



## Fad-Free Strategy: Rigorous Methods to Help Executives Make Strategic Choices Confidently

by Herman Vantrappen (co-author)

**It has become fashionable in some circles to dismiss business strategy design as a relic.**

Such circles argue the importance of ‘strategy as learning’ and say that detailed strategizing has become pointless in today’s volatile, uncertain, complex and ambiguous (VUCA) world. They also argue that there is a ‘strategy-execution gap’, and that failures of strategy are primarily due to poor execution, not weak design.

Both of these arguments have some merit. However, from our combined 50+ years’ experience of advising mainstream companies and teaching executive MBA students at Harvard University and Hult International Business School, we find that such attitudes tend to overlook one important shortcoming: that many managers possess a lack of rigor when assessing the feasibility and financial effects of their strategic choices before pushing the ‘commit now’ button. Decision-makers should be more demanding about revenue (R) estimates – that is, the product volumes or quantities (Q) a company is likely to sell to its customers at various price levels (P). While most managers recognize the  $R = P \times Q$  formula, many believe that real-world business does not lend itself to a rigorous approach. They think that it is easier and/or more desirable to apply good business judgment, guided by past experience, stretch goals and simple arithmetic.

In Fad-Free Strategy, we explain a rigorous yet practical approach that decision-makers can take to achieve vastly more reliable revenue estimates. Instead of moving straight from Grand Strategy design to Grand Strategy execution, managers should insert an Operational Strategy step. Grand Strategy is the upstream process through which a company defines its vision and determines the product-market combinations with which it aspires to realize that vision. There is nothing wrong with developing a Grand Strategy, provided one fundamental limitation is accepted: as the outcome of the Grand Strategy is based on averages and guesstimates (e.g. the average growth rate and profitability of a market, the overall attainable market share, and the assumed competitive advantages), it must be considered a hypothesis that subsequently must be validated, adapted and detailed, or possibly even rejected. This rigorous, evidence-based process of validation, adaptation and detailing prior to execution is what we call Operational Strategy.

Operational Strategy is based on modeling methods from decision sciences and microeconomic utility theory, which have been around for over half a century. In practice, it applies a number of irrefutable first principles that, unfortunately, some strategists tend to forget. These principles are that:

- **Customer demand drives revenues.** Revenues are linked to customer demand for a particular product at different price points – not to the vision and ambitions pronounced by the management team during an offsite.
- **A customer goes for the best deal.** When faced with a number of alternatives, a customer will pick the option that gives them the best deal; that is, the option that has the largest difference between what the customer is willing to pay and the price they have to pay for it.
- **A customer's preferences need to be extracted.** Customers often can't express their preferences directly or don't even want to reveal them. Customers need help with crafting and discovering their own preferences.

By applying these principles and methods, far less shareholder value and fewer career prospects would be destroyed, whether the strategy is about entering a new market, defending one's own market against aggressive new entrants, or gaining share in commodity markets where customers only seem to care about price.

**Fad-Free Strategy** is endorsed by leading academics (from Harvard University, Duke University, NYU Stern School of Business, etc.) and CEOs (from Unilever, Allianz, CNH Industrial, etc.). It is published by Routledge – the world's leading academic publisher in the humanities and social sciences space. You can find a Q&A, video clips, tutorials, speeches, articles and reviews at <https://fadfreestrategy.com/>.

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Herman is part of the a-connect independent professionals network, focusing on strategy and organization assignments, primarily in Europe and the Middle East. He became an independent consultant in 2012, after 26 years at consulting firm Arthur D. Little, of which he spent 19 as a partner. He writes regularly in journals, such as the **Harvard Business Review**, **Strategy & Leadership** and **MIT Sloan Management Review**.



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