

What If? How to Create a *Great* Strategy

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Bad strategy decisions lead to layoffs, budget cuts, ruined careers, personal stress, and the pain of the saddest words in the English language: “what could have been.” The best antidote is the words “what if?” ... if they’re spoken before the decision gets made.

What if you could answer your what-if questions before you make a key strategy decision? What if you could realistically and rigorously test your options before you committed real money? What if you could raise the odds that you’d make wise decisions and create a great strategy?

Executives at over two dozen Fortune Global 500 companies prospered because they got answers to “what if?” before they made key decisions. They used strategy simulation to test their options, they chose paths different from what conventional wisdom and techniques would (or did) recommend, and they reaped the outsized benefits that come with much better strategy decisions. Not just “better” strategy decisions; anyone can find ways to tweak performance. *Much* better strategy decisions, the kind that impact bottom lines by tens or hundreds of millions of dollars.

A rigorous, computer-based strategy simulator can calculate far more thoroughly, accurately, and rapidly than can any human being. It knows what you know about your business and your market, then uses that information so you can see the effects of your options before you make your decision.

I’ve seen strategists use strategy simulation in two fundamental ways: business war games and simulation-supported strategy analysis. In a business war game, teams of managers role-play their business and their competitors’ businesses, and the simulator serves as the strategy calcu-

lator that determines how each team fared.* In a simulation-supported strategy analysis, a group of strategists brainstorm and test their ideas, in real time, with the simulator. Both approaches focus on “what if?”.

What-if simulations let you know whether you’ve found a robust strategy or a shaky one, and whether its performance is excellent or could be better. In addition, well-designed strategy simulations can produce stunning insights, the kind of insights that lead to dramatic changes in performance. Look for simulations built upon principles of competition, and avoid those built on accounting or financial models, trend analysis, or other forms of conventional wisdom.

An example of a strategy simulator, used in both business war games and strategy analysis, is ACS’s ValueWar. ValueWar received Competia’s 2002 Best In Class Software award.

Competing against predictable competitors

Imagine that you’re the strategist in charge of strategy decisions for a hotel named Pennysworth, which competes in the business-traveler segment. You have a variety of options available to you (Table 1). Your competitors have the same options available to them. You also have ValueWar, which has been custom-calibrated for your business.† How can you use what-if simulation to make a great strategy decision?

Momentum	Gourmet restaurant	New-guest program
Alliance with airline	Image-ad campaign	Workstations in rooms
Extended-stay program	Major renovation	

Table 1: Strategy options for Pennysworth

Imagine that your competitive-intelligence department reports that they believe your key competitors are about to roll out programs to lure new guests. Your first thought is that you don’t

* You will find relevant articles posted on ACS’s web site, www.whatifyourstrategy.com, based on experiences my colleagues and I have had in creating scores of business war games around the world.

† Though these data are fictitious, the analysis is similar to what real strategists in real companies receive.

want to be left behind; after all, if they're all going in that direction, it's probably for a good reason. However, you ask yourself a key question: what if we did something different?

You look at the results of eight simulations in ValueWar[‡], one for each of your eight strategy options in the competitors-pursue-new-guests scenario (Table 2). You focus on five-year cumulative profits and market share at the end of five years.

Scenario	Strategy options for Pennysworth (results are 5-year cumulative profits, in millions of dollars, and % market share)							
	Momentum	Alliance with airline	Extended-stay program	Gourmet restaurant	Image ads	Major renovation	New-guest program	Workstations
New-guest programs								
Cumulative profits	97.1	133.4	135.3	155.9	157.2	125.8	80.9	146.2
Market share	26.4%	39.9%	39.7%	36.1%	41.3%	38.9%	32.3%	39.8%

Table 2: Competing in the new-guest programs scenario

Surprise! Your competitors are lemmings headed for the cliff, and you prudently decide to skip that trip. Introducing a new-guest program of your own would be the *worst* thing you could do. In fact, if you care mostly about profits, you'd be better off staying in bed (i.e., the momentum strategy) than going to the trouble of starting a new-guest program.

Looking further at Table 2, you see that the image-ads strategy would be almost twice as profitable as emulating your competitors' strategies, and it would give you another nine points of market share. (What's not to like?) Installing a gourmet restaurant is almost as profitable, though it doesn't produce quite as much share.

In other words, your simple "what if?" made you a lot of money. If you otherwise would have emulated your competitors, your analysis made you an extra \$76 million (and earned you a

[‡] ValueWar isn't the only source of such numbers, of course. There is, however, some magic in generating realistic numbers for this analysis. See "Putting the Lesson Before the Test", a chapter from the book *Wharton on Dynamic Competitive Strategy*, written by Wharton Professor David Reibstein and me, available on ACS's web site.

reputation for wisdom in bucking the trend). You also learned that it's worth \$60 million to get out of bed and do something other than coast on your momentum strategy.

Creating a robust strategy

Your competitive-intelligence people return. Inspired by the insights you gained from your “what if?”, they’ve done the same and found out that there are four more scenarios in which you might find yourself competing. You ask yourself, what if one of those other scenarios comes true? Should you still adopt the image-ads strategy, or is something else a better idea?

So, you look at Table 3. Each cell in the upper part of table — the 40 cells representing five scenarios times eight strategy options — contains data from one ValueWar simulation. For simplicity, we are looking only at five-year cumulative profits.

Scenario	Strategy options for Pennysworth (results are 5-year cumulative profits, in millions of dollars)							
	Momentum	Alliance with airline	Extended- stay program	Gourmet restaurant	Image ads	Major renovation	New-guest program	Workstations
Momentum strategies	126.1	136.7	136.1	193.5	178.8	164.2	110.4	178.6
Extended-stay programs	-2.1	74.5	86.9	51.2	64.1	41.7	7.3	61.3
New-guest programs	97.1	133.4	135.3	155.9	157.2	125.8	80.9	146.2
Diverse strategies #1	22.3	85.4	105.3	83.2	92.8	71.6	29.9	92.3
Diverse strategies #2	10.2	79.9	94.1	67.5	78.2	57.0	18.3	77.3
Decision analysis								
Expected results	50.7	102.0	111.5	110.3	114.2	92.1	49.4	111.1
Uncertainty (best – worst)	128.2	62.2	49.2	142.3	114.7	122.5	103.1	117.3

Table 3: Seeking a robust strategy decision

Here are a few new insights you’d create:

- If competitors adopt momentum strategies, then your best alternative is the gourmet restaurant.

- If competitors execute extended-stay programs, then you should too. However, because performance is sharply lower under this scenario, do your best to prevent the market from taking this path.
- Two scenarios contain combinations of competitor strategies. Although they produce distinctly different results, they produce the same decision: momentum is worst, extended-stay is best. The strategies that did well under other scenarios — gourmet restaurant and image ads — perform materially worse under these.
- Although you are likely to make a great profit, there is great variation around how much you should expect for any given strategy. In other words, there's much more to setting performance goals than picking a single magic number on which bonuses (and jobs) will depend.

The row labeled “expected results” is the expected value — that is, the probability-weighted performance — of each of your strategy options. For simplicity, I used equal probabilities for all five scenarios (in a full analysis we’d discuss and adjust the probabilities). Image ads is the winner, by a hair. The higher the likelihood of the new-guest scenario, the thicker that hair gets. If, however, you feel the new-guest scenario isn’t so likely, then you should switch to the extended-stay program or gourmet restaurant.

That’s not all. The image-ads and gourmet-restaurant strategies look good only because they do very well in a couple of scenarios. There’s a lot of uncertainty around them (see the row labeled “uncertainty”, which shows the range of performance possible under each strategy). The extended-stay program has the least uncertainty, and so it is a more-robust strategy than the others. However, if adopting an extended-stay program would *cause* competitors to adopt their own, thereby leading to the extended-stay programs scenario, then you would have triggered precisely the environment you should want to avoid.

Note that although the workstations strategy looks like a good choice — it has a strong expected result — it is never your best choice. There is always another strategy that you should prefer.

There's much more to learn from Table 3, and even that table just scratches the surface. Please feel free to contact me with your questions and comments.

Taking action

Imagine having your own Table 3, customized for your business, your competitors, and your market. What would such a table be worth? Real-life strategists steering real-life businesses have found that strategy simulations have helped them make much better real-life decisions, worth tens or even hundreds of millions of real-life dollars.

The technology of strategy simulation has changed the nature of strategy decisions. The simulator takes care of the math. You focus on creating good — that is, innovative, bold, and differentiated — strategy alternatives. In other words, let the computer do what computers do best (arithmetic), while you do what people do best (create and imagine). The tool amplifies your talents and efforts.

Repairing bad strategy decisions is costly and unpleasant. Creating great strategy decisions is easier than ever. So: what if you investigated strategy simulation?

About the author

Mark Chussil is Founder and CEO of Advanced Competitive Strategies, Inc. (www.whatifyourstrategy.com), and lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of Fortune 500 companies around the world. He has published extensively and spoken at numerous conferences. Mark is also a Founder of Crisis Simulations International, LLC (www.crisissimulations.com). Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

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