The strategic paths framework

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Periodically, the CEO would ask herself, what should we do with this business? Does it make sense to continue down our current path, or would it be better to expand in a new direction? Or, should we sell the business altogether? She looked out the window and pondered on the alternative strategic paths she could take.

This could be a classic opening for a case study, yet how many CEOs continuously ask this set of questions? Probably very few, if any. But just imagine what would have happened if in 2004, IBM's executives had not considered exiting the hardware business to concentrate on higher-margin services and software, or if in 2005, Lego had not decided in the face of falling sales and financial difficulties to invest into areas such as videos games and clothing rather than continuing to focus on innovating on its core product -- plastic building blocks.

How do you ensure that like Lego and IBM, you consider your available paths before committing to continue down the same path? Like the captain of a ship, the role of the executive is to navigate the company from where it is to where they want it to be. Just as ship captains need to identify possible routes before embarking on a journey, executives need to consider available paths to achieve their goals. But while ship captains have maps that they can rely on to identify their available routes, what can executives use for the same purpose?

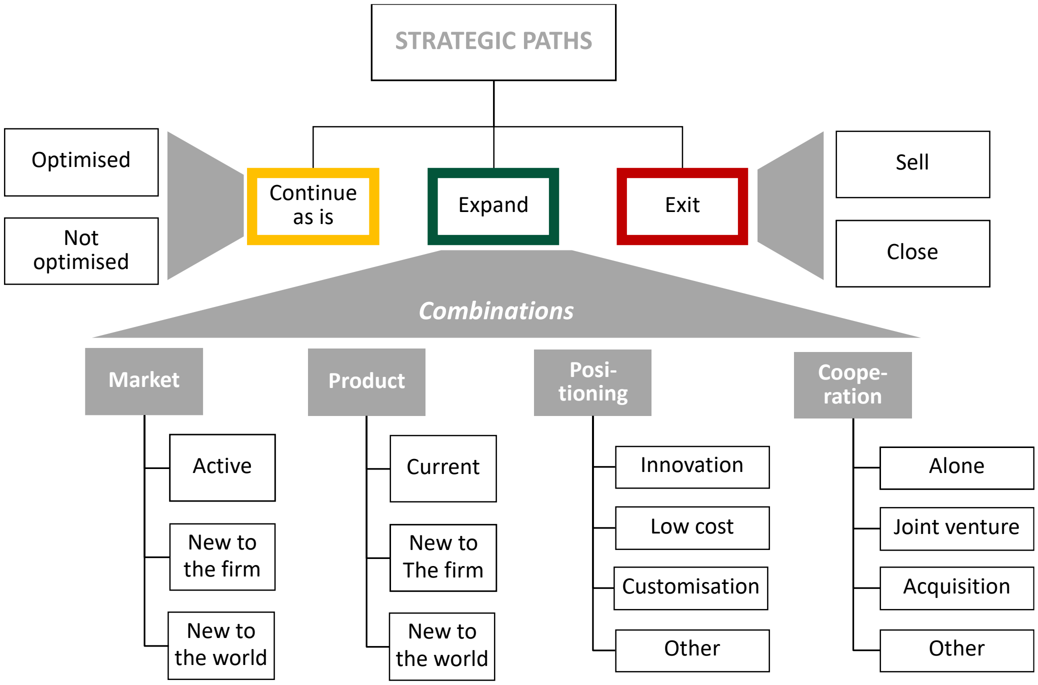
In our extensive observations of thousands of executives and their approaches to shaping the future of their businesses, we have uncovered a striking pattern: approximately 75% of their suggestions lean towards operational problem-solving and fixes, while only about 25% venture into truly strategic proposals. This mix consequently results in priority lists crowded with operational tasks, overshadowing any strategic direction. Such an imbalance prompted our realization that there was no framework to guide managers in coming up with alternative strategic paths. While great strategies always involve some magic, systematically mapping out possible strategic paths is at the heart of seizing opportunities that might be hiding in plain sight.

Over the last few years, we have developed a framework with a surprising result when applied by managers: it allows them to uncover types of strategic paths that they may not have considered.

The strategic paths framework

This framework is designed to draw managers' attention away from operations and tactics. Instead, it pushes them toward a broad strategic possibility space while facilitating the discovery of a variety of strategic paths by considering a universe of combinations (see Figure 1).

Figure 1:



The framework prompts managers to think through three major directions:

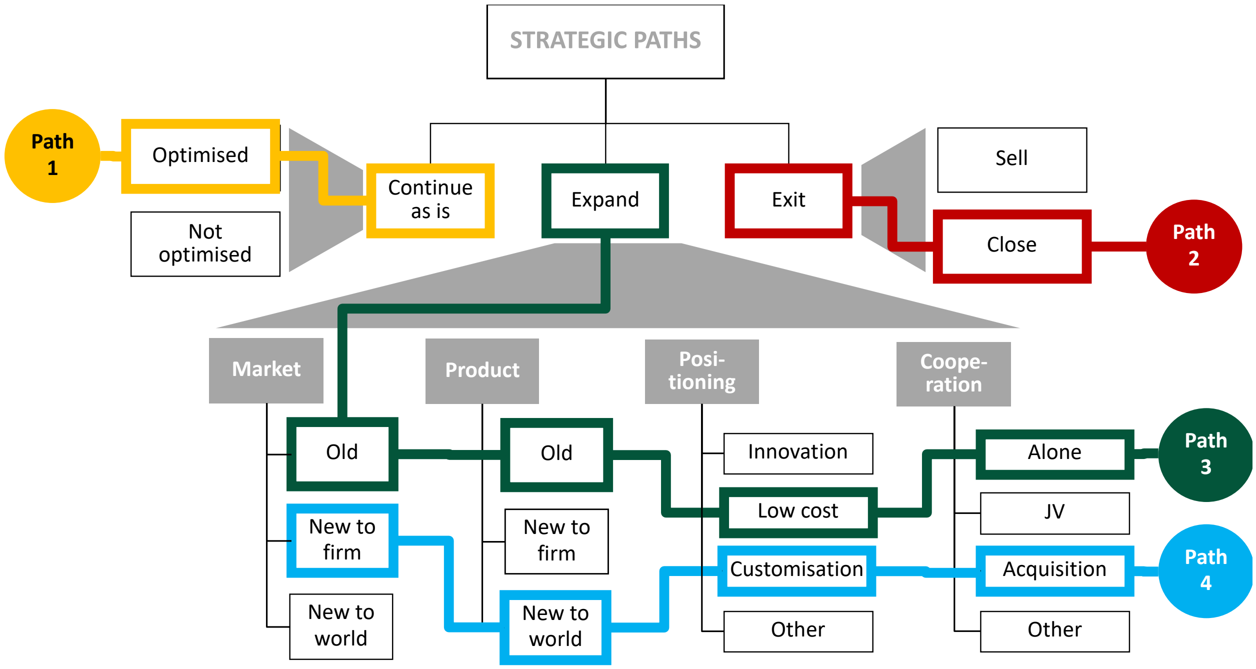
- **Continue As Is** – This means sticking to existing customers and products, merely considering optimizing operations. Essentially, this results in more of the same, though with improved performance, frequently mirroring competitors' approaches.
- **Exit** – While the idea of exiting, through selling or closing, is seldom initially considered by executives, the introduction of the Strategic Paths framework often shifts perspectives. Once familiar, they recognize that exiting can be an attractive option that allows for the reallocation of previously bound resources.
- **Expand –** This explores a comprehensive array of options by combining various market approaches, product developments, positioning strategies, and modes of cooperation. This includes engaging in established markets, entering new or untapped markets, innovating current products, introducing new offerings, and adopting diverse positioning strategies such as innovation, low cost, or customization. Modes of operation range from independent ventures to partnerships like joint ventures or acquisitions. By systematically mixing choices across these four dimensions—markets, products, positioning, and cooperation—a company can thoroughly explore potential strategic opportunities, ensuring no viable option is overlooked and striving to cover as much strategic ground as possible, even if not all combinations are feasible. By thinking through the rich

combinatorial mix of these four dimensions, executives can thoroughly consider the broader space of potential growth strategies with enhanced creativity.

To effectively implement the Strategic Paths framework, executives need to follow these four detailed steps:

1. *Identify Strategic Units*: Segment the organization into distinct business units, each facing its own competitive landscape, to tailor the framework's application to specific strategic contexts.
2. *Explore Strategic Paths*: Engage the framework to discover and develop a variety of strategic paths, per Figure 2 below, which shows four different paths that an executive might consider. This stage is crucial for shifting the focus from day-to-day operations to broader, innovative strategic thinking.
3. *Detail Strategic Paths*: Deepen the exploration by specifying details for each strategic option under consideration, including potential markets, product lines, positioning tactics, and types of cooperation. Within each path (e.g., "Option 4" in Figure 2), there may be different possibilities – for example, in this case involving different potential products that are new to the world.
4. *Assess Paths*: Critically evaluate each strategic path by comparing it against organizational goals, financial forecasts, and potential risks to determine the most promising strategic path.

Figure 2:

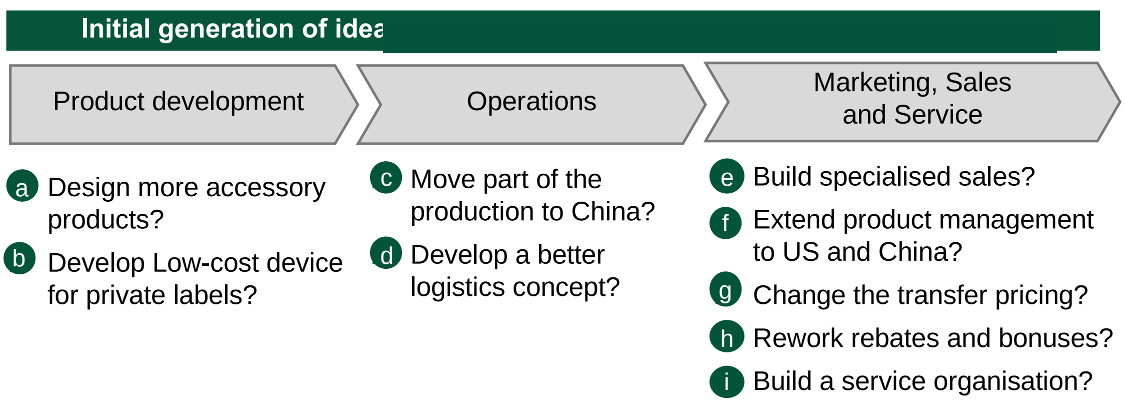


Example: A tale of wrestling with strategic options

In the early 2000s, Company X[1], a European high-end power tool manufacturer, put its "core drill" product group on the strategic agenda. Market growth for core drills was stagnant in Europe, with China and the US seeing growth for both devices and accessory bits. Still family held, the owners expected a clear basis of decision-making that laid out alternative courses of actions to choose from in order to achieve growth and profit targets.

Managers passionately generated teeming functional improvements, but struggled to come up with strategic options. The proposals included operational improvements such as a refined logistics concept, reworking of transfer pricing and bonus structures, and building a specialized sales force (see Figure 3). Unfortunately, the enthusiasm and approval from top management and shareholders were notably lacking. They had expected to see a range of strategic alternatives that would enable them to confidently decide on a clear path forward before granting their investment approval.

Figure 3:



How Company X found its way to strategic alternatives – using a four-step approach

After feeling stuck in functional problem-solving for their core drilling business, the managers at X were able to break the never ending, circular and exhausting discussions, by using the Strategic Paths framework and applying it in the four steps needed to develop strategies:

1. ***Making sure to identify distinct strategic business domains***. The framework should be applied to single business units, which have distinct constellations of customers and competitors. In the case of X, managers began to realize that their discussions about the core drill business included two strategic business units, not just one: their own branded

[1] We are prevented from disclosing the identity of the company at this stage due to a non-disclosure agreement.

devices (and accessories), and a potential private label product labelled by very large retailers. Strategic alternatives were needed for each of them – separately!

2. ***Exploring truly alternative strategic paths.*** For each recognized business idea, at least two – preferably more – strategic paths should be identified. In the case of X, three meaningful paths emerged for the private label opportunity: Offering accessories only (small step), offering a device, in addition (big step), or to stay out of the business altogether (see Figure 4). The ideas for their branded business were cleared up into two options: Continuing as is "untouched" or a major optimization across all functions (see Figure 5). Thus, X ended up with two distinct alternatives for their own brand and three for private labels.

Figure 4:

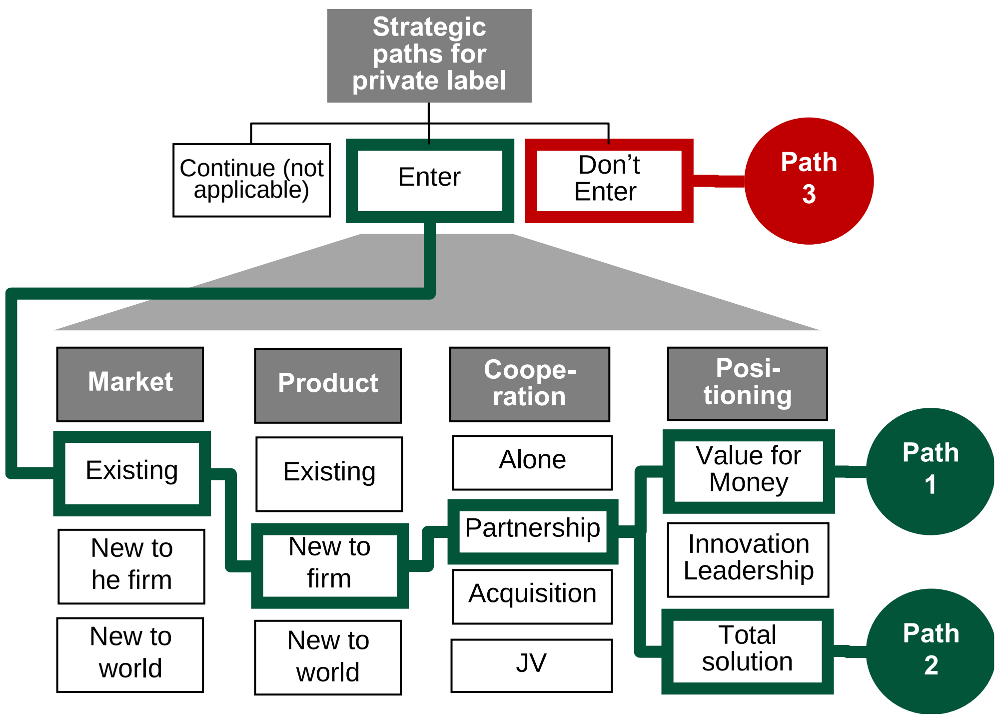
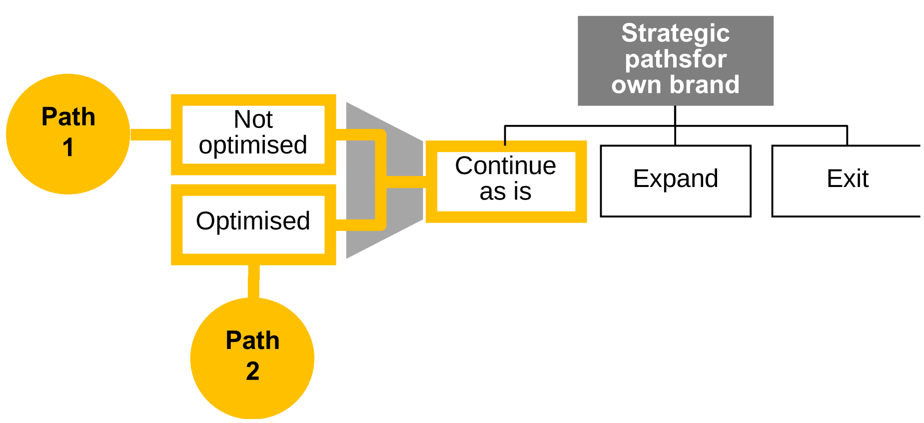
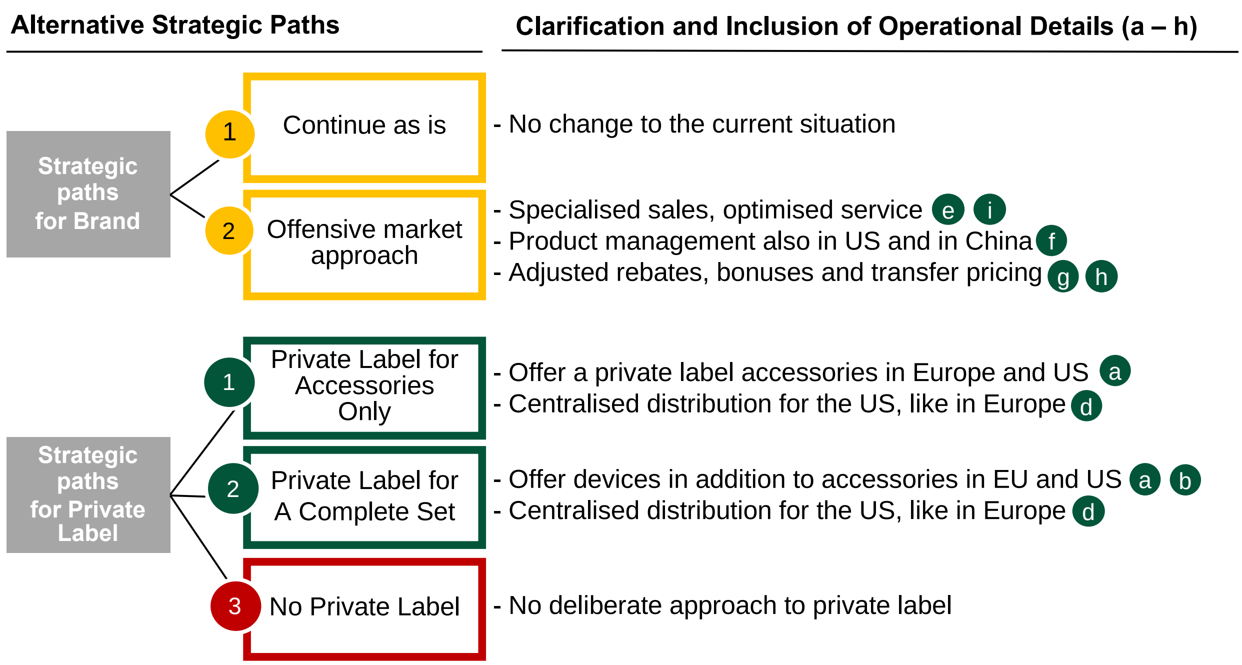


Figure 5:



3. ***Fleshing out the strategic paths:*** Once strategic paths are crystallized, more details are required to understand what a strategic path really means. Sufficient clarity must not only be provided regarding markets, products, forms of cooperation but also about functional and cross-functional implications. For example, for the private label options, it was important to point out the need for a new distribution model. And the optimization route for X's own brand relied on specialized sales, regional product management and system-wide adjustments. It is in this step – and not earlier! – that the more operational details should be included, which will allow for a realistic estimate of the needed changes and resources, as well as risks (see Figure 6). For communication and presentation purposes, it can be useful to label the options in a memorable, catchy way.

Figure 6:



4. ***Assessing strategic paths:*** After strategic options are fleshed out for a business unit, they can be compared using agreed-upon criteria. To conclude strategy development for X's core drill business, such criteria included fit with the firm's goals, expected financial outcomes and implementation risks. Because strategic alternatives consider a single business unit at a time, the impact on other businesses was also introduced as a criterion. This way, the synergies between X's own brand and the private label opportunity could be captured.

The impact of the framework was profound at Company X: Top management and key stakeholders were immensely satisfied with the strategic clarity it provided. It brought a forwardlooking and progressive perspective that was previously missing, enabling decision-makers to see many potential paths with clear visibility. This clarity and breadth of vision allowed them to make informed decisions on growth with a newfound trust in the managerial team's judgment, underscoring the transformative power of the Strategic Paths framework in enhancing strategic thinking within the organization.

The key to success: Seeking alternative strategic paths proactively

Over time, every company arrives at multiple crossroads where its managers must consider which path to follow. These decisions can help chart and analyze companies overall evolutionary paths. Take, for example, two companies in the same industry that took different paths at strategic junctions: Clinton Cards and Hallmark. Both family-owned sellers of greeting cards, the two companies made strategic decisions at crucial points in time. For instance, in 2001, they saw competition intensifying and a growing number of online greetings retailers offering cheaper prices and personalization. At Clinton, their strategy was to "continue to develop our retail outlets by investing in the opening of new sites and modernizing existing shops." At Hallmark, they launched the Hallmark Channel, a television network that has come to dominate screens across America.

The narrative diverged further when, in 2007 and 2009, Hallmark pursued digital personalisation and acquired streaming service SpiritClips. In contrast, Clinton Cards, despite an expansion attempt through acquisitions in 2004, largely continued on their path, pursuing optimization. By 2012, the outcomes of these strategic choices became starkly apparent. Clinton Cards faced the grim reality of exiting the market. Hallmark, on the other hand, continued to innovate with augmented reality products, a testament to its varied strategic paths.

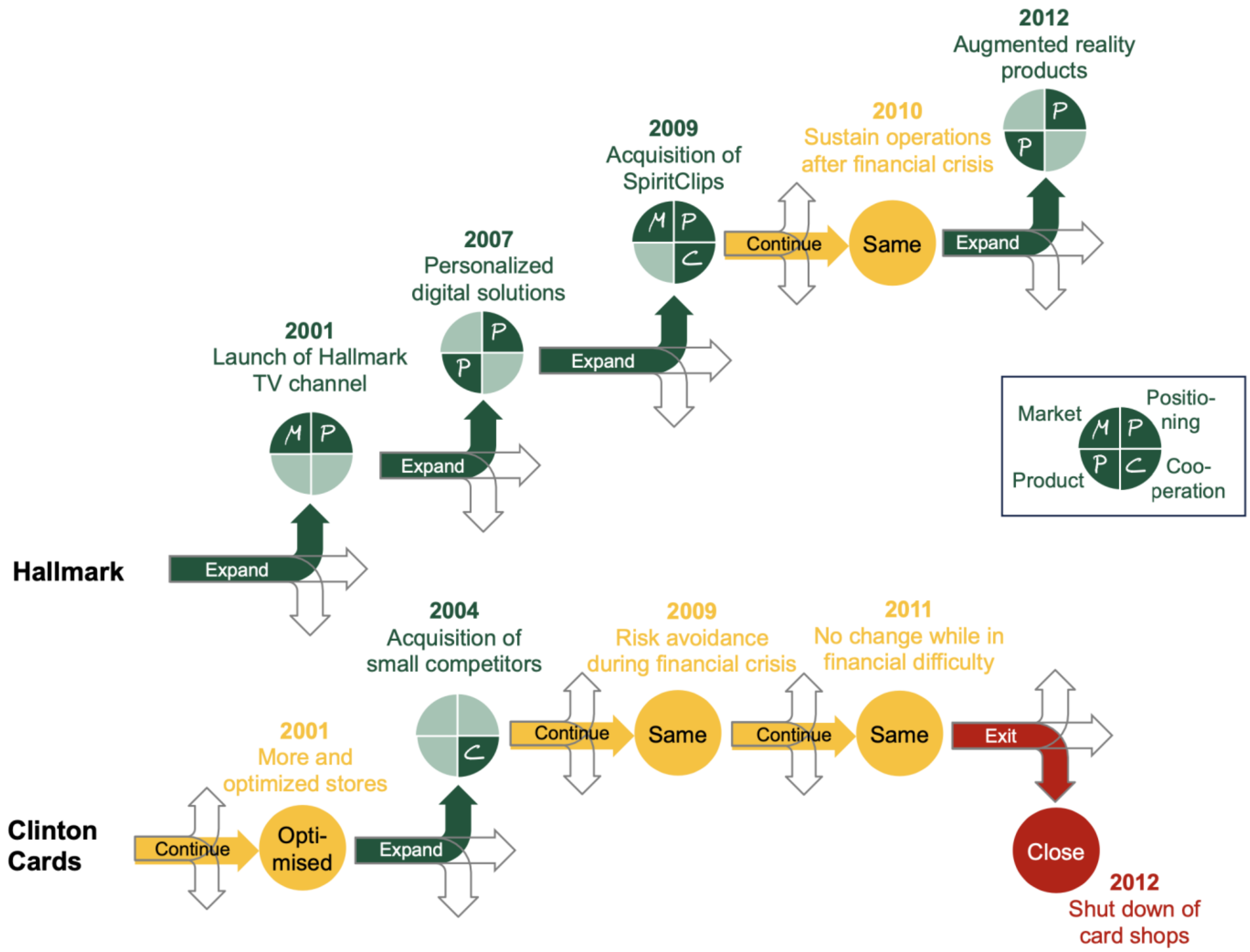
In seizing opportunities, most companies simply focus on refining their existing operations. This approach can lead them to overlook other possible strategic paths. Although there are numerous ways to enhance the current activities of a business—even those requiring significant investment, like Clinton's 2001 initiative to modernize existing shops and open new ones—they all present different versions of the same path of continued optimization. However, firms that venture beyond these conventional methods may discover new avenues, leading to different markets, products, positions, or partnerships. Yet, it is quite rare for companies to consider the full picture and all the directions possible.

Our framework is designed to reveal distinct strategic paths, enabling a clear view of all the possible categories of directions a business can take.

Do not miss the junction!

Using this framework as a guide, we have learned that most companies exhibit a bias toward a particular path, often reflecting the status quo. **Figure 7** maps the strategic paths that Clinton Cards and Hallmark followed over the years. It highlights that almost every decision that Clinton Cards took fell along the "continue as is" path. By contrast, Hallmark's journey exemplifies the value of exploring diverse strategic paths, moving beyond mere continuation to embrace nuanced strategies for market exploration, product development, positioning, and collaboration.

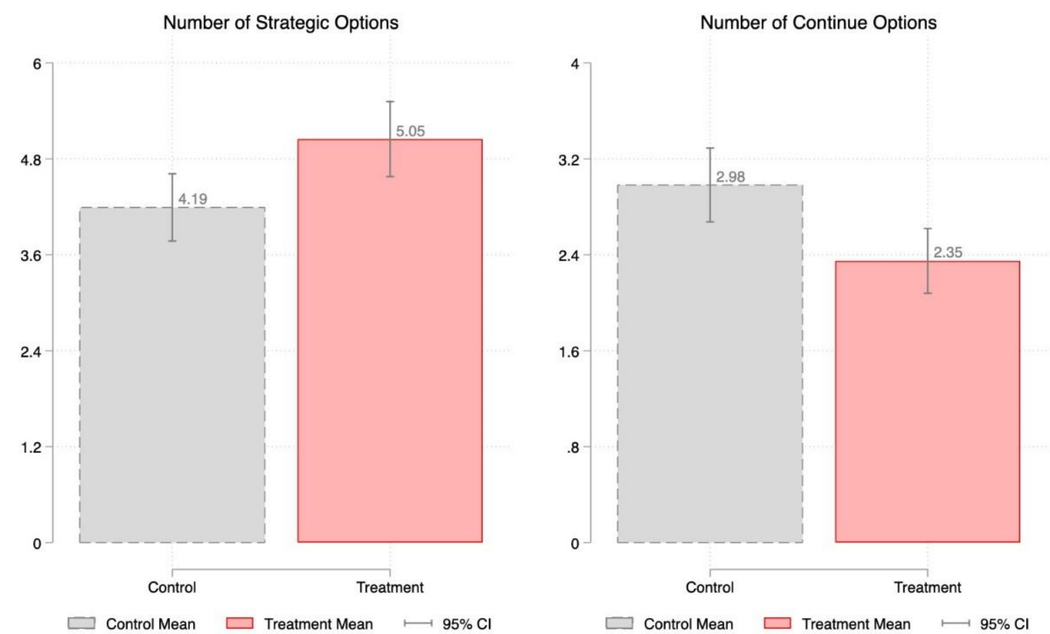
Figure 7: The Strategic Paths of Hallmark and Clinton Cards



One could argue that companies like Clinton Cards and Hallmark did not fail to notice the different paths they could have taken at each junction, but rather explicitly chose the paths they did after considering their options. If this were indeed the case, then a framework facilitating a systematic exploration of potential strategic paths should produce no difference in the types of paths taken.

To test whether this holds true, we conducted a research study tasking 340 individuals with developing as many strategic paths as possible for a company considering its strategic direction before recommending one. Participants were randomly assigned into two groups: one received general instructions, while the other was also provided with the Strategic Paths Framework. We found that those provided with the framework were likely to generate more strategic paths, and were less likely to recommend the continuation of the current one (Figure 8). These findings are consistent with our extensive experience conducting strategy workshops for executives: executive exposure to the Strategic Paths Framework consistently results in the formulation of a wider range of strategic paths and a decreased propensity to advocate for the status quo.

Figure 8: How the framework shifts the options decision-makers see



A long frustration among managers and researchers has been that strategic planning often perpetuates the status quo, rather than producing novel strategies. The *Strategic Paths* framework can help executives not only address this frustration, but also ensure a systematic process to identify all types of strategic paths in front of them.

Concluding thought

In today's rapidly evolving business environment, the emphasis on broad, strategic thinking over narrow operational focus is crucial. The Strategic Paths framework is transformative, particularly because it democratizes strategy development, enabling managers at all levels—including those with limited strategic experience—to engage deeply. This bottom-up approach, increasingly favored by top management, not only shifts focus from routine operations to the exploration of diverse strategic possibilities but also empowers managers to contribute meaningfully to the strategic discourse. The ultimate strength of this framework lies in its exhaustive consideration of all possible strategic options, ensuring that no viable path is overlooked and striving to cover the entire spectrum of strategic opportunities. By fostering inclusive and holistic strategic discussions, the framework enhances a company's adaptability and secures a competitive advantage in the dynamic business landscape, truly encapsulating the potential to comprehensively navigate and master complex market challenges.