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Bridge the Gap Between Strategy and Tactics: Part 3

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The Magic Matrix is a powerful way for managers to translate great strategies into sound plans—and sound plans into effective tactical actions. Last in a three-part series on integrated planning.

by Jonathan Byrnes

The Magic Matrix is a spreadsheet chart with key products or service lines on one dimension, and key market segments or accounts on the other, both arranged in descending order by total revenues. Managers can populate the product-account cells with valuable information ranging from revenues to profitability to sales potential to differentiation. The Magic Matrix is a very powerful, intuitive, easy-to-use model of a company as it interacts with its markets (Exhibit 1). Managers who use the Magic Matrix develop the shared viewpoints and cooperative culture that allow the company to reach its full profit potential.

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Magic Matrix-based planning
The Magic Matrix is central to effective planning because it provides: (1) an integrated planning architecture; (2) a detailed, fact-based approach; (3) an organizational process for cultural convergence; (4) a roadmap to implement the process; and (5) a "Global Positioning System" to measure tactical progress against the strategic plan. November's column explained that there is a typical way to approach Magic Matrix-based integrated planning: first, by analyzing revenue and profitability patterns, then proceeding on to more sophisticated applications. The former is core integrated planning, which was the topic of December's column. The latter is advanced integrated planning, which is explained in this column. Both can be approached in either a qualitative or quantitative manner.

Advanced integrated planning
The Magic Matrix enables managers to go far beyond core integrated planning into much more sophisticated, powerful advanced integrated planning. Here are six applications.

Outsmarting the competition. The Competitive Magic Matrix provides a way for managers to assess and respond to competitive opportunities and threats. Competitive assessment can be started without quantitative market share data, just relative strength. But, inevitably, managers develop the appetite and justification for gathering additional market share data by cell.

This information is incredibly valuable in making strategic decisions and in developing product, segment, and account plans. With color-coding, visual patterns stand out and provide focus to decision-making. In most companies, many key managers have never before seen this picture presented systematically.

With competitive market share data, managers can infer the strategies, strengths, and weaknesses of competitors. When this is done over a multi-year analytical horizon, using the Competitive Change Magic Matrix, managers can track each competitor's absolute and relative progress, often developing an amazingly deep understanding of a competitor's strategy in action.

Managers can begin predicting the future by graphing both their company's share and competitors' shares against the potential, profitability, and/or growth of Magic Matrix cells. Does a competitor have the highest share of rapid-growth cells? The same thinking can be applied to assessing profitability by cell. For the most insight, growth and profitability can be combined and displayed together.

Reaching for growth. The Future Scenario Magic Matrix provides a very powerful way to achieve internal alignment beyond the growth matrices described earlier. In most companies, planning systems assume a set of point estimates for the future, covering areas such as growth, competitive inroads, and market share. In fact, the future is not so conveniently predictable. If a different set of circumstances materializes, the company's jurisdictions are often unprepared to coordinate to meet the company's emerging needs. With the Future Scenario Magic Matrix, managers can play out 25-percent-likely, 50-percent-likely, and 75-percent-likely scenarios, and jointly decide how best to coordinate for each eventuality.

Dodging environmental bullets. The Magic Matrix allows the management team to "stress test" the company's revenue and profit streams by assessing the risk and impact of important external events such as a recession, a change in export policies, or a currency revaluation. The Risk Exposure Magic Matrix lets the management team identify which product-account cells would change if a particular event were to occur.

For example, the management team could color code the matrix cells red for high impact, yellow for medium impact, and green for low impact. They would see at a glance whether the company has a diversified or risky business profile, and could quickly identify any needed remedial actions.

A few sophisticated companies perform risk analysis by product, market segment, or account. The power and insight of the analysis, however, increases considerably when managers use the Magic Matrix to do a multi-dimensional analysis. The ability to display the data in color makes it vastly more accessible to large groups of managers.

Minimizing the commodity threat. Commoditization is a complex phenomenon, driven by (1) product factors, including life-cycle maturity and competitive imitation, and (2) account factors, including account product knowledge and customer buying power. Most companies find that the price pressure from their largest accounts makes these accounts relatively unprofitable. And, services get commoditized just as products do.

The Commoditization Magic Matrix, which shows the change over time in percentage contribution, or gross margin, for each cell, can alert managers to creeping commoditization. Color-coding is very instructive. If the colors tend to run up and down through the columns, it probably means that accounts are the big commoditization drivers. If the color patterns tend to go horizontally through the rows, the story is much more a product one. And, if the pattern is more complex, it is likely to be some combination of account and product effects.

Since commoditization is all about changes in profitability over time, managers can mobilize the full range of Profitability Magic Matrices to understand it. The patterns become even clearer when changes in profitability at the row, column, and cell level are correlated with market share, account purchasing potential, and growth. Does profitability change in response to changes in revenue growth or market share? Does the company get the highest return and a growing return on investment in cells where its market share, potential, and growth are the highest?

The analysis of commoditization should center on two key issues: (1) What is creating commoditization? and (2) What can be done about it? The Magic Matrix can answer both questions.

Picture a Magic Matrix in which a company's product differentiation relative to its competitors' products is ranked high, medium, and low in each cell: the Relative Differentiation Magic Matrix. Then add a color code for the rate of change in profitability. The patterns that are revealed will go far beyond the simple "more differentiation leads to less commoditization" paradigm.

Optimizing the go-to-market strategy. Over the past three decades there has been an enormous proliferation of go-to-market approaches, ranging from key account management to company-owned outlets to e-commerce. The number of direct marketing and advertising options alone have ballooned. Top managers must mix and match the options into tightly focused, highly coordinated programs. The primary go-to-market issue now is how to ensure that each Magic Matrix cell receives the most effective go-to-market approach. Managers can use the Go-to-Market Magic Matrix to meet this need.

The individual go-to-market approaches can be superimposed on the Magic Matrix cells with colors, shading, or numbers. For example, managers might track the gross rating points—a measure of advertising intensity—devoted to the various product-segment cells in the Magic Matrix. It would be a simple step to develop another Magic Matrix with the ratio of advertising weight to current revenue or profit, realizable revenue, or profit potential, or planned revenue or profit. The managers could then see which rows, columns, and/or cells are over-weighted and which under-weighted.

Managers could also calculate similar statistics for distribution outlets, creating the Distribution Magic Matrix.

They could easily create a Magic Matrix of regions and products where they calculated the number of outlets available and such ratios as the outlets per square mile or million people; or outlets per million dollars of current revenue or profit, realizable potential revenue or profit, and/or planned revenue or profit. Similar magic matrices could be developed for other go-to-market channels and programs.

To compound this very complex set of decisions, in most industries today there are many people, ranging from designers to reviewers to consultants, who influence purchase decisions without being a part of the direct purchase decision-making unit. This can be represented on the Market Influencer Magic Matrix, which shows these influencers as "market segments" and displays their impact on particular product-account cells. This matrix forms the basis for highly targeted outreach programs.

Leveraging the strategic initiatives. The Magic Matrix is very valuable in more intricate planning processes such as coordinating and gauging the impact of strategic initiatives. The management team can glean important insights by developing a Strategic Initiatives Magic Matrix. In this matrix, rows, columns, or groups of individual cells can be coded to reflect major company imperatives in areas such as research, capacity additions, and market, account, product, or service development.

Most companies have a number of important strategic initiatives in various stages of planning at any one time. What is often missing is a view of how well all of the strategic initiatives being planned will fit together. The Magic Matrix enables a management team to map the domain and impact of each strategic initiative in order to see whether, on a combined basis, these initiatives will amplify each other's positive contributions, cancel each other out or, worse, interfere with each other and degrade the company's overall profitability.

In this role, the Magic Matrix is a very important coordinative mechanism while at the same time it is an essential planning tool. Thus, effective managers often employ the Magic Matrix in both roles as a core element of their management infrastructure.

Making the magic matrix work for you

Today, managers are competing in a much harsher, more demanding business environment than ever before. Accounts are demanding better service at lower prices. Product lifecycles are accelerating, threatening rapid commoditization. Information technology innovations are speeding the pace of change and increasing the need for precision. Competitors are aggressive, agile, and innovative. Disruptive competitors are capturing market share from established firms in industry after industry.

It is no longer possible to succeed through the market momentum that strong market share and past successes once offered. In this new environment, managers must search out the best opportunities and capture them in a highly focused, tightly aligned way. Increasingly, companies will either win big or lose big.

The Magic Matrix is a critical key to success in this new business era. It enables managers to bridge the long-standing gap between strategy and tactics.

See you next month.

A more complete version of this series is available from Harvard Business School Publishing (#9-999-008), and can be ordered by calling 800-988-0886 or online at www.hbsp.harvard.edu.

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Exhibit 1

The Magic Matrix

Vertical Dimension:

Account Management
Target Market Selection
Account Selection
Channel Segments
Go-to-Market Approaches
Supply Chain Management

Horiz. Dimension:

Product Line Mgmt.
Operations Mgmt.
Capacity Mgmt.

Cells:

Order Cycle Mgmt.
Pricing
Customer Service

	Account 1	Account 2	Account 3	Account 4	All Other	**Total**
Product/ Service A						
Product/ Service B						
Product/ Service C						
Product/ Service D						
All Other						
Total						