

# Capabilities-Driven Strategy: Gain the right to win

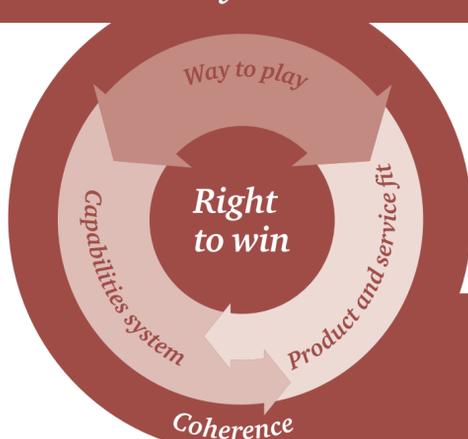
Many executives across industries and regions are struggling with developing and executing strategies successfully

- More than half** don't think they have a winning strategy.
- 4 out of 5** admit their overall strategy isn't well understood... within their own company!
- 9 out of 10** concede they are missing major opportunities in the market.
- 2 out of 3** admit they don't have the capabilities needed to create value.
- 2 out of 3** are frustrated because they have too many conflicting priorities.

The problem is that generations of executives have been asking the wrong questions. Instead of asking "Where should we go to grow?" they should be asking "Who are we? How do we create value in ways that others cannot?"

Source: Strategy& survey of 3,000+ senior executives, *Fit for Growth*\* survey of 500+ senior executives  
\* Fit for Growth is a registered service mark of PwC Strategy& Inc. in the United States.

We can learn from winning companies – they are coherent and use their distinctive capabilities to drive their identity and success



**Way to play:** Be clear about how you create value in the marketplace.

**Capabilities system:** Focus on developing your system of 3–6 distinctive capabilities that allows you to provide value in line with your way to play.

**Product and service fit:** Specify your product and service "sweet spot" and sell only what fits.

**Coherent companies pursue Capabilities-Driven Strategies. They align their strategic direction to the capabilities that make them unique. They make hard choices about differentiation and stick to them.**

Coherent companies turn traditional strategy on its head and pursue a Capabilities-Driven Strategy

- They look inside first and figure out what they do best.
- They then develop those 3–6 capabilities until they're best-in-class and reinforce one another in a powerful system.
- They align what they do well with the right marketplace opportunities.

The market rewards them with sustained superior returns

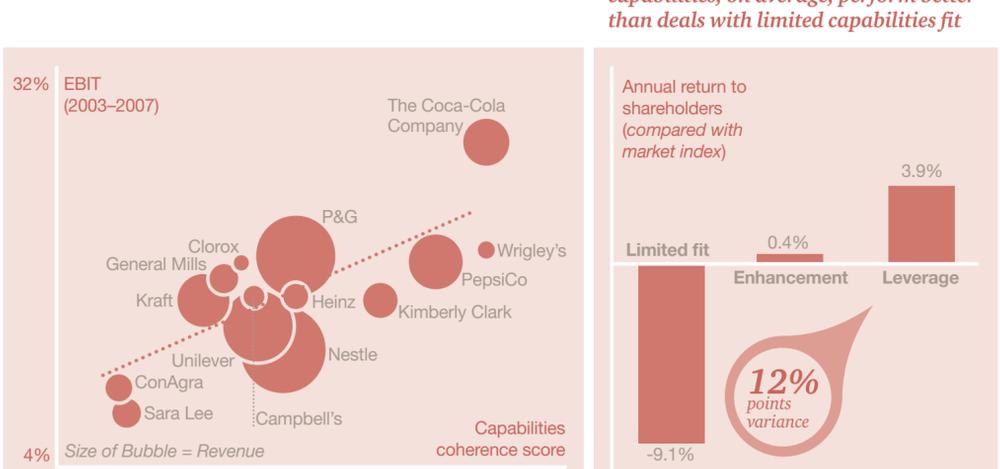
- Effectiveness from focusing on what matters most day in and day out
- Efficiency from applying your distinctive capabilities throughout the entire company
- Focused investments from concentrating your resources on what drives advantage
- Alignment among managers who know what is most important for your success

Applying a capabilities lens changes how executives make important strategic decisions

Managerial situations	What most companies do	What coherent companies do
<b>Growth</b>	<ul style="list-style-type: none"> <li>• Look for promising opportunities and conclude that these are so great that "we'll figure out how to pursue them"</li> </ul>	<ul style="list-style-type: none"> <li>• Look for those profitable growth opportunities that leverage their distinctive capabilities.</li> <li>• Be very clear about what capabilities the strategy requires and develop a capabilities agenda</li> </ul>
<b>Mergers and acquisitions</b>	<ul style="list-style-type: none"> <li>• Buy companies that look financially attractive or that fill a hole in their portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire companies that leverage capabilities they have or that fill a hole in their capabilities system</li> </ul>
<b>Portfolio management</b>	<ul style="list-style-type: none"> <li>• Focus on the products that perform above a certain threshold</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire or keep products that leverage their distinctive capabilities (and fix bad performance, if required)</li> <li>• Divest products that need different capabilities (even if they are doing well)</li> </ul>
<b>Cost cutting</b>	<ul style="list-style-type: none"> <li>• Slash costs across the board</li> </ul>	<ul style="list-style-type: none"> <li>• Cut costs in areas that are non-differentiating</li> <li>• Reinvest in strengthening differentiating capabilities that fuel growth</li> </ul>

Pursuing a Capabilities-Driven Strategy pays off

Coherent companies tend to have superior profitability  
Acquisitions that leverage or enhance capabilities, on average, perform better than deals with limited capabilities fit



Source: "The Coherence Premium," *Harvard Business Review*, June 2010; "The Capabilities Premium in M&A," *strategy+business*, Spring 2012

Capabilities-Driven Strategy is recognized as a distinctive and powerful idea by academics and business leaders alike



"Just because a company can doesn't mean it should...."  
**Michael Roberts, former President and COO, McDonald's Corporation**

"Long-term success must stem from the marriage of carefully considered, unique capabilities and appropriate market opportunities...."  
**Gary Loveman, Chairman, CEO, and President, Caesars Entertainment Corporation**

"The framework...is clear; it makes sense; it's practical; and, I know from experience; it works."  
**Saud Al Daweesh, former Group CEO of Saudi Telecom**

## How to get started?

For more information or to contact us, check [strategyand.pwc.com/cds](http://strategyand.pwc.com/cds)

### Take the coherence test

Can we state it?	Do we live it?
<p><b>Way to play</b></p> <ul style="list-style-type: none"> <li>• Are we clear about how we choose to create value in the marketplace?</li> </ul>	<ul style="list-style-type: none"> <li>• Are we investing in the capabilities that really matter to our way to play?</li> </ul>
<p><b>Capabilities system</b></p> <ul style="list-style-type: none"> <li>• Can we articulate the 3–6 capabilities that describe what we uniquely do better than anyone else?</li> <li>• Have we defined how they work together in a system?</li> <li>• Do our strategy documents reflect this?</li> </ul>	<ul style="list-style-type: none"> <li>• Do all our businesses draw on this superior capabilities system?</li> <li>• Do our organizational structure and operating model support and leverage it?</li> <li>• Does our performance management system reinforce it?</li> </ul>
<p><b>Product and service fit</b></p> <ul style="list-style-type: none"> <li>• Have we specified our product and service "sweet spot"?</li> <li>• Do we understand how to leverage the capabilities system in new or unexplored arenas?</li> </ul>	<ul style="list-style-type: none"> <li>• Do most of the products and services we sell fit with our capabilities system?</li> <li>• Are new products and acquisitions evaluated on the basis of their fit with the way to play and capabilities system?</li> </ul>
<p><b>Coherence</b></p> <ul style="list-style-type: none"> <li>• Can everyone in the organization articulate our differentiating capabilities?</li> <li>• Is our company's leadership reinforcing these capabilities?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we have a right to win in our chosen market?</li> <li>• Do all of our decisions add to our coherence, or do some of them push us toward incoherence?</li> </ul>