

XYZ Inc.

Growth Strategy Review

Deliverable D1: Methodology

(Abridged version)



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EXECUTIVE SUMMARY

The project is a growth strategy review, implemented through six sets of activities: 1) Development of tailored approach; 2) Analysis and evaluation of XYZ's business environment; 3) Development of strategic growth options; 4) Growth strategy implementation planning; 5) Financial planning; 6) Project management.

It is a major review which requires skills in:

- Strategy development
- Business planning
- Innovation management
- Change management
- Project/programme management.

WAVE Lab (and its ecosystem of experts) is ideally placed to provide this support.

This framework document highlights our overall approach to delivering such projects and our approach to working in partnership with complex organizations, like XYZ. It demonstrates that we have:

- The ability to mobilize teams quickly
- Tried, tested and appropriate methodologies to support our work
- An approach that delivers value for money.

If you have any questions related to this document, please do not hesitate to contact us:

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Appendix A: Project Risks



1. INTRODUCTION

XYZ has determined that, in order to deliver against its ambition for growth and meet or exceed the targets it has set, a strategy for growth is required. In particular, a direction must be set which will deliver a more coherent and internally consistent business portfolio in which each activity [at operational level] should be consistent with the overall position in terms of varieties produced, needs served and type of customer served.

Approach overview

Our approach is represented in overview below, and is described in more detail in the body of and appendices to this deliverable.



The approach meets your requirements in the following ways:

- The top strand is necessary to answer some of the fundamental questions you have raised about the future prospects for current operations and inform the Board’s view of where opportunities to grow the business may reside, allowing the Board to define a more coherent shape for the business
- The bottom strand is necessary to create specific and substantial growth opportunities and ensure the strategy fully reflects opportunities arising from leveraging existing capabilities. By identifying specific opportunities, it is also likely to stimulate growth streams earlier than more traditional methods.
- The centre strand (participative, discursive working sessions) will ensure that the strategy which emerges is agreed:
 - between the members of the executive team
 - between the executive and non-executive representatives of the Board.



Benefits

Many benefits will ensue from a successful strategic review. The most significant are summarised below:

- *For the shareholders*, sentiment of long-term viability for XYZ – the review will deliver a persuasive story on how the leadership team intends to take the company forward, will demonstrate that the leadership team is more than a 'safe pair of hands', and will demonstrate that the Board has thought through (and can enunciate clearly) how they will achieve this.
- *For management and staff*, the review will provide answers to important questions on the future prospects of the business (including its markets and its future role in the supply chain), and reinforce confidence in the future success of the business. Further benefits will ensue from aligning management and staff to a single, clearly expressed vision of the future.
- *For suppliers, customers and other third parties*, the review will enable the group to enunciate with greater clarity what it stands for, and generate greater confidence in the group as a trading partner.

Risks and critical success factors

The key risk is inevitably that whilst a strategic review is well conceived and intentioned, it does not deliver what is expected. The reasons why growth strategy projects fail fall into two broad categories: failures of the company and failures of the supplier. In view of the group's relative inexperience in undertaking strategic growth initiatives, we have summarised our view of the main risks in Appendix A.

It should, however, be noted that there are as many strategy projects that exceed expectations as fail to meet them. Our intention in summarising the risks is not to suggest that the process is particularly risky. Rather, we hope this information will:

- Assist the Board to enter the review process with a full understanding of what the group will need to do to get full value from this project, and
- Assist the Board in selecting the supplier most likely to deliver maximum value to the group.



2. OBJECTIVES & SCOPE OF PROJECT

Objectives

The main objective for this review is to confirm what the business should be doing in the future in the context of wider strategic alternatives which may be available and in the light of an assessment of the current and future business environment.

Our experience indicates there are some important additional objectives for a strategic review of this type. These include in particular:

- The strategy which ensues should be persuasive and believable to XYZ’s shareholders
- The strategy must be implementable in practice as well as theoretically sound
- The executive team and the Board, not the consultants, must own the strategy
- The process should be designed to achieve consensus on the chosen growth strategy
- The strategic growth review process should begin to mobilise the group for change. The ideal mobilisation activity is the early identification and start-up of specific, positive/enthusing change initiatives; our view is that the most suitable vehicle is the identification, selection and development of specific growth opportunities.

Scope definition

The scope of our work is based on prior discussions with XYZ and the obligations stemming from the contract for this project. We have refined the scope definition along four axes (which will also comprise the project’s workstreams):

| Workstream | Sub level | Core | Out of scope |
|--|---|---|---|
| Aspiration | Vision definition | <ul style="list-style-type: none"> • Clear enunciation of vision and goals | |
| | Strategic choices | <ul style="list-style-type: none"> • Assessment of the sustainability of the current strategy • Identification of other strategic options • Identification of the preferred strategic option | |
| | Current vision | <ul style="list-style-type: none"> • Identification of current implicit/explicit strategy • What are implied assumptions incorporated in current strategy? | |
| Business environment analysis | Industry scenarios (trend analysis) | <ul style="list-style-type: none"> • Trends in current industries (including pressure on margins) • Review of the future of industries and markets • Demographic analysis • Customer survey | |
| | Impact of industry discontinuities | <ul style="list-style-type: none"> • Analysis of impact of discontinuities (political, economic, social, technological) • Impact of e-commerce | |
| | Scenarios and future roles | <ul style="list-style-type: none"> • Scenario building and future supply chain role definition • Mutually achievable goals • Competitive differentiation • Prerequisites/capability description • Benefits and risks of alternative strategies • Geographic expansion opportunities (especially Europe) | |
| New growth opportunities | Generation of 25-50 specific growth opportunities | <ul style="list-style-type: none"> • Conventional sources (products, customers, markets and channels) • Exploiting capabilities • Alliances and partnerships • Creating and exploiting change | |
| Review of existing business (against needs of future aspiration) | Capabilities | <ul style="list-style-type: none"> • Executive and management skills assessment • Current management structure effectiveness • Current culture assessment and impact | |
| | Financial/business portfolio | <ul style="list-style-type: none"> • Business portfolio review - shareholder value analysis • Where will we get at least 15% IRR | <ul style="list-style-type: none"> • 'Balance sheet engineering' • How to finance growth • Whether to re-invest cashflow |
| | Existing business analysis | <ul style="list-style-type: none"> • Strengths and weaknesses of the current business • Competitor strengths, weaknesses, differentiators and strategies (current and potential future competitors) | <ul style="list-style-type: none"> • Performance improvement/cost efficiencies • Detailed, current vs. future capability assessment |



3. OUR APPROACH

The project consists of four workstreams: aspiration, business environment analysis, new growth opportunities, and a review of the existing business. Together the combined deliverables from these workstreams will move XYZ to a position where it is better placed to achieve its business objectives.

3.1 ASPIRATION WORKSTREAM

The aspiration workstream forms the spine of the review and most key activities feed into it, principally decision/review points such as the workshops.

Workstream objectives

- To enunciate the current group and divisional strategies and to assess their strengths and weaknesses
- To explore strategic alternatives and the prerequisites for achieving them
- To establish the preferred group and divisional strategy
- To understand the extent to which the objectives for the future strategy are mutually achievable or exclusive.

Workstream key activities

The overall programme has been constructed around three executive milestone events, which are themselves integral parts of the aspiration workstream:



- Workshop One (provisionally week commencing XXXX June)
Objective - to review preliminary activities and enunciate XYZ's aspirations
- Workshop Two (provisionally week commencing XXXX October)
Objective - to review growth opportunities, and future scenarios and roles
- Workshop Three (provisionally week commencing XXXX December)
Objective - to choose the strategic option to be pursued

The workshops are predominantly a vehicle to create thinking time for the leadership team and to enable decision-making.

3. Our Approach . .



Typically, a sub-group from the leadership team, acting as a programme Executive Steering Group (ESG), would comprise the workshop team. We look forward to discussing with you the composition of the ESG and also how the Board will be kept apprised of developments.

3.2 BUSINESS ENVIRONMENT ANALYSIS WORKSTREAM

Workstream objectives

- To analyse current developments and anticipated future trends impacting the business environment and, as a result, assess the growth sustainability of current markets
- To analyse competitors, their relative positions and their key differentiators
- To assess the discontinuities that are likely to impact XYZ's markets
- To identify how customers' requirements are likely to change over time
- To develop predictive scenarios of tomorrow's industry environment

Workstream key activities

1. Confirmation of which study areas to be assessed (for example: current and future competitors, the impact of electronic business, market attractiveness - industry trends and developments, discontinuities and customer needs/demographics).



2. To gather information from within XYZ (by interview and analysis of relevant reports held), from our own experience databases and from external data sources.
3. Through analysing this information to establish insights and to develop hypotheses about future scenarios and the shape of the industry.
4. To refine each scenario and to forecast which scenarios might be the most likely to result.
5. To establish the extent to which these scenarios can be deliberately accelerated or slowed by existing industry participants or new entrants.





3.3 NEW GROWTH OPPORTUNITIES WORKSTREAM

Workstream objectives

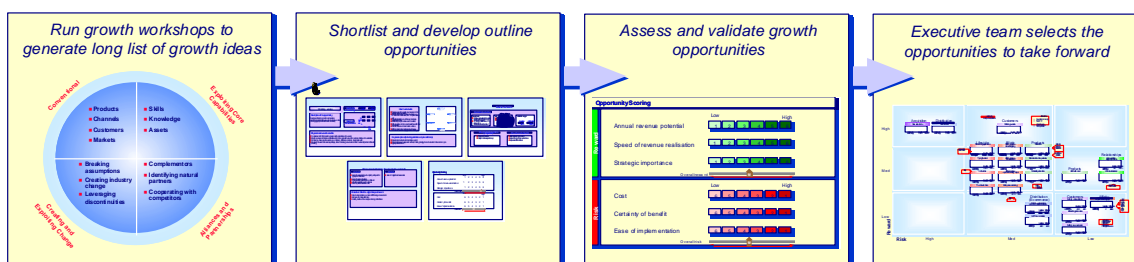
- To generate a long list of revenue growth ideas
- To develop 3-5 into outline opportunities
- To prioritize the most attractive growth opportunities based on agreed criteria (with reference to strategic direction, risk and quantum of benefit)
- To quantify (indicatively) the revenue potential of these opportunities
- To inform the formulation of strategic direction

Workstream key activities

1. Growth workshops are a proven way of identifying different types of opportunities for organizational growth. Growth workshops are based around PA Consulting's *Growth Wheel*, of which there are four quadrants (see below for a summary and Appendix B for additional details). The opportunities within each quadrant are surfaced through a series of different workshop techniques, which vary depending on the background and experience of the workshop attendees.

Growth Wheel quadrants:

- Conventional (products, channels, customers and markets)
 - Exploiting core capabilities (skills, knowledge and assets)
 - Alliances and partnerships (complementors, natural partners and competitors)
 - Creating and exploiting change (breaking assumptions, creating industry change and leveraging discontinuities)
2. After each workshop, the ideas generated are analysed and developed into summarised opportunity profiles.
 3. At Workshop Two, it is intended to present between 3-5 of these summarised opportunity profiles. From the opportunity profiles presented, the executive team will select those they believe to be the most promising. These will proceed for further development.





3.4 REVIEW OF EXISTING BUSINESS WORKSTREAM

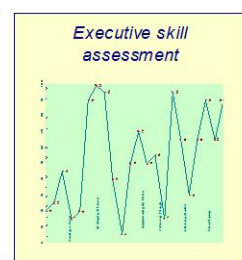
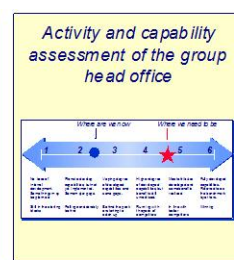
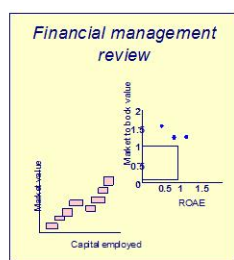
Workstream objectives

- To identify what are the current strengths and weaknesses of the group
- To understand what are the group's and employees' skills, assets and business knowledge
- To evaluate the financial performance of the separate operating business and their economic value to the group
- To assess the value of the activities currently performed by the centre and to assess their level of performance
- To review the individual and collective skills base of the executive and senior management team.

Workstream key activities

The *review of the existing business* workstream incorporates a number of standalone activities, which provide different snapshots of the distance that the group must travel in order to achieve its new aspiration. A synopsis of these activities follows:

1. Management interview programme. This series of interviews with a selection of the group's middle managers provides the following content:
 - Perceived organizational strengths and weaknesses
 - Assessment of group and divisional capability inventory - skills, assets and knowledge (the content gathered is used during the growth opportunity workshops on exploiting core capabilities)
 - Information held on the business environment (used by business environment analysis workstream)
2. Financial management review. This review assesses the economic value added by each of XYZ's core operating businesses, allowing conclusions to be made about the current and future attractiveness of each operating business.
3. Activity and capability assessment of the group head office. This analysis assesses those services the operating business units perceive they receive from the centre, along with a performance rating for each service. Our approach compares this to the service and performance level which the centre perceives it supplies to the operating businesses.





3.5 PROGRAMME TEAM STRUCTURE

In order to deliver what is a diverse yet co-ordinated and comprehensive review, a multi-skilled team must be established.

< team structure graphic >

Konstadinos Kutsikos will lead the project. As can be seen from the team profiles in Appendix C, the project team has extensive and complementary consulting experience in growth-based transformation and strategy reviews of this nature.

In order to leverage the team and to transfer skills, we anticipate involving one XYZ employee from each line of business. From experience, this is an excellent way for new skills to be learned for these employees; it is also a valuable way for the WAVE Lab team to fully understand XYZ's ways of doing business.

3.6 XYZ MOBILISATION

Due to the number of participants involved in a programme of this nature, we have found it prudent to secure key dates early in diaries (e.g. workshop meetings). As part of this activity, it is important to agree the XYZ managers and employees who should attend the programme workshops, whether it should be the full management team or an ESG sub-group.

As we indicated earlier, it is desirable to include XYZ employees on the project team. This has two main advantages: reduction in cost to the group and skills transfer. Due to the significance of the programme for XYZ, we would recommend you identify suitable employees at the earliest opportunity.

As awareness of the review will inevitably spread across the group, we should normally recommend a communications message for distribution to the group's employees.



APPENDIX A: PROJECT RISKS

Traditional growth strategy projects often fail to deliver the desired benefits and/or result in unimplementable recommendations for the organization. There is no single reason for failure (frequently it is difficult to determine the root cause of a vicious circle) and no prescriptive solution. However, by recognizing and understanding the risks, companies can mitigate those that may destroy rather than create value:

- in contemplation of the project
- at the design/planning stage
- during execution.

Based on our prior consulting experiences, we always seek to design projects which minimise these risks by primarily targeting:

- Breadth and balance in the strategy review
- Ownership by the XYZ Board and the involvement of managers and employees
- Consultation to add 'gritty reality' to complement models and analysis
- Elements which lead to early implementation activity.



Reasons for failure include:

1) Results in no action

- Recommended actions are not (or cannot be) implemented
- Documented outputs do not lead to change or implementation



- Endless workshops - no decisions

2) Fails to engage the organization

- Owned by consultants not executive team
- Produced by consultants for the business not with the business

3) Incomplete

- Bent towards the consultants' specialism
- Based on impersonalized vision of the future without clear link to capabilities
- Fails to match the consultant expertise with business experience and industry knowledge
- Top down never meets bottom up

4) Not doable

- Lacks specific knowledge of the business
- Fails to incorporate reality check
- Strategy created without understanding management's aspiration for the business
- Great in principle but fails in the real world.