

SIMMA & PARTNER CONSULTING

THE STRATEGIC ASSUMPTION ANALYSIS

What is the right strategy?

Brief description of a structured approach to the development of
common foundations for the development of strategies

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THE STRATEGIC ASSUMPTION ANALYSIS (SAA)

What is the right strategy?

Managers often have different ideas about the "right strategy".

- Every manager is convinced to have the best arguments why her or his strategy is the (only) right one.
- These arguments are not facts, but assumptions about future developments (and therefore fraught with uncertainty). They are subjective because they are stated from a certain point of view and a subjective experience. And they are usually incomplete.
- Assumptions - experiences of the past, "beliefs", assumptions - guide our actions and determine the strategic course we take.

Assumptions become the foundation for strategic choices. When these assumptions are not shared, they could result in ongoing discussions and hinder the required effective strategy implementation. In worst cases, these ongoing argumentations could evolve into interpersonal conflicts and impact team effectiveness.

In order to find a strategy that enjoys the support of the majority of the relevant people, a broad consensus of convictions must be achieved.

This agreement is easier to achieve at the level of the assumptions underlying the different strategies than at the level of the strategies themselves.

What the Strategic Assumption Analysis (SAA)¹ is and is not

The SAA is a process that helps the executives and experts responsible for the strategic course of an organization – a private company, a public or a non-governmental organization – to use their different and therefore most valuable knowledge for the development of a common strategy supported by all responsible leaders in the interest of the whole.

The Strategic Assumption Analysis ...

- ... is not an update of old strategies, but a strategy development process that is oriented towards the "most likely" future.
- ... is a learning and development process for the participants, which leads to a deeper and more common understanding of the strategic problems, challenges and opportunities.
- ... ensures that the ultimately developed strategy is supported by all those involved in the process. Everyone involved in the strategy process starts from the ± same assumptions about the "most likely" future. This enables stronger and more convincing communication of the strategy and underlying assumptions. Since the

¹) Adapted by Simma & Partner Consulting based upon information about the "Strategic Assumption Analysis" by the Wharton School of Business, Philadelphia, received from Dr. Franz Kreijs, former consultant at the Wharton Applied Research Center.

managers and experts represent the “critical mass” of the whole organization, the other team members are more likely to understand and support the strategy and make their contribution to their success.

Example of a typical situation in an FMCG company’s Strategic Marketing Meeting:

The discussion about brand positioning for a 2-brand strategy ABC / XYZ was controversial and did not lead to satisfactory results.

- The discussion was more product- than market-oriented. The representatives of the various brands „ammunitioned“ themselves argumentatively for their attack or defense strategies.
- The discussion was based on many different assessments of the actual and target positions of the two brands, in particular which offers are necessary for an optimal market success and better profitability of the company.
- The discussion primarily generated „more of the same“ and was not very creative in terms of the powerful positioning of the lines of attack on the competition e.g., of where to „strike“ together.
- There was a lack of valid quantitative and qualitative data for an evidence-based decision-making. Rather, an attempt is made to enforce or defend "beliefs".

A "word of power" from the management would have produced winners and losers and undermined the mutual efforts for a jointly supported strategy.

- Regarding the current state of discussion, a word of power would have generated more dissatisfaction, separation and frustration than satisfaction, commonality and motivation.
- In order to present the strategic positioning of the two brands for GF and for the entire international group, a coherent, well-founded strategy supported by all management levels and functions was indispensable. This was also expected by the Supervisory Board and the owners.

Last but not least: the risk of internal competition vs. outward looking competitive efforts.

- A jointly developed, well-founded strategy is also the foundation for a largely friction-free cooperation between the brands.

The Strategic Assumption Analysis was the right process for a team-based development of an integrated strategy.

By using the Strategic Assumption Analysis (SAA), a joint brand strategy could be developed and implemented, which on the one hand optimally used the strengths of the brands and on the other hand made the greatest possible use of the synergies under a common umbrella combining the knowledge, experience and ideas of all managers and experts and ensured an optimal organizational setting of roles and functions.

The possible role that a Strategic Assumption Analysis could offer for the teams:

- A joint brand strategy could be developed and implemented, with a focus on successful implementation
- This, on the one hand optimally used the strengths of the brands and on the other hand made the greatest possible use of the synergies under a common roof combining the knowledge, experience and ideas of all managers and experts and ensured an optimal organizational setting of roles and functions
- No resources are wasted on internal competition but all are focused to outperform external competitors in the market place.

The Process of „The Strategic Assumption Analysis“

Kick off		
1 Problem definition		
<ul style="list-style-type: none"> • Key Topics • Key challenges • Qualitative and quantitative fundamentals (market, competition, key figures, etc.) that support the situation and challenge 		
Strategy ideas		
2 <u>Strategy-Ideas</u>	3 Completion of Assumptions	4 Clarification of Strategy-Ideas
<ul style="list-style-type: none"> • "Pure strategies" • Assumptions that support the strategies (why is this the right strategy) 	<ul style="list-style-type: none"> • Check for completeness (customers, suppliers, organization, etc.) • Relevance test of assumptions 	<ul style="list-style-type: none"> • Clarification of strategy ideas based on comprehensive, relevant information
Assumptions assessment		
5 Assessment of Assumptions		6 Negotiation of Assumptions
<ul style="list-style-type: none"> • Review and clarification of conflicting assumptions • Evaluation of assumptions 		<ul style="list-style-type: none"> • Agreement on a set of assumptions supported by all participants • Clarification of critical (important / uncertain) assumptions
Integrating strategy idea		
7 Development of strategy idea based on collective assumptions		
<ul style="list-style-type: none"> • Review and evaluation of strategy ideas <u>on the basis of common assumptions</u> • Discussion and development of an integrating strategy idea based on common assumptions • Documentation 		

(1) Problem definition

- We assume that the process of strategy creation was preceded by an analysis and evaluation of the situation and the existing problems.
- We also assume that the strategy team was formed and, in particular, that critical people with controversial opinions offering new perspectives from different functions, management levels and expertise were involved.

THE STRATEGIC ASSUMPTION ANALYSIS (SAA)

- In any case, a thorough quantitative and qualitative analysis and evaluation of the initial situation is necessary if the strategy process is not to fail due to the discussion of the actual problem.
- If a clarification, possibly also specification of the (strategic) problem has not yet been carried out at this stage, it must be brought about before the further steps in the process are tackled. Above all, this includes facts about developments and trends, structural changes in the demand and supply mix, customer preferences, sales, sales and cost developments, comparisons with competitors on prices, services, technologies, cost structures / automation, supply chains, etc.

(2) Strategy ideas

- Strategy Ideas do not have to and should not be documented in detail, but
- Every strategy idea should be driven by a dominant consideration (what are the central drivers for the idea)
The totality of the strategy ideas should cover as comprehensively as possible the field of existing (recognizable and considered as a real alternative) strategic possibilities.
The "pure strategies" should overlap as little as possible - working out the differences between the central considerations (strategy drivers).

- Example: Strategy ideas for 2-brand strategy
 - Strategy idea 1: Segmentation according to target groups, e.g. family, old, young, professionals, sports
 - Strategy idea 2: Segmentation according to product features, e.g. "simple, cost-effective and easy to use" on the one hand and "hi-tech with many features and additional applications" on the other hand.
 - Strategy idea 3: Continuation of the brands in the previous "home markets" – without internal competition but using all synergies of joint procurement, logistics, customer service and support functions such as HR, IT, finance, controlling, etc.

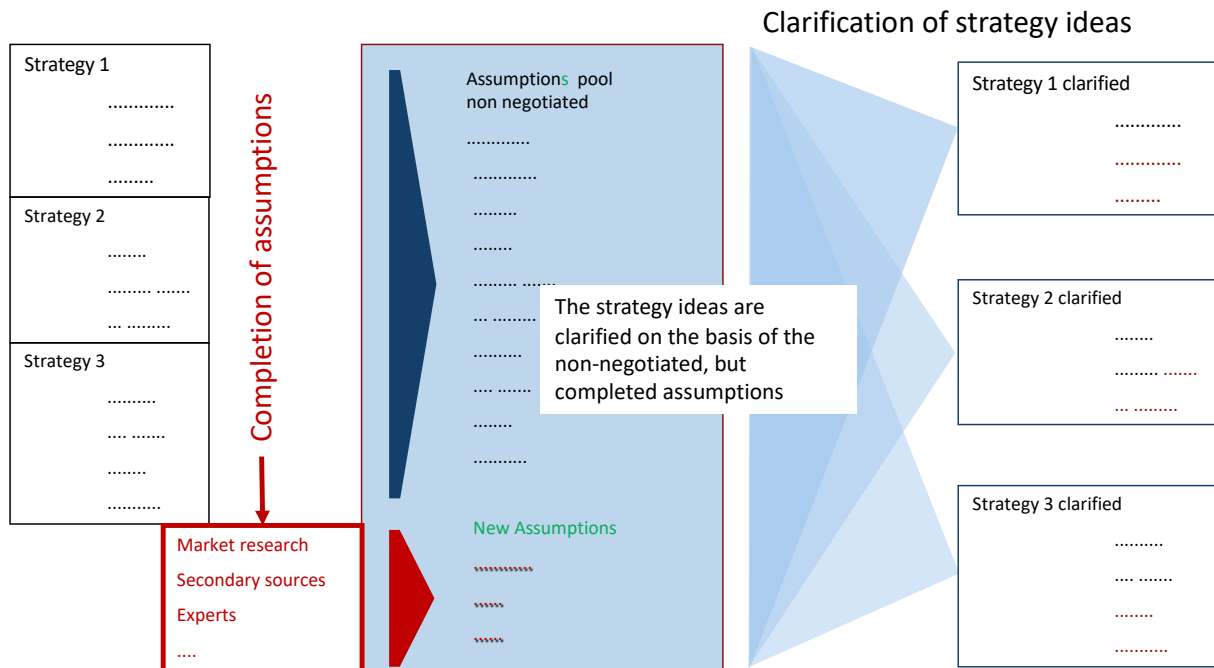
(3) Development of assumptions on the strategy ideas

- Find answers, explanations, hypotheses to the question "How do you justify that this strategy is the right one?"

"The strategy is right because"

Assumption	Evidence (e.g. figures from finance, market research, studies surveys,)	Source
<i>Loss of market share in the domestic market</i>	<i>Own development of sales Growth of competitors ...</i>	<i>Sales statistics (accounting) Compilation of information by sales</i>
<i>Further attacks from our competitors to be expected</i>	<i>Customer Reports Sales development of competitors</i>	<i>Conversation with ... Lost pitches.....</i>

- (4) Completion of assumptions and
- (5) Clarification of strategy ideas



(6) Negotiation of Assumptions

Conflicting assumptions:

If there is evidence for acceptance, a decision must be made. If there is no evidence for the assumption, it is considered uncertain, e.g. the probability of being true is low.

Meaning and probability of accuracy:

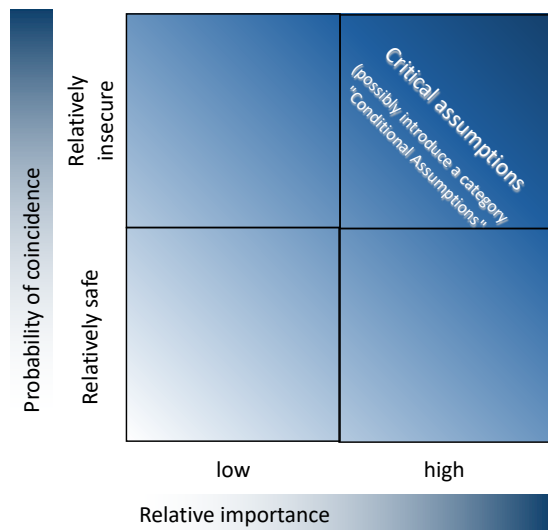
Different assumptions can be of different importance to each strategy. The probability of accuracy also varies from assumption to assumption.

Relative importance:

"How important is the assumption that the strategy is to be preferred to all others?" or "If you only had 10 minutes to convince a critical manager that your strategy is the right one, what assumptions would you spend most of your time on?"

Probability of coincidence

"How likely is it that the assumption will also come true?"



(7) Development of a strategy idea based on clarified assumptions

Our experience shows that even the process of the Strategic Assumption Analysis leads to an ongoing discussion over new, targeted and more reliable strategy ideas. Decisions about the strategic direction are easy. Decision points can also be built into the strategy to check whether or not a suspected development has occurred in an uncertain and important criterion. Likewise, the strategy can and should - wherever possible - actively influence such criteria.

“Voicing new ideas and asking probing questions can lead to new information that disconfirms what is known or assumed.

For leadership to perform their roles effectively, it is imperative that they ask questions, exchange information and various points of view, evaluate the merits of competing alternatives and make well explored decisions.”

(Forbes and Milliken 1999)

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If you want to know more about Strategic Assumption Analysis, write us or give us a call:

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