HARVARD BUSINESS REVIEW PRESS

PLAYING TO WIN

HOW STRATEGY REALLY WORKS

A.G. LAFLEY
FORMER CHAIRMAN AND CEO, PROCTER & GAMBLE
ROGER L. MARTIN
DEAN, ROTMAN SCHOOL OF MANAGEMENT

Praise for *Playing to Win*

“Reading *Playing to Win* is like having prime seats at the Super Bowl of strategy. You’ll learn th strategies consumer goods powerhouse Procter & Gamble uses to get its innovative products in millions of homes—plus tested methods for winning your own marketplace contests. If you’re marketer or a leader, you need to read this book.”

—Daniel H. Pink, author, *Drive* and *A Whole New Mi*

“This is the best book on strategy I have ever read. Lafley and Martin get to the heart of what important: how to make choices in order to control events rather than allowing events to control yo choices. Everyone wants to win; this book sets down with calm authority the steps you must take turn aspiration into reality.”

—Sir Terry Leahy, former CEO, Tes

“Lafley and Martin teach us how to develop and then how to deploy strategy. Their recommendatio apply at every level—corporation, business units, products, and teams. This is a great book.”

—Clayton M. Christensen, Kim B. Clark Professor of Business Administration, Harva Business School; author, *The Innovator’s Dilemm*

“Most authors conduct research before they write a book. Lafley and Martin went out and d something. They used their simple, subtle framework—Where will we play? How will we win?— double the value of one of the world’s greatest businesses. And now they’re showing you how to c the same. Read this book… before your competitors find it.”

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“*Playing to Win* is a rare combination of depth of thinking and ease of use. It clearly explains wh business strategy is and isn’t, and how to develop it. Lafley and Martin distill their hard-w experiences and offer insights, practical hands-on tools, and tips that will inspire and allow you think strategically in new ways about your own business.”

—Jørgen Vig Knudstorp, CEO, Lego Grou

“A great CEO and a renowned educator join forces to create a must-read for anyone thinking abo strategy.”

—Jack Welch, former Chairman and CEO, General Electr

“Here is business strategy through the eyes of the man who led Procter & Gamble’s stunnin turnaround and success in the 2000s and the strategist who advised and worked with him. Lush wi insights that show the ‘what’ and the ‘how’ of two master strategists.”

—Scott Cook, cofounder and Chairman of the Executive Committee, Intu

"Lafley and Martin have invested their respective careers in understanding the complexity of strateg Wh~~at has emerged in this seminal work is a simple and rich framework that can help business~~ leade think through strategic choices. It is an eminently helpful guide to choice making, which is the mo essential part of leadership."

—James P. Hackett, President and CEO, Steelcase In

"*Playing to Win* is an insightful do-it-yourself guide that demystifies what it takes to cra implement, and continuously improve effective business strategies. Using relevant, real-wor examples, Lafley and Martin offer proven techniques for competing and winning in today challenging global business environment."

—Jim McNerney, President, CEO, and Chairman, Boei

"I love this book; it is thought provoking and acts as a catalyst to ask questions—about ourselves ar our business life course. In a day and age when information and instant communication are relentle components of business and our lifestyle, A.G. Lafley and Roger Martin suggest we take an importa pause to actually question our strategic road maps and the associated plans we need in order succeed in this marketplace."

—Thomas Tull, founder and CEO, Legendary Pictur

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Chapter One

Strategy Is Choice

By the late 1990s it became clear that P&G really needed to win in skin care. Skin care (includi soaps, cleansers, moisturizers, lotions, and other treatments) constitutes about a quarter of the tot beauty industry and has the potential to be highly profitable. When done well, it can engender inten consumer loyalty compared with other beauty categories like hair care, cosmetics, and fragrances Plus, there's significant knowledge and skill transfer from skin care to these other categories in term of technology and consumer insights. To be a credible player in the beauty business, P&G neede leading hair-care and skin-care brands. Skin care was the weak link. In particular, Oil of Olay w struggling. It wasn't P&G's only skin-care brand, but it was by far the largest and best known.

Unfortunately, the brand had baggage. Oil of Olay was seen as old-fashioned and no longer relevan It had come to be derisively called "Oil of Old Lady," a not entirely unfair characterization, as i customer base was growing older every year. More and more, when selecting a skin-care regime women were passing over Oil of Olay in favor of brands with more to offer. Oil of Olay's core produ (pink cream in a simple plastic bottle), sold mainly through drugstores at the bargain-basement pri of $3.99, just wasn't competitive against an ever-growing range of skin-care alternatives. By the la 1990s, Oil of Olay sales were clocking in below $800 million a year, nowhere close to the industr leaders in the $50 billion skin-care category.

All this presented a difficult strategic choice and generated a number of possible responses. P& could maintain status quo on Oil of Olay and launch a more relevant alternative under a differe brand name to compete for a new generation of consumers. But building a skin-care brand fro scratch to market leadership could take years, even decades. P&G could go for an immediate fi buying an established skin-care leader (think Estée Lauder's Clinique or Beiersdorf's Nivea brand) more credibly compete in the category. But an acquisition would be both expensive and speculativ Plus, over the previous decade, P&G had actively pursued several opportunities for leading bran with no success. P&G could attempt to extend one of its leading beauty brands, like Cover Girl, in the skin-care category. This too would be highly speculative. How easily could even a leadin cosmetics brand gain traction in skin care? Finally, P&G could attempt to revive a fading but sti valuable Oil of Olay to compete in a new segment. This meant finding a way to reinvent the brand the minds of consumers, a big investment with no guarantee of success. But P&G believed that the C of Olay brand had potential, especially with the right push behind it.

The good news was that there was still widespread consumer awareness of Oil of Olay, and as eve good marketer knows, awareness precedes trial. Michael Kuremsky, Oil of Olay's North Americ brand manager at the time, summed up the state of affairs: "There was still a lot of promise. [Bu there was really no plan."[2] The team wanted to turn the promise into a plan. The plan was to rema

Oil of Olay—its brand, its business model, its package and product, its value proposition, and even i
name. Out went "Oil of," and the brand was rechristened "Olay."[3]

Rethinking Olay

Together with Susan Arnold, then president of global beauty, we focused on the mid- and long-terr strategy for beauty, working to establish P&G as a credible contender in the sector. As P&G learne the beauty game, it could win across the categories. So, P&G invested in the SK-II brand (a supe premium Japanese skin-care line acquired when P&G bought Max Factor in 1991), Cover Girl (P&G leading cosmetics brand), Pantene (its biggest shampoo and conditioner brand), Head & Shoulders (i leading antidandruff shampoo line), and Herbal Essences (its hair-care brand aimed at a young demographic). The company bought Wella and Clairol, to create a position in hair styling and colo And it pursued acquisitions that could build leadership in skin care. The Olay team, meanwhil worked to reinvent the brand.

Led by Gina Drosos (then general manager for the skin-care business), the team set to work understand its consumers and its competition. The team members discovered, to no one's surpris that Olay's existing customers were price sensitive and only minimally invested in skin car Conventional wisdom was that the most attractive consumer segment was women aged fifty-plus ar concerned with fighting wrinkles. These women would pay significant premiums for promisir products, and this was where the leading brands tended to focus. But, Drosos recalls, "We found, as v looked at consumer needs in the market, that there was real growth potential with consumers wl were thirty-five-plus, when they noticed their first lines and wrinkles. Before that, a lot of wome were still using hand and body lotions on their face or really nothing at all."[4] The midthirties seeme to be a potential point of entry in women's skin care. At this age, consumers become more aware o and committed to, a regimen—cleansing, toning, and moisturizing and using day creams, nig creams, weekly facials, and other treatments to keep the appearance of youthful, healthy skin. In the midthirties, women tend to become more highly committed to skin care and are more willing to pa for quality and innovation. They seek out a preferred brand on a regular basis and try new offering from it. They become loyal devotees. These were the consumers Olay needed, but to play in th segment, Olay would have to up its game significantly.

Traditionally in the beauty industry, department store brands have taken the lead on innovatio developing new products and better products that, over time, trickle down to the mass market. Give P&G's greater scale, lower distribution costs, and considerable in-house R&D capabilities, there wa an opportunity to lead on innovation from the middle of the market. "We could flip this consume paradigm that the best technology trickles down," Drosos says. "We could have the best technolog come from Olay." So, P&G scientists went to work on sourcing and developing better and mor effective compounds—skin-care products that could dramatically outperform existing products in th market. Rather than focus exclusively on wrinkles as a product benefit, Olay broadened the valu proposition.

The research showed that wrinkles were but one of many concerns. Joe Listro, Olay's R&D vic president, notes, "Besides wrinkles, there was dry skin, age spots, and uneven skin tone problem Consumers were telling us, 'We have these other needs.' We were working on technologies from skin-biology and noticeable-appearance standpoint. We identified a material combination calle VitaNiacin that showed noticeable benefits across a range of these factors that could actually improv the appearance of skin."[5] Olay sought to redefine what anti-aging products could do. The result was series of new products, beginning with Olay Total Effects in 1999, that combined consumer insigh with ~~better active ingredients to fight the multiple signs of aging. The products marked a signi~~fica improvement in skin-care performance for consumers.

The new, more effective products could credibly be sold in departments stores like Macy's ar Saks, the *prestige channel* that accounted for more than half of the market. Olay had traditionally bee sold only in the mass channel, through drugstores and discount retailers. These mass retailer including Walgreens, Target, and Walmart, were P&G's biggest and best customers across multipl categories. But the company had precious little experience in, and influence with, department store where it sold in just a few categories. To play to P&G's strengths, it made sense to stay in mas channels, but only if department store consumers would defect there for Olay. To win with Olay i mass, the company had to bridge the mass and prestige markets, creating what it would come to call *masstige* category. Olay needed to shift the perception of beauty care in the mass channel, sellin higher-end, more prestigious products in a traditionally high-volume environment. It needed to attra consumers from both the mass and the prestige channels. To do so, the product itself was only a pa of the battle; Olay also needed to shift consumer perception of the brand and channel through i positioning, packaging, pricing, and promotions.

First, Olay needed to convince skin-care-savvy women that the new Olay products were just as goo as, or better than, higher-priced competitors. It began with advertising in the same magazines and o the same television shows as those populated by the more expensive brands; the idea was to put Ola into the same category in the consumer's mind. Ads highlighted Olay as the way to fight "the seve signs of aging," and outside experts were enlisted to bolster claims relating to the new and bett ingredients. Drosos explains, "We developed a breakthrough external-relations and credentialin program. We determined who would be the key influencers for consumers. We opened our labs t some of the top dermatologists to come in to see the work we were doing." Independent tests, whic showed Olay products performing as well as or better than department store brands costing hundre of dollars more, helped reframe consumer perceptions of performance and value. All of a sudde Olay was seen as offering high-quality products at an affordable price.

Olay also needed to look the part. The packaging had to represent an aspiration, but also effective deliver the product. Recalls Listro, "Most products in mass, and even prestige to some extent, we sold either in squeeze bottles or in generic jars. What we were looking for was a technology that cou deliver a thick cream elegantly, more like a lotion. We found this design that could actually pum creams." The result: a package that would look distinctive and impressive on the shelf, but also wo effectively once the product was at home.

Pricing was the next element. Traditionally, Olay products had sold, like most drugstore brands, i the sub-$8 price category (compared with department store brands, which could be priced anywhe from $25 to $400 or more). As Drosos explains, in skin care, there was the pervasive belief "that yo get what you pay for. Women felt the products available in the mass-market channel were just not a good." Olay's advertising and packaging promised a high-quality, effective product that coul compete with department store brands. Its pricing needed to hit the perfect note as well—not so hig that mass consumers would be turned off, but not so low that prestige consumers would doubt i efficacy (no matter what those independent experts said).

Listro recalls the testing that went on to determine the pricing strategy for Olay Total Effects: "W started to test the new Olay product at premium price points of $12.99 to $18.99 and got very differe results at those price points." At $12.99, there was a positive response and a reasonably good rate o purchase intent (a stated intention to buy the product in the future). But most of the subjects wh signaled a desire to buy at $12.99 were mass shoppers. Very few department store shoppers wer

interested at that price point. “Basically,” explains Listro, “we were trading people up from within th
~~channel.” That was good, but not enough. At $15.99, purchase intent dropped considerably.~~ Then,
$18.99, purchase intent went back up again—way up. “So, $12.99 was really good, $15.99 not so goo
$18.99 great. We found that at $18.99, we were starting to get consumers who would shop in bo
channels. At $18.99, it was a great value to a prestige shopper who was used to spending $30 or more
The $18.99 price point was just below Clinique and considerably below Estée Lauder. For the presti
shopper, it was great value, but not too cheap to be credible. And for the mass shopper, it signified th
the product must be considerably better than anything else on the shelf to justify such a premiu
Listro continues: “But $15.99 was no-man’s-land—way too expensive for a mass shopper and real
not credible enough for a prestige shopper.” So, with a strong push from the senior leadership tea
Olay took the leap to $18.99 for the launch of Olay Total Effects. It was set as the manufactur
suggested retail price, and the team worked hard to convince retailers to stick to that price.

Momentum started to build. Olay followed up with an even more expensive premium brand, with
yet-better active ingredient: Olay Regenerist. Then, it introduced Olay Definity and then the stil
higher premium Olay Pro-X—which sold at a $50 price point, something inconceivable ten yea
earlier. The team built and deepened capabilities around the new strategy. For most of the 1990
P&G’s skin-care business had grown at 2 to 4 percent per year. Following the 2000 relaunch, Olay ha
double-digit sales and profit growth every year for the next decade. The result: a $2.5 billion bra
with extremely high margins and a consumer base squarely in the heart of the most attractive part
the market.

What Strategy Is (and Isn’t)

Olay had a strategic problem that many companies struggle with—a stagnant brand, aging consume
uncompetitive products, strong competition, and momentum in the wrong direction. So, why was Ol
able to succeed spectacularly where so many fail? The people at Olay aren’t harder working, mo
dedicated, bolder, or luckier than everyone else. But their way of thinking about the choices they ma
was different. They had a clear and defined approach to strategy, a thinking process that enable
individual managers to effectively make clearer and harder choices. That process, and the approach
strategy that underpins it, is what made the difference.

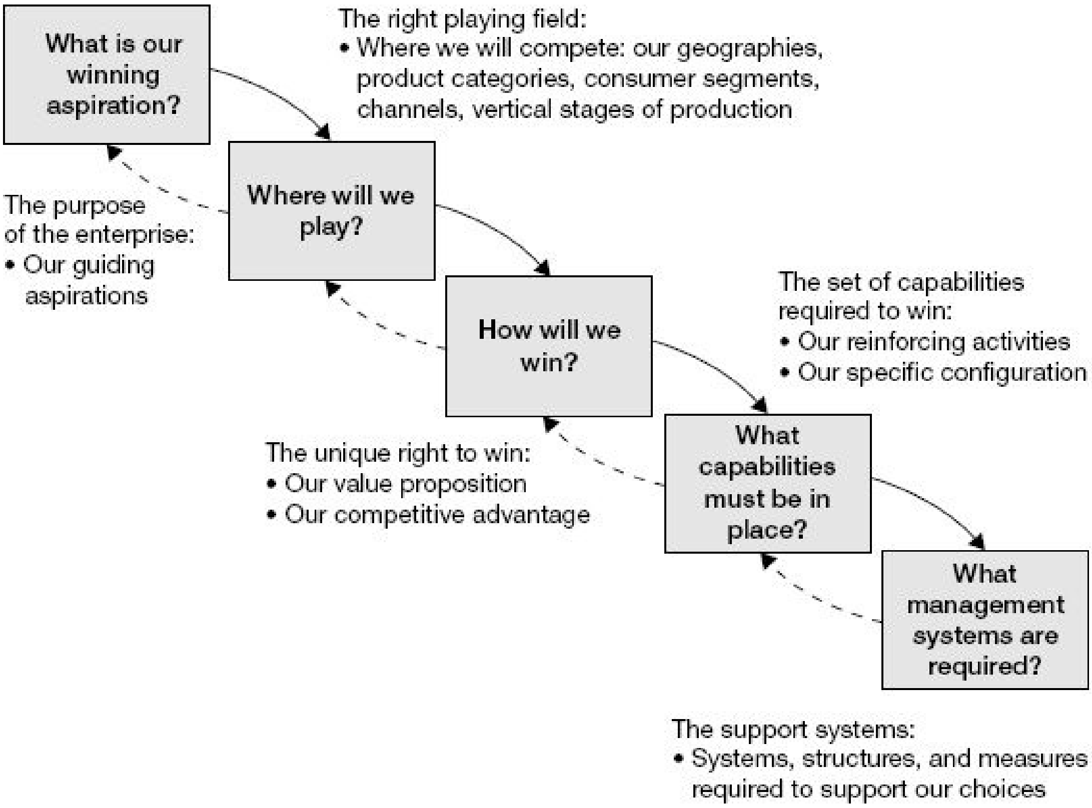
Strategy can seem mystical and mysterious. It isn’t. It is easily defined. It is a set of choices abo
winning. Again, it is an integrated set of choices that uniquely positions the firm in its industry so
to create sustainable advantage and superior value relative to the competition. Specifically, strategy
the answer to these five interrelated questions:

1. *What is your winning aspiration?* The purpose of your enterprise, its motivating aspiration.
2. *Where will you play?* A playing field where you can achieve that aspiration.
3. *How will you win?* The way you will win on the chosen playing field.
4. *What capabilities must be in place?* The set and configuration of capabilities required to win i the chosen way.
5. *What management systems are required?* The systems and measures that enable the capabilitie and support the choices.

These choices and the relationship between them can be understood as a reinforcing cascade, wi the ~~choices at the top of the cascade setting the context for the choices below, and choices~~ at tl bottom influencing and refining the choices above (figure 1-1).

FIGURE 1-1

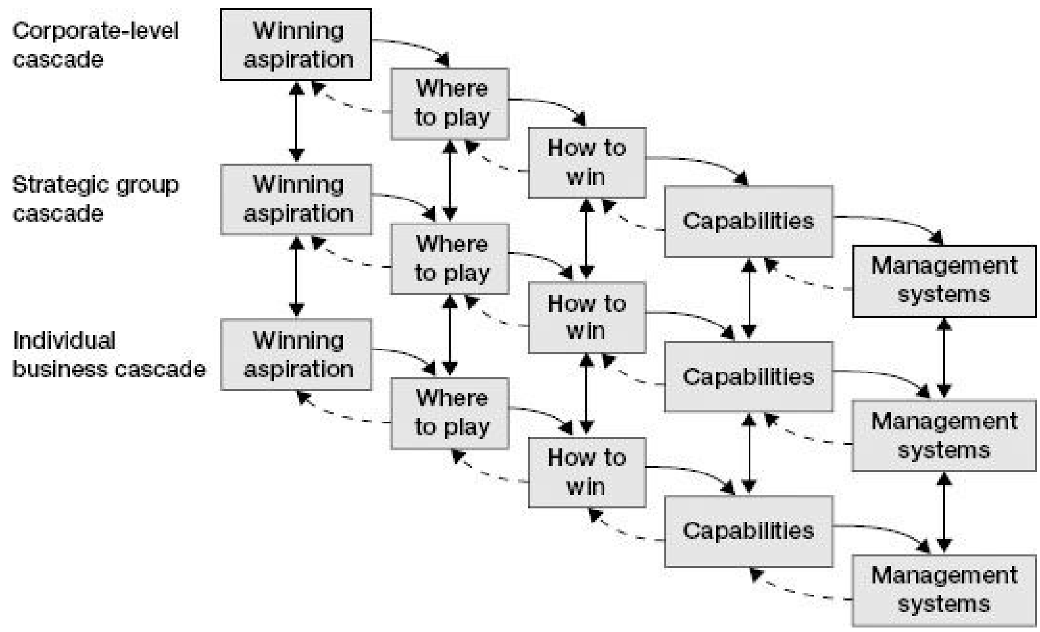
An integrated cascade of choices



In a small organization, there may well be a single choice cascade that defines the set of choices f the entire organization. But in larger companies, there are multiple levels of choices ar interconnected cascades. At P&G, for instance, there is a brand-level strategy that articulates the fiv choices for a brand such as Olay or Pampers. There is a category strategy that covers multiple relate brands, like skin care or diapers. There is a sector strategy that covers multiple categories, f example, beauty or baby care. And finally, there is a strategy at the company level, too. Each strateg influences and is influenced by the choices above and below it; company-level where-to-play choice for instance, guide choices at the sector level, which in turn affect the category-level and brand-lev choices. And the brand-level choices influence the category-level choices, which influence the secto and company-level choices. The result is a set of nested cascades that cover the full organizatio (figure 1-2).

FIGURE 1-2

Nested choice cascades



The nested cascades mean that choices happen at every level of the organization. Consider company that designs, manufactures, and sells yoga apparel. It aspires to create fierce brar advocates, to make a difference in the world, and to make money doing it. It chooses to play in its ov retail stores, with athletic wear for women. It decides to win on the basis of performance and style. creates yoga gear that is both technically superior (in terms of fit, flex, wear, moisture wicking, etc and utterly cool. It turns over its stock frequently to create a feeling of exclusivity and scarcity. draws customers into the store with staff members who have deep expertise. It defines a number capabilities essential to winning, like product and store design, customer service, and supply-cha expertise. It creates sourcing and design processes, training systems for staff, and logisti management systems. All of these choices are made at the top of the organization.

But these choices beget more choices in the rest of the organization. Should the product team sta only in clothing or expand to accessories? Should it play in menswear as well? Should the reta operations group stay in bricks and mortar or expand online? Within retail, should there be one sto model or several to adapt to different geographies and customer segments? At the store level, ho should the staff person serve the customer, here and now, in order to win? Each level in th organization has its own strategic choice cascade.

Consider the salesperson in the Manhattan store. She defines winning as being the best salesperso in the store and having customers who are delighted with her service. From not only her daily sal numbers but also her interactions with repeat customers and feedback from her peers, she knows she succeeding. Her where-to-play choice is largely defined by the folks who walk in the door, but sh may notice that there are types of customers, times of day, or parts of the store where she can be bring her skills to bear. She consequently turns her attention there. In terms of how to win, she ma have one approach for customers who are new to yoga and intimidated by all the choices (offerin advice not just on attire but on how to get started, as well as reassurance that it will all make sense time), another for aficionados (highlighting the technical specs of the gear but also swapping stori about classes and instructors), and another for the fashion crowd who seek yoga pants not for athleti but for running errands (pointing out racks of new arrivals, emphasizing unique colors and designs She ~~chooses to develop her own capabilities in clear communication, understanding technical~~ spec and practicing different forms of yoga. She builds her own management systems, like a personal che sheet for products and styles and a directory of her favorite local studios and instructors.

These frontline choices may not seem as complex as the choices facing the CEO, but they a indeed strategic choices. Like the CEO, a salesperson must make the best choices she can und constraints and uncertainty. Her constraints came from the choices made above her in th organization, from the demands of her customers, and from the strategies of her competitors. For th CEO, the constraints came from the expectations of the capital markets, the company's cash reserve and the directions of the board of directors. Both the salesperson and her CEO are making strateg choices and acting upon them—the only difference is the scope of the choices and the precise natu of the constraints.

Strategy can be created and refined at every level of the organization using the choice cascad framework. Each box of the choice cascade is the subject of an upcoming chapter, but for now, we' explain a little about each one, using Olay brand-level and P&G company-level choices illustrations.

Winning Aspirations

The first question—what is our winning aspiration?—sets the frame for all the other choices. company must seek to win in a particular place and in a particular way. If it doesn't seek to win, it wasting the time of its people and the investments of its capital providers. But to be most helpful, th abstract concept of winning should be translated into defined aspirations. Aspirations are statemen about the ideal future. At a later stage in the process, a company ties to those aspirations some specif benchmarks that measure progress toward them.

At Olay, the winning aspirations were defined as market share leadership in North America, $ billion in sales, and a global share that put the brand among the market leaders. A revitalized an transformed Olay was expected to establish skin care as a strong pillar for beauty along with hair car Establishing and maintaining leadership of a new masstige segment, positioned between mass an prestige, was a third aspiration. This set of aspirations served as a starting point to define where play and how to win, enabling the Olay team to see the larger purpose in what it was doing. Clari about the winning aspirations meant that actions at the brand, category, sector, and company lev were directed at delivering against that ideal.

At the overall company level, winning was defined as delivering the most valuable, value-creatin brands in every category and industry in which P&G chose to compete (in other words, mark leadership in all of P&G's categories). The aspiration was to create sustainable competitiv advantage, superior value, and superior financial returns. P&G's statement of purpose, at the tim read as follows: "We will provide products and services of superior quality and value that improve th lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit an value creation, allowing our people, our shareholders, and the communities in which we live and wo to prosper." Improving consumers' lives to drive leadership sales, profit, and value creation was th company's most important aspiration. It drove all subsequent choices.

Aspirations can be refined and revised over time. However, aspirations shouldn't change day to da they exist to consistently align activities within the firm, so should be designed to last for some tim A definition of winning provides a context for the rest of the strategic choices; in all cases, choic

should fit within and support the firm's aspirations. The question of what a winning aspiration is wi
be further explored in chapter 2.

Where to Play

The next two questions are where to play and how to win. These two choices, which are tightly bour up with one another, form the very heart of strategy and are the two most critical questions in strateg formulation. The winning aspiration broadly defines the scope of the firm's activities; where to pla and how to win define the specific activities of the organization—what the firm will do, and whe and how it will do this, to achieve its aspirations.

Where to play represents the set of choices that narrow the competitive field. The questions to b asked focus on where the company will compete—in which markets, with which customers ar consumers, in which channels, in which product categories, and at which vertical stage or stages of th industry in question. This set of questions is vital; no company can be all things to all people and sti win, so it is important to understand which where-to-play choices will best enable the company to wi A firm can be narrow or broad. It can compete in any number of demographic segments (men ag eighteen to twenty-four, midlife urbanites, working moms) and geographies (local, nationa international, developed world, economically fast-advancing countries like Brazil and China). It ca compete in myriad services, product lines, and categories. It can participate in different channe (direct to consumer, online, mass merchandise, grocery, department store). It can participate in th upstream part of its industry, downstream, or be vertically integrated. These choices, when take together, capture the strategic playing field for the firm.

Olay made two strategically decisive where-to-play choices: to create, with retail partners, a ne masstige segment in mass discount stores, drugstores, and grocery stores to compete with prestig brands and to develop a new and growing point-of-entry consumer segment for anti-aging skin-ca products. Many other where-to-play options were considered (like moving into prestige channels ar selling through department and specialty stores), but to win, Olay's choices on where to play neede to make sense in light of P&G's company-level where-to-play choices and capabilities. P&G tends t do well when the consumer is highly involved with the product category and cares a good deal abo product experience and performance. It excels with brands that promise real improvement when th consumer puts in effort on a regular basis, as part of a well-defined regimen. P&G also does well wi brands that can be sold through its best customers, retailers with which it has strong relationships ar with which it can create significant shared value. So, the Olay team decided where to play with th P&G choices and capabilities in mind.

Corporately, when it came to where to play, the company needed to define which region categories, channels, and consumers would give P&G a sustainable competitive advantage. The ide was to play in those areas where P&G's capabilities would be decisive and to avoid areas where the were not. The concept that helped P&G leaders sort one area from the other and to define the strateg playing field clearly was the idea of *core*.

We wanted to play where P&G's core strengths would enable it to win. We asked which brand truly were core brands, identifying a set of brands that were clear industry or category leaders ar devoting resources to them disproportionately. We asked what P&G's core geographies were. Wit ten countries representing 85 percent of profits, P&G had to focus on winning in those countries. W asked where consumers expected P&G brands and products to be sold, that is, mass merchandisers ar discounters, drugstores, and grocery stores. Core became a theme in innovation as well. P&