers and to create differentiated brands. It wins by relentlessly building its brands and through innovative product technology. It leverages global scale and strong partnerships with suppliers and channel customers to deliver strong retail distribution and consumer value in its chosen markets. If P&G played to its strengths and invested in them, it could sustain competitive advantage through a unique go-to-market model.

P&G's where-to-play and how-to-win-choices aren't appropriate for every context. The key to making the right choices for your business is that they must be doable and decisive for you. If you are a small entrepreneurial firm facing much larger competitors, making a how-to-

win choice on the basis of scale would not make much sense. But simply because you are small doesn't mean winning through scale is impossible. Don't dismiss the possibility that you can change the context to fit your choices. Bob Young, cofounder of Red Hat, Inc., knew precisely where he wanted his company to play: he wanted to serve corporate customers with open-source enterprise software. In his view, the how-to-win in that context required scale—Young saw that corporate customers were much more likely to buy from a market leader, especially a dominant market leader. At the time, the Linux market was highly fragmented, with no such clear leader. Young had to change the game—by literally giving his software away via free download—to achieve dominant market share and become credible to corporate information technology (IT) departments. In that case, Young decided where to play and how to win, and then built the rest of his strategy (earning revenue from service rather than software sales) around these two choices. The result was a billion-dollar company with a thriving enterprise business.

The myriad ways to win, and possibilities for thinking through them, will be explored in greater depth in [chapter 4](#). There, we begin with the story of a set of technologies that posed a particularly challenging how-to-win choice for P&G.

Core Capabilities

Two questions flow from and support the heart of strategy: (1) what capabilities must be in place to win, and (2) what management systems are required to support the strategic choices? The first of these questions, the capabilities choice, relates to the range and quality of activities that will enable a company to win where it chooses to play. Capabilities are the map of activities and competencies that critically underpin specific where-to-play and how-to-win choices.

The Olay team had to invest in building and creating its capabilities on a number of fronts: clearly, innovation would be vital—and not just product innovation—but packaging, distribution, marketing, and even business model innovation would play a role. The team would need to leverage its existing consumer insights to truly understand a different segment. It would have to build the brand, advertise, and merchandise with mass retailers in new ways. Olay and P&G skin care couldn't go it alone. So, they partnered with product ingredient innovators (Cellderma), designers (IDEO and others), advertising and PR agencies

(Saatchi & Saatchi), and key influencers (like beauty magazine editors and dermatologists, for credible product performance endorsements). This networked alliance of internal and external capabilities created a unique and powerful activity system. It required deepening existing capabilities and building new ones.

At P&G, a company with more than 125,000 employees worldwide, the range of capabilities is broad and diverse. But only a few capabilities are absolutely fundamental to winning in the places and manner that it has chosen:

Deep consumer understanding. This is the ability to truly know shoppers and end users. The goal is to uncover the unarticulated needs of consumers, to know consumers better than any competitors do, and to see opportunities before they are obvious to others.

Innovation. Innovation is P&G's lifeblood. P&G seeks to translate deep understanding of consumer needs into new and continuously improved products. Innovation efforts may be applied to the product, to the packaging, to the way P&G serves its consumers and works with its trade customers, or even to its business models, core capabilities, and management systems.

Brand building. Branding has long been one of P&G's strongest capabilities. By better defining and distilling a brand-building heuristic, P&G can train and develop brand leaders and marketers in this discipline effectively and efficiently.

Go-to-market ability. Relationships. P&G thrives on reaching its customers and consumers at the right time, in the right place, in the right way. By investing in unique partnerships with retailers, P&G can create new and breakthrough go-to-market strategies that allow it to deliver more value to consumers in the store and to retailers throughout the supply chain.

Global scale. P&G is a global, multicategory company. Rather than operate in distinct silos, its categories can increase the power of the whole by hiring together, learning together, buying together, researching and testing together, and going to market together. In the 1990s, P&G amalgamated a whole suite of

internal support services, like employee services and IT, under one umbrella—global business services (GBS)—to allow it to capture the scale benefits of those functions globally.

These five core capabilities support and reinforce one another and, taken together, set P&G apart. In isolation, each capability is strong, but insufficient to generate true competitive advantage over the long term. Rather, the way all of them work together and reinforce each other is what generates enduring advantage. A great new idea coming out of P&G labs can be effectively branded and shelved around the world in the best retail outlets in each market. That combination is hard for competitors to match. Core capabilities, and the way in which they relate to competitive advantage, will be discussed further in [chapter 5](#).

Management Systems

The final strategic choice in the cascade focuses on management systems. These are the systems that foster, support, and measure the strategy. To be truly effective, they must be purposefully designed to support the choices and capabilities. The types of systems and measures will vary from choice to choice, capability to capability, and company to company. In general, though, the systems need to ensure that choices are communicated to the whole company, employees are trained to deliver on choices and leverage capabilities, plans are made to invest in and sustain capabilities over time, and the efficacy of the choices and progress toward aspirations are measured.

Beneath Olay's choices and capabilities, the team built supporting systems and measures that included a "love the job you're in" human resources strategy (to encourage personal development and deepen the talent pool in the beauty sector) and detailed tracking systems to measure consumer responses to brand, package, product lines, and every other element of the marketing mix. Olay organized around innovation, creating a structure wherein one team was working on the strategy and rollout of current products while another was designing the next generation. It developed technical marketers, individuals with expertise in R&D as well as marketing, who could speak credibly to dermatologists and beauty editors. It created systems to partner with leading in-store marketing and design firms, to create Olay displays that were eye-catching and inviting to shop. It also leveraged P&G systems

like global purchasing, the global market development organization (MDO), and GBS so that individuals on the skin-care and Olay teams were freed up to focus where they added the most value.

At the corporate level, management systems included strategy dialogues, innovation-program reviews, brand-equity reviews, budget and operating plan discussions, and talent assessment development reviews. From the year 2000 on, every one of these management systems was changed significantly so that it became more effective. All of these systems were tightly integrated, mutually reinforcing, and crucial to winning. Management systems in general, and the way they work specifically at P&G, will be explored in greater depth in [chapter 6](#).

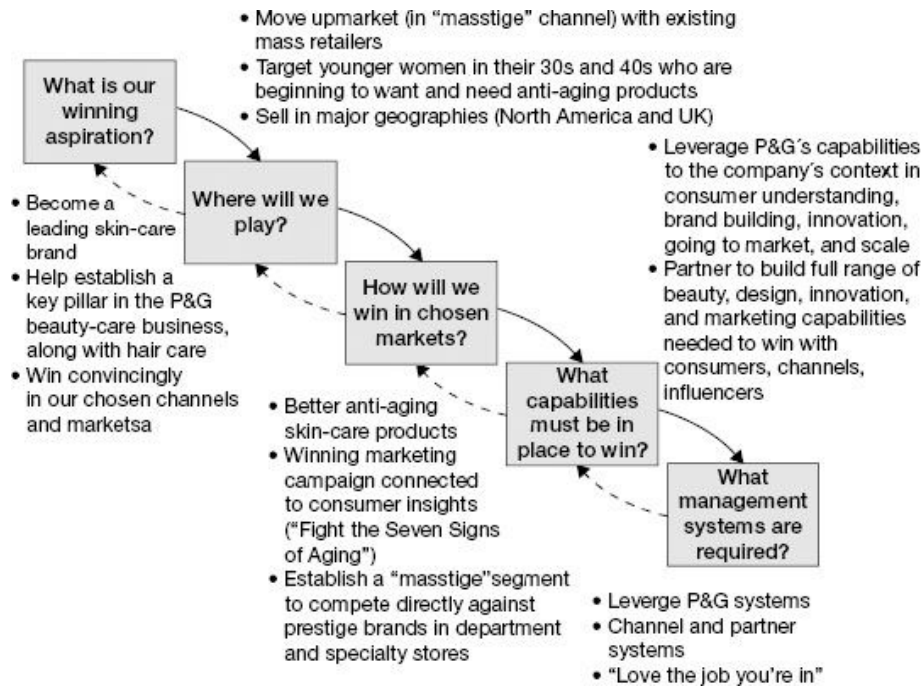
The Power of Choices

We began this discussion with the Olay story. In our view, Olay succeeded because it had an integrated set of five strategic choices ([figure 1-3](#)) that fit beautifully with the choices of the corporate parent ([figure 1-4](#)). Because the choices were well integrated and reinforced category-, sector-, and company-level choices, succeeding at the Olay brand level actually helped deliver on the strategies above it.

Must Read

FIGURE 1-3

Olay's choices

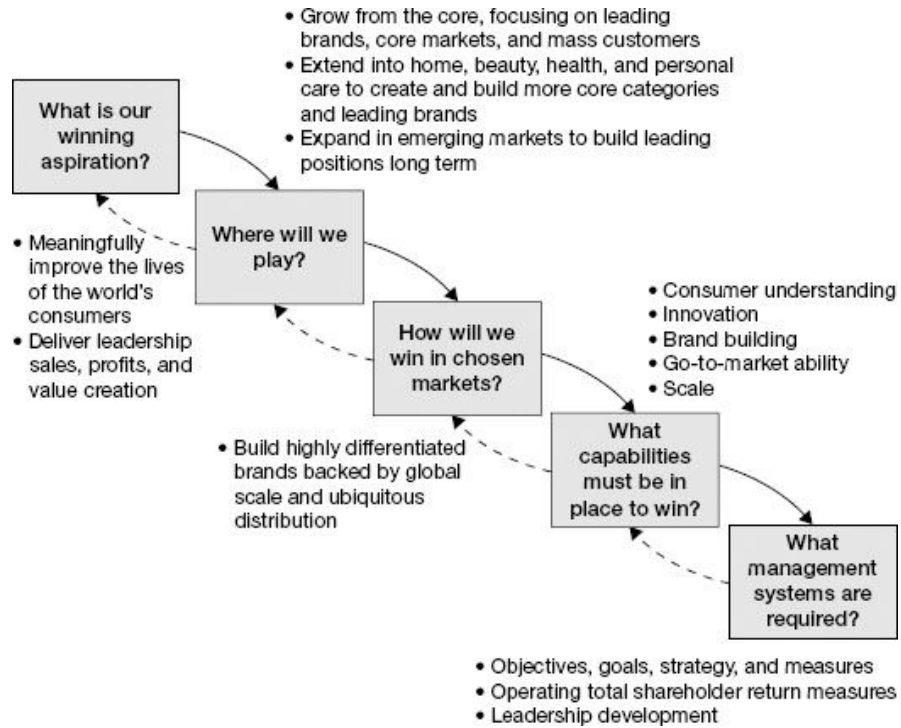


Olay leveraged P&G's core capabilities in ways that made sense for the brand. The Olay team used deep consumer understanding to determine just where and how it could position Olay as an anti-aging powerhouse. It leveraged scale and R&D leadership to create a better product at a competitive price. It used P&G's brand-building expertise and channel relationships to convince consumers to try the product on the store shelves. All of this was crucial to reinventing the brand, to transforming its position in the marketplace, and to truly winning.

Must Read

FIGURE 1-4

P&G's choices



Summing Up

It isn't entirely easy to make your way through the full choice cascade. Doing so isn't a one-way, linear process. There is no checklist, whereby you create and articulate aspirations, then move on to where-to-play and how-to-win choices, then consider capabilities. Rather, strategy is an iterative process in which all of the moving parts influence one another and must be taken into account together. A company must understand its existing core capabilities and consider them when deciding where to play and how to win. But it may need to generate and invest in new core capabilities to support important, forward-looking where-to-play and how-to-win choices, too. Considering the dynamic feedback loop between all five choices, strategy isn't easy. But it is doable. A clear and powerful framework for thinking about choices is a helpful start for

managers and other leaders intent on improving the strategy for their business or function.

Strategy needn't be the purview of a small set of experts. It can be demystified into a set of five important questions that can (and should) be asked at every level of the business: What is your winning aspiration? Where should you play? How can you win there? What capabilities do you need? What management systems would support it all? These choices, which can be understood as a strategic choice cascade, can be captured on a single page. They can create a shared understanding of your company's strategy and what must be done to achieve it. The essence of each choice and how to think about the choices (separately and together) will be the subject of the next five chapters, beginning with the first question: what is the winning aspiration?

CHOICE CASCADE DOS AND DON'TS

At the end of each chapter, we will share a few quick bits of advice—the things you should do or should avoid doing as you apply the lessons of the chapter to your own business.

- ✓ Do remember that strategy is about winning choices. It is a coordinated and integrated set of five very specific choices. As you define your strategy, choose what you will do and what you will not do.
- ✓ Do make your way through all five choices. Don't stop after defining winning, after choosing where to play and how to win, or even after assessing your capabilities. All five questions must be answered if you are to create a viable, actionable, and sustainable strategy.
- ✓ Do think of strategy as an iterative process; as you uncover insights at one stage in the cascade, you may well need to revisit choices elsewhere in the cascade.
- ✓ Do understand that strategy happens at multiple levels in the organization. An organization can be thought of as a set of nested cascades. Keep the other cascades in mind while working on yours.
- ✓ Do remember that there is no one perfect strategy; find the distinctive choices that work for you.

What Is Winning

Aspirations are the guiding purpose of an enterprise. Think of the Starbucks mission statement: “To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time.” Or Nike’s: “To bring inspiration and innovation to every athlete* in the world.” (The additional note, indicated by the asterisk, reads: “*If you have a body, you’re an athlete.”) And McDonald’s: “Be our customers’ favorite place and way to eat.” Each is a statement of what the company seeks to be and a reflection of its reason to exist. But a lofty mission isn’t a strategy. It is merely a starting point.

The first box in the strategic choice cascade—what is our winning aspiration?—defines the purpose of your enterprise, its guiding mission and aspiration, in strategic terms. What does winning look like for this organization? What, specifically, is its strategic aspiration? These answers are the foundation of your discussion of strategy; they set the context for all the strategic choices that follow.

There are many ways the higher-order aspiration of a company can be expressed. As a rule of thumb, though, start with people (consumers and customers) rather than money (stock price). Peter Drucker argued that the purpose of an organization is to create a customer, and it’s still true today. Consider the mission statements noted above. Starbucks, Nike, and McDonald’s, each massively successful in its own way, frame their ambitions around their customers. And note the tenor of those aspirations: Nike wants to serve every athlete (not just some of them); McDonald’s wants to be its customers’ favorite place to eat (not just a convenient choice for families on the go). Each company doesn’t just want to serve customers; it wants to win with them. And that is the single most crucial dimension of a company’s aspiration: a company must play

to win. To play merely to participate is self-defeating. It is a recipe for mediocrity. Winning is what matters—and it is the ultimate criterion of a successful strategy. Once the aspiration to win is set, the rest of the strategic questions relate directly to finding ways to deliver the win.

Why is it so important to make winning an explicit aspiration? Winning is worthwhile; a significant proportion (and often a disproportionate share) of industry value-creation accrues to the industry leader. But winning is also hard. It takes hard choices, dedicated effort, and substantial investment. Lots of companies try to win and still can't do it. So imagine, then, the likelihood of winning without explicitly setting out to do so. When a company sets out to participate, rather than win, it will inevitably fail to make the tough choices and the significant investments that would make winning even a remote possibility. A too-modest aspiration is far more dangerous than a too-lofty one. Too many companies eventually die a death of modest aspirations.

Playing to Play

Consider one of the costliest strategic gambles of the last century: General Motors' decision to launch Saturn. The context is important, of course. In the 1950s, at the end of legendary chairman Alfred P. Sloan's tenure, GM had more employees than did any other company in the world and owned more than half of the US automotive market. It was the biggest of the Big Three and, for a time, the greatest and most powerful company on earth. But Sloan retired. Tastes changed, partly in response to the oil shocks of the 1970s. An incursion of cheaper, fuel-efficient imports began to make GM's lineup look old-fashioned and unaffordable.

By the 1980s, GM's core US brands—including Oldsmobile, Chevy, and Buick—were in decline. Younger car buyers were turning to Toyota, Honda, and Nissan, choosing these automakers' smaller and more economical models. Costs were a growing concern too; as GM's unionized workforce aged, generous retiree benefits contributed to higher and higher legacy costs—and those costs were passed on to car buyers. Meanwhile, relations with the United Auto Workers were poor and not getting any better, as GM restructured operations, closed plants, shifted resources, and laid off tens of thousands of workers.

In 1990, at a strategic crossroads, GM made a bold choice. It launched a new brand to compete in the small-car market. Saturn—“a different kind of company, a different kind of car”—would be GM’s first new brand in almost seventy years, and it marked the first time GM would use a subsidiary, rather than a division, to make and sell cars. The goal, per then chairman Roger Smith, was to “sell a car at the lower end of the market and still make money.”¹ In short, Saturn was GM’s answer to the Japanese imports that threatened to dominate the small-car market; it was a defensive strategy, a way of playing in the small-car segment, designed to protect what remained of the ground GM was losing.

GM set up a separate Saturn head office. It negotiated a simplified, flexible deal with the United Auto Workers for Saturn’s Spring Hill plant, guaranteeing workers greater control and profit sharing in exchange for lower base wages. Saturn also took a remarkably different approach to customer service, beginning with a no-haggle, one-price policy at all its dealerships. At Saturn, “customers received personal attention usually found only in luxury showrooms ... As a matter of policy, employees would drop what they were doing and cheer in the showroom when a customer received the keys to a new Saturn.”² Launched with much fanfare, Saturn looked to be GM’s silver bullet—the innovative strategic initiative that would finally turn things around.

As it turns out, Saturn did not turn things around. Some twenty years and, by analyst estimates, \$20 billion in losses later, Saturn is gone. The division was shuttered and all of its dealerships closed by the end of 2010. GM, emerging from Chapter 11 bankruptcy, is now a shadow of its former self, and its US market share is less than 20 percent.³ Launching Saturn didn’t cause GM’s bankruptcy, but it didn’t help much, either. Saturn vehicles, though they garnered loyalty from owners, never reached the critical mass needed to sustain a full lineup of cars or a national dealer network. As one former GM director said of Saturn, “it may well be the biggest fiasco in automotive history since Ford brought out the Edsel.”⁴

The folks running Saturn aspired to participate in the US small-car segment with younger buyers. By contrast, Toyota, Honda, and Nissan all aspired to win in that segment. Guess what happened? Toyota, Honda, and Nissan all aimed for the top, making the hard strategic choices and substantial investments required to win. GM, through Saturn, aimed to play and invested to that much lower standard. Initially Saturn did OK as a brand. But it needed substantial resources to keep up against Toyota,

Honda, and Nissan, all of which were investing at breakneck speed. GM couldn't and wouldn't keep up. Saturn died, not because it made bad cars, but because its aspirations were simply too modest to keep it alive. The aspirations did not spur winning where-to-play and how-to-win choices, capabilities, and management systems.

To be fair, GM had myriad challenges that made playing to win a daunting prospect—troubling union relations, oppressive legacy health-care and pension costs, and difficult dealer regulations. However, playing to play, rather than seeking to play to win, perpetuated the overall corporate problems rather than overcoming them. Contrast the approach at GM to the approach at P&G, where the company plays to win whenever it chooses to play. And the approach holds even in the unlikeliest of places. Playing to win is reasonably straightforward to contemplate in a consumer market. But what does it look like for an internal, shared-services function? Even there, you can play to win, as Filippo Passerini, president of P&G's global business services (GBS) unit demonstrates.

Playing to Win

At the end of the dot-com bubble, the IT world was in turmoil. The NASDAQ had melted down, taking both the credibility of the high-tech industry and the broader market indexes with it, throwing the economy into a recession. Yet, despite the crash, it was clear that spending on IT infrastructure and services would continue to increase. IT services were far from a core competency for most companies (including P&G), and the costs and complexities of providing IT services in-house were daunting. Fortunately, riding to the rescue was a new breed of service provider: the business process outsourcer (BPO). These companies (including IBM, EDS, Accenture, TCS, and Infosys) would provide a range of IT services from the outside, managing complexity for a fee. As the postcrash dust cleared, rapidly digitizing companies were faced with decisions on how much to use BPOs, which BPO partner to select, and how best to do so. It wasn't easy; the implications of a poor choice could be millions of dollars in extra costs and untold headaches down the line.

At P&G, many of the operations that might be outsourced had been gathered together in a 1999 reorganization. This GBS function was responsible for business services including IT, facilities management, and employee services. In 2000, three options for the future of GBS were

being actively explored: stay the course and continue to run GBS internally; spin off GBS (partly or wholly) to allow it to become a major player in the BPO business; or outsource most of GBS to one of the biggest existing BPO companies.

It was not an easy decision. The stock markets and economy were cratering, as were the stock prices of the publicly traded BPOs. If completed, the deal would have been highly complex and at an unprecedented size for the global BPO industry. P&G had never outsourced or sold anything affecting this many employees, so the impact on morale and culture was highly uncertain. As the options were made known to employees, some employees feared the company would sell loyal P&G employees into “slavery.”

The easiest thing would have been to declare that the issue was too divisive and to stick with the status quo. After all, GBS was working just fine. It was playing well in its space and delivering high-quality services to a wide range of internal customers. Alternatively, P&G could have gone with the next most conventional option: a single large deal with a premier BPO firm like IBM Global Services or EDS. Finally, the company could have acknowledged that a large, in-house global services organization was an inefficient use of P&G resources and spun out GBS into its own BPO. Any of these choices might have seemed sensible given the circumstances. But none effectively answered the question of how P&G could win with its global services.

The senior team wasn't convinced that all of the options were on the table. So, Filippo Passerini, who had a strong IT background and marketing management experience, was asked to think through the existing options and, if appropriate, suggest additional possibilities. Passerini struggled with the conventional choice. In theory, outsourcing to a single large BPO would create considerable economies of scale. It was clear that the deal would be good for the BPO partner, which would secure the biggest outsourcing deal in the industry's history. But there was no obvious reason why the deal would help P&G to win. P&G wanted more than cost-effectiveness and a commitment to a predefined service level from an outsourcing deal. It wanted flexibility, a partner that could and would innovate with P&G to create value that didn't exist in the current structure.

Passerini soon came up with a new option. Instead of signing one deal, P&G would outsource various GBS activities to best-of-breed BPO partners, finding one ideal partner to manage facilities, another to

manage IT infrastructure, and so on. The logic of this best-of-breed option was that P&G's needs are highly varied and that a variety of more specialized partners would be most capable of meeting the needs. Passerini saw that specialization could increase the quality and lower the cost of BPO solutions, and believed that P&G could manage the complexity of multiple relationships to create more value than it could through one relationship. Plus, there was risk mitigation in having multiple partners, and they could be benchmarked against one another to promote better performance. Finally, outsourcing would free up remaining GBS resources to invest in P&G core capabilities and build sustainable competitive advantage.

The case for a best-of-breed approach was compelling. In 2003, P&G entered BPO partnerships with Hewlett-Packard in IT support and applications, IBM Global Services in employee services, and Jones Lang Lasalle in facilities management. Importantly, Passerini didn't simply select the biggest or best-known player in each BPO space. In fact, as he explains, he chose partners considering another essential criterion: "For each one of them, there was a common denominator: interdependency. It played out in different ways. For HP, they were a distant fourth player in the industry. With P&G, they gained instantaneous visibility and credibility. As important as they are to us, because all of our systems operate on the HP platform now, we are equally important to them [as their lead customer]. For each one of the [best-in-breed partners], the benefit was different, but each one of them became interdependent with P&G."⁵ Passerini had crafted a richer way of thinking about the BPO relationship, one that asked, under what conditions can we help each other win?

Passerini's approach has been a success. The three original partnerships have performed well and have led to a handful of deeper partnerships for different services. The cost of services has fallen. Meanwhile, quality has risen and service levels have improved. Satisfaction rates for the six thousand employees who transferred to the BPO partners went up too; they are now a core part of their new organizations rather than a noncore part of P&G. And the approach has freed up P&G's GBS team members to focus on innovating and building IT systems that support P&G strategic choices and capabilities, like designing state-of-the-art virtual shopping experiences for consumer insights work and a desktop-based "cockpit" that provides P&G leaders with at-a-glance decision-making tools. GBS has been able to outsource

the utilities element of P&G's shared services and focus internally on areas where it can build strategic advantage. P&G's approach to this set of transactions has become a model for other organizations, as multiple rather than single-source BPOs are becoming a preferred industry norm.

If the aspiration for GBS was to come to a good-enough solution, then the best-of-breed option would never have been created. But the aspiration was considerably higher. The questions asked were these: What choice would help P&G win? And how could that choice create sustainable competitive advantage? These questions continue to be asked. Now head of a more agile GBS organization, Passerini thinks about providing service to P&G in terms of creating a winning value equation. "I fear becoming a commodity," he says. "[In IT] you need to be distinctive to avoid commoditization. We have been on a quest to deliver unique value to P&G. Whatever is distinctive and unique, we focus on; whatever is commodity, because there is not competitive advantage in doing it inside, we outsource."

The desire to win spurs a helpfully competitive mind-set, a desire to do better whenever possible. For this reason, GBS competes for its internal customers. Passerini explains: "We don't mandate new services; we offer them [to businesses and functions] at a cost. If the business units like them, they will buy them. If they don't like them, they will pass." This open market provides important feedback and keeps GBS thinking about how to win with its internal customers and create new value. So much so that Passerini famously stood at a global leadership team meeting and promised: "Give me anything I can turn into a service, and I'll save you seventeen cents on the dollar." It was a provocative offer, and one that set the tone for his team. Good enough wasn't an option. Providing services wasn't the strategy. Providing better services at higher quality and lower costs—while serving as an innovation engine for the company—was the strategy. It was a strategy aimed at winning.

With Those Who Matter Most

To set aspirations properly, it is important to understand who you are winning with and against. It is therefore important to be thoughtful about the business you're in, your customers, and your competitors. We asked P&G's businesses to focus on winning with those who matter most and against the very best. We wanted them to focus outward on their most

important consumers and very best competitors, rather than inward on their own products and innovations.

Most companies, if you ask them what business they're in, will tell you what their product line is or will detail their service offering. Many handheld phone manufacturers, for example, would say they are in the business of making smartphones. They would not likely say that they are in the business of connecting people and enabling communication any place, any time. But that is the business they are actually in—and a smartphone is just one way to accomplish that. Or think of a skin-care company. It is far more likely to say it makes a line of skin-care products than to say it is in the business of helping women have healthier, younger-looking skin or helping women feel beautiful. It's a subtle difference, but an important one.

The former descriptions are examples of marketing myopia, something economist Theodore Levitt identified a half-century ago and a danger that is alive and well today. Companies in the grips of marketing myopia are blinded by the products they make and are unable to see the larger purpose or true market dynamics. These companies spend billions of dollars making their new generation of products just slightly better than their old generation of products. They use entirely internal measures of progress and success—patents, technical achievements, and the like—without stepping back to consider the needs of consumers and the changing marketplace or asking what business they are really in, which consumer need they answer, and how best to meet that need.

The biggest danger of having a product lens is that it focuses you on the wrong things—on materials, engineering, and chemistry. It takes you away from the consumer. Winning aspirations should be crafted with the consumer explicitly in mind. The most powerful aspirations will always have the consumer, rather than the product, at the heart of them. In P&G's home-care business, for instance, the aspiration is not to have the most powerful cleanser or most effective bleach. It is to reinvent cleaning experiences, taking the hard work out of household chores. It is an aspiration that leads to market-shifting products like Swiffer, the Mr. Clean Magic Eraser, and Febreze.

Against the Very Best

Then there is competition. When setting winning aspirations, you must look at all competitors and not just at those you know best. Of course, start with the usual suspects. Look at your biggest competitors, your historical competitors—for P&G, they are Unilever, Kimberly-Clark, and Colgate-Palmolive. But then expand your thinking to focus on the best competitor in your space, looking far and wide to determine just who that competitor might be.

This was the approach that we sought to foster at P&G. In different industries and categories, the best competitors were often found to be local companies, private-label competitors, and smaller consumer-goods companies. In this way, the home-care team came to focus on Reckitt-Benckiser (makers of Calgon, Woolite, Lysol, and Air Wick).

It wasn't easy to convince the team leaders to take Reckitt-Benckiser more seriously. But looking at the Reckitt-Benckiser competitive position versus P&G's—the competitor's performance results versus P&G's—was illustrative. P&G had a run of six years of strong revenue and double-digit earnings per share growth, and Reckitt-Benckiser was outperforming even that. It wasn't so much about Reckitt-Benckiser itself as it was about getting the general managers to question their assumptions and their current judgments. The push was to ask, “Who really is your best competitor? More importantly, what are they doing strategically and operationally that is better than you? Where and how do they outperform you? What could you learn from them and do differently?” Looking at the best competitor, no matter which company it might be, provides helpful insights into the multiple ways to win.

Summing Up

The essence of great strategy is making choices—clear, tough choices, like what businesses to be in and which not to be in, where to play in the businesses you choose, how you will win where you play, what capabilities and competencies you will turn into core strengths, and how your internal systems will turn those choices and capabilities into consistently excellent performance in the marketplace. And it all starts with an aspiration to win and a definition of what winning looks like.

Unless winning is the ultimate aspiration, a firm is unlikely to invest the right resources in sufficient amounts to create sustainable advantage. But aspirations alone are not enough. Leaf through a corporate annual

report, and you will almost certainly find an aspirational vision or mission statement. Yet, with most corporations, it is very difficult to see how the mission statement translates into real strategy and ultimately strategic action. Too many top managers believe their strategy job is largely done when they share their aspiration with employees. Unfortunately, nothing happens after that. Without explicit where-to-play and how-to-win choices connected to the aspiration, a vision is frustrating and ultimately unfulfilling for employees. The company needs where and how choices in order to act. Without them, it can't win. The next chapter will turn to the question of where to play.

WINNING ASPIRATION DOS AND DON'TS

- ✓ Do play to win, rather than simply to compete. Define winning in your context, painting a picture of a brilliant, successful future for the organization.
- ✓ Do craft aspirations that will be meaningful and powerful to your employees and to your consumers; it isn't about finding the perfect language or the consensus view, but is about connecting to a deeper idea of what the organization exists to do.
- ✓ Do start with consumers, rather than products, when thinking about what it means to win.
- ✓ Do set winning aspirations (and make the other four choices) for internal functions and outward-facing brands and business lines. Ask, what is winning for this function? Who are its customers, and what does it mean to win with them?
- ✓ Do think about winning relative to competition. Think about your traditional competitors, and look for unexpected "best" competitors too.
- ✓ Don't stop here. Aspirations aren't strategy; they are merely the first box in the choice cascade.

STRATEGY AS WINNING

A.G. Lafley

In my now forty-plus years in business, I have found that most leaders do not like to make choices. They'd rather keep their options open. Choices force their hands, pin them down, and generate an uncomfortable degree of personal risk. I've also found that few leaders can truly define winning. They generally speak of short-term financial measures or a simple share of a narrowly defined market. In effect, by thinking about options instead of choices and failing to define winning robustly, these leaders choose to play but not to win. They wind up settling for average industry results at best.

The P&G I joined in the late 1970s was not very good at making choices and defining winning. In June 1977, I reported for duty as a brand assistant in the US laundry division, affectionately known as Big Soap. At the time, P&G sold fifteen laundry detergent and laundry soap brands and five dish detergent brands, considerably more than consumers needed or wanted, and more than its retail customers could profitably distribute, merchandise, and sell. Today, P&G has five laundry and three dish brands. Meanwhile, the business has consistently grown its net sales, market share, gross and operating margin, and value creation. Most importantly, P&G became the clear-cut leader in the US market. Once-formidable competitors Colgate-Palmolive and Unilever have effectively exited the categories in the United States; they've turned their remaining brands into contract-manufactured store brands, which in most cases are a weak third player to P&G and private-label brands. P&G's victory in the North American laundry category is the culmination of a series of clear, connected, and mutually reinforcing strategic choices that began to be made in the early 1980s. A series of sector, category, and brand leaders have committed to winning in this category and have successfully found ways to do so.

Even as P&G got better at defining winning at the brand and category level, it hasn't always had the same clarity at the company level, which has resulted in periods of underperformance. In the early 1980s, company leadership was frustrated by slowing top-line volume and sales growth rates and gave the direction to stimulate top-line growth organically and through acquisition. Without a clear strategy as to where to play or how to win, the result was a mishmash of acquisitions that never returned the cost of capital (Orange Crush, Ben Hill Griffin, Bain de Soleil, et al.) and a raft of failed new brands and new products, including Abound, Citrus Hill, Cold Snap, Encaprin, Solo, and Vibrant. In 1984–1985, the company experienced its first down profit year since World War II. In 1986, it took its first major restructuring and write-off. At that point, the call went out to Michel Porter and Monitor. It was P&G's first experience with business strategy, and I was fortunate to be one of the guinea pigs in Porter's first class.

Unfortunately, the first inoculation didn't take. When the business began to get better, thanks to another major restructuring and stronger international growth, and the short-term financial results began to improve, P&G forgot most of what it had learned. When top-line growth slowed again in the late 1990s, the company reverted to the same helter-skelter, new-categories and new-brands, and M&A approach. This time, the bets were even bigger on new products and new technologies, including robots to clean homes, paper cups and plates, even new retail formats. And acquisitions ranged more broadly, including the PUR water

company and the Iams pet food company. P&G seriously looked at Eastman Kodak Company, lost an auction to Pfizer for American Home Products, and pursued Warner-Lambert in an attempt to buy its way into the pharmaceuticals business. Not surprisingly, the wheels came off again.

By the time of my election to CEO in 2000, most of P&G's businesses were missing their goals, many by a wide margin. The company was overinvested and overextended. It was not winning with those who mattered most—consumers and customers. When I visited all our top retailers in my first thirty days on the job, I found that P&G was their biggest supplier but nowhere near their best supplier. Consumers were abandoning P&G, as evidenced by declining trial rates and market share on most of our leading brands.

I was determined to get P&G's strategy right. To me, *right* meant that P&G would focus on achievable ways to win with the consumers who mattered the most and against the very best competition. It meant leaders would make real strategic choices (identifying what they would do and not do, where they would play and not play, and how specifically they would create competitive advantage to win). And it meant that leaders at all levels of the company would become capable strategists as well as capable operators. I was going to teach strategy until P&G was excellent at it.

I wanted my team to understand that strategy is disciplined thinking that requires tough choices and is all about winning. Grow or grow faster is not a strategy. Build market share is not a strategy. Ten percent or greater earnings-per-share growth is not a strategy. Beat XYZ competitor is not a strategy. A strategy is a coordinated and integrated set of where-to-play, how-to-win, core capability, and management system choices that uniquely meet a consumer's needs, thereby creating competitive advantage and superior value for a business. Strategy is a way to win—and nothing less.
