

Ten things you need to know about strategic thinking

In this volume we look at aspects of business that aren't highlighted on specifications, but give great scope for getting application marks

1 BHAGs can help

There was once a book on 'big hairy audacious goals' (BHAGs). The idea is that by setting very bold objectives, staff (and maybe customers) can be inspired.

Example: in 2022 the AI software ChatGPT generated US\$60 million of revenue. The company boss said that by 2024 revenue will hit US\$1,000 million (+1,567% in 2 years).

Advantage: to make strategic thinking happen, staff buy-in is essential. BHAGs are a great way to achieve this. Ultimately, it's a business cliché: think big.

Disadvantage: big BHAGs, yes, but impossible ones? With annual sales of one million cars in 2022, Elon Musk said that Tesla will have sales of 20 million in 2030 (twice as many as the current market leader, Toyota). That might be too much of a stretch for staff credibility.

2 Customers provide the ideas

Strategic thinking means thinking beyond current constraints towards a new future.

Example: Netflix saw the possibilities for TV streaming. The idea came from Netflix's DVD-hire customers, who wanted instant downloads into living rooms. Netflix hired technologists to turn the idea into reality.

Advantage: drawing ideas from customer requirements ensures that the big ideas have legs. By comparison, the government's big idea — high-speed HS2 — was never what rail passengers wanted.

Disadvantage: customers aren't always right. Sometimes they exaggerate their own concerns, such as the many that claimed they would give up meat to help save the planet. Not for long, it turned out.

3 Existential issues

Strategic decisions are those that cannot be reversed in the foreseeable future, so mistakes can be existential (threatening the firm's existence).

Example: Wilko's management bet on physical shops, not e-commerce. They lost.

Advantage: if you know a wrong decision threatens your existence, you will be extra careful to think your decision through, perhaps including contingency ('scenario') plans. Wilko didn't.

Disadvantage: thinking about existential threats could paralyse decision-making at a timidly run business. Not all highly paid bosses are worth their high pay.

4 Focus

Sometimes the most profound strategic thought is to reject attractive-seeming schemes and focus on your core business.

Example: both Tesco and Marks & Spencer went through corporate turmoil for many years until they decided to ditch global ambitions and focus on the details of their UK retail operations. Both have benefitted.

Advantage: the limited amount of talent at the top of companies means that focus on the core is often the only practical plan.

Disadvantage: sometimes the world shifts, forcing change. A narrow focus on the business core may mean missing a key change, such as the shift from console to mobile gaming.

5 Judgement (evaluation) not analysis

Strategic thinking is about looking beyond current horizons. In business too much analysis of pros and cons can cause 'paralysis by analysis'. Big strategic decisions are judgements, often by one powerful figure in a business.

Example: Elon Musk's judgement that electric vehicles would be the future.

Advantage: recognising that strategic thinking is about judgement clarifies the level of risk involved. Judgements are based on more than facts, so the risk profile is high; that's fine if the risks are clarified and mitigated.

Disadvantage: some people are not cut out for making judgements (decisions based on uncertain information), so their shortcomings soon come to the fore.

6 One step beyond

Strategic thinking means taking one step beyond the current marketplace and technologies. If it doesn't feel scary, it probably isn't strategic thinking.

Example: when Microsoft launched their first Xbox against the hugely successful PS2, they were bound to take a beating. But it gave them an insight and a platform to make their next effort, the Xbox 360. This was much more successful in the battle with Sony (Xbox 360 outsold Xbox 3:1).

Advantage: taking the step beyond means overtaking your rivals, perhaps putting you at the head of the pack.

Disadvantage: sometimes it's a step too far for consumers. For example, the Samsung flip phones were very well reviewed, yet struggled to make a sales impact.

7 Position of strength

Strategic thinking requires such bold decision-making that it's hugely helpful to have a strong financial position: a balance sheet with good liquidity and moderate gearing.

Example: if you're about to risk £1 billion, it's great if the balance sheet can finance £2 billion.

Advantage: you can afford to take the risk without an existential threat to the whole enterprise.

Disadvantage: some City analysts worry that if a balance sheet is too strong it will allow companies to make sloppy decisions, secure in the knowledge that survival isn't threatened.

8 Turning the thinking into reality depends on your people

Strategic thinking can represent the brainwave that takes the business into a new, much stronger position. But decisions mean nothing unless they are executed (carried out) effectively. That means having good people with a distinctive (core) competence based on technical expertise.

Example: the Netflix switch from renting out videos and DVDs to commissioning new TV programmes for a streaming service required brilliant technicians plus brilliant creative producers.

Advantage: employing staff with a committed culture and distinctive competence is always a huge strength.

Disadvantage: sometimes the expertise of existing staff can make them reluctant to see the business shift to new markets that require new expertise, making their existing skills redundant. That's when a positive culture is critical.

9 Short-termism is the enemy

Strategic thinking requires the boss to be able to think beyond the short term — even beyond the long term, as defined by current thinking. So if the business is bogged down by current issues, strategic thinking can be impossible.

Example: a boss who's involved in day-to-day firefighting cannot be strategic.

Advantage: if the boss realises that short-termism is the enemy, they may appoint a deputy who fights the fires, keeping a calm space for strategic thinking.

Disadvantage: if the boss has to deal with the short and long term (tactics and strategy), blanking out the short term while dreaming long term can be a disaster (it's what happened at Wilko).

10 The switch to EVs is the greatest example of strategic thinking

Elon Musk really launched the modern Tesla company in 2010 when the Model S car came out, years ahead of any other attractive fully electric vehicle (EV). The Chinese government showed comparable far-sightedness, by subsidising EV battery and car production from 2010 onwards.

Example: companies such as Volkswagen, Toyota and Jaguar Land Rover only reacted to the potential of EVs some 10 years' later.

Advantage: the advantage of this example is that it's current, but will carry on resonating for years — even decades — to come.

Disadvantage: it's easy to tire of such a well-worn example; for any single year's exams there may be better immediate examples to use.

Ian Marcousé is the founding editor of BUSINESS REVIEW and author of A-level Business revision books for AQA and Edexcel, see www.a-zbusinessstraining.com.