

Dynamics of Strategy Individual Assignment

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TEACHER'S NOTE – This paper is provided for guidance of students taking London Business School Electives in Strategy Dynamics and Strategic Modelling. The paper was produced to fulfil an Individual Assignment. Part 1 is a pair of strategy experiments carried out with the Professional Services Microworld. The second part of the assignment is to describe, portray and analyse a real-world case that exhibits elements of a strategic architecture and managerial implications that demonstrate one or more strategy dynamics principles covered by the microworld. In this case, the Professional Services game plays out how resources carry important 'attributes' (staff have experience). The case here discusses important attributes of newspaper readers. Critical to this assignment is the *explicit* representation, with time-charts, of data relating to the case.

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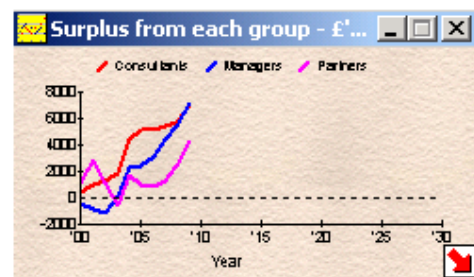
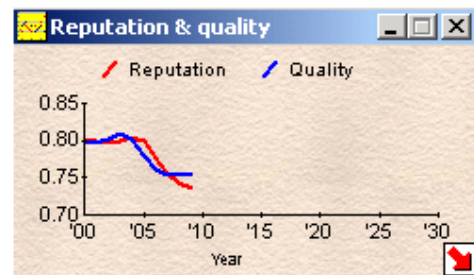
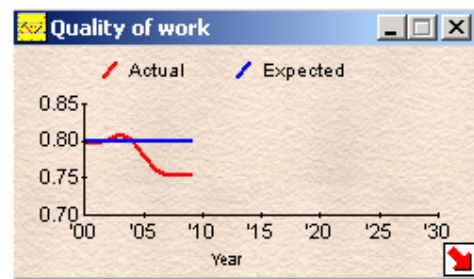
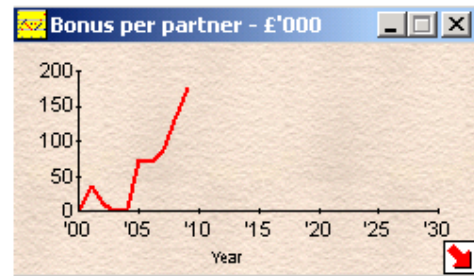
Section 1: Professional Services Microworld

Experiment 1:

In experiment one, the “Keep Growing” microworld with no knowledge base was used as the starting point for the experiment. The goal was to moderate current growth, achieve a per partner bonus of £300,000 by 2015 and then sustain that level until 2030.

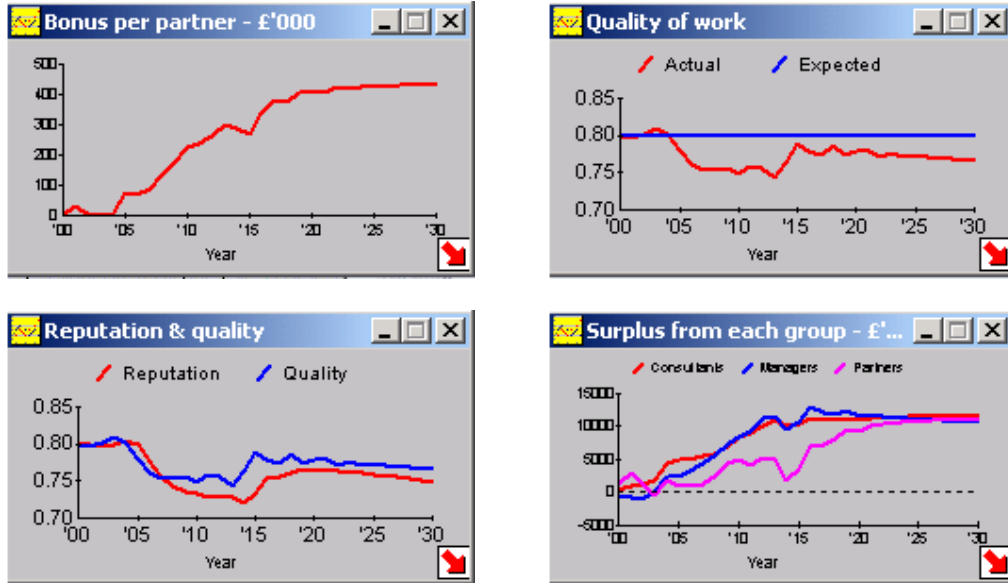
Planned strategy

1. *Until 2013, milk current growth levels.*
 - Leave client acquisition levels unchanged and increase the recruitment of consultants to 140 per year in order to provide additional staff capacity to support this continued growth. Increase manager promotions by 2 and partner promotions by 1.
2. *In 2014, reduce the targeted number of clients per year to 15.*
 - This policy change is intended to turnaround and stabilize the quality of work and the firm’s reputation. By reducing the total number of clients and assignments undertaken by the firm, the current staff capacity is better able to service each client, thus improving the quality of work.
 - As the actual quality of work rises to the level expected by clients, the firm’s reputation will also improve.
 - It is expected that the quality of work will turnaround and approach the expected level of 0.80.
 - It is anticipated that there may be a year or two lag in the turnaround of reputation following an improvement in the quality of the work.
3. *In 2014, change firing policies to fire 2 partners and 2 managers per year.*
 - As the targeted number of clients has now been reduced, the number of partners and managers needs to be reduced in order to maintain partner bonuses at the desired level of £300,000.
 - In addition, firing partners and managers provides additional promotion opportunities for junior staff, encouraging them to stay rather than leave the firm.
4. *Fire additional partners post-2014, as necessary.*
 - This policy change is to ensure that the surplus from the partner group continues to approach that earned by both the managers and consultants groups.
 - It is believed to be better to maintain the per partner surplus in this way than by kickstarting growth again, as that will only destabilize the firm by increasing the pressure on staff, decreasing quality of work and the firm’s reputation and thus slowing growth as new clients become harder to obtain.



Outcome of experiment one

At first glance, the outcome of the experiment surpassed my goals. The following graphs show the outcomes of the key variables I was monitoring. Whereas I had aimed for a sustainable bonus of £300,000 per partner, the experiment achieved an apparently sustainable bonus of approximately £400,000 per partner. Quality of work neared the expected level of 0.80 and stabilized somewhat after 2015, however, showed signs of gradual deterioration after 2020. Reputation followed this improvement and stabilization of quality. Finally, the surplus from the partner group showed significant improvement, reaching a steady state of approximately £10m, an amount very similar to that earned from the manager and consultant groups.



But the results of the simulation beg the question of whether my initial goals were in fact too mediocre. One mistake in the strategy was to 'milk' the growth trend that existed at 2009 until 2013. While the bonus per partner did increase further as desired, it topped out at £300,000 and there was no improvement to the quality of work. Quality of work only improved in 2014 when I reduced the number of clients and implemented the firing policy. And to my surprise, per partner bonuses did not then stabilize at £300,000 but in fact increased quickly to around £400,000. Could this have been increased even further had the milking strategy not been followed?

A further drawback to the milking strategy was that it allowed the quality of work and firm's reputation to decline further. I had expected this, but what I had not expected was that when quality of work did begin to improve, reputation did not improve to the same extent. There was not, as expected, a significant lag in the improvement of the firm's reputation. Rather, the magnitude of the improvement did not follow that of quality of work. Knowing this, one realizes that it was a mistake to allow the firm's reputation to decline as far as it did.

The simulation report card below provides a good snapshot of another area where I could have improved on my strategy. While the idea behind the strategy was right, it is apparent that the magnitude of the policy changes were in fact not great enough.

	Consultants	Managers	Partners
Staff experience	Excellent	Excellent	Excellent
Pressure on	Over-worked	Pressured workload	Pressured workload
Attrition rates	Turnover too high	Reasonable turnover	Low turnover

I underestimated the pressure that was on the consultants. Not even cutting the client acquisition rate from 22 to 15 and increasing recruiting of consultants from 125 to 140 provided enough staffing capacity to bring the quality of work back to client-expected levels. Also, while having ‘excellent’ staff experience at each level is desirable, it must not be at the expense of staff’s motivation due to a slowdown in promotion.

Therefore, in retrospect, the strategy could have increased the recruitment rate for consultants as well as the promotion rates. There would then likely have come a point where client acquisition could have been increased once again and the firm could have grown rather than just reached a steady state.

In summary, experiment one showed that the attribute of pressure on the staff is vitally important both in retaining them, and also in the effect it has on the quality of work produced. While a steady state can be reached, there is a missed opportunity in terms of the growth the firm could have if more attention was paid to the pressure on staff.

Experiment 2:

In experiment two, the “Stagnate” microworld with no knowledge base was used as the starting point for the experiment. Based on the results of experiment one, the goal for experiment two was set as achieving a sustainable bonus per partner of £400,000, but with the aim of halting the stagnation immediately and achieving this bonus level within 2 years (2015).

Planned strategy

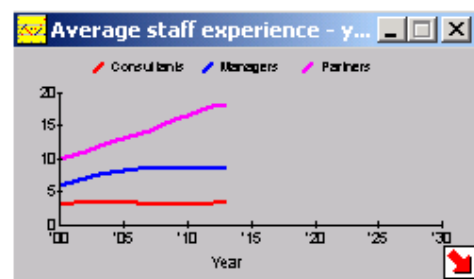
1. *Monitor quality of work as this strategy is implemented to ensure that the actual quality of work does not fall below expected levels.*

- The firm’s quality of work is currently unprofitably high and it is a desired consequence of this strategy that the quality fall to expected levels.
- As quality falls, reputation will also fall. The target of this strategy is to keep reputation above 0.80 so as to not severely hamper client acquisition efforts.



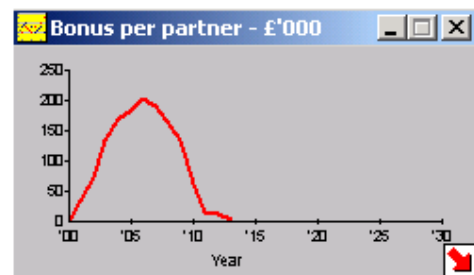
2. *Weed out the dead partners from the firm.*

- Implement a policy of firing 4 partners per year, although in the first 2 years until 2015, this policy will be phased in gradually (2 partners per year) so as to allow for immediate building of the client base (see below).
- This will create promotion opportunities for managers and reduce attrition rates, which are currently too high. Average experience of partners should come down to the norm of 10 years.



3. *Increase client resource by actively acquiring new clients.*

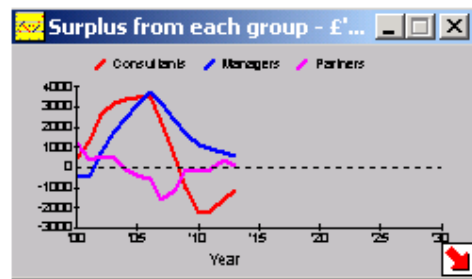
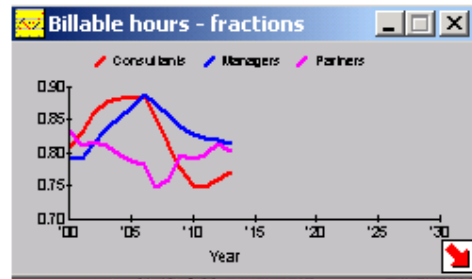
- The aim is for a 20% increase in the stock of clients. At some point in time client stocks will be maintained at a stable amount. This point will be determined by finding an equilibrium where the stock of staff can serve the client stock at a level that generates the required per partner bonus of £400,000.



- It is expected that as the firm's reputation declines through the implementation of this strategy, an increase in client losses will occur. Hence the rate of client acquisition will be determined also by reference to the rate of client losses.

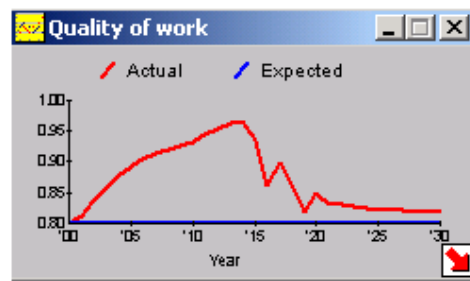
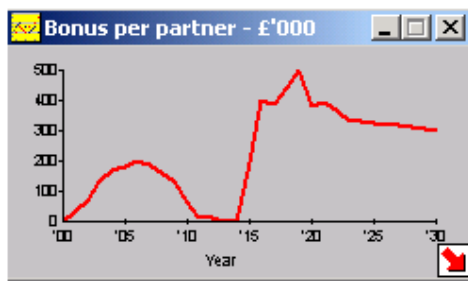
4. *Increase staff resources at all levels so as to support growth in client resources.*

- As the client stock is being built up by 20%, my initial strategy was to also build up staff resources by 20%. However, staff resources will initially be built up by 10% so as not to shock the system too much through 'creating' inexperienced staff.
- In order to achieve this, I have worked backwards from the desired partner stock level (taking into account the new firing policy).
- By working backwards, I have calculated new promotion rates (15 per year to managers and 6 per year to partners), new recruitment rates (40 per year) and introduced a firing policy for managers (3 per year).
- Average experience should come down to the norms of 3.0 and 6.0 years for consultants and managers, respectively.
- The continued appropriateness of these new policies will be monitored via billable hours and surplus from each group as well as staff pressure.

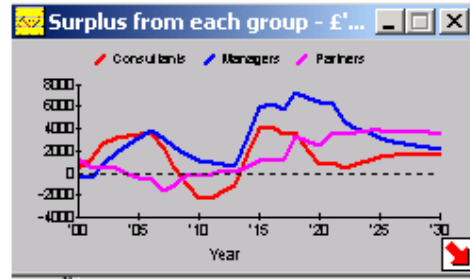
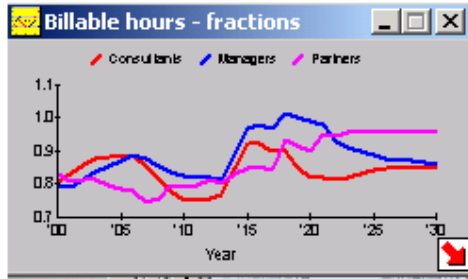


Outcome of experiment two

On the whole, this strategy worked very well, with an immediate growth in the bonus per partner to £400,000 and subsequently to even higher levels, as seen in the following graph. As anticipated, the quality of work declined as desired, although was maintained at levels slightly above client-expectations, which assisted client acquisition efforts.



Once the bonus per partner began to decline in year 2019, the staffing policies required an increasing amount of monitoring. A not altogether smooth result was achieved, as illustrated in the following graphs, which were the key charts I was monitoring along with pressure on staff by staffing category.



True to the form of most professional services firm, the workload of the staff remained “pressured” throughout most of this experiment, as can be seen also by the high billable hour percentages. It is this pressure and the resulting billable hours that drove partner profits. In spite of the pressure, staff attrition did not become a problem, however I did find it difficult to maintain a balance between promoting managers at a rate that kept them satisfied while retaining partners who were experienced in client acquisition. As a result, at the end of the experiment, experience levels were not quite as desired: partners, 12.6 years and managers, 8.0 years.

In summary, once the initial shock to the firm had been achieved, sustaining the partner bonus levels became one of a precision balancing act. Key to this experiment was keeping managers and consultants happy through adequate promotion opportunities, and keeping staffing capacity in sync with client levels.

Section 2: Comparison to a Related Situation

The newspaper industry under threat

The industry I have chosen for comparison is very different to that of the professional services industry, but it does illustrate well the important contribution that attributes and intangible factors make to business, and indeed, industry performance.

For many years now the newspaper industry has been acutely aware that their key resource, newspaper readers, is declining. Generation X, and to a greater extent, generation Y simply haven't adopted the habit of reading a newspaper everyday as their parents have. While they may read it when significant events such as September 11 occur, they are certainly not loyal newspaper readers.

The dual edged nature of a newspaper's masthead

Further, one of the key resources that a newspaper has, its masthead and the reputation associated with that masthead, is now often hindering its acquisition of new readers. For example, at the Sydney Morning Herald (SMH), the brand is so strongly associated with affluent, white baby boomers that one strategy the paper could adopt is simply to follow the baby boomers to the grave. (This is illustrated at point 1 in the accompanying strategic architecture.)

Following that strategy however, the SMH has maybe 30 years left to survive and so clearly something must be done. The time scale of the strategic architecture therefore shows the past 5 years and the next 10 years, by which time newspapers will either be a dead industry or have reinvented themselves. The SMH is following many others in the industry and taking two approaches to addressing this problem. First, they are developing strategies to attract younger readers. Second, they are recognizing that their current readers have attributes that have never previously been formally measured or capitalized upon. It is on the latter approach that I will focus the rest of this discussion.

Readers have attributes

Historically, newspapers have attracted advertisers and set their advertising rates according to two figures, circulation and readership. Circulation is simply the number of newspapers sold. Readership is the number of readers of the paper each day. The difference between the two numbers arises because more than one person may read one newspaper. If you think about it, circulation is not a very valuable number with which to convey to advertisers how many people read their ads. As an analogy, a television station would never sell advertising space on the basis of how many TV sets exist in people's houses. Readership is a slightly better measure, but it tells you nothing about the actual reader.

And so the industry has defined a new metric that seeks to measure three key attributes of a reader: the time they spend reading the paper, how much of the paper they read and how frequently they read the paper. The combined measure of these attributes has been termed a Reader Behaviour Score (RBS). The maximum RBS is 7.0. A reader who scores a 7.0 reads the paper front to back, for greater than one hour a day, seven days a week. Each reader has such a score and cumulatively, each paper has an RBS too.

RBS and newspaper profitability

The importance of the RBS is that it has focused the industry upon the attributes of a reader and how important those attributes are to a paper's business performance. The accompanying strategic architecture illustrates the role that these attributes play in a business model that the Sydney Morning Herald is currently considering.

A paper is considered to be more valuable to advertisers if it has a higher RBS score. That is, if the readers of the SMH collectively read the paper for longer, more frequently or more completely than SMH's competitor, then advertisers should be more willing to advertise in the SMH and pay a higher price to do so.

Loyal readers have been shown to have higher RBS' than disloyal readers – they have higher levels of these three key attributes. But this is a circular, reinforcing notion because a paper can also increase a reader's loyalty by making improvements that encourage a reader to improve these attributes. For example, by making the paper easier to navigate, a disloyal reader who is not used to where to find things in the paper, can be guided through the paper, increasing their completeness of reading. As the reader is so guided, he or she may discover new parts of the paper to their liking and as a result increase their frequency of reading the paper. By increasing their frequency of reading, they become a more loyal reader of the paper, and so on.

One further argument to focusing on these reader attributes is “subscriber churn”. This refers to the extent to which loyal customers who subscribe to the paper terminate their subscriptions. It has been shown in an industry study that readers with higher RBS' are less likely to churn out. And so the newspaper increases its subscription profitability by retaining its resource of loyal readers and reducing the amount of staff and cash resources spent trying to regain such readers.

In summary, by focusing on the reader's attributes, the paper has a better proposition to sell advertising space to advertisers. By recognizing that it is those attributes which are valuable to advertisers, newspapers design their papers and services to support improving each of those attributes. And in doing so, newspapers break away from the attitude of “we know what's best for our readers”. They deliver what the reader wants, increasing their loyalty and reducing the loss of customers through other than “natural causes”.

Some notes on the numbers

Unfortunately, this concept of reader attributes is very new to the industry and while an industry average RBS (3.66) is known, there is little other data available. In fact, my summer internship was partly spent trying to measure RBS and its impact for the SMH. So I have indicated on the strategic architecture the trends that the industry is facing if they do not consider reader attributes compared to those they face if they focus on improving reader attributes. However, these trends themselves are the subject of much debate at present – how useful it would be for the industry to have a fully developed dynamics of strategy architecture to help their debate!!

