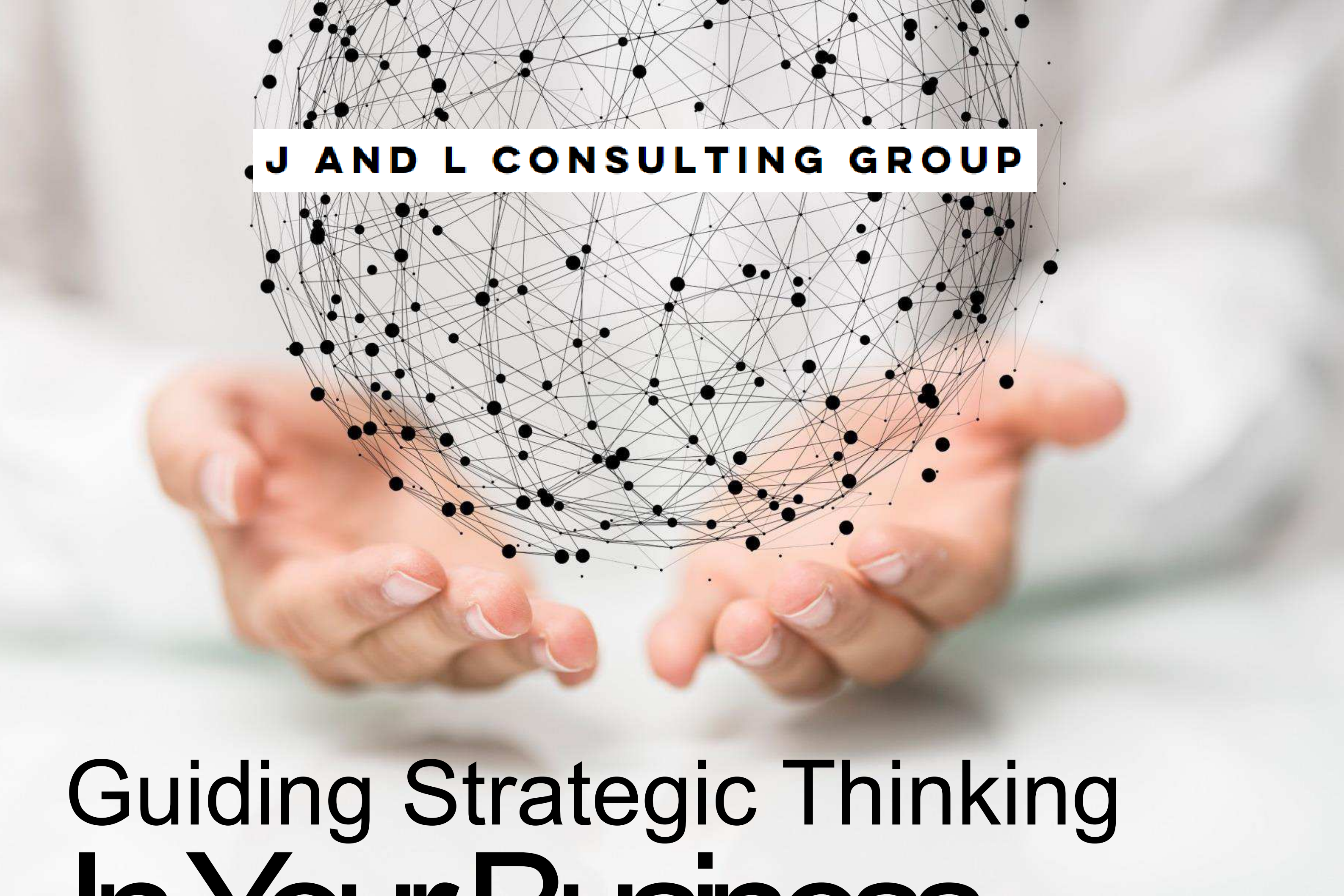

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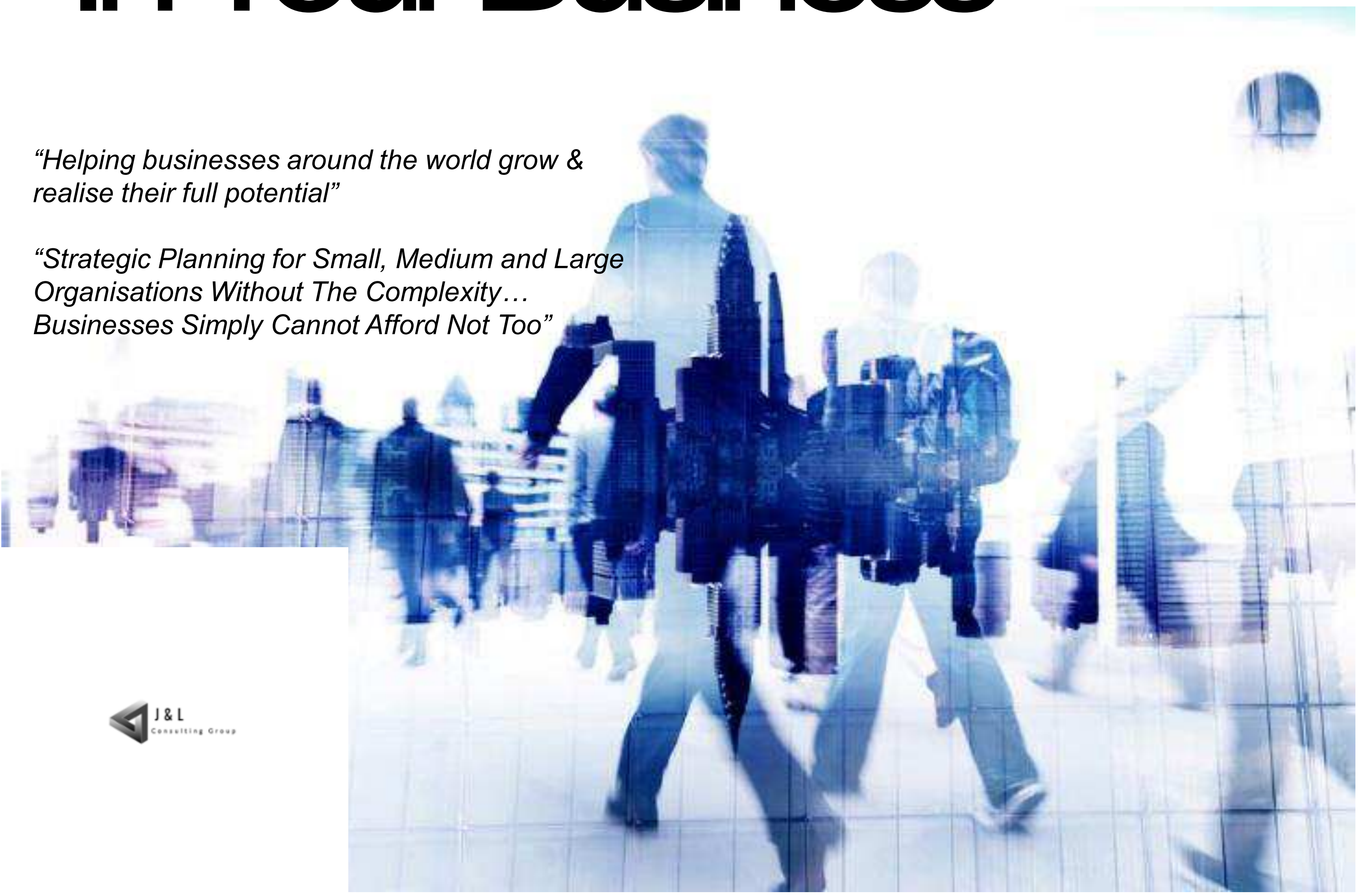
Guiding Strategic Thinking In Your Business



“Helping businesses around the world grow & realise their full potential”

“Strategic Planning for Small, Medium and Large Organisations Without The Complexity… Businesses Simply Cannot Afford Not Too”

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Guiding Strategic Thinking In Your Business

Chapter 1

Why strategy?

It is often wondered whether successful companies have well-crafted and executed strategies or whether they were just at the 'right place at the right time'. If companies had to do it again, can they replicate their success? Many companies found that their 'star status' faded quickly as a result of not maintaining 'sustainable competitive advantage' (Liu 2013).

However, companies such as Google, Apple, Coca-Cola, Proctor & Gamble, McDonalds and General Electric have risen to the top and managed to sustain their competitive advantage, pleasing customers and shareholders year-on-year. Thompson et al. (2014), p.3, states that only one thing can account for the kind of long-lived success records that we see in the world's greatest companies – and that is a cleverly crafted and well-executed strategy.

So, what do we mean by Strategy? The explanation by Thomas et. al (2014) seems fitting for our discussion. *"A company's strategy is its action plan for outperforming its competition and achieving superior profitability"*. By this explanation, we mean a company's strategy represents the company's managerial commitment to a coordinated collection of considered choices about how to compete in the market place.

In delving deeper into the explanation of strategy - the company understands its present situation, including its business environment & industry conditions, and its financial & competitive capabilities. The management team knows where they want to go from their current situation and creates a vision for the firms future direction. The strategy isn't complete until it makes considered choices about how they are going to get there. Essentially, the management team crafts an action plan for heading the company in the intended direction, staking out a market position, attracting customers, achieving the targeted financial and market performance, and getting the company where it wants to go.

Chapter 1

Now that we know something about strategy, let's take a look at what strategy is about. First and foremost, **Strategy is about competing differently.** By this we mean that every strategy has a distinctive element that attracts customers and produces a competitive edge. There is overwhelming abundance of opportunity for companies of all sizes to fashion a strategy that is cognisant of the company's unique situation and yet distinctly different from the strategies of its competitors.

In effect, Strategy is all about: ***How*** to attract and please customers; ***How*** to best compete against rivals; ***How*** the company should be positioned in the marketplace; ***How*** the company could best respond to changing economic and market conditions; ***How*** to capitalize on attractive opportunities to grow its business, and ***How*** to achieve the company's performance targets. Fundamentally, the objective of a company's strategy, is not merely temporary competitive success and profits in the short run, but rather the enduring success that supports growth and secures the company's future over the long term.

So why bother with strategy? Irrespective of the size, type and nature of the company, every company needs a strategy to specify what actions are to be taken to improve the company's financial performance, strengthen its competitive position, and gain a sustainable competitive advantage over its market rivals. A creative and distinctive strategy helps companies to produce above-average profits and increase competitive pressures on rivals – whether to protect its current market position or move to a new and improved market position.

Crafting & Executing Strategy: A remarkable five step framework

Step 1. Developing a Strategic Vision, A Mission Statement, and a Set of Core Values. The company's senior managers, owner, and/or Chief Executive Officer must deliberate over the issue of what directional path the company should take. This deliberation must happen at the outset of the strategy making process, as it pushes managers to draw conclusions about whether or not the company's current strategic course offers attractive opportunities for growth and profitability, or whether changes in the company's strategy is needed.
In order to delineate management's future aspirations for the company to its stakeholders, the company's management team must craft a winning Strategic Vision. The Vision statement provides direction to its employees as to where the company is going. It sets out the compelling rationale for the company's direction with the use of distinctive and specific language to set the company apart from its rivals. A winning Vision Statement motivates, informs, and inspires internal and external stakeholders and demonstrates top management's support for the company's future strategic direction, notwithstanding its competitive efforts.

In developing the company's Mission Statement, top management must use specific language to give the company its own unique identity. Essentially the company's Mission Statement describes its current business and purpose – "who we are, what we do, and why we are here". It focuses on describing the firm's business and identifies its products/services, specifies the buyer needs that it seeks to satisfy and the customer groups or markets its serves, and gives the company its own unique identity.

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While some company's tend to do better than others in crafting descriptive Mission Statements that clearly articulates its purpose and its present business, we find that answering three simple questions can elevate your mission statement – "Who we are, What we do, and Why we are here?" Here is our personal favorite - a cleverly crafted Mission Statement:

Occupational Safety and Health Administration (OSHA): "To assure the safety and health of America's workers by setting and enforcing standards; providing training outreach, and education, establishing partnerships; and encouraging continual improvement in workplace safety and health".

The distinction between a strategic vision and a mission statement is simple. A strategic vision portrays the company's future aspirations or where it is going whereas the company's mission statement is about here and now – its current purpose and present business. Linking the Vision and Mission with Company Values or Core Values is the company's recipe for doing business.

The company's Core Values contribute to its business success and becomes an integral part of the company's culture. This is especially true when strongly advocated by top management. In essence, the company's core values or company values are the beliefs, traits and behavioral norms that employees are expected to display in conducting the company's business in pursuit of its strategic vision and mission.

Most companies articulate between four and eight core values. One important aspect of developing core values is the consolidated view of top management. Do companies practice what they preach or are these values simply window-dressing? When values are ingrained into the fabric of the business and top management practice what they preach, holding themselves and employees accountable for embodying the stated values – these companies set themselves up for success. Our choice of a great set of company values goes to Kodak.

Chapter 2

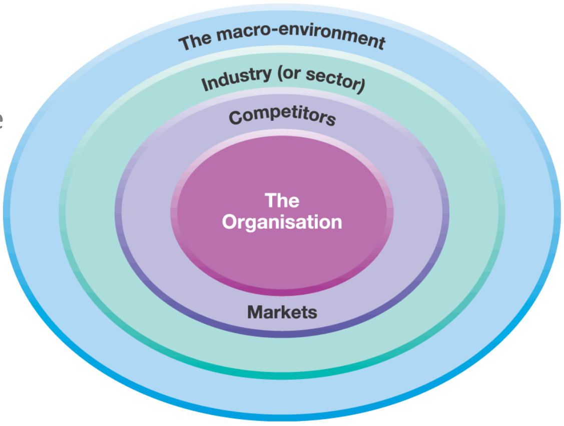
“Respect for the dignity of the individual, uncompromising integrity, unquestioned trust, constant credibility, continual improvement and personal renewal, and open celebration of individual and team achievements”.

Regardless of size and type of company, the vision and mission must be converted into specific, measurable and time-bound performance targets. We refer to these targets as Objectives. Therefore, setting objectives becomes the managerial purpose of converting the company’s vision and mission into performance targets. The setting of objectives helps focus efforts and align actions throughout the company. These objectives serve as yardsticks for tracking the company’s performance and progress towards its mission and vision. A good set of objectives are SMART – *Specific, Measurable, Achievable, Realistic, and Time-bound.* As articulated by Bill Hewlett, cofounder of Hewlett-Packard, “You cannot manage what you cannot measure”. Good objectives motivate employees to expend greater effort and perform at higher levels.

Most high performing company’s understand the imperatives of setting stretch objectives – over and above their strategic objectives. Setting stretch objectives promotes more effective overall business performance because stretch targets:

- Increase the company’s innovativeness
- Place increased levels of urgency for improving financial performance and competitiveness
- Prevents internal inactivity and acceptance of the status quo
- Enables the firm to be intentional with its decisions and focused on its actions

In setting Objectives, there are very distinct types of objectives required. These are Financial and Strategic type objectives. Financial objectives relate to top managements goals for financial performance and are focused internally on the company's operations and activities. Strategic objectives are the company’s goals that relate to market positioning and competitive positioning. These objectives focus externally on competition and its rival companies. The importance of setting and attaining financial objectives is obvious. Without reasonable profitability and financial strength, the company’s long term welfare and survival will be seriously jeopardized. However, strategic outcomes are the best leading indicators of a company's future financial performance. Therefore, the accomplishment of strategic objectives indicates that the company is well positioned to sustain its current performance or improve its performance. The most widely used framework for balancing financial objectives with strategic objectives is the Balanced Scorecard. This approach of linking financial objectives to specific strategic objectives is a great way of providing the company's employees with clear guidelines about how their jobs are linked to the overall objectives of the company.



Step 2. Evaluating your company's external environment. In evaluating your company's External Environment, the key question we are looking to answer is; *"What are the strategically relevant factors in the macro-environment?".* The most effective and widely accepted analytical tool is PESTEL Analysis. PESTEL analysis focuses on the principal components of strategic significance in the macro-environment. Essentially, the analytical tool help us understand the environmental factors that are affecting your company and which of these factors are the most important at the present time and in the next few years. PESTEL is the abbreviation for **P**olitical, **E**conomic, **S**ociocultural, **T**echnological, **E**nvironmental, and **L**egal. Political factors generally include factors such as: Government stability, taxation policy, foreign trade regulations, social welfare policies etc. Economic factors include factors such as: Business cycles, GDP trends, interest rates, money supply, inflation, unemployment and disposal income. Sociocultural factors include factors such as: Population demographics, income distribution, social mobility, lifestyle changes, attitudes to work and leisure, and levels of education. Technological factors could include factors such as: Government spending on research, government and industry focus on technological effort, new discoveries or developments, speed of technology transfer, and rates of obsolesce.

Environmental factors generally include factors such as: Environmental protection laws, waste disposal, and energy consumption. Legal factors could include factors such as: Competition law, employment law, health and safety, and product safety.

PESTLE analysis is not just a list of influences but rather a starting point to understanding the key drivers of change. Drivers of change have differing impacts on industries, markets and organisations. The focus is on future impacts of environmental factors, simply put – *Where is this industry headed?* Now that we know something about our macro-environment, Let's take a look at the Immediate Industry and Competitive Environment.

Whether you are a small, medium or large business owner, you will find the operating environment changing faster than ever. The framework that all businesses should be familiar with, regardless of size, is Porters Five Forces Analysis. Porter's framework provides a model that will enable your company to analyze its industry in a way that takes your competitors' activities into account. Porters Five Forces is a highly popular analytical tool used in many businesses. It is often regarded as credible and highly practical which is powerful when used to compliment SWOT analysis. This is because it looks at the power your competitors have and the force they can exert on the market within which you operate in and how this could affect your business and its long term success. Porter's framework considers five forces that determine the attractiveness of your market by analyzing the competitive strength. The five key factors used in the framework to identify and evaluate potential risk and opportunities are:

- Competitive rivalry
- Threat of new entrants
- Threat of substitutes
- Bargaining Power of suppliers
- Bargaining power of customers

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Industry Driving Forces. The concept of driving forces was developed with the intention of provoking a way of thinking about a company's strategic intent. The outcomes of Industry Driving Forces analysis are a set of factors which decisively affects the products or services your company will and will not offer and the markets – customers, consumers, and geographies, it will and will not service.

When conducting driving forces analysis, firstly, all main driving forces in your particular industry must be identified. Assessing and ranking the impact of each driving force, in our expert opinion, requires either a positive or negative impact assessment. That's about it. We believe that any intrusive analysis does not outweigh the cost for an incremental shift in knowing more about how the driving force would impact your company. Each driving force has positive elements that identify opportunities and negative elements that identify risk.

Industry Driving Forces, whilst a great analytical tool, cannot singlehandedly determine a company's strategy. When used to complement other analytical tools, such as PESTEL, Porters Five Forces etc., your company will have a greater chance of developing a strategy that is meaningful and realistic. Let's look at some of the most common driving forces that affects change in almost any industry.

- Internet and the new e-commerce opportunities and threats it breeds in the industry
- Increasing globalization
- Change in the industry's long-term growth rate
- Changes in who buys the product and how they use it
- Product innovation
- Technological changes
- Marketing innovation
- Entry or exit of major companies
- Diffusion of technical know-how across other companies and countries
- Changes in cost and efficiency
- Growing buyer preferences for differentiated products and services instead of commodity products
- Reduction in uncertainty and business risk
- Regulators influence and government changes in policy
- Changing societal concerns, attitudes and lifestyles

Understanding driving forces that influence change in your industry is fundamental to managers, business owners and CEOs. Strategy cannot be developed without understanding and matching emerging conditions. Our assessment of Driving Forces Analysis is that it has practical value and is basic to the task of thinking strategically about where the industry is headed and how to prepare for the changes.

Step 3. Thinking strategically about your internal environment.

To deal with the Internal Factors of your company, SWOT analysis is business analytical tool that is widely used and accepted by all types and size of companies. Here is another tool that compliments the tools discussed in analysing your company's external environment. One of the great things about SWOT analysis is that it can be undertaken by a single person or a group of people.

SWOT is an acronym that stands for Strength, Weaknesses, Opportunities and Threats. It uses basic information about your company to identify what strengths and weaknesses your company has, and it also helps to spot the opportunities that may arise and the threats it is likely to face. Let's explore SWOT analysis in a little more detail.

Strengths are those factors that are under your control, and you can decide how best to utilize them to gain competitive advantage. Essentially, it describes the positive factors of your company. These positive attributes are considered as internal factors and you may classify the strengths based on:

- Expertise, highly skilled
- Brilliant marketing team
- Access to capital
- Industry influence

Opportunities are also positive or attractive factors that are considered beyond your company's control. These opportunities reflect the potential of the business and current implemented marketing strategy.

Thinking strategically about these factors opens up possibilities for your company to do well, and if taken advantage of, will give your company a significant competitive advantage over rival companies. Some general but highly effective questions to ask when undertaking this assessment are:

•What opportunities exist in your market or the environment that you can benefit from?
•Is the perception of your business positive?
•Has there been recent market growth or have there been other changes in the market to create an opportunity?
•Is the opportunity ongoing, or is there just a small window for it? In other words, how critical is your timing?

Threats relevant to your company, are those external, negative factors that are beyond your control that would place your strategic plan, or company at risk. Through effective strategic planning, even though you have zero control over these factors, you could have contingency plans to address these threats, should they occur. Potential threats could arise from:

•Existing or potential competitors
•Unfavorable trends or developments that are leading to deteriorating revenues or profits
•Situations that are threatening your marketing efforts
•Significant changes in supplier prices or the availability of raw materials
•Shifts in consumer behavior , the economy, or government regulations that could reduce your sales
•New products or technology being introduced making your products, equipment, or services obsolete.

In thinking strategically about your company's internal environment, we are great fans of understanding the **Key Success Factors** required to be successful in an industry.

An important point to note, whilst obvious, is that Key Success Factors are defined by the market and the customer, not by the company. KSF's revolve around processes, systems and skills and are those functions, activities or business practices viewed by the customer that is critical to the customer/vendor.

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There are generally around 5 Key Success Factors in every industry. Thinking a bit too detailed and concentrating on micro-factors, even a little, could be detrimental, as it deters managers, business owners, and CEOs from concentrating on the factors that truly matter. Many studies have been conducted on high level Key Success Factors or groups of Key Success Factors. Here are the five Key Success Factors that we support and think that every company should consider:

1) Managing and developing people – Giving people direction and structure is fundamental in business, but including freedom and empowerment to develop their skills and knowledge is key.

2) Strategic focus – Having a purpose just for the existing is risky. In a rapidly changing external environment, leaders have to focus the company's resources on opportunities which are dynamic.

3) Operations or what people do all day – Creating value for customer is largely dependent on what your employees do day-in and day-out. These activities also justify income and strongly determine whether your company will succeed or fail.

4) Physical resources – The three major physical resources are finance, facilities and equipment. Sustaining a company requires money, so lack-off becomes a serious issue. The biggest expenses for most companies are providing adequate facilities and equipment for employees to work in and with.

5) Customer relations – Essentially, your customers are where the money comes from. So fundamentally, this is the most important success factor. "The purpose of a business is to get and keep customers".

Articulating Key Success Factors in your company is a great start. However, it does not stop there. To enable success, it is what you do with them that matter.

Step 4. Crafting Winning Strategies. When competing successfully and gaining competitive advantage over your rivals, there are several basic approaches. However, we believe three of these approaches are most fundamental. All of the approaches that we will discuss involve delivering more value to customers than your rivals or delivering a more efficient service or products than your rivals. We refer to better value as delivering a good product or service at low cost or a superior product or service that is worth paying more for. Greater efficiency means providing a certain level of value to customers at low-cost to your company. No matter what approach you decide to take, delivering value always requires performing value chain activities differently than your rivals and building competitively valuable resources and capabilities that your rivals cannot match or easily replicate.

The two biggest factors that distinguishes a company's strategy are: 1). whether a company's target market is broad or narrow, and 2). whether the company is pursuing competitive advantages that are linked to low-cost or differentiation. A *Low-Cost Provider Strategy* entails striving to achieve lower overall costs than competitors on comparable products that attract a broad spectrum of buyers. A *Broad Differentiation Strategy* entails seeking to differentiate your company's product from its competitors with superior attributes that appeals to a broad spectrum of buyers. A *Focused Strategy*, whether Low Cost or Differentiation, concentrates on a narrow or niche market segment. In this strategy, whilst the focus is narrow the strategic objectives of Low-cost provider or Differentiation remains the same.

Low-Cost Provider strategies is a powerful competitive approach when you strive to be the overall low-cost provider in your industry. To be truly effective as a low-cost provider, you must pursue cost-savings that are difficult to imitate and avoid reducing product quality to subpar levels.

In a low-cost strategy there are competitive advantages to be gained and certain risks to manage. Firstly, by being the lowest cost industry provider, you can increase market share and increase total profits. When your products are comparable to competitor prices, your profit margins are much larger. Two major risks of a low-cost strategy are: low pricing may not necessarily attract new buyers and competitors retaliatory price cutting could potentially set-off a “price war”.

The keys to be a successful low-cost provider comes from out-managing rivals by finding ways to perform value chain activities faster, more accurately, and more cost-effectively. You can achieve this By:

- Aggressively spending on resources and capabilities that promise to drive cost out of your business
- Before investing in new technologies, perform detailed cost-benefit analysis to estimate the costs savings
- Constantly review cost-saving resources to ensure they remain competitively superior than competitors.

In *Broad Differentiation Strategies,* effective differentiation approaches entail a careful study of buyer needs and behaviors, values and willingness to pay for a unique product or service. Differentiation strategies incorporate features that both appeal to buyers and create a sustainably distinctive product offering. The value-add of this strategy is the higher prices that recoup the cost of differentiation. The advantages of Differentiation Strategies include:

- Your company’s products will command premium prices
- Attractive differentiation increases unit sales
- Buyer loyalty tends to bond customers to the company’s products

Company’s can develop differentiation through understanding and delivering product or service uniqueness. Uniqueness can be driven by striving to create superior product features, design, and performance. Company’s must look to improve customer service and add additional services whilst pursuing innovation and technology advances. The pursuit of continuous quality improvement and increasing emphasis on marketing and brand-building activities is a sure way to achieve differentiation.

Chapter 2

Now that we know something about Low-cost and Differentiation strategies, lets explore an example of a low-cost strategy employed to reduce cost through value chain activities. We worked with a local salad making company. The company purchased an onion peeling machine and after attempting to make the onion peeling process as efficient as possible, they found it was less costly to just eliminate the process and outsource the supply of peeled and chopped onions. In this example, we identified the most effective way to reduce cost was to outsource the value chain activity.

It should be noted that cost leadership is not an automatic strategy in every industry. In Industries where product differentiation is low and where buyers are price-sensitive, these are generally the best industries for a low-cost strategy.

In our next example of a Differentiation Strategy, we will look at a local pizza shop. The owner employed some of the best pizza makers and staff that were highly valued. The owner did not want to reduce his headcount or compromise on the quality of his staff so opted to implement a differentiation strategy. He opted to use only freshly picked and locally produced products to serve a niche market. He made the best vegetarian pizzas and developed brand loyalty amongst his customers. Combined with a “10 minute guarantee service” and excellent customer service, the pizza-maker was onto a winner with his enhanced value proposition.

Differentiation is about establishing a difference in the market over what competitors provide. It is the key to competitive advantage in a discerning market.

Step 5. Monitoring & Tracking Progress. Now that we have crafted our strategy and top management has commenced execution, the final step is to monitor and track progress. This step is vital to ensure changes to your company vision, mission, objectives or strategies can be made in light of actual performance and new opportunities.

Top management should use reports against annual operational plans to review progress towards meeting strategic objectives. Therefore, it is vital that at the strategic planning stage, actions against strategic objectives include clear measurable outcomes. Here's a few common principles to use when reviewing progress towards achieving strategic objectives:

- The actions are kept consistent with agreed strategic objectives
- Ensure strategic objectives are kept consistent with the company's vision, mission and values
- Constantly monitor internal and external environment changes which may trigger adjustments to your company strategy

We cannot stress just how important the monitoring and tracking step is, as part of the overall strategic planning process. Monitoring and tracking actions, for all organisations irrespective of type and size, is as important as identifying strategic issues and objectives. One obvious advantage of monitoring and tracking is that a company can ensure it is following the direction established during the strategic planning process.

Another important point regarding the strategic plan is to ensure the plan specifies who is responsible for the overall implementation of the plan, and also the personnel responsible for achieving each action against a strategic objective. In our experience, the CEO, business owner, or manager is responsible for the strategic plan and will therefore assume overall responsibility for monitoring and tracking progress.

Chapter 3

Final Thoughts

Here you have it - Our 5 step framework to strategic planning. Our framework, discussed in this e-book, is applicable to all types and sizes of companies. Whether you are a small book store owner, or the CEO of a multi-national organisation, the principles discussed here are all the same and highly relevant.

At the most basic level, a company's strategy is its course of action. This action is very special – it sets the direction of the company for the foreseeable future as it navigates its way through the external environment, negotiating industry challenges, with all its competitive and market influences and potential for good fortune and tragedy alike. Ensuring the chosen pathway is the best for the company to ensure survival and growth of the business, it is every CEO, Business Owner or top managements' desire.

As your company steers its way into the future, it must adjust to environmental forces and maintain an efficient and effective operating system. The long term strategic usefulness of the company is subject to the growth or decline of the market for its products and/or services. As the demand for traditional products and/or services decline and the demand for different products and/or services increase, it may require a different type of company.

The CEO, Business Owner and/or top management must decide what actions to take so that the company can be navigated through an ever changing landscape.

Finally, how a company grows and competes in the market place describes the company's strategy. Importantly, strategic planning gives your company competitive advantage that is fundamental to growth, sustainability and profitability.

Strategic planning for small, medium & large businesses without the complexity

StratPlan is our patent-pending custom-developed strategic planning software tool that simplifies the planning process by enabling practical use of a range of analytical tools such as PESTEL analysis, Porters five forces of competition, SWOT analysis, competitor analysis, industry key success factors etc.

Our tool is flexible so that business owners, managers, or CEOs can use and capture their expert knowledge about their business and industry. This enables the planning to be specific and realistic.

Most importantly, our tool provides tangible outputs such as a Strategy Map, a Strategic Plan and a Monitoring & Tracking dashboard. Our StratPlan tool reduces the planning process from months to days. Now everyone can be on the same page and pull in the same direction.

StratPlan and our remarkable five step framework

Our StratPlan software incorporates our remarkable five step framework that includes latest and widely used analytical tools that can be applied to companies of all sizes and across any industry. This creates a strategic plan that is not only realistic and applicable to your business, it also encompasses steps in a way that are distinctly achievable.

Using StratPlan, you can clearly evaluate the internal and external environments of your business in our effortless five step framework, developed by in-depth knowledge of experienced business owners, successful managers, strategic planning experts and leading CEOs.

About J and L Strategic Consultants

J and L Strategic Consultants are the business strategists and industry experts in helping businesses, like yours, grow and unlock its true potential. Our knowledge and skills incorporated into our custom-developed, patent-pending software tool – StratPlan, allows you to develop realistic, meaningful and achievable strategic plans.

We're business administration experts, engineers, lawyers, finance specialists, designers, programmers, marketers, parents, hard-workers, and just a bunch of ordinary people wanting to make a difference. Our headquarters is in Perth, but our lead team and partners live and work all around the world. With such a diverse team, we have brought a remarkably unique perspective to strategic planning in ways that are realistic and actually works practically.

Our purpose shares the critical key to unlocking and fulfilling the true potential of any business. We provide leading and distinctive strategic planning services in our custom-developed strategic planning software tool, creating high value strategic plans for small, medium and large organisations at significantly low costs.

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