

INTRODUCTION

THE JOY OF STRATEGY

Strategy is fun! Plotting the strategy for your own business may be the most rewarding and fulfilling thing you do this year. If you read this book – just Part Two will do if you are in a hurry – you will *enjoy* devising your strategy and your firm will make a lot more money. So should you!

(And if you buy our software, you'll be able to plug in all your numbers and, hey presto!, you'll have wonderful charts drawn summarizing what really matters for your business.)

The strategy of *individual* businesses is one of the most important forces in the universe. The force lies in the creation of wealth from raw materials that nobody else thought to use in that way. Because each business and each part of a business is different from any other business, it's possible to make a lot of money and have happy customers. The trick is to follow the rules of strategy – which are now proven, easy to understand, and easy to use – to create something different and better, so that particular sets of customers like your product more than any other and competitors can't copy you.

These simple rules of strategy have been made to sound complicated and forbidding by the experts – academics and consultants – who want you to depend on them. But the truth is that the rules of strategy are a lot less difficult to grasp than the rules of poker. And a lot more profitable too!

All you need is a simple guide that makes plotting strategy sound as easy as it really is. You're holding that guide in your hands.

BUT WHAT IS STRATEGY?

Most simply, strategy can be defined as the rules and actions used to steer a business towards making much more money.

Strategy comes in two flavors. There is *corporate* strategy – plotting the direction of a portfolio of businesses, usually by a corporate head office. That’s important, but if you are a practical manager or an entrepreneur, that’s not what you need.¹

Then there is *business* strategy – crafting the strategy for individual businesses. That’s what you need. That’s what this book is about.²

A FRESH VIEW OF BUSINESS STRATEGY

Business strategy is strategy developed for individual, self-contained businesses, supplying one main market. These units can be part of larger corporations, or stand-alone small- or medium-sized businesses. Contrary to popular belief, the concepts of strategy are most valuable when used by managers running self-contained businesses. It’s at the business level that managers have to decide where and how to spend their limited resources – their own time, the talents of their people and the cash entrusted to them. If you’re a business owner or operational manager, business strategy can:

- ◆ *help you define the different parts of your business, where you need to do different things to be successful;*
- ◆ *show in detail where you make the most profits and cash, and why;*
- ◆ *understand the customer’s perspective and why people buy from you or from competitors;*
- ◆ *indicate where you should concentrate most effort and cash;*
- ◆ *work out the extent of likely profit improvement opportunity, from changing product/customer mix, prices and/or cutting costs;*
- ◆ *help you to understand why you have been successful or unsuccessful in particular areas and initiatives;*
- ◆ *show up any missing skills;*
- ◆ *identify business segments or product lines that should be discontinued or sold;*
- ◆ *show which customers should be cultivated most and how to lock them into the firm’s products for ever;*

¹ If you *are* interested in corporate strategy, if you are running a big group of businesses for example, then you’ve got the wrong book. The book you need is Richard Koch (2006, third edition) *The Financial Times Guide to Strategy*, FT Prentice Hall, London.

² Many people refer to ‘business unit strategy’. We prefer ‘business strategy’ as it’s simpler. But the terms mean exactly the same.

- ◆ *develop business culture and competencies so that it can be more successful than competitors at meeting the needs of its best customers.*

WHO SHOULD DEVELOP STRATEGY?

It's silly for one set of people to draw up a plan and then hand it over to another group of people to implement. Yet what's silly often happens. Outside strategists – consultants or people from head office – develop the plans, kick off the strategy, then retire to a safe distance, handing implementation to managers. Then the outsiders monitor the results and complain about them. That approach usually bombs. Neither the strategists nor the managers are to blame. The flaw lies in the process itself.

A strategy has to be adapted to real-life relationships between employees, customers, suppliers, and other people. Any strategic shift has to be gradually introduced, crafted and re-crafted. Some changes won't work at all and must be junked. Other changes have some of the desired effects but unexpected and unwelcome side-effects – these changes have to be modified. Yet other innovations work amazingly well and should be rolled out more vigorously and completely. Only managers can do this. A strategy will only work if the executives pursuing it understand it, believe in it, and have the authority and confidence to dump or develop different parts of the strategy in response to feedback.

Business strategy should be developed by operating managers in each strategic business unit (SBU) – in each self-contained business serving one main market.

Yet there can be a problem even with this approach. Major strategy revision rarely happens once a quarter or even once a year. Most businesses will do a 'strategy proper' every seven to ten years, and even the most assiduous would only review strategy every three to five years, with small tune-ups in between. As a result, most managers are unfamiliar with how to develop a strategy. Even if they are allowed to take on the task – which usually they are not – managers are understandably reluctant to do so.

So businesses often bring in strategy consultants. They develop a strategy and are actively involved in its implementation, gradually fading out (sometimes, very gradually) as the operating managers feel more and more comfortable with their control of the strategy and ability to adapt it.

The method is very expensive. Before a strategy advice can be formulated, the consultants have to acquire a thorough understanding of the business and its environment. The team of consultants has to be well rounded to cover all

aspects of business operations, and high-caliber to comprehend these quickly. The team has to gather extensive information from within and outside of the business, and come to grips with it. Only then can it start to formulate and evaluate the various strategic options.

The high fees are warranted, the consultants say, by the profit improvement they can bring. What the consultants don't say, however, is that all of the benefits from their work, and more, could often be obtained if the operating managers developed the strategy themselves. Almost everyone assumes this is impossible. They are wrong.

Armed with the book you hold in your hands (and our software), you can devise your own strategy. The only help you might consider would be a 'strategy facilitator', someone with practical knowledge of developing strategy. The facilitator may be available inside the firm, or can be hired short-term from the outside. The facilitator works with the operating managers to develop the strategy, without taking over responsibility for making the decisions. Whether you use a facilitator or not, we'll show you how to craft your own strategy, and have fun doing so.

BUSINESS STRATEGY IN TEN EASY STEPS

Originality in strategic thinking is much less important than synthesizing what is available. One has to be clear where the different approaches are most useful and about the trade-offs between them. Most of all it's about putting the heart of strategy back where it belongs, at the sharp end of business unit reality. In our charter for business strategy this means two things:

- ◆ *placing emphasis on building strategy from the bottom up, based on numbers – the sales and particularly the profits made by the different activities;*
- ◆ *employing a synthesis of the 'positioning view' of strategy and of what is often seen as the competing 'resource-based view'. (Read more on this in Appendix One.)*

We're about to run through ten easy steps to develop business strategy.

Each step has been tested in large and small organizations and proven its value over many years and under many different circumstances. We promise that the ten steps will give you the most 'bang for your buck'.

ILLUSTRATION 1.1

Ten easy steps for plotting your strategy

Step	Title	Objective
1	What business are you in?	Segment your business according to your customers and your competition
2	Where do you make the money?	Define your true profitability by segment, by product and by customer
3	How good are your competitive positions?	Determine the strength of your positions
4	What skills and capabilities underpin your success?	Find out what you do well and why you are successful in your business
5	Is this a good market to be in?	Determine the attractiveness of your markets
6	What do the customers think?	Learn about the views of your customers and what that means for how you do business
7	What about the competitors?	Get insight into your competitors and their perspective on the business
8	Should you do something else?	Decide where to innovate in your business
9	Who are you, and what will you do?	Finalize your strategy by defining what you are now, who you want to be and how to change
10	How can you raise profits quickly?	Decide the steps to take for short-term improvements

It's now time to start – with a strategy for your own business ...