

Strategy Maps Case Study

Figure 1 - The Strategy Pyramid

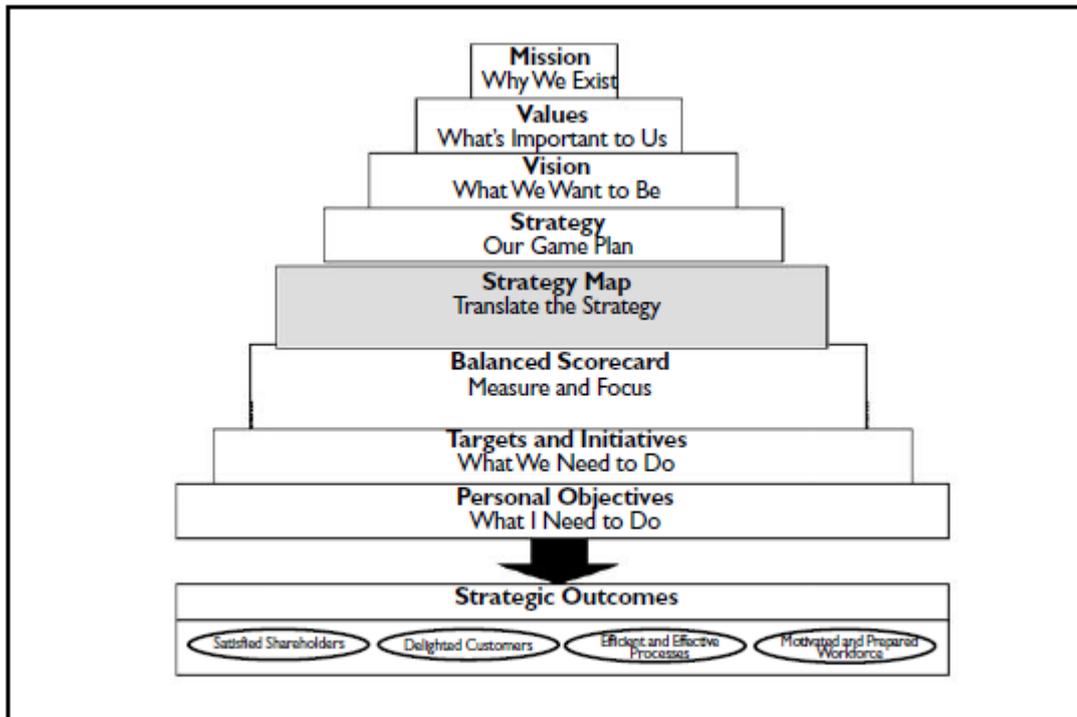
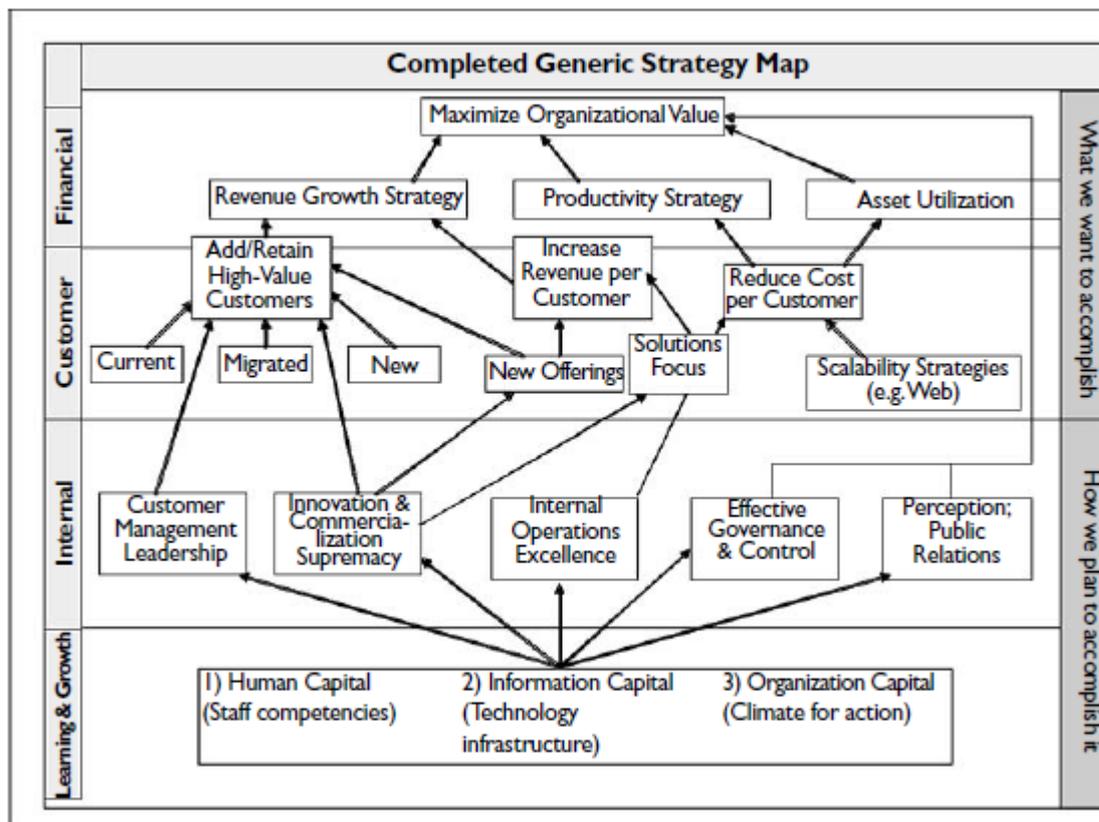


Figure 2 - A Generic Strategy Map



CREATING STRATEGY MAPS — THE GUIDING SIX STEPS

The steps are:

1. Specify an overriding objective
2. Choose the value proposition
3. Choose the financial strategies
4. Choose the customer strategies
5. Execute through the internal perspective strategies
6. Plan the learning and growth strategies

To better communicate the transition from generic principles to their specific application, we will use The Glacier Inn as an example.

The Glacier Inn

The Glacier Inn was established a few years ago in Northern Minnesota after a visit to Quebec's Ice Hotel convinced the owner and her partners that a similarly styled hotel would be popular with both adventurous Americans and Canadians.

As a result, the owner and partners invested their life savings and were able to secure a substantial 3-year loan from the state government. With these proceeds, they purchased a plot of land bordering a main river, which provided the hotel's main construction material — ice. The stated vision of the Glacier Hotel was:

“To be an ice hotel of global renown, where innovative and unique offerings provide an unmatched value, an unrivaled experience and total satisfaction for our guests.”

The hotel opened January 1. Made entirely of ice, the opening and closing dates of the hotel were dictated mostly by Mother Nature. The hotel consisted of 28 rooms in its first year, and included an art gallery that visitors not staying at the hotel could visit for a fee. All rooms had one queen-size bed, which slept two. Everything in the hotel, including beds, had a frame made entirely of ice. Guests slept in a sleeping bag on a bed of deer pelts placed overtop a bed shaped block of ice. The room temperature ranged from -3° C to -6° C (26° F to 21° F), but guests remained warm as long as they remained in the bed.

Expected occupancy was 98%. Actual occupancy was 91%. Financial and operating results barely met expectations, and the owner knew that changes had to be made. The owner also knew that the board and government would be looking for a strategy that would put the hotel in a position to be compared to the likes of the ones in Quebec and Sweden. She had learned of Strategy Mapping and the Balanced Scorecard and felt they would be helpful tools to develop, communicate and measure progress toward achieving strategic objectives.

Step 1: Specify an Overriding Objective

In the next few years, what will it take to succeed? This first step is critical, because it links the strategy map to the earlier steps of creating/reaffirming an organization's mission/core values/vision. This step must differentiate between what the organization truly understands as its overriding objective, and the strategies it plans to implement. There is considerable confusion on this point. Many mission and vision statements are often mistakenly portrayed as the ultimate objective to be achieved — satisfied customers, service excellence, best-in-field, market leader, low-cost provider, etc. Indeed, these are critical outcomes and are highly desired by all organizations. However, for profit-making organizations, the overriding objective must be economic .

The overriding objective should be the first element of the strategy map. It should contain a financial target and a time dimension.

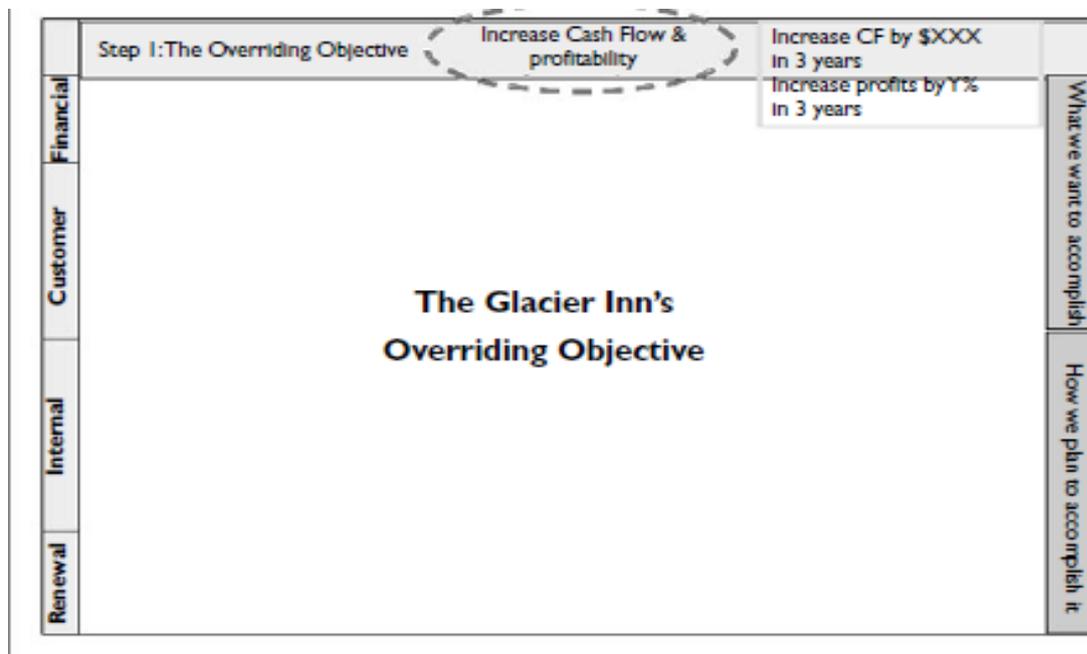
Examples of an overriding objective could be:

1. Increase return on capital employed by six percent within three years.
2. Increase profit margin from 8 to 12% and net cash flow from Rs.5,00,000 to Rs.750,000 within five years .
3. Increase target share price by 20% by next reporting date.
4. Increase total shareholder return relative to benchmark by 10% within two years.

Application of principle to the Glacier Inn: The generic map is a guide — it needs to be adjusted by each organization to reflect its particular circumstance.

Glacier selected profitability and cash flow (rather than shareholder return, normally the case for larger or publicly listed firms) as their overriding objective. This was Step 1 on Glacier’s strategy map

Fig 3 Step 1 - The Overriding Objective on a Strategy Map



Step 2: Choose the Value Proposition

To lead the market, companies first need to segment the market in new and unconventional ways, based on current and expected customer perceptions of value. What do (or will) customers *really* (not *traditionally*) value? Armed with this information, companies can re-focus to provide the new value drivers better than competitors, and lead the field. The second step in strategy mapping is to choose the value proposition that will help the organization win the market.

The three value propositions put forth by Treacy and Wiersema provide an excellent framework for competing in today’s markets:

1. Operational excellence (also referred to as best total cost)
2. Product leadership

3. Customer intimacy (also referred to as customer solutions)

The idea behind the value proposition approach is to choose one dominant value proposition, and provide breakthrough customer value in it. For the two propositions not chosen, it is imperative not to lead but to compete, at least, to some threshold level. Doing so can create an image that will keep customers coming back, as well as provide the company the luxury of being the name that new market entrants will know

Table 1 - The Value Propositions

Image Driver	Operational Excellence	Product Leadership	Customer Intimacy
Price	Primary Focus – Very Low Price Image – “Best Deal”	High end of pricing	High end of pricing
Unique attributes	Low end of threshold standards	Primary Focus – Very unique attributes Image – “Best product/service”	Meets threshold standards
Relationship Level	Low end of threshold standards	Meets threshold standards	Primary Focus – Very high customer intimacy Image – “Best Friend”

Fig 4 : Step 2 - The Value Proposition

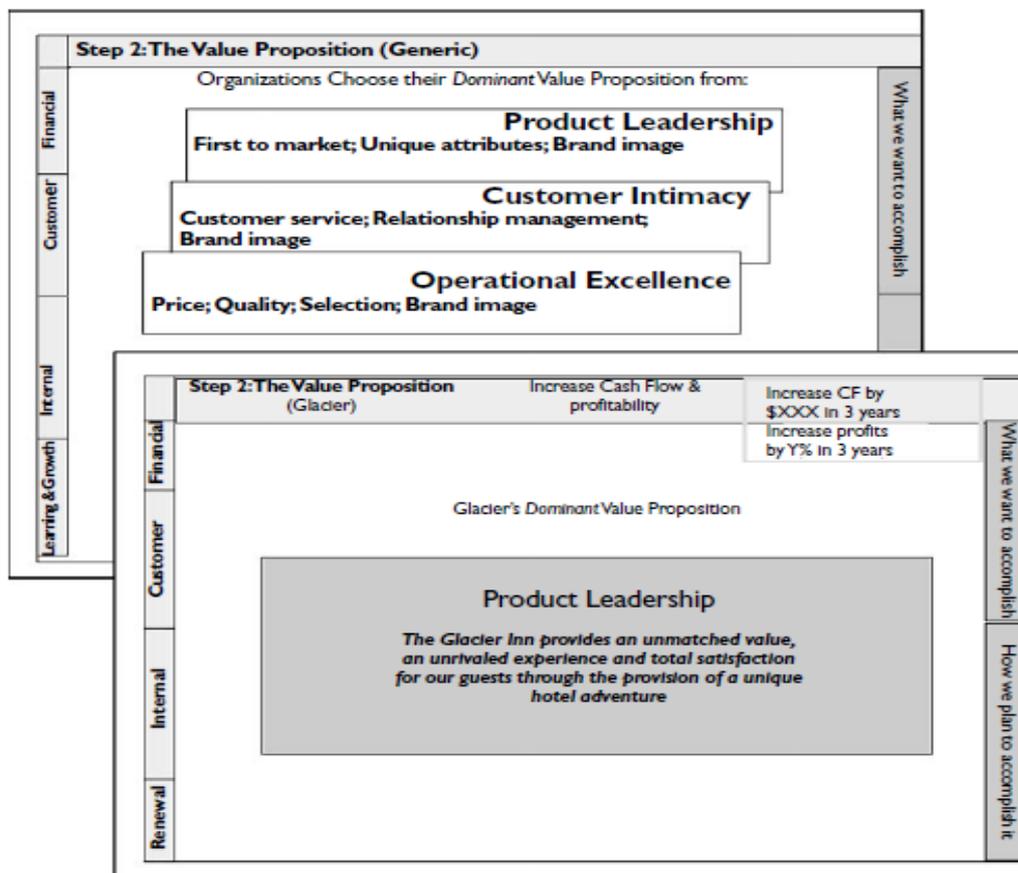


Figure 4 illustrates this process. First is a generic look at the value propositions — a firm must choose a dominant proposition from the three alternatives. Second, it shows a map that highlights Glacier Inn’s choice.

Glacier’s owner believes that the hotel is clearly designed to attract visitors whose primary reason for coming is neither cost, nor comfort. Rather, it is adventure — a unique experience in a unique hotel. This is clearly a product leadership value proposition.

Step 3: Choose the Financial Strategies

Financial strategies can be categorized into three key areas:

1. Revenue growth;
2. Productivity; and,
3. Asset utilization.

Table 2 – Financial Strategy Chart

Financial Strategy	Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Revenue Growth		Competitive Prices Volume	Premium Pricing New Features	Bundling Cross Selling
Productivity		Tight variable and discretionary cost control	Control but spend on R&D and Marketing	Control but spend on solution selling
Asset Utilization		Maximize Inventory Turnover Utilize FA to fullest	Utilize FA as necessary in pursuit of product leadership	Utilize FA as necessary in pursuit of Customer Intimacy

The customer-intimate organization tends to pursue revenue growth through bundling of products and services that provide solutions for clients. By offering a solution portfolio, organizations are able to sell more and at the same time please their customer base. An example of this is Erb Transport, a Canadian transport company, which offers ancillary services such as pallet trading so that customers do not have to immediately remove shipments from their pallets. This provides Erb additional revenue through saving customers time, effort and cost.

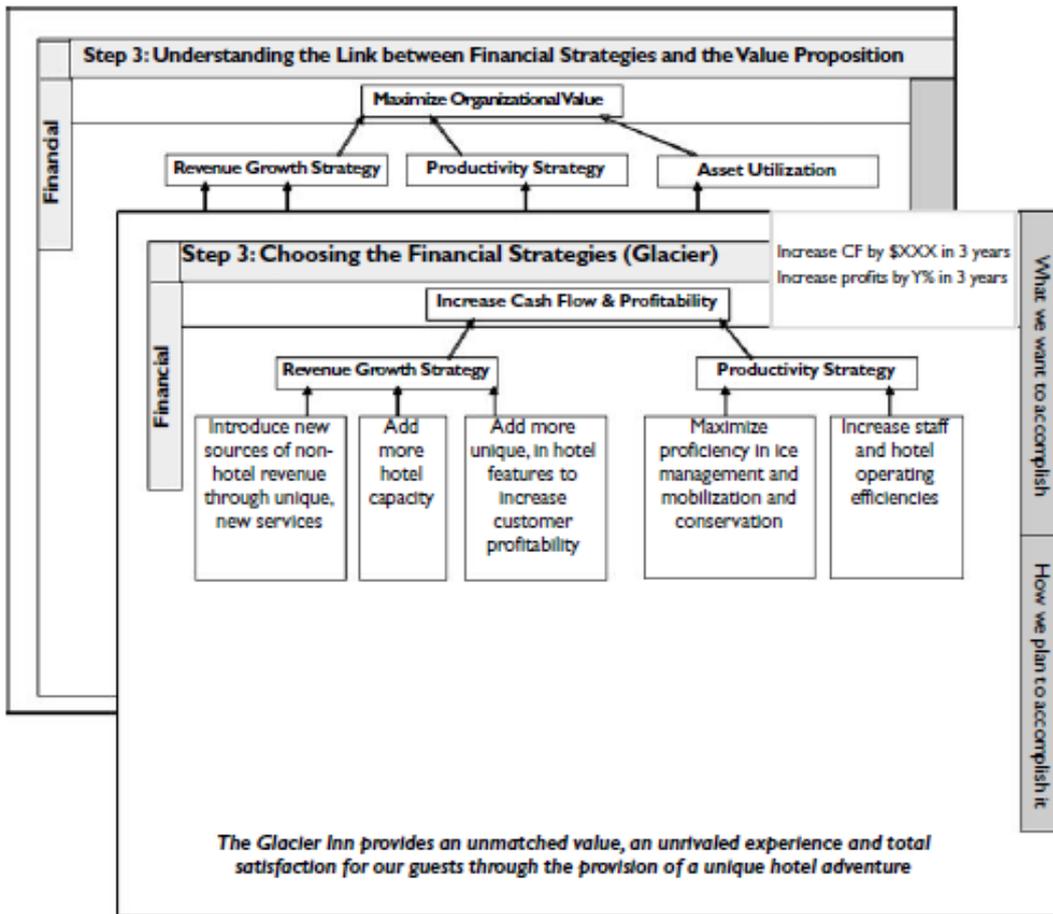
FedEx and UPS are also excellent examples of customer-intimate organizations. Their slogans, respectively, “Absolutely, Positively Overnight” and “Your World Synchronized” immediately tell clients that it is not just about delivering packages. It is about fast, reliable delivery and synchronizing global supply chains for any size of company — in short, solutions to customer problems.

The Glacier Strategy Map

The top portion of Figure 5 highlights the three generic financial strategies. The lower portion illustrates the specific financial strategies Glacier chose. Since Glacier is pursuing a product leadership proposition, the company must focus primarily on generating revenues from their unique offerings. This will involve a combination of financial strategies, including generating revenue from non-hotel room sources. Examples could include ice museums designed to attract day visitors, and outdoor activities and services that cater to an adventurous clientele. Building additional capacity in terms of hotel rooms and infrastructure will add to revenue,

as will a strategy that calls for providing in-hotel guests with additional unique ice features, for example, drinks poured into all-ice glasses, for which guests will be willing to pay premium prices. Glacier must also search for and implement cost saving strategies that relate both to its physical and human assets, but which strategy to emphasize: revenue growth or productivity, is clear. Both are needed, but without the “unique” revenue growth focus, all the productivity strategies in the world will not permit Glacier to succeed.

Figure 5 : Step 3 — Choosing the Financial Strategies



Step 4: Choosing the Customer Strategies

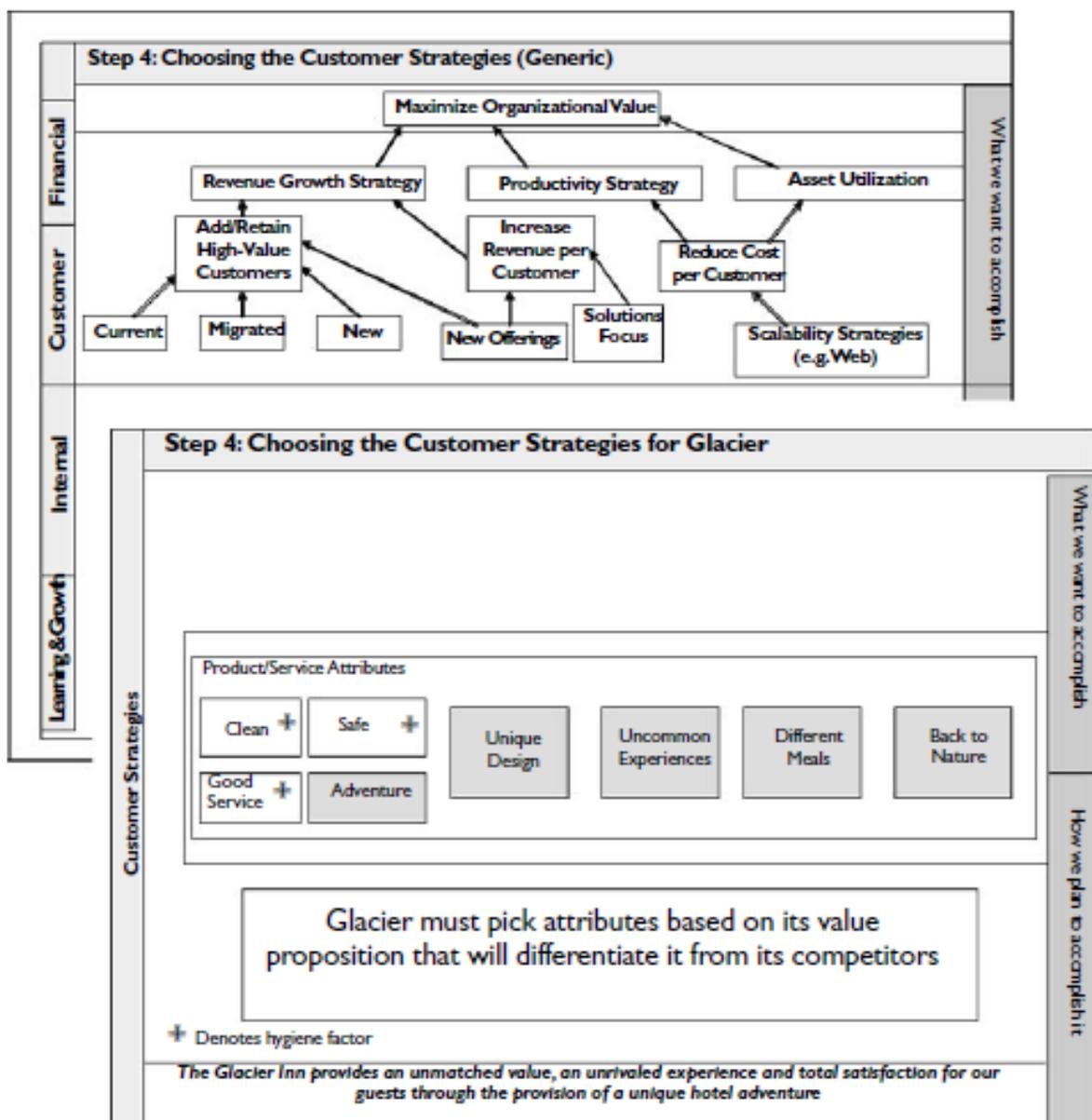
Customer strategies can be categorized into three key areas:

1. Retaining and adding customers;
2. Increasing revenue per customer; and,
3. Reducing cost per customer

Table 3: Customer Strategy Chart

Customer Strategy	Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Retain and add Customers		Competitive Prices	Latest technologies New features	Loyalty programs Word-of-mouth
Increase revenue per customer		Competitive Prices	New features “Add-on” products and services	Solution selling Bundling
Reduce cost per customer		Tight process and supply chain management	Spending and cost control policies as necessary in pursuit of product leadership	Spending and cost control policies as necessary in pursuit of customer intimacy

Figure 6: Step 4 — Choosing the Customer Strategies



The bottom portion of Figure 6 indicates how Glacier has translated these concepts into

customer strategies it needs to implement to achieve its financial goals, overriding objective, and vision. Glacier’s product leadership value proposition provides the necessary guidance here.

Glacier must compete for hotel visitors through its uniqueness theme. Consequently, it must pursue customer strategies that include “adventure”, “uniqueness”, “different”, “rare”, “exclusive” — the hallmarks of a product/service leader. These core strategies are shown as shaded boxes in Figure 6. At the same time, Glacier must ensure threshold levels of other amenities. For example, the “adventure” theme is a great differentiator. But there must be a threshold level of safety, cleanliness, and service. These are highlighted on the map as “non-differentiable” factors. In other words, they must be present, but they are not the key differentiating strategies that will persuade people to visit the Glacier Inn.

Step 5: Execute through the Internal Perspective Strategies

The firm must execute the story that has been developed and revealed in Steps 1- 4. The internal perspective is all about choosing and executing the right business processes to achieve the desired customer and financial strategies the organization believes will lead to the accomplishment of the overriding objective. Consequently, organizations must consciously choose internal business processes that link directly to the earlier steps.

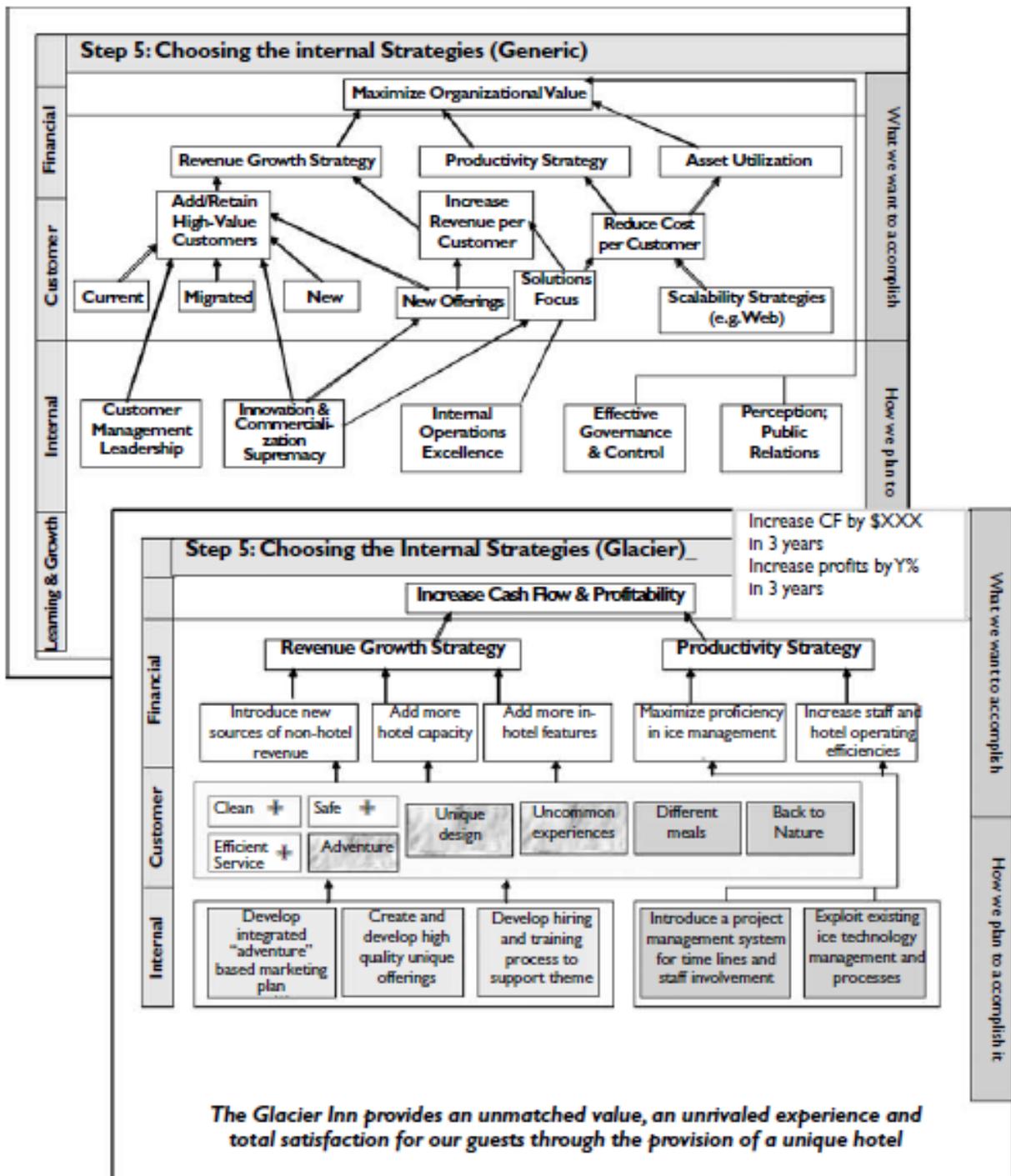
Table 4: Key Process Chart

Process to excel and lead at	Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Internal operations		Primary focus – must excel	Meet/maintain threshold standards	Meet/maintain threshold standards
Innovation		Low end of threshold standards	Primary focus — must excel	Meet/maintain threshold standards
Customer management		Meet/maintain threshold standards	Meet/maintain threshold standards	Primary focus — must Excel

The strategy map

The top portion of Figure 7 shows what the generic strategy map looks like at this point. The bottom portion of Figure 7 indicates how Glacier has translated these concepts into internal business strategies it needs to implement to achieve its financial and customer goals. Glacier’s product leadership value proposition provides the necessary guidance here. Glacier must strongly market its uniqueness theme. At the same time, Glacier must also continuously develop (a) the unique features it prides itself upon, and (b) the hiring and training programs it needs to excel in this market space. These are the dominant internal processes. If they are not developed, the Glacier Inn will fail. Productivity processes are an important supporting theme. If the proposition is effective in attracting customers, every effort must be made to keep the hotel open as long as possible each year. This means achieving efficiencies through targeted project/staff management and exploiting existing ice technologies to preserve and extend its basic building component. The combination of these internal process themes will lead to customer and financial objective success.

Figure 7: Step 5 — Choosing the Internal Strategies



Step 6: Plan the Learning and Growth Strategies

The learning and growth perspective is about identifying and bridging gaps that could limit the organization's ability to execute the key processes identified in the internal perspective. Learning and growth can be classified into three primary areas:

1. Human capital;
2. Information capital; and,
3. Organizational capital.

Human capital

Human capital is the economic value an organization derives from (a) application of knowledge, (b) collaboration, and (c) engaged individuals. Managed well, human capital is an enormous source of value that comes from committed individuals making informed decisions on service, quality, effectiveness, creativity, goal alignment, and productivity.

Information capital

Information capital relates to how organizations utilize their information systems, networks, manuals, databases, files and infrastructure to gain competitive advantage and to execute strategy.

Organizational capital

Organizational capital is the firm's ability to connect employee goals to corporate goals.

Table 5: Capital Focus Chart

Type of Capital	Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Human		Status quo: abide by Risk: minimize Time horizon: shorter Flexibility: rigid	Status quo: challenge Risk: calculated Time horizon: longer Flexibility: versatile	Status quo: depends on customer Risk: calculated Time horizon: very long Flexibility: adaptable
Information		Focus: efficiency Sharing: external Main area: operations Customer response: N/A	Focus: innovation Sharing: internal Main area: R&D Customer response: N/A	Focus: customers Sharing: internal, external Main area: sales Customer response: rapid
Organizational		Pay-off: efficiency Expertise: functional Teamwork: low High concern: process	Pay-off: creativity Expertise: functional Teamwork: high High concern: outcomes	Pay-off: solutions Expertise: versatile Teamwork: high High concern: solutions

Figure 8 : The Completed Glacier Inn Map

