

The WHY strategy: there is no strategy without meaning

In our changing business environment we need new strategic reasons to exist



What does your company bring to the world? Companies and their CEOs often have clear visions of “what” they do: they know their products – names, features and functional benefits. However, they have more limited and inexplicit expressions of “why” they do what they do in today’s world. The “WHY” is the fundamental purpose of the company – the philosophy that drives the whole business. For various reasons, (re)defining a company’s WHY is an unprecedented challenge. In unstable business conditions, with strong disruption and commoditization risks, new customers, and Gen Y employee behaviors, making your WHY crystal clear is the new key success factor to making strategy work.

Assuming a counterintuitive approach

What if... Apple did not exist? People mention the “iPhone” revolution as a key turning point in the company’s history. Apple actually benefits from a very consistent purpose, which was made explicit by Steve Jobs when he returned to Apple. Apple’s purpose is not about products and relating features. It is about humanity: “People with passion can change the world for the better,” Jobs said. Some companies have defined a strong WHY that ensures consistency and sustainability to their strategy. Jobs’ statement could appear theoretical, but it stands for a timeless strategic imperative for the whole company.

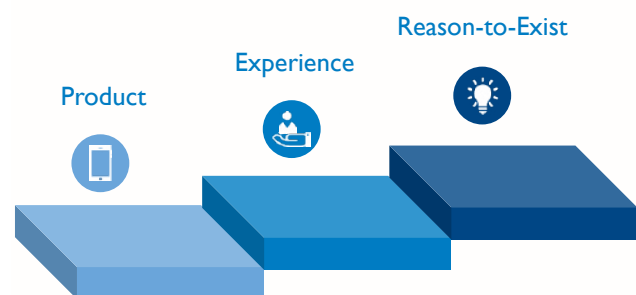
A company’s purpose falls into one of three categories which cannot be considered strictly equivalent: product, experience and reason to exist. Experience, particularly credo, is the most challenging kind of purpose to define, convey and embody.

Reason to exist is the heart of the WHY strategy approach: it is about the company’s meaning. It is the *raison d’être* of a company, the original and differentiating understanding of its role: making clear what the company brings to the world and what would be missing implicitly if the company disappeared.

Most companies’ mission statements lie in the products they sell, without defining the experiences they provide or, even less, the reasons to exist that they support. This is widespread: even management science has consistently focused first on

“product”, and then on “experience steps”, rather than on a company’s purpose. Recent evidence from Arthur D. Little shows that this topic has been addressed 5,000 times less than strategy itself.

WHY strategy steps



Source: Arthur D. Little analysis

Because the power of purpose increases further with the reason to exist, companies need to define the *raison d’être* to create a “vertical strategic backbone”. And paradoxically, making their “WHY” clear allows companies to differentiate in terms of experience and product – through a cascading effect. Apple’s products give life to its cause, and everything it does tends to demonstrate its WHY. Apple’s differentiating purpose translates into brand attributes of products, consumers’ in-store experiences, relational strategy, internal culture, HR

and management approach. Defining its “WHY” is not only a great and sane exercise. It is also a necessity for the company as a whole when it comes to facing business-environment challenges.

Challenges requiring companies to redefine their “WHY”

- 1 Disruption in the ecosystem 
- 2 Commoditization 
- 3 Evolution of customers’ expectations 
- 4 New employees’ relationships to work 

Source: Arthur D. Little analysis

1. As disruptions become credible, companies need “stability” – more than ever

In a fast-moving environment, companies need to define strategic purposes that are clear, long-lasting and resilient to strategic and environmental changes

The business environment is now structurally unstable. Several disruptions could affect companies’ businesses – demography, connectivity, the Internet of Things, algorithmic businesses, nanotechnologies, etc.

Such trends could have much impact over an uncertain period of time – which, obviously, brings even more uncertainty. It can affect competitive dynamics, or companies’ revenue or operational models.

No industry is immune to such challenges, which can represent opportunities and risks for both incumbents and challengers. Food? Danone successfully faced natural and organic consumer trends by sticking to its fundamental reason to exist regarding health, while adapting its product portfolio and launching new brands. Transportation? EasyJet and Ryanair grew twice as fast as traditional companies in Europe in 2015 – approximately +6 percent versus 3 percent for traditional airlines, according to the Association of European Airlines. Mobility? Uber has extended its footprint worldwide, to over 300 cities in 2015. Telecoms? Challengers such as T-Mobile in the United States and Free in France have shaken up local markets with breakthrough models and positioning. As disruptions occur, companies need to recover their strategic sustainability and stimulate innovation. It is about giving meaning. In order to do so, companies need to make clear “why” they exist. They need to justify their reasons to exist, not their strategies.

2. Commoditization is not a risk, but a reality requiring new ways of differentiation

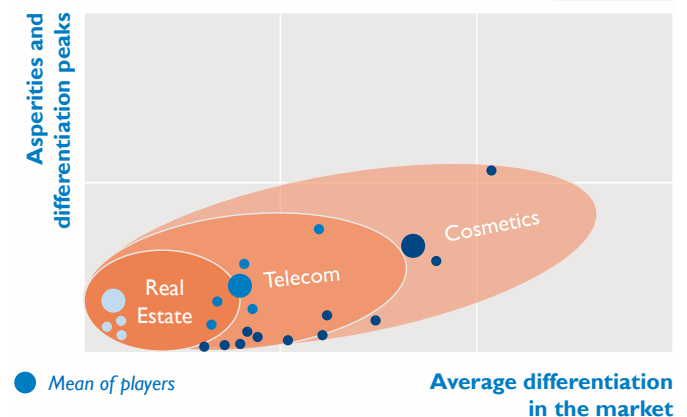
In a digitalized world, companies are being diluted and commoditized: they need to differentiate – again, and much more

Indeed, the generalization of connectivity has changed customers’ habits. Because of this amount of data and interactions, companies are becoming more vulnerable. Digital enhances this new “balance of power” between customers and companies and accelerates commoditization in customers’ perception; as a result, companies could easily be commoditized and face stronger price pressure. Real estate is a good example.

Differentiation is, in part, based on objective features. However, differentiation cannot be disconnected from end customers’ perceptions which are subjective. Arthur D. Little’s Differentiation Index measures structural and behavioral differentiation, based on customers’ perceptions. Our teams have performed such analysis on several markets – here exemplified through the telecom, real-estate and cosmetics markets – concluding in a global trend of commoditization in customers’ perception.

Differentiation index in real estate, telecom and cosmetics Europe, US, selected countries

ILLUSTRATIVE



Source: Arthur D. Little analysis

Cosmetics are one of the most objectively commoditized markets, as product formulations are comparable from one company to another. However, there is one company that managed to build a robust and differentiating Y: Dove. Based on customer data, Dove took a counterintuitive position towards beauty: Dove made explicit its purpose of “reassuring real beauty”; considering beauty should be a “source of confidence, and not anxiety.” This decision has become the driving force for the company, guiding its R&D, marketing, partnerships and corporate positioning, based on women’s self-esteem. Garnier from L’Oréal Group is also a flagship example. To face market-commoditized formulas and advertising, which were leading to limited growth in the market, Garnier redefined its reason to exist around “natural ingredients for a healthy beauty to connect

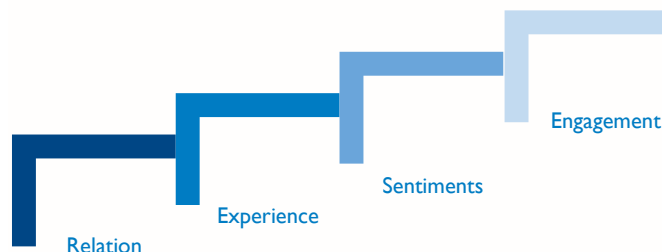
with others." Assuming beauty is not the ultimate benefit, but a means for healthy relationships, is a revolution in the cosmetics market. This decision has been translated into many fields – from ingredient sourcing to advertising – and financial results. Dove and Garnier have both paved the way for long-term differentiation in a "by-definition" commoditized market.

Most companies are now facing the "commoditization challenge." It is not a marketing challenge: it is an existential issue. In such a situation, defining the "WHY strategy" makes companies' differentiation stronger and breaks market commoditization.

3. Stop products – go for experience and engagement

Customers are no longer looking for just products; they are looking for experience and engagement. While experience relates to customers' subjective perceptions of touchpoints and interactions with the company, engagement refers to double-sided collaboration between companies and customers. Companies integrate collaboration with customers into their processes, in particular their commercial and marketing dimensions. At the end of it all, customers become involved ambassadors for the company.

Engagement as a new step



Source: Arthur D. Little

This approach is becoming fundamental, as products are getting more comparable. When analyzing Apple versus Samsung smartphones, there is limited differentiation in terms of product features or price. However, Apple has developed a "universe" which makes its products different. Product experience is marketed as innovative. Channel experience is effectively differentiated, in particular through Apple Store design, in-store interactions and relational strategy; customer engagement is a reality, with strong personal involvement of customers in Apple's ecosystem and an implicit social status – customers are part of the community.

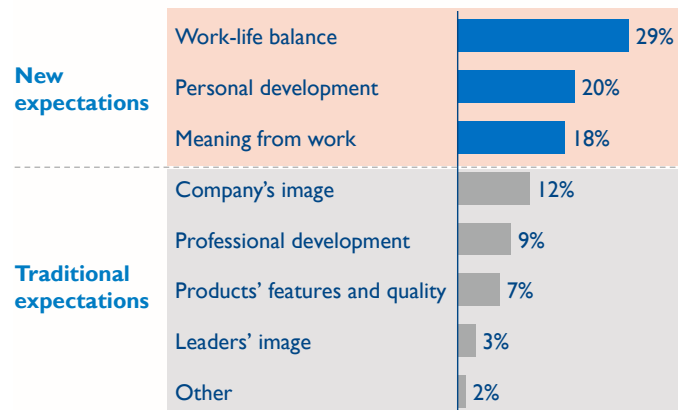
Buying a product becomes an implicit militant act. It is not only a consumption issue, but a social affirmation, which then leads customers into engagement with the company. Customers are now ambassadors of companies. Recent data from Arthur D. Little, comparing more than 30 telecom operators over the world, reveals the importance of reason to exist in digital. How

do telecom operators succeed in consumer digital engagement? Digital skills are now quite common in such a business. So why are some players engaging consumers significantly more? Digital leaders are companies whose purposes are stronger within their industries. The stronger the reason to exist, the stronger the customer engagement. Giving meaning is also a powerful lever for succeeding in digital.

4. Change your employees' lives: the Y for Ys

Employees have changed their relationships to work: from professional ambition to meaning. This is particularly true for the Y and Z generation (or, by extension, millennials). Millennials want to lead balanced lives; they want to be happy at home, happy at work. About 25% of millennials expect work to be a key part of their lives (vs. 39% for baby-boomers, according to recent research about millennials from Jean M. Twenge of San Diego university). For six in 10 millennials, a "sense of purpose" was part of the reason they chose to work for their current employers. On a single-criteria basis, work-life balance, personal development and meaning are the most important when millennials choose jobs.

Millennials' key priorities for work, 2015/2016



Source: Arthur D. Little

To match new generations' expectations, companies need to address:

- Millennials' personal expectations and ways of working, in particular work-life balance and working-hours flexibility
- Millennials' need for meaning, as they are looking to understand what they are bringing to the world through their jobs.

Consequently, millennials would be likely to join companies with strong purpose and flexibility. A YouGov survey focusing on millennials' work in the UK confirms our hypothesis. The index's rankings reveal that Google is the most sought-after employer for millennials, followed by Amazon, Netflix and Apple. Unexpected competition comes from companies which are already differentiated in terms of "WHY." Google and Apple

should be considered direct competitors. They have become leaders in customers' minds and on employees' lists of best places to work.

As a new generation enters the labor market, employers need to rethink management. Giving meaning is a necessity in order to hire millennials, making the "WHY" both a necessity and an attractiveness lever.

The WHY strategy – the new path for differentiation and transformation through alignment

With such critical changes, companies need to rethink their differentiating reasons to exist. The WHY strategy becomes undoubtedly relevant. In addition, companies should define unique purposes which will impact the market and secure sustainable differentiation. Arthur D. Little's methodology is based on a top-down approach aiming to define a unique purpose that allows the company to engage in a natural transformation, impacting technologies, products, customer experience, culture... This methodology aims to fulfill several business objectives:

- Enhancing differentiation from competition
- Increasing customer "stickiness"
- Defining the technology platform to be invested
- Reinforcing people motivation and alignment

Ask yourself or a client: "What would be missing if our company were to disappear?"

Are you hesitating, or do you need some time to think about it? It might be time to rethinking your company's intrinsic differentiation.

[For further investigation into the impact of digital on a company's business and brand, read our article, "Brand purpose as a strategic imperative in the digital era," Arthur D. Little PRISM, December 2016].

Contacts

Karim Taga

Austria
taga.karim@adlittle.com

Gregory Pankert

Belgium
pankert.gregory@adlittle.com

Russell Pell

China
pell.russell@adlittle.com

Dean Brabec

Czech Republic
brabec.dean@adlittle.com

Aurelia Bettati

France
bettati.aurelia@adlittle.com

Wilhelm Lerner

Germany, Switzerland
lerner.wilhelm@adlittle.com

Srini Srinivasan

India
srinivasan.srini@adlittle.com

Francesco Marsella

Italy
marsella.francesco@adlittle.com

Yonoshin Mori

Japan, Singapore
mori.yonoshin@adlittle.com

Kevin Lee

Korea
lee.kevin@adlittle.com

Daniel Monzon

Latin America
monzon.daniel@adlittle.com

Thomas Kuruvilla

Middle East
kuruvilla.thomas@adlittle.com

Martijn Eikelenboom

Netherlands
eikelenboom.martijn@adlittle.com

Diego MacKee

Norway
mackee.diego@adlittle.com

Pedro Fernandez

Spain
fernandez.pedro@adlittle.com

Johan Treutiger

Sweden
treutiger.johan@adlittle.com

Coskun Baban

Turkey
baban.coskun@adlittle.com

Jonathan Rowan

UK
rowan.jonathan@adlittle.com

Rodolfo Guzman

USA
guzman.rodolfo@adlittle.com

Authors

Aurelia Bettati, Yonoshin Mori and Eytan Koren

Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

For further information, please visit www.adlittle.com

Copyright © Arthur D. Little 2017. All rights reserved.