What Is Business Strategy?

Prior to the Green Bay Packers-Chicago Bears game, the Packers coach is asked about his feelings about the game.

"We have a good game plan and our players, coaches, and support staff are prepared and ready. I couldn't be more confident of victory!"

On the other side of the field, the Bears coach says virtually the same thing.

Then the game begins. Play after play, the coaches adjust their game plans to reflect the circumstances. They keep using plays that gain yardage, they keep going with defensive formations and tactics that prove effective, they exploit any weaknesses they find in the other team, they react to injuries or field conditions, they make decisions based on the score and field position and the clock.

In the end, the team whose coach best understands the strengths and weaknesses of both teams and then strategizes for all the possibilities and whose players execute the strategies best will usually win. Then, after the game, both teams must begin again to prepare for the next opponent.

The Game of Business

Business competition is very similar to sports. In business, teams of individuals face each other in competition for employees, customers, product innovations, and profits—among other goals. The major difference between sports and business is the relevant time frame. (Imagine if teams in the National Football League had to play each other every day, from nine to five, with the lunch hour replacing halftime!)

As in sports, business organizations that win consistently excel at preparation, planning, and execution. They know their situation, know where they want to go, and determine how best to go there. Maybe more importantly, these organizations have their finger on the pulse of the markets, customers, technologies, and other innovations that may change the rules of the game and the factors that lead to success. And these dominant companies are willing to adjust their game plans accordingly

Key Term

Strategy A detailed plan

for achieving success, the bundle of decisions and activities that we choose to achieve our long-term goals. Strategy is the path we choose. Every organization has to figure out what it wants to achieve and then how it is going to make it happen, with its products, customers, and operations.

accordingly.

Strategy is the business word for game plan. All businesses have strategies, either planned or unplanned. This book explores how to find the best strategy for your business and how to use strategy to drive successful business results, that is, achieve your long-term goals.

The Power of Business

The essence of business can be depicted in a simple diagram (Figure 1-1).

This diagram suggests that a business is a flow model, a going concern. First, there's the business idea that motivates us to begin a business.

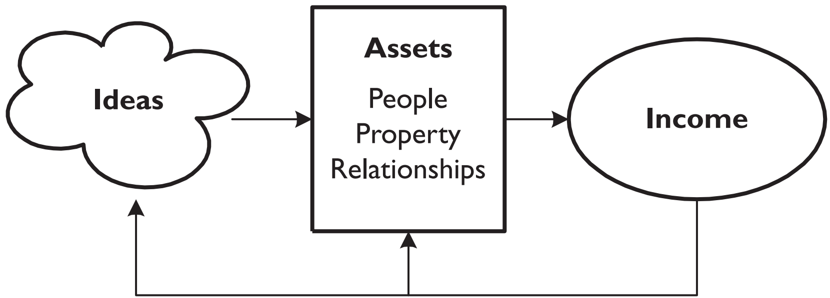


Figure 1-1. A simple model of business

Let's say we decide to use our grandmother's recipes to open a restaurant. We figure that since we all loved Grandma's cooking, others would too. In order to realize and deliver the promise of the business idea, we must use a package of assets: people, property, and relationships. We'll need a location, tables, chairs, china, silverware, and a lot of restaurant equipment and supplies. We'll need cooks, waiters and waitresses, dishwashers, and other employees. We'll need a liquor license, public health certificates, and accounts with food suppliers of meat, produce, and so forth. These assets must then generate income, which is used to refuel the assets (buy more food and pay the staff) and invest in new ideas to keep the business going. Let's examine each component of the model.

It all begins with a business idea. Now, a business idea is more than just an idea. A business idea has two defining characteristics.

First, a good business idea meets an unmet need in the market. The product or service that we offer must satisfy a customer's unmet need. This may mean a brand-new product or service or it may mean finding a way to provide a product or a service at a lower price than is currently available. In the case of our restaurant, the unmet need may be as simple as providing a good place for authentic Italian food. Certainly, there are other restaurants, and other Italian restaurants, but our idea is to package the food, wine list, and ambiance in a way that will be attractive to patrons.

Second, a good business idea drives transactions. Whatever product we offer to customers, they must be willing to exchange their money for our product or service. The test of a good business idea is whether people will give up their cash to get our products or services in enough numbers to keep operations going. Our Italian restaurant idea, when communicated to the public (by advertising and/or word of mouth), must create a demand for hungry people to select our establishment for lunch or dinner. The ultimate test is whether our business idea will meet the unmet needs of the market in a way that customers will return, again and again—and satisfy our business need to generate income.

Once we have a business idea, we must assemble the assets to construct

MISTAKE PROOFING

Business Idea

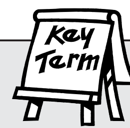
There are a lot of ideas around, but they aren't all business ideas. A business idea has two defining characteristics: it meets an unmet need and it drives transactions. In a way, both can be summed up in the simple question, Do enough people want what you'd be offering enough to pay enough for it? Evaluating those three “enoughs” is crucial.

our business. Usually we need money, financial capital. Also we need employees, human capital. Finally, we need relationships: with suppliers, the government, customers, distributors, and others to make the business work. Linking the business idea with the right asset mix is what creates the power of a business and it’s that link that’s our business strategy. So, while we start with Grandma’s recipes, in putting together our plan, we must make many decisions and undertake many activities. That is, we must construct our strategy. The location, the market we target (families, upscale diners, college students, and so forth), the décor we select, the pricing of our entrées, our wine list, the training and performance of the wait staff, the quality of the foodstuffs, and the preparation of the food—all will play a role in our success.

These *strategic* decisions we make in building our organization and business model are endless. The link between our business idea and the assets we select is our business strategy. It doesn't matter whether we are operating a small restaurant or a giant telecom, automobile, or chemical company; this coordination between the business idea and the asset mix we select is the power of our business.

The result of our idea-asset connection is the income the business generates. The lifeblood of a business is the cash flow, which is used to replenish the assets and develop new ideas to keep the business going. If an asset does not contribute to generating income, we should get rid of it! If, for example, we generally have unused tables in the dining room and yet the cocktail lounge is crowded, we should consider reconfiguring the assets: fewer dining tables, more space in the bar! Later on we will discuss how we can develop strategies based on the efficient and optimal use of our assets.

The cash flow that our



Cash flow The amount of money we have left over at the end of a period in our checking account, not in accounting terms, but in cash.

Revenue The total amount of

business generates is the source of keeping the business going, investing in new ideas and new assets, and reaching our financial goals. We can consider revenue and income and profit: all of these terms reflect the activity of the business. But, at the end of the day, the most important consideration to the business owner is cash flow.

money that comes into our business from sales for a particular period of time.

Income Our revenue minus the cost of the goods and/or services we have sold for the period.

Profit The difference between revenue and costs for the period. Also known as *net income*.

The Basics of Strategy

So, business strategy is our selection of ideas and assets to meet our long-term goals. Of course, we must begin with goals—What do we want to accomplish by operating this business? There are many reasons for going into business; we'll discuss the critical steps in setting goals in Chapter 2. For now, let's just think about what "strategy" means.

We can break down strategy into three components:

- Create the strategy—What should we do?
- Implement the strategy—How do we do it?
- Evaluate the strategy—How well are we doing in meeting our long-term goals?

Formulating a business strategy is a complex task even for the smallest of organizations. Furthermore, whether you're the manager of a small group in an organization or the CEO of a large company, you'll be working with strategic issues.

Creating the business strategy begins with the business idea. In the case of our Italian restaurant, our business idea is authentic Italian cooking, based upon Grandma's recipes. But as we know, the idea is not enough.

We cannot raise capital simply by presenting samples of Grandma's cooking to the loan committee down at the bank.

Rather, we must present a comprehensive plan to our lenders that details the complete picture of our restaurant, so that the bank may judge whether we'll be able to acquire the assets we need and generate enough income to completely repay our debt.

We also won't be able to hire good cooks without fully explaining how our ideas for the business will provide a good place to work now and into the future. If these people cannot see a viable business in our idea, they're not likely to commit to working to prepare the foods that will turn our recipes into revenues. Also, without a good idea of what we want our restaurant to be, we won't be able to inspire our waiters and waitresses to provide the service that will make our restaurant a special experience that will delight our customers and keep attracting business.

So formulating a strategy requires us to develop a complete picture of the business in operation, even before we implement our plan. The development of this *vision* of the business requires that we address a series of questions that will lead to a successful strategy.

An Overview of Strategy Development

Since strategy is the bundle of decisions and activities that we choose to reach our long-term objectives and since we must picture our entire business before we actually start turning our ideas into business strategies, we have a lot of thinking to do. Can we structure this strategic thinking process? Yes, as a start we should address the following questions. As we do, we will begin to see our strategy emerge.

What Is Our Business Idea?

This question forces us to decide what business we are in. This is very obvious for a new business, but it can be tricky for existing businesses. Organizations act and react and sometimes find that their business idea becomes diluted or too ambiguous to describe. As a result, managers and employees lose the focus on the founding principles that made the business successful.

Wal-Mart is an example of a company that does not lose focus and is true

to its business idea. For Wal-Mart the business idea is low prices, "Always!" for a galaxy of products that most people need or want. Every aspect of the Wal-Mart operation is dedicated to delivering low prices to its customers. Wal-Mart extracts cost savings in the products it stocks by being tough on suppliers and executing a sophisticated, high-technology supply chain. Corporate overhead is kept very low.

Finding Our Business Idea

Smart Managing

The key to understanding our business idea is to understand the customers' unmet need that we're trying to address. People are looking for solutions to the problems they face; our business should attempt to solve their problems.

A key point to keep in mind is that people don't buy products or services. They buy the benefits they get from the products or services. So, what benefits are we providing that meet their needs and solve their problems?

Sam's Clubs provide another low-price option through bulk purchasing and selling. Customers may not have all the brand

Wal-Mart

Wal-Mart began with the idea of solving the problems of more rural areas that were not served by large retailers and where incomes could not support high price points. Over time, as its success was proven, stores were moved into suburban and more urban areas, where Wal-Mart has met the needs of the same type of customers, those looking for one-stop shopping and very low prices for good-quality merchandise.

choices, but the selection of goods is offered at lower prices than for comparable goods sold elsewhere.

Sears, on the other hand, is a retailer that has not enjoyed the growth or financial success of Wal-Mart. If we explore the history of Sears, the company has bounced around with its own brands (Kenmore and Craftsman, for example) and with national brands. It once tried to move up-market, seeking higher-income customers, and confused its clientele with higher-price point goods. Sears has at different times been a catalog merchant and discontinued its use of the catalog. For a while, Sears emphasized "The Softer Side of Sears," seeking to promote its clothing and housewares lines and de-emphasizing the successful hardware and appliance lines. In 2002, Sears acquired Lands' End, a mail-order retailer of traditional clothing, placing some Lands' End goods in Sears stores and selling the goods through direct mail catalogs and the Internet. The casual observer of Sears might ask, "What is the business idea of the company?" There doesn't seem to be a clear answer.

If we compare the results of Sears and Wal-Mart, we find a striking comparison. Founded in 1906, Sears had revenues of $41.1 billion in 2001. Wal-Mart, started in 1969, had 2001 revenues of $193.3 billion, almost five times the Sears sales results.

Answering that basic question—What business are we in?—also leads us to consider what businesses and markets we should not be in. Sometimes it is important to say "no" to a business idea, if it does not fit our plan. We should select the best business ideas and then focus on the decisions and activities that support those ideas.

Strategy Must Be Fluid

The comparison of Sears and Wal-Mart should be viewed with caution. Strategy development is continuous and iterative. That means we can't stay with a failing strategy; we must try and adapt to changing markets and competition. As its markets changed, Sears should have made adjustments; however, Sears lost focus on its core business and core markets. The comparison of Sears and Wal-Mart points out the value of knowing and following a good business idea and building strategies and practices to support that idea.

What Is Our Business Purpose?

Philosophers often address the question, why do we exist? Answers usually lead to religious or secular *big picture* notions. Businesses need practical answers to the question, why do we exist? The answer is our long-term objectives.

Clearly, every business has *financial* objectives, because every business is based upon a capital investment, which should produce an expected rate of return to the owners. Yet, businesses typically aspire to be more than just an engine for

Businesses typically aspire to be more than just an engine for returns to shareholders. Customer satisfaction, contributions to the community, and a good place to work for employees are frequently important components of long-term objectives.

Some firms provide a broader notion of their business purpose as a guide to their strategy development. Here's how Ben & Jerry's Ice Cream, for example, expresses its purpose: "Ben & Jerry's is founded on and dedicated to a sustainable corporate concept of linked prosperity. Our mission consists of three interrelated parts." It then defines its product mission, economic mission, and social mission. Its product mission is "To make, distribute & sell the finest quality all natural ice cream & euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment." Its economic mission is "To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders & expanding opportunities for development and career growth for our employees." Finally, its social mission is "To operate the company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally & internationally."

Other companies have a broad, but simple business purpose. Merck, the large pharmaceutical company, lists among its company values "Our business is preserving and improving human life." The American Red Cross states that it "will provide relief to victims of disasters and help people prevent, prepare for, and respond to emergencies." For the BMW Group, "The BMW brand means ground-breaking innovations and fascinating design."

The business purpose should guide the decisions and activities of the organization to create a consistent, successful, and meaningful reality. In order to achieve successful results, businesses must communicate why it's important that they exist and what it is that they stand for.

What Is Our Advantage?

What is Our Advantage?

Most businesses must compete with others in trying to meet unmet consumer needs. In order to be successful at attracting customers and keeping them, our business must have an advantage over the others. In the case of our new Italian restaurant, we believe that Grandma's recipes for authentic Italian food will be the advantage we have over other, more generic Italian restaurants in our area. If our advantage is meaningful for consumers, it should differentiate us from the others and lead to a successful business.

Differentiation of our product, service, or business model highlights our competitive advantage. 7 UP, the soft drink, for years differentiated itself from the soft drink leaders through its campaign, "The Un-Cola." Since 1960, Avis Rent A Car System has been proclaiming, "We try harder" to provide superior customer service, because it was Number 2. In the same industry, Enterprise Rent-A-Car has succeeded by targeting car rentals away from airports (as loaners during car repair, for example)

Your Advantage Must Be Important to the Customer

In honing our advantage, it's critical to understand what drives customer behavior. We may think that real, authentic Italian cooking is important to people dining in Italian restaurants, but other factors may be more important. For instance, convenient access and parking, a safe neighborhood location, speed of service, and price may each be more important than the authenticity of the recipes and will overpower our advantage. Patrons may be willing to sacrifice some flavor for one of these other factors.

It pays to understand the nature of the customers you're trying to reach by doing some market research. For a good demonstration of this principle applied to starting an Italian restaurant, I recommend seeing the movie *Big Night*, which is the story of two brothers who open an Italian restaurant. One brother is focused on the authenticity of the cuisine, while the other brother is concerned with customer satisfaction. It's an entertaining and instructive look at defining the business.

with its line, "Pick Enterprise. We'll pick you up."

Your advantage must target unmet needs of customers.

Your advantage must target unmet needs of customers.

These examples suggest that companies can look to areas in which other companies fail to completely satisfy an important customer need and then create a business idea to satisfy that need and make it their advantage. Of course, if such an approach is successful, competitors will respond and copy the advantage, leading to a new cycle of innovation in the product or service that is being offered. This is what makes a market economy great. Through the competition of firms, consumers benefit by getting better and better products and services. Innovation is rewarded. Progress is ensured.

Who Are Our Customers?

If we attempt to satisfy an unmet need, we must know who has that need, since all customers are not the same. Gillette and Norelco compete for men who shave. Gillette meets the needs of those who use cream and a razor; Norelco targets those who prefer an electric shaver. Neither company focuses on men with beards (though Norelco has a product for those customers called

> **Market segmentation** The task of dividing the total market into groups that share common properties. Many products have multiplied to recognize various market segments and preferences.

the "Personal Groomer Beard Trimmer"). This simple case describes the need that all businesses have for market segmentation.

Few businesses try to serve the entire market for their product or service. And even if they do, they usually find ways to structure the organization to serve each market segment. In the automobile industry, General Motors tries to cover the entire market, but its division into Chevrolet, Pontiac, Oldsmobile, Buick, Cadillac, and Saturn attempts to match operating units with different market segments.

> ***Splitting Jeans***
>
> Do you remember when there was only one style of blue jeans? Today there's a proliferation—stonewashed, baggy-fit, low-rise, boot-cut, and original Levis, among others. Each of these products is

others. Each of these products is offered to appeal to a segment of the pants-buying public.

(However, in 2004, GM is dropping the Oldsmobile brand. Its products are not differentiated enough in the current market for this division to survive.)

As we develop our plan for strategy, we must consider for which market segments our business idea is viable, so the idea will drive transactions. Pricing considerations are a dominant factor in market segment analysis.

Going back to our Italian restaurant idea, if Grandma's recipes require that we charge $24 for a plate of spaghetti to break even, regardless of how good it might taste, few patrons would be willing to pay that much for spaghetti and our business idea would fail to drive the necessary transactions to sustain the business.

With the wide availability of travel services on the Internet, travel agents have had to adjust from serving a broad segment to a narrow one. As travel agents had their commissions cut to zero by the airlines, they now charge clients a service fee ($15-

General Motors Adds and Drops Brands

GM led the way in understanding the various segments of the car buying public. When Henry Ford would only sell black cars, GM came out with colors and its branding strategy. Over time, though, tastes and segments change. GM added the Saturn brand to introduce a car to compete with imports, attract female buyers, and change the buying process through the no-hassle pricing policy. Furthermore, GM is phasing out the Oldsmobile brand, reasoning that it had lost its differentiation with Chevy and even Buick; and by eliminating the brand the firm could save costs and not lose customers. Similarly, DaimlerChrysler dropped the Plymouth brand after the 2001 model year, ending 73 years of production, as it was no longer worth it to differentiate between Plymouth and Dodge.

$30 per ticket) for reserving and issuing airline tickets. Since customers can go online and get tickets from the airlines directly or from providers like Travelocity or Orbitz, without paying a service fee, travel agents must segment the market and sell to those who are not willing or able to use the computer to secure airline tickets. As a result of these significant changes, the market for travel agent services has shrunk considerably. The contemporary travel agent must identify only those clients who are willing to pay extra for their services, rather than those who are willing and able to go online and serve themselves.

Market segmentation is a key component in building a successful strategy. In order to do segmentation, significant market and customer understanding and analysis are necessary.

What Is Our Product?

Our product is the benefits that we deliver to our customers. In the classic and popular TV show *Cheers*, the location was a tavern, but this bar delivered more than just drinks and pub food. As the theme song said, "Sometimes you want to go where everybody knows your name, and they're always glad you came." In a way, Starbucks has borrowed the *Cheers* model in building its business.

Starbucks is in the coffee business, but its stores deliver the same benefits as the *Cheers* bar: a comfortable place to get good coffee and share it with the same people regularly, read the paper, or just chat with friends. The product is a bundle of benefits surrounding a relatively expensive (compared with McDonald's) cup of coffee. Starbucks sells the experience as much as the coffee. And the experience rationalizes the higher price.

When customers buy a product or a service, they go through six phases:

- purchase
- delivery
- use
- supplements
- maintenance
- disposal

Purchase involves recognition of needs, searching for alternatives, deciding, and buying. If the product is not consumed immediately at purchase (like a pint of beer) or carried away (like groceries), the customer must consider *delivery* options. Some products are easy to *use*; for others training or experience is necessary. Many products require *supplements* to make them work. As products are used, sometimes *maintenance* and repair can be a concern. Finally, if anything remains of a product after use, the question of *disposal* may arise.

In the process of developing our product strategy, we must not only consider the benefits delivered to the users to meet their unmet needs. We might also consider which of the six areas of the product use cycle we are also going to serve. Here are some examples.

While most furniture stores either provide delivery or subcontract it to a third party, Ikea, the Swedish furniture giant, does not. Ikea sells knockdown furniture that is disassembled into smaller packages that the buyer can take directly and then assemble at home. Home Depot, as another example, rents pickup trucks on-site for customers to take large items or quantities of supplies to their location.

Volkswagen initiated the bundling of service with the car and included all routine maintenance (oil changes and the like) with the sale of a new car. Other manufacturers have since followed this practice. Indeed, the parts and service departments at all automobile dealerships are there to supply supplements and maintenance. In many case, these departments bring in more money than car sales. Car dealers also provide disposal of cars, through taking them in as trades on the purchase of new cars.

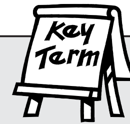
Many computer vendors offer and sell training classes, so customers can use hardware and software efficiently. Camera stores sell instruction on photography and film development (and now digital enhancement) so that customers can use cameras better and realize more benefits from them and from the vendors.

Deciding on our product is more complex than first meets the eye. On the other hand, this product complexity can lead innovative companies to new and successful strategies.

How Do We Reach the Market?

The heart of any business idea is in completing the transaction. That's when the customer receives your product or service in exchange for money. The environment in which that transaction occurs is called the *distribution channel*.

One significant strategic decision we must make is the choice of distribution channel. Channels vary in their operation, cost, and effectiveness to reach particular market segments. For retail products and services, business-to-consumer (B2C), channels include the following:



Distribution channel
The way in which we reach our customers to deliver our product or service.

- company-owned retail stores
- franchised retail stores
- department stores

- direct mail
- the Internet

In business-to-business (B2B) circumstances, channels include the following:

- manufacturer representatives
- direct sales
- the Internet

Let's look at these various channels for computer sales.

Before Hewlett-Packard and Compaq merged in 2002, the companies competed in outlets like Best Buy, CompUSA, and Circuit City. For HP and Compaq, the channel of choice was department (big box) stores. Neither company owned any stores. The retail stores would order computers, stock them in inventory, and then deliver them to customers. That was the environment for transactions.

Michael Dell founded Dell Computer in 1984 with a different distribution model. Dell decided that there was significant advantage in building the computers to order, eliminating the retail stores altogether, and relying on a direct-to-consumer sales approach, using telephone and Internet channels. Customers would call Dell, design the features that they needed and wanted in a computer, pay, and then receive delivery at their doorstep a few days later. The Dell model has shown to have many strengths and has made Dell the 800-pound gorilla of the computer business. By going directly to the customer, Dell eliminated the costs of the retailer. More importantly, by building the computers to order, Dell kept its inventory of parts low;

For Example

Insurance

If we sell automobile insurance, we might do so through any of several distribution channels. We might use an independent agent, like Fireman's Fund. We might use our network of exclusive agents, like State Farm Insurance. We might use direct mail, like GEICO. Finally, we might choose to go directly to the consumer, through telephone or Internet sales, like Progressive or GEICO.

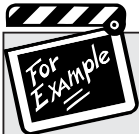
since computer component prices usually fall over time, a better cost structure was created. But Dell also received the customers' money in advance of delivering the machine, so the cash cycle for the company was positive. The customers also explicitly paid for delivery through a third party, such as UPS. Finally, because of low inventories, Dell got the newest technologies to the market before HP and Compaq, which had older-technology computers sitting in inventory.

In summary, Dell created a new business model for computer sales by switching from the traditional distribution channel. Dell offered customers a custom computer with the latest technology at a very competitive price. It also created a lower cost structure and a better cash flow. As a result, Dell achieved the dominant position in the industry. Then, of course, Gateway copied the Dell model, but it added distribution through its own stores. Both Compaq and HP began direct sales channels, in addition to the big box stores. Finally, IBM withdrew from the retail store channel and now relies on direct sales.

The point of all this is that s*trategically* Dell figured out how to add more value for customers, not just by lowering prices, but also by using technology to go the customer directly and eliminating costs from the old way of doing business.

Another significant example of channel management has occurred in the travel business. As little as five years ago, travel agents sold virtually all of the airline tickets in the market. Travel agents—independent manufacturers' representatives—would shop all of the airlines' reservation systems and meet the customers' requirements for schedule, price, and/or class of service. The airlines paid the agents a commission based upon the price of the ticket, usually 10%. The travelers never saw the fee paid to the agent as a cost to them.

Things changed as the airlines grew their frequent flyer programs. More and more customers wanted a specific airline, rather than other features, so that they would earn points toward free travel. As the airline brands, through their frequent flyer programs, grew stronger; the airlines realized that they could



Take a Look at eBay

One of the true bright spots of the dotcom world is eBay, an online auction site for almost any kind of product. eBay provides the technological platform and the "rules of the game" to facilitate transactions between buyer and seller, who may be located anywhere in the world.

Go to www.ebay.com and look around. Think about all the reasons why you might not use this site—and then see how eBay overcomes these barriers. A big barrier in Web business is trust, so eBay provides seller ratings. Another barrier is not being able to see the product, so pictures and three-dimensional videos abound on the site. Explore the wide variety and quality of products offered. See how companies are using Ebay as a channel alternative. You may be looking at the channel of choice for the future!

sell directly, without travel agents. Over time, the airlines capped commissions, then cut them to 5%, and ultimately eliminated them entirely. These changes forced travel agents to charge an explicit fee for their services. Additionally, Internet options, like Orbitz (created by the major airlines), permit cusoptions, like Orbitz (created by the major airlines), permit customers to replicate what travel agents can do, but without paying the fee. Rather, the customer pays by spending the time making the reservation and by bearing the risk of errors.

As with computer sales, the travel example demonstrates major changes in the way in which business is done, solely by changing the channel of distribution. Clearly, the Internet creates new distribution opportunities in many markets. And new strategies will continue to emerge as technologies evolve and offer new possibilities for selling channels. The current trend is toward using multiple distribution channels rather than just one. Multiple channels complicate operations, but may provide better results.

What Trends and New Factors Will Change Our Business?

Have you ever noticed how many manufactured products that you use are marked “made in China”? Did you know that over 80% of college students do all their financial transactions on the Internet or through ATMs? What percentage of cars on the road are SUVs? Are you aware that 45% of the U.S. adult population is invested in the stock market directly or through 401(k) and similar plans? Did you know that the difference between 9% and 6% for a 30-year mortgage for $150,000 is over $300 per month? Are you aware that experts predict a serious shortage of nurses in the U.S. over the next five years?

Here's the point. The world, markets, populations, tastes, technology, and economic factors are changing—as they always have. And to sustain a successful business, we must know what the changes will be and how they may affect our business and then adjust our strategy. Sometimes changing events or factors really do not affect our business. So it's important

Interest Rates Drive the Housing Market

When interest rates drop, as they have in the recent few years, one major impact is on the housing markets. Homes become more affordable as rates lower the monthly payments. As a result, demand increases and more houses sell. Those sales increase the sales of appliances, swimto know and understand the things that drive success in our markets.

Wayne Gretzky, the greatest hockey player of all time, was famous for saying, "Some people skate to the puck. I skate to where the puck is going to be." Likewise, in developing our business strategy we must consider where the various changing trends— economic, legal, demographic, competitive, and social—will lead and anticipate both the trends and the business policies we must adopt.

ming pools, title insurance, and furniture, among other things. If we are in a home-related business (Home Depot, Thomasville Furniture, etc.), a key driver of our business is the level and trend in interest rates, so we watch and understand factors influencing those rates very carefully.

How Shall We Do Business?

In this context, "how" is used in two ways.

First, how do we do business from a business operation point of view? Are we cost- and efficiency-oriented? Are we

MISTAKE PROOFING

Boomers—The Biggest Trend

The post-World War II "baby boom" has been the biggest trend factor in the U.S. economy since the 1950s. This giant explosion of population has driven much of the demand for goods and services as the Baby Boomers have aged. Now those in the leading edge of the boom, born in the late 1940s, are in their mid-50s. What trends should we look for?

First, this is the age when health care expenditures for individuals really increase; expect to see significant increases in the use of medical services and drugs. Second, Boomers are thinking about retirement, so one might expect a sharp increase in the demand for second homes in the Sun Belt. Third, as Boomers retire, a higher demand for income from investments may change the demand for stocks versus bonds and other income-generating assets. Regardless of your business, it's best to know how the passage of the Baby Boomers affects the demand for your products or services and the alternatives in the marketplace.

sales- and growth-oriented? Are we customer-focused? Are we financially driven? Are our employees our most important asset? It's a matter of priorities. Call it our philosophy of doing asset." It's a matter of priorities. Call it our philosophy of doing business or call it our operational strategy. Two companies in the same industry can have the same objectives, but try to get there in two very different ways.

For a small business example, take two insurance agencies. One is managed very tightly; the owner is very frugal, drives a Toyota, and brown bags his lunch every day. The other agency is run by an owner who is very extravagant, drives a Lexus, and eats at the club every lunch. They compete in the same markets, but operate in very different ways. It's a matter of *priorities*. By operating in these different ways, the owners are defining a part of their strategy. For example, if a buyer is looking for a discounted price, which happens in all markets, the frugal operator has bigger margins and may be willing to give up profit for growth, while the extravagant owner has much less room to move and may be unable to lower the price and must, therefore, forego the sale. If the trend in the industry required more discounting in the future, the extravagant owner would be at a big disadvantage.

The second way to view the question “How shall we do business?” is our style of doing business. Are we aggressive competitors? Or are we willing to ally with our competitors? What image do we want to project? In this case, it’s a matter of *values*.

Businesses have morals, personalities, habits, and images, just like the humans who operate them. In fact, businesses usually acquire the traits of the leaders who started them or who lead them to be successful. General Electric bears the distinct markings of Jack Welch, but still seeks the inventiveness of its founder, Thomas Edison. Microsoft reflects the hard-driving characteristics of Bill Gates. Enron took on the values of its leadership.

Every business can choose how it will do its business. For example, an organization can establish a zero-tolerance rule for integrity. With the recent spate of ethical problems with companies like Enron, Tyco, WorldCom, Merrill Lynch, and Aldelphia, a more careful eye is being cast toward the values that a company espouses and lives. The regulators of publicly traded companies (SEC and the stock exchanges) are adopting new rules for protecting investors and the integrity of the capital markets. Even within these guidelines, however, each firm can choose its own set of values as a matter of strategy.

A Word About Strategy Implementation and Evaluation

Developing a strategy is one thing, putting it in action is quite another. Studies have shown pretty consistently that the three biggest barriers to strategic success are these:

- A failure to communicate the strategy clearly throughout the organization
- Inconsistency between management talk and management action
- A lack of top management support for strategic initiatives

Something your dad probably told you years ago sums it up: “Say what you mean and mean what you say.” Easier said than done, though!

Implementing a strategy requires leadership and attention to detail as strategic ideas flow through the entire organization and become real. Wal-Mart's strategy of being the low-cost retailer touches every aspect of the company, including executive pay, office locations, and other components of overhead.

Evaluating our strategy is a matter of management and measurement systems. In order to judge whether we're reaching our long-term objectives, we must measure our results. If we want high customer satisfaction, we must honestly measure customer attitudes toward our products and/or processes. If we want to be number one or two in every product market, we must accurately measure our market share and that of our competitors.

The purpose of this book is to provide managers at every level the knowledge, skills, experiences, and tools so their business strategies can be more effective. Whether in designing, implementing, or evaluating and modifying strategies, every member of the organization plays a significant part. Just as every player on the Green Bay Packers and the Chicago Bears must know the game plan and execute his role according to that plan, in business every manager can contribute to the execution of a successful strategy.

Manager's Checklist for Chapter 1

- ❏ Businesses consist of ideas and assets that generate income. The power of a business is derived from the quality of the ideas and the asset mix used to execute the idea.
- ❏ Strategy is the decisions and actions we take to achieve our long-term goals.
- ❏ Strategy development involves the process of evaluating our business situation and envisioning the future.
- ❏ In order to develop a successful strategy, we consider all aspects of our business—the competition, our advantage, our customers, our suppliers, our business model, our values, and the external environment.

- ❑ Strategy is not fixed but fluid. Strategic management is continuous and iterative.
- ❑ Your strategy has the best chance to be successful if it's communicated clearly and your decisions and actions are consistent with your objectives.