Harvard Business School Online

How to Formulate a Successful Business Strategy

Contents

No matter the industry, every business needs a strong strategy to reach its goals. Formulating a successful business strategy, however, is often easier said than done—especially if not given the proper attention and effort.

According to research outlined in the *Harvard Business Review*, 85 percent of executive leadership teams spend less than one hour per month discussing strategy, and half spend no time at all. The research also reveals that most employees don't understand their company's strategy.

It's no wonder, then, that 90 percent of businesses fail to meet their strategic targets. Organizational leaders must ensure the company's goals are strong and that the plan to reach them is purposeful, executable, and agile.

Formulating a successful business strategy is a skill that has the potential to propel your organization forward. Yet, it can be difficult to know where to start. What do strong strategic goals look like, and how do you achieve them?

This guide will answer those questions and equip you with the tools, frameworks, and knowledge to set goals, advocate for the benefits of strategic planning, formulate a winning strategy, and improve your strategic skill set.

What Is Strategic Planning and Why Is It Important?

Before diving into the specifics of crafting a business strategy, it's important to understand what the strategic planning process is and how it can benefit your organization.

What Is Strategic Planning?

Strategic planning is the ongoing organizational process of using available knowledge to document a business's intended direction. This process is used to prioritize efforts, effectively allocate resources, align shareholders and employees on goals, and ensure those goals are backed by data and sound reasoning.

How Can Strategic Planning Benefit My Organization?

Strategic planning requires time, effort, and continual reassessment. Given the proper attention, it can set your business on the right track. Here are three ways strategic planning can benefit your firm.

1. Creates One, Forward-Focused Vision

One significant benefit of strategic planning is that it creates a single, forward-focused vision that aligns your company's employees and shareholders. By making everyone aware of your company's goals, how and why you chose those goals, and what they can do to help reach them, you can create an increased sense of responsibility throughout your organization.

This can also have trickle-down effects. For instance, if a manager isn't clear on your organization's strategy or the reasoning used to craft it, they could make decisions that counteract it. With one vision to unite around, everyone at your organization can act with a broader strategy in mind.

2. Draws Attention to Biases and Flaws in Reasoning

The decisions you make come with inherent bias. Taking part in the strategic planning process forces you to examine and explain why you're making each decision and back it up with data, projections, or case studies, thus combatting your cognitive biases.

A few examples of cognitive biases are:

- **The recency effect:** The tendency to select the option presented most recently because it's fresh in your mind
- **Occam's razor bias:** The tendency to assume the most obvious decision to be the best decision
- **Inertia bias:** The tendency to select options that allow you to think, feel, and act in familiar ways
- **Confirmation bias:** The tendency to only pay attention to information that supports your viewpoint

If you're crafting a strategic plan for your organization and know which strategy you prefer, enlist others with differing views and opinions to help look for information that either proves or disproves the idea.

Combating biases in strategic decision-making requires effort and dedication from your entire team and can make your organization's strategy that much stronger.

3. Tracks Progress Based on Strategic Goals

Having a strategic plan in place enables you to track progress toward goals. When each department and team understands your company's larger strategy, their progress can directly impact its success, creating a top-down approach to tracking **key performance indicators (KPIs)**.

By planning your company's strategy and defining its goals, you can determine KPIs at the organizational level. Those goals can then be extended to business units, departments, teams, and individuals. This ensures every level of your organization is aligned and can positively impact your business's KPIs and performance.

Remember: Although your strategy might be far-reaching and structured, it must remain agile. As HBS Professor Clayton Christensen asserts in Disruptive Strategy, a business's strategy needs to evolve with the challenges and opportunities it encounters. Be prepared to pivot your KPIs as goals shift and communicate reasons for change to your organization.

To craft a strategic plan for your organization and reap these benefits, you first need to determine the goals you're trying to reach. The next section will dive into how to craft and prioritize strategic goals.

Setting and Prioritizing Strategic Goals

In an ever-changing business world, it's imperative to have strategic goals and a plan to guide organizational efforts. Yet, crafting strategic goals can be a daunting task. How do you decide which goals are vital to your company? Which are actionable and measurable? Which do you prioritize?

To help answer these questions, here's a breakdown of what characterizes strong strategic goals and how to select which to pursue.

Characteristics of Strong Strategic Goals

Strategic goals are an organization's measurable objectives that indicate its long-term vision. Here are four characteristics of strategic goals you should apply.

1. Purpose-Driven

A strong strategic goal is driven by purpose. What are you striving for, and why is it important to set objectives? What impact do you hope to have on profit, your community, and the environment? Develop and select goals that are guided by the answers to these questions.

"You don't have to leave your values at the door when you come to work," says HBS Professor Rebecca Henderson in the online course Sustainable Business Strategy.

Henderson, whose work focuses on reimagining capitalism for a just and sustainable world, explains that leading with purpose can drive business performance.

"Adopting a purpose will not hurt your performance if you do it authentically and well," Henderson says in a lecture streamed via Facebook Live. "If you're able to link your purpose to the strategic vision of the company in a way that really gets people aligned and facing in the right direction, then you have the possibility of outperforming your competitors."

"The course has completely changed me. I feel like a new person—with a new thought process driven by purpose—committed to doing the right thing. I have a purpose today that's in line with my values. I've joined forums and groups and met people who share my thought process."

Mayank Dubey
Sustainable Business Strategy Participant

2. Long-Term

When setting strategic goals, think of your company's values and long-term vision and ensure you're not confusing strategic goals with **operational goals**. While strategic goals are your organization's long-term objectives, operational goals are the daily milestones you need to reach to achieve them.

For instance, your organization's goal could be to create a new marketing strategy; however, this is an operational goal in service of a long-term vision. In this case, the strategic goal could be breaking into a new market segment, to which the creation of a new marketing strategy would contribute.

Keep a forward-focused vision to ensure you're setting challenging objectives that can have a lasting impact on your company.

3. Actionable

Strong strategic goals aren't only long-term and forward-focused—they're actionable. If there aren't operational goals your team can complete to reach the strategic goal, your organization is better off spending time and resources elsewhere.

When formulating strategic goals, think about the operational goals that fall under them. Are they actionable steps your team can take to achieve your organization's objective? If so, the goal could be a worthwhile endeavor.

4. Measurable

When crafting strategic goals, define how progress and success will be measured. For instance, the goal "become a household name" is valid but vague. Consider the intended timeframe to reach this goal and how you'll operationally define "a household name." The method of obtaining data must also be taken into account.

An appropriate revision to the original goal could be: "Increase brand recognition by 80 percent among surveyed Americans by 2030." By setting a more specific goal, you can better equip your organization to reach it and ensure employees and shareholders have a clear definition of success and how it will be measured.

How to Assess Goals for Prioritization

Once you've identified several strategic goals, determine which are worth pursuing. To set the stage, ensure everyone is aware of the purpose behind each goal. This calls back to Henderson's point that employees' alignment on purpose can set your organization up to outperform its competitors.

1. Calculate Anticipated ROI

Calculating the estimated **return on investment (ROI)** of the operational goals tied to each strategic objective can provide a useful estimate for decision-making. For example, if your strategic goal is "reach carbon-neutral status by 2030," you need to break that down into actionable sub-tasks—such as "determine how much $CO2$ our company produces each year" and "craft a marketing and public relations strategy"—and calculate the expected cost and return for each.

The ROI formula is typically written as:

ROI = (NET PROFIT / COST OF INVESTMENT) X 100

In project management, the formula uses slightly different terms:

ROI = [(FINANCIAL VALUE - PROJECT COST) / PROJECT COST] X 100

An estimate can be a valuable piece of information when deciding which goals to pursue. Although not all strategic goals need to yield a high return on investment, it's in your best interest to calculate each objective's anticipated ROI so you can compare them.

2. Consider Current Events

When deciding which strategic goal to prioritize, you can't overlook the importance of the present moment. What's happening in the world that could impact the timeliness of each goal?

For example, in 2020, the coronavirus (COVID-19) pandemic and the ever-intensifying climate change crisis impacted many organizations' strategic goals. Often, the goals that are timely and pressing are those that earn priority.

After determining your organization's prioritized goals, you can begin formulating a strategy to reach them. The next section will outline several factors to consider when crafting a business strategy.

Keys to Successful Strategy Formulation

A successful strategy can set your organization on the right track for years to come, but creating one is often easier said than done. According to a survey by Bridges Business Consultancy, just 68 percent of professionals believe their organization is good at developing strategy—down from 80 percent in 2012.

Formulating a strong strategy doesn't need to be daunting or difficult. Here are five factors to consider for successful strategy formulation.

1. Start with Purpose

When setting out to create a winning strategy, the first question to ask yourself is, “What’s my organization’s purpose?” In Sustainable Business Strategy, Henderson discusses the importance of starting with purpose when building your business strategy.

“We see this pattern in a wide range of firms,” Henderson says. “The leaders and firms who are driving real change and often reaping the benefits of being first-movers are motivated as often by the driving desire to make a difference as they are to make money.”

One example of a company that formulated its strategy using purpose is Unilever’s Lipton brand. “It started with the feeling that, for communities, we could do a better job,” says Kevin Havelock, president of refreshment at Unilever, in Sustainable Business Strategy. “It didn’t start with the business case. We then said, ‘Hang on—how do we bring this to life?’ If it’s the right thing to do for these people and for the planet, then we should bring it to life for the brands.”

Instead of jumping into logistics, Unilever put its values and mission of producing sustainable tea at the center of its strategy development, enabling it to take steps to reach that vision. Henderson notes that this intersection of “doing good” and “doing well”—often referred to as the process of **creating shared value**—has the potential to be a highly lucrative space.

FORMULATION FRAMEWORK

The Triple Bottom Line

The **triple bottom line** is a business concept that posits firms should commit to measuring their social and environmental impact—in addition to their financial performance—rather than solely focusing on generating profit, or the standard “bottom line.” It can be broken down into “three Ps”: **profit**, **people**, and the **planet**.

PROFIT
refers to the financial return a company generates for its shareholders.

PEOPLE
refers to a company’s commitment to making a societal impact in communities locally and abroad.

PLANET
refers to the impact an organization makes on the environment.

2. Consider Global Events

Business doesn't exist in a vacuum—it's influenced by politics, policies, laws, and relationships between countries. Because those relationships can be extremely nuanced, it's important to closely follow news related to countries where you do business and consider global events as you formulate a strategy.

Political leaders' decisions can impact taxes, labor laws, raw material costs, transportation infrastructure, and educational systems.

One hypothetical example presented by HBS Professor Forest Reinhardt in Global Business is that if the Chinese government decided to subsidize Chinese dairy farms, it would impact dairy farmers in all surrounding countries. This is because, with extra funding, Chinese dairy farms may produce a surplus of dairy products, causing them to expand their markets to neighboring countries. If you're crafting a strategy for your Mongolia-based dairy business, this dynamic is important to consider.

It's both exciting and intimidating that the nuances of international politics, policies, and relations can impact your business. Stay informed and incorporate new knowledge into your strategic planning process as it arises.

3. Examine Data, Case Studies, and Trends

In addition to current global events, a successful strategy must take into account the information and knowledge you have about your organization, other firms, and fundamental theories of economics.

Understanding this information enables you to orient your company in the business landscape and learn from others' mistakes and successes.

"As you think about going out into the world and using these tools of experimentation, the first thing is to think of yourself as an experimenter," says Nava Ashraf, an associate professor at HBS who's featured in the online course Economics for Managers. "Change your mindset of what it actually means to look for data from the world that helps you know whether something works or doesn't work."

When crafting your strategy, examine your organization's financial statements, along with historical strategies that have been successful and unsuccessful. Also, analyze case studies of other businesses and the economic principles that underlie them.

FORMULATION FRAMEWORK

The Value Stick and Value-Based Pricing

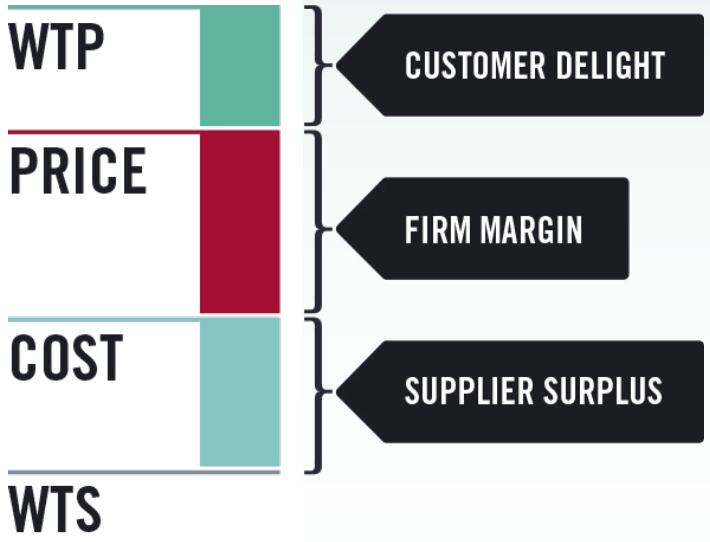
Value-based pricing is a means of price-setting wherein a company primarily relies on its customers' perceived value of goods or services being sold—also known as customers' **willingness to pay (WTP)**—to determine the price it will charge. Because it revolves around customers' priorities, it's occasionally called **customer-focused pricing**.

When crafting a value-based pricing strategy, one framework to keep on hand is the **value stick.** The value stick comprises four components: willingness to pay, price, cost, and **willingness to sell (WTS)**. Where on the stick each of these points falls determines how a sale's value is split between a firm, its customers, and its suppliers.

Picturing each of these factors as sliders on a stick enables you to test out different scenarios and aid in strategic decision-making. If you lower the production cost, will the customer's willingness to pay decrease? If you raise the production cost and price, will the customer's willingness to pay increase? If so, is it worth it?

Understanding the relationship between the supplier, business, and customer, and how each entity gains value from your product, is an important exercise during strategy formulation.

THE VALUE STICK



FACULTY INSIGHT

"As strategists, we really ask three questions: How can my business best create value for customers? How can my business create value for employees? And how can my business create value by collaborating with suppliers? Think of a company's strategy as an answer to these three questions."

HBS Professor Felix Oberholzer-Gee in Business Strategy

4. Set and Effectively Communicate Goals

As discussed in the previous section, selecting strategic goals is an important step of strategy formulation. Just as important is the ability to effectively communicate those goals to your organization. Research outlined in the *Harvard Business Review* shows that, on average, 95 percent of employees don't understand their company's strategy—a staggering statistic, considering that successful strategy execution requires organization-wide effort.

Crafting a strategy is crucial, but it can't be successful unless it's effectively and artfully communicated to all employees so they feel empowered and responsible for reaching the company's goals.

5. Think of Strategy as an Ongoing Process

Once you've formulated and communicated a strategic plan, it can be tempting to assume the strategic planning process is complete. According to HBS Professor Clayton Christensen, strategy is a continual process of development. In the online course Disruptive Strategy, Christensen notes that in a study of HBS graduates who started businesses, 93 percent of those with successful strategies evolved and pivoted away from their original strategic plans.

"Most people think of strategy as an event, but that's not the way the world works," Christensen says. "When we run into unanticipated opportunities and threats, we have to respond. Sometimes we respond successfully; sometimes, we don't. But most strategies develop through this process. More often than not, the strategy that leads to success emerges through a process that's at work 24/7 in almost every industry."

Periodically reassess your company's strategy to adapt to new challenges and opportunities and continue communicating its evolution to your broader organization.

FORMULATION FRAMEWORK

Disruptive Innovation

Disruptive innovation, a term coined by Christensen, is the process by which a smaller company—usually with fewer resources—moves upmarket and challenges larger, established businesses.

The process begins with a small company entering the low end of a market (**low-end disruption**) or creating a new market segment (**new-market disruption**) and claiming the least profitable portion as its own. Because the established, incumbent companies own the most profitable segments, they most likely won't fight the entrant for that market share.

The entrant then improves its offerings and moves upmarket with increasing profitability. Once the incumbents' customers have widely adopted the entrant's offerings in the mainstream market, disruption has occurred.

Understanding the disruptive innovation framework can empower you to create a strategy for disrupting an industry or avoiding disruption.

The formulation of your strategy must constantly evolve—and so must your strategic skill set. The next section will explore how to select a business strategy course that's right for your needs and strategic focus.

Furthering Your Business Strategy Education

As a business owner, manager, or employee, taking a business strategy course is an effective way to hone your strategic skills and make a positive impact on your organization.

With so many options out there, how do you select the right course for your specific needs? Here are two categories of factors to consider when selecting a business strategy course.

Finding the Right Course for You

Consider how each course option could work with your current situation and what components could lead to a positive learning experience. Some factors and questions to consider include:

Time commitment

- How much time will I spend on the course material on a daily and weekly basis?

Cost

- How much does the course cost? Is this within my budget?
- Is my employer willing to reimburse me for this professional development opportunity?
- Are there financial aid options?

Course format

- Is this course in-person or online?
- Do I have the transportation and childcare options to attend?
- If it's online, is the course content streamed live, or can I learn on my own schedule?

Active and social components

- Does this course provide opportunities to engage with the content?
- Is it important to network and build relationships with my classmates? If so, does this course's platform allow me to interact with peers?

Taking a business strategy course is an investment in your skills and career. The better the course's structure, cost, and timing align with your lifestyle, the more likely you are to engage with, retain, and benefit from its content.

BUSINESS INSIGHT

Are Online Courses Worth It?

A third of all students now take online courses. Although the reasons why vary, there are several key benefits to learning virtually—from increased flexibility to lower costs. But online courses aren't for everyone.

If you're mulling over the decision to take an online class, it's essential to weigh the pros and cons against your career goals and preferred learning style. To help you decide, here are some advantages and disadvantages to learning online.

Pros:

- You can learn on your own time.
- You can learn at your own speed.
- You can save money.
- You can break down geographic barriers.
- You can practice technology skills.
- You can achieve similar career outcomes to those who've taken an in-person course.

Cons:

- You may have limited, if any, interaction with faculty.
- You can't be disorganized.
- You need to do significant research to find the right online course.
- You might need to fight against misconceptions about online learning.

Types of Business Strategy Courses

Once you've determined your requirements, consider what type of strategy course will most benefit you and your organization.

Reflect on your experience, your organization's goals, and any strategy frameworks or concepts you'd like to learn about. What will be most useful to you? Remember to choose a course that will interest and engage you so you can apply your new knowledge to organizational challenges.

Here are four types of business strategy courses to consider when making your selection.

THE FOUNDATIONAL PRIMER

If you're new to business strategy or need a refresher, there are many 101-style courses that can provide a solid foundation. From introducing key terms, formulas, and equations to explaining basic economic principles that shape your business's pricing strategy, an introductory course is a great option to bolster the fundamentals.

HBS Online example:
Economics for Managers

"The course made me think more carefully about how I could create a competitive cost structure and make appropriate plans before entering the market. Having a better business vocabulary and understanding the underlying concepts has really helped me contribute more productively to conversations and decisions."

Nicholas Grecco
Economics for Managers
Participant

THE PROCESS DEEP DIVE

A more granular option is a course that focuses solely on one aspect of the strategy process. These courses provide a deep dive into each phase of the process, making them a practical choice for professionals with enough experience to know which one they need to improve.

For example, Business Strategy hones in on the formulation phase and bridges the gap between formulation and execution, while Strategy Execution focuses solely on implementation.

HBS Online examples:
Business Strategy
Strategy Execution

"I've utilized the knowledge I gained from Strategy Execution by regularly reviewing my notes to tweak my approach when making decisions at work for optimum outcomes. Strategy Execution provides learners with tools and frameworks based on real-life business situations. This directly affects the value of the course, as the takeaways are applicable—not just theories you can learn in other courses."

Jemma Martin
Strategy Execution Participant

THE FRAMEWORK ANALYSIS

For professionals who want to reimagine an existing business strategy or diversify their foundational knowledge, taking a course on a specific framework could be a good fit.

One such course is Disruptive Strategy. The course thoroughly explains the disruptive innovation framework and prompts learners to apply strategic concepts to their industries and companies.

HBS Online example:
Disruptive Strategy

"I work as a business development manager, so the nature of my job is to be constantly on the lookout for new strategies that will improve our business and profits. The concepts I learned in the course will help me to identify and analyze strategies in a healthier way. I feel more equipped to examine the new ideas and decide which will create the best value and most profit for the business."

Esra Ugurlu
Disruptive Strategy Participant

THE GOAL-ORIENTED GUIDE

If you're a professional with a strategic goal in mind, consider taking a course that covers how to formulate and execute a strategy to reach it. The topics of these courses can include sustainability, global markets, and macroeconomics.

HBS Online examples:
Sustainable Business Strategy
Global Business

"I now have a better understanding of sustainability and which companies are doing it right. I'm armed with talking points proving that sustainability is good for business, the environment, and its people."

Brooks Wallace
Sustainable Business Strategy Participant

Find a business strategy course that fits your logistical needs and targets your personal and organizational weaknesses. Expanding and strengthening your skills can enable you to formulate winning strategies.

Mastering Strategy Formulation

Remember that formulation is just the first step in the strategy process. After mastering the contents of this e-book, you can progress to the next phase: strategy execution. After all, even the strongest strategic plan can fall flat when poorly executed. To jumpstart your education, read about the keys to successful strategy execution on the *Business Insights Blog*.

From purpose to plan and communication to reassessment, know that by committing to the strategic planning process and expanding your skills, you're investing in your organization's future.

To learn more about what HBS Online can do for you, visit online.hbs.edu.

Harvard Business School Online