

STRATEGY PRACTICE

**How we do it:**

## Strategic tests from four senior executives

**Raymond Gilmartin,**  
former CEO of Merck

**Gail Lumsden,**  
group head of strategy  
and planning at SABMiller

**David Speiser,**  
senior vice president  
for strategy at SAIC

**Jeffrey Elton,**  
CEO and vice chairman  
of KEW Group

**All strategists grapple with the question** of how to create and preserve competitive advantage. But individual perspectives are likely to differ, depending on a company's strategic journey, the industry it's in, and the idiosyncrasies of the organization. We talked with four current or former senior strategists from diverse corporate environments and markets about their strategic challenges—and came away with four distinct, thought-provoking lists of strategic tests.



### Raymond Gilmartin

Raymond Gilmartin, a professor at Harvard Business School and a member of the board of directors at General Mills and Microsoft, was the CEO of pharmaceutical company Merck from 1994 until 2005.

#### Does it violate any strategic laws of gravity?

I have been interested in strategy, both at a conceptual level and as a practitioner, since the late 1960s, when I was studying at the Harvard Business School and the transition was under way from talking about long-range planning to thinking about strategy. At that time, many core conceptual frameworks of strategy were emerging.

Having been exposed to these strategic frameworks early in my career, and believing there were certain principles that one should follow in formulating strategy, a test that I found useful was to look for situations where these principles were violated. For example, if you've got a 5 percent market share and somebody else in the industry has 40 percent, the idea that you're going to make dramatic gains in market share within a relatively short period of time is just unrealistic. Equally unrealistic is wanting to introduce a product that's undifferentiated and expecting to gain market share just because it's a big market.

I'm using very simple-minded examples, but people do make these kinds of errors. When you see this is about to happen, you should respond by saying, "Let's not introduce that product."

#### **Do my numbers match my strategy?**

A common thing that happens within companies is that people make all of these great strategy presentations, management signs off on everything, and then the world shifts completely to a different mode when it's time to put together the profit plan. That is the moment of truth for whether your resource allocation is consistent with what you claim your strategy is, and I'm willing to bet that this is where the biggest disconnect usually takes place.

I therefore looked at plans and expenditure requests from the standpoint of what story the numbers told us about our strategy and whether the two matched or not. When we intended to increase our rate of innovation, one test would be what was happening to the level of R&D spending. When we expected to increase our market share, key tests would be what was happening to spending on promoting our products and the share of capital projects related to new products.

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**David Speiser**, Science Applications International Corporation (SAIC)

David Speiser is the senior vice president for strategy at SAIC, a scientific, engineering, and technology applications company headquartered in the United States. He also is an alumnus of McKinsey's Los Angeles office, where he was a principal.

**Will it create value?**

As an industry, we attract a lot of engineers and former government and military professionals. Therefore, the very basic test of whether something drives financial shareholder value or not is very useful because many people are not so financially focused.

**Is it material?**

One of my biggest tests is to explore whether a proposal is material. Some folks will get excited about doing something in a very small market. The challenge we face, given limited managerial resources, is to educate people about what would be material to the \$11 billion corporation we are today, which is very different from the \$2 billion corporation we were 15 years ago.

“When it comes to new strategies, a big test is to make sure that the insights and capabilities underlying them are real and not just a result of PowerPoint engineering.”

**Is it differentiated?**

This is probably the hardest test to pass because one of the challenges you have in a corporation that has very broadly applicable skills is that people want to apply them broadly. If you're trying to apply your skills to a broader set of markets, you have to really think critically about what the current competitors are already offering and what you're going to do that's different. That can be tough, especially when you combine it with the materiality test. There may be nothing you can do, in a segment where you have deep interest and knowledge, that will be material over and above what you're doing. But then when you get outside your comfort zone, achieving differentiation is more challenging.

### Is it just ‘PowerPoint engineering’?

When it comes to new strategies, a big test is to make sure that the insights and capabilities underlying them are real and not just a result of PowerPoint engineering. We get used to assuming that anything people say they can do, they can do. Because they demonstrate this every day in core markets, proof isn’t required. But if you’re talking about developing a new growth strategy to penetrate a new market, you have to step back and ask tough questions because the proof isn’t being delivered every day. Requiring proof that we’re connected with the market, that we’ve actually spoken to potential customers, that we have the insight we claim to have is ultimately one of the most important jobs of the strategist, in my view.



### **Gail Lumsden, SABMiller**

Gail Lumsden is group head of strategy and planning at SABMiller, a leading global brewer.

### Where are we in our strategic journey?

It’s very easy to get blinkered and complacent, particularly when you’re in a successful business: the tendency is to extend the past into the future and assume that your success will continue. The challenge is to watch out for and take signs to the contrary seriously and to use them as a catalyst to further develop your strategy. Winning is a journey, not a destination, and that means understanding where you are in your strategic journey as a business.

For example, we’ve significantly outperformed our peers over the last ten years in terms of total returns to shareholders (TRS), which demonstrates that we’ve had a differentiated strategy: we were ahead of our competitors in acquiring undervalued and underperforming local brewers in emerging markets with strong volume growth and in applying a distinctive business model based on operational and

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performance-management excellence. In some of those markets, though, per capita consumption growth is now leveling off, and if you look at more recent history, you see that our outperformance in terms of TRS has been abating. So one of the big challenges for us now is how we define and redefine the markets in which we compete.

#### **Are we properly balancing growth and risk?**

We're always thinking about opportunities for profitable growth, but we also need to be thinking about the value at risk. Are we protecting our strongholds? Are we adequately thinking about how our competitors will respond to our moves? And in markets where we have a strong leadership position, are we thinking enough about how to create—not just capture—value as the market matures?



#### **Jeffrey Elton, KEW Group**

Jeffrey Elton is the CEO and vice chairman of KEW Group, a personalized oncology care network he helped found. Previously, he was senior vice president of strategy and global COO at the Novartis Institutes for BioMedical Research and, before that, a principal in McKinsey's Boston office.

#### **What are the facts?**

Pharma and health care delivery are long-cycle businesses where strategy is about optimizing resource reallocation—getting really straight about what investments are going to drive your future earnings. That starts with getting the facts right: there's a lot of hearsay and lore, even though the industry is scientifically driven. It's amazing how much of this is not rooted in fact. So the first set of questions we always spend time on is what's really working or not working, and understanding what "working" actually means.

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**Is the problem solvable, and do we care?**

Sometimes you have an insight, but that insight is a very small proportion of what's really required to solve a problem. You need to determine if, based on what we know now, the problem is solvable. Then, even if it is, do we care? We usually are trying to work on things where we think there's a relatively high unmet medical need. If we work on diseases that impose a high cost burden, this approach helps assure a favorable set of economics, even if we can't predict all the different aspects of reimbursement.

**Who can solve that problem?**

We presume that we can't possibly have all the talent and capabilities needed to solve any one problem, so what institutions—what companies, specifically—should we be trying to collaborate with to solve this problem confidently and remarkably? Of course, we also need to ask what we need inside this company to successfully engage with that external network. If we don't have people who know a class of problem exceptionally well, we can't even do a good job on due diligence and access the best talent or partners. So this question could help drive our acquisition, talent, or recruitment strategy.

**Why might we fail?**

Usually, projects or new therapeutics are going to fail for one or two reasons. Running a killer experiment, focused on likely sources of failure, can actually save a lot more time than a pilot that's likely to confirm that this is an interesting area to be in, where we may be able to do something.

**How can we shape the market?**

In any high-innovation area, there's a heavy dose of "shaping"—both of the market and of the environment you will be walking into—that needs to take place to make this market worth getting into. Getting specific about what you have the ability to shape, and which points of influence you can begin to put in place, is invaluable. ○

