# Crafting A Good Corporate Strategy For Tough Economic Times

“Strategic planning” has historically not been very successful for most corporate practitioners, but not all efforts have been for naught. There have been both pros and cons for the ways strategy has been commonly developed.

This slide show will first look at (in slides 1 to 7): the pros and cons; who normally plans and who doesn’t; and how strategy models or roadmaps compare to what really winds up happening. Then, the most helpful, provocative thing that I can do in a brief slide show is to help you think about your strategic blind spots or your outdated strategic assumptions within slides 8 to 15.

If you have any questions about any of this material or the references within, please feel free to e-mail me at bruce@merrifield.com or call at 919-933-7474. If this material is helpful to you, we would enjoy hearing about that too. We encourage you to stay tuned to our web site for sporadic summer postings that will mostly be spin-outs from a book that we are working on which we hope to have out one way or another by early fall.

## INITIAL COMMENTS

1. "Strategic Planning" historically; pros, cons

2. Who plans

3. Models (roadmaps) versus Reality



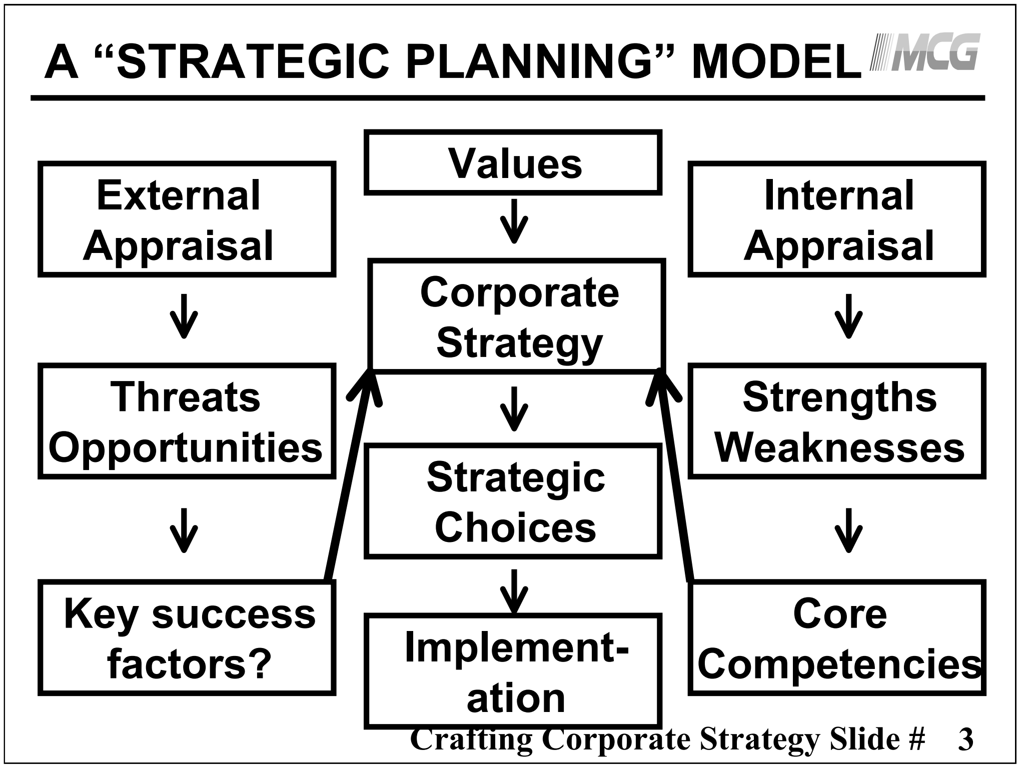
What does "strategic planning" mean to those companies that do it? If you critique published summaries, like I do, most of them include a lot of optomistic financial forecasts with a list of programs that are expansionary, tactical, revenue growth or cost-cutting thrusts. There isn't much strategic assumption or company changing stuff.

I have never seen a published strategy document that lists the firms most profitable customers with an analysis of why they are the most profitable and what more focused, best value proposition(s) the company is planning on offering these customers and other target ones like them. More on this in slide 11.

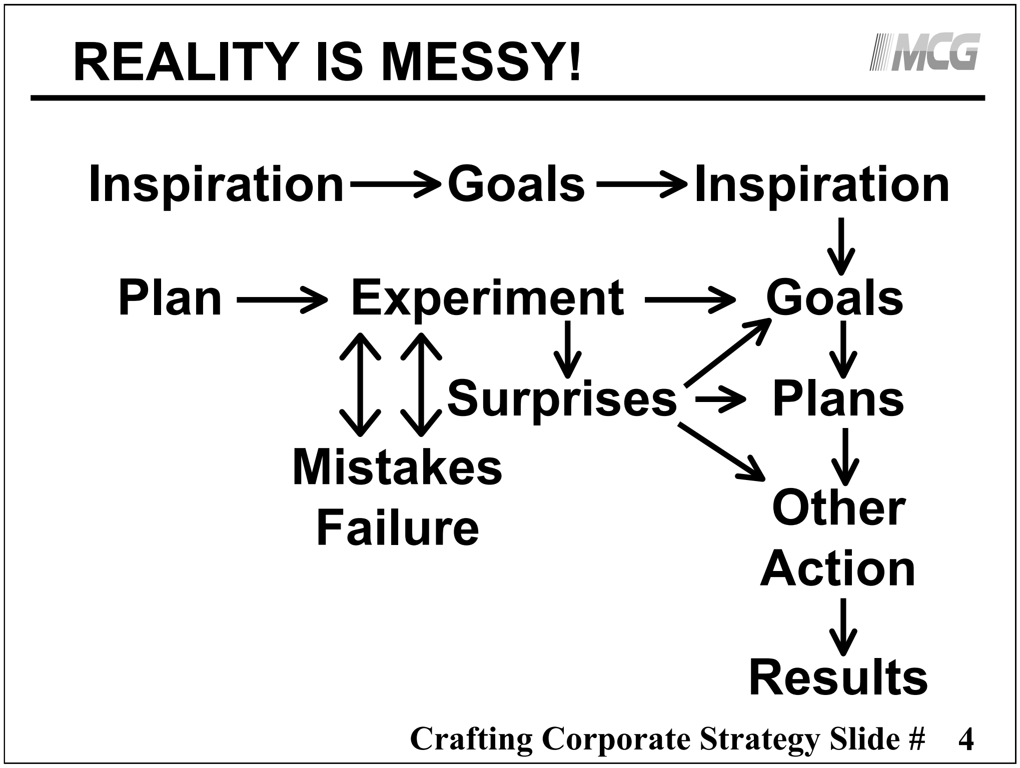
Some of the pros for the typical strategic process are: information is systematically gathered up; some gaps in group thinking are exposed; it formalizes (hardens?) decisions; it improves alignment and commitment for better or worse; it improves control, so the company won't go broke (at least not quickly); and it is a PR tool, especially for outside power constituents. (The US Government, for example, has a "budget" to look responsible to the voters, but it isn't.)

Some of the cons: formal processes are expensive for often little measurable benefit; incrementalism kills – local creativity, flexibility and cheap experimentation – the timetables for the process itself limit reflection and creative gestation of good, new ideas; and the process doesn't ask us to re-think our un-spoken, probably somewhat dated and flawed assumptions for what will be required to be successful in the future.

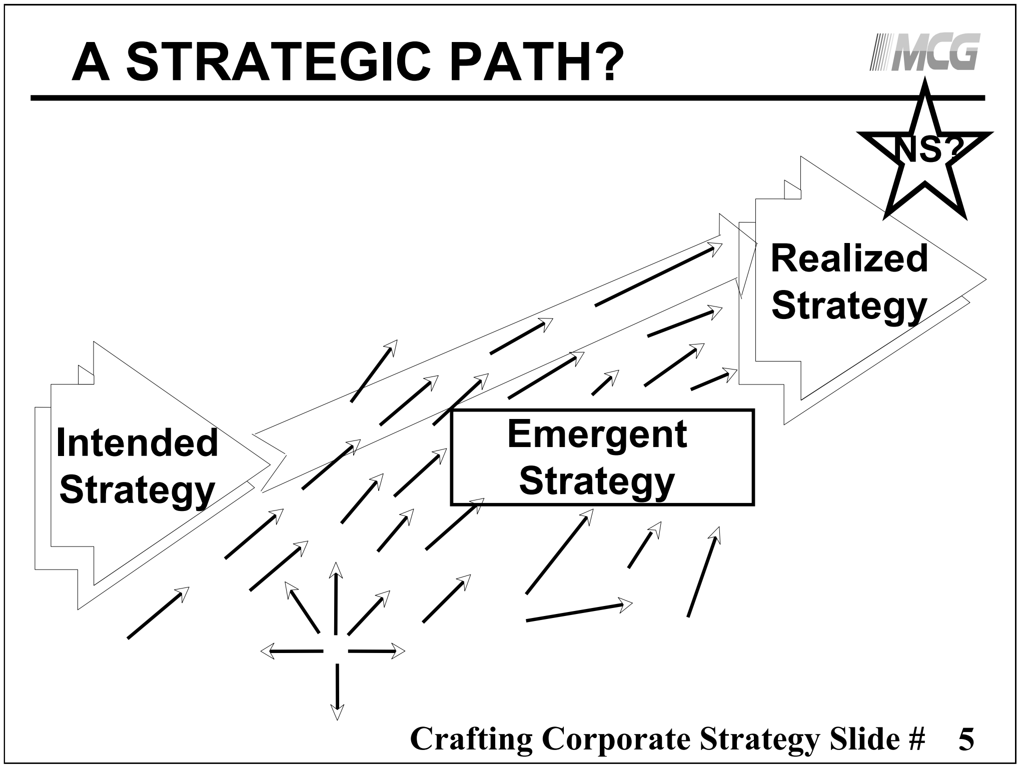
Some big structural flaws with strategic planning: 1) we can't forecast the future to budget detail; lots of unforeseen good and bad stuff will happen. 2) Execs are doing the planning, but not most of the execution; where is the strategic understanding and motivation from the rest of the employees? 3) A formal process doesn't insure innovation or good execution. And, 4) we are assuming that we can optimize while the rest of the world and our competition remains quite static.




Here's a classic model for doing a strategic planning process that I will assume that you have seen and/or that it is reasonably self-explanatory. The model does not show or ask us to surface and challenge the un-spoken assumptions and beliefs that make up our collective mind-set that in turn filters everything we see, perhaps in a very rutted and wrong-headed way. Nor does it suggest that surprises happen so that our strategy implementation looks something like the next slide 5.

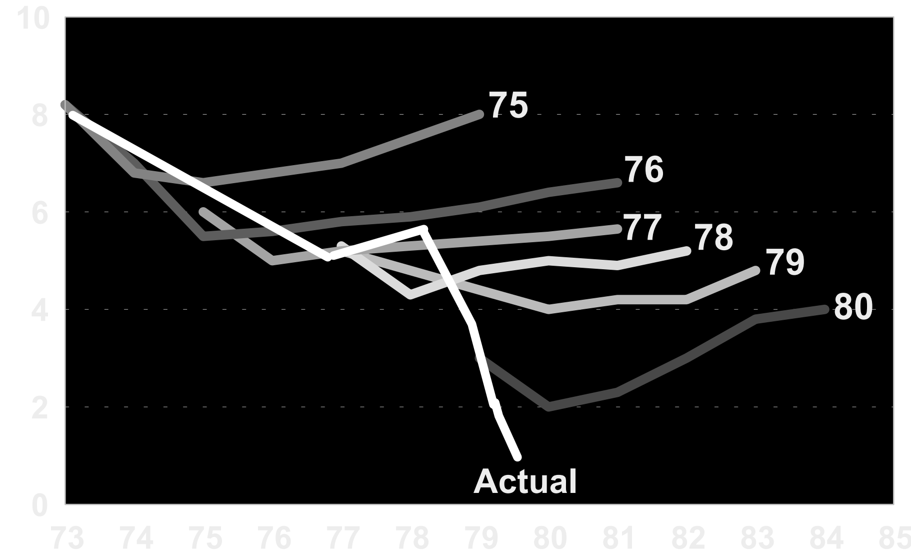



Hopefully this slide gets its message across. What's funny is that even though companies will do a lot of un-planned things in the next year, managers will force, cook or spin the numbers to meet the pay-off targets on time if they can. This is generally a harmful set of practices.



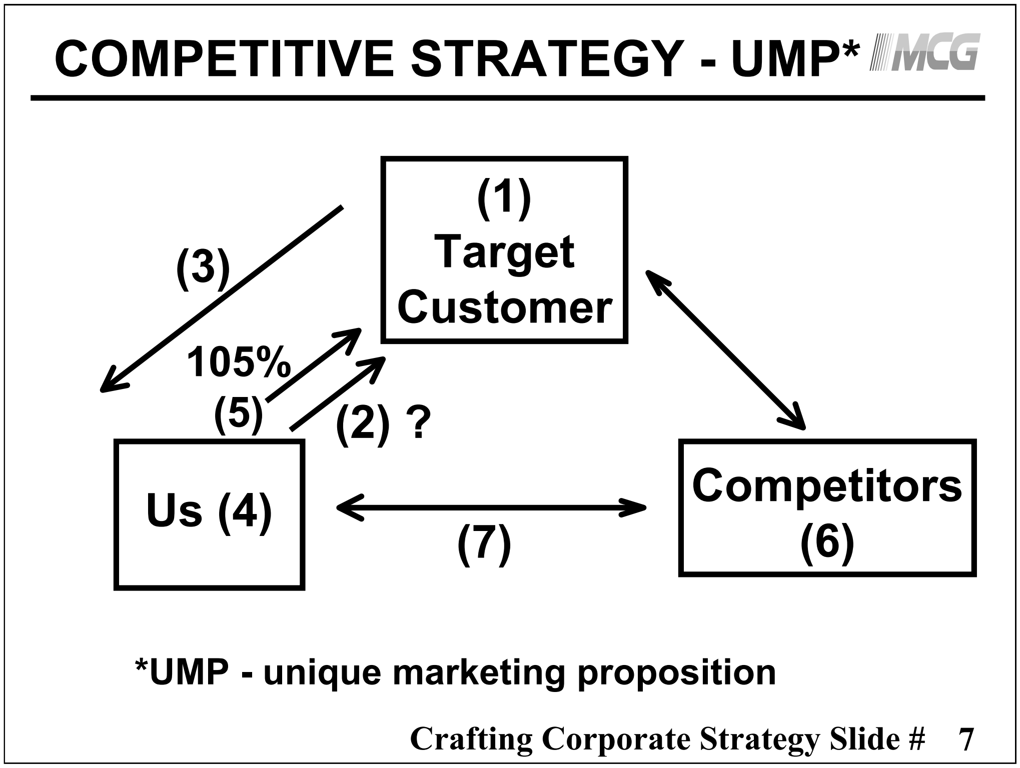

Our companies can have a strategic path if we have the right North Star(s) (NS?). If we let ourselves be open to surprises and turn negatives into positives while we continue to zig-zag and fall on our face forward toward the star(s), we can usually get there sooner or later, but not necessarily on time and/or within budget in a 12-month time frame. Good and bad luck happens to all companies, the ones that do well have the right north star, the right underlying success assumptions and most importantly a "let’s make lemonade out of lemons attitude" from 100% of their employees. Reacting faster in the right way to happenstances is a huge competitive advantage. Are all of your employees strategically engaged and motivated?

## STRATEGIC PLANNING - DENIAL CASE*

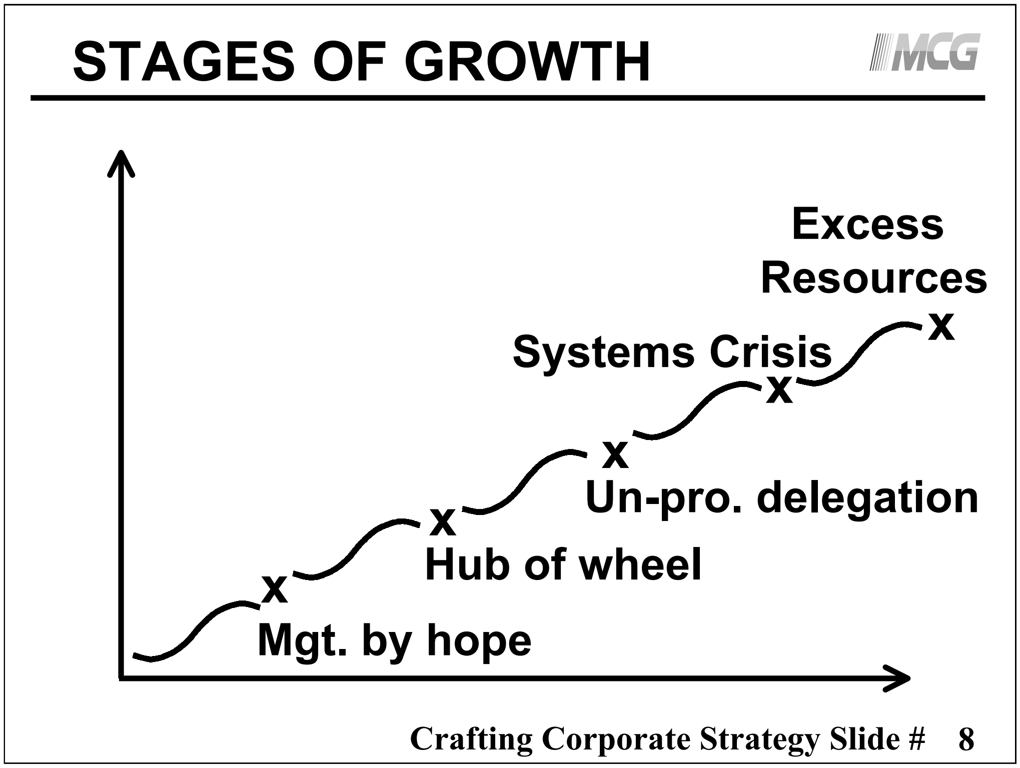



Crafting Corporate Strategy Slide # 6

This is a true case study chart of a Fortune 500 company. It shows what they were forecasting each year during the ‘70s and actually what happened as they plunged out of business by 1980. These guys burned up millions of dollars a year in strategic consulting fees to keep improving on the past when the environment was changing around them. (The company was Firestone Tire. Great brand name, etc. during a period when tire sales continued to climb on average every year. Among other things, they didn’t think that radial tires would be a big niche in the US. ☹ )




This is the first of four slides to illustrate different types of strategies and strategic issues. In this slide, we are trying to figure out how to perpetually improve our value proposition for a target customer (one niche at a time) faster and more efficiently than our competitors. For details on each one of the 7 steps that are in this slide, we refer you to a warm up article at our site, #5.8. And, modules 3.2 – 3.7 in our video, “High Performance Distribution Ideas for All”.



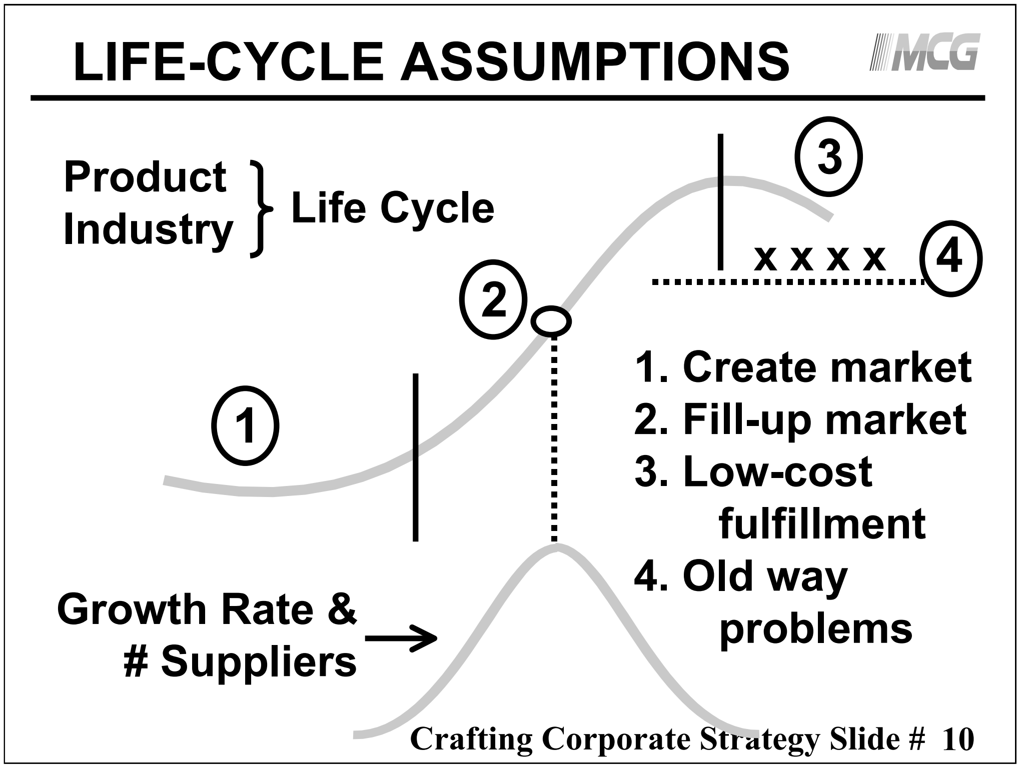

Sometimes a company stops growing and executing well because of life-stage, growth issues. For two very informative slide shows worth skimming through on the web that both address stages of growing and decaying go to:

http://www.eng.nsf.gov/sbir/Entrepreneuring-Growth_Stages-Paul_McClure.ppt

and

http://cba.lmu.edu/Website/Lindsey/698-3%20Sep%2017.ppt


This slide is my "kinetic chain" for corporate profit power. It is covered in detail in both an article at our site, #2.1, and it is covered in video module #5.10. The point here is that strategy by itself doesn't guarantee clear, right thinking by the management (step #1) or rethinking all of the steps that must follow strategic change (3-7) for good execution to happen.




I will assume that most of you have seen the s-shaped life cycle curves for new: products, industries, growth rates in the population of a new species introduced into an environment with no predators, etc. The little bell-shaped curve at the bottom illustrates how an industry's growth rate will at first continue to accelerate on a year-to-year basis until hitting a peak at the inflection point of the life cycle curve. Then, the growth rate, while perhaps still strong, will start to decelerate to a mature replacement rate. In a similar fashion, competitors will both multiply and expand capacity at similar rates and then start to consolidate in numbers as ever-tougher price competition emerges in the second part of the life cycle.

A big problem with most companies that get to stage 3 of the life cycle is that they are run by folks who grew up with the company (industry) and got promoted for doing what really worked in stages 1 and 2. Without thinking about it they may be guilty of spending too much on trying to improve on the past.

#4 on the chart is meant to symbolize the problems that start to accumulate because the old, unconscious thinking is not meeting the new environment's needs. The company starts to spin its wheels, working harder and harder to get fading profitability results instead of re-organizing the company and its kinetic chain around new strategic realities and the correct thinking that should go with it.

If we are working harder to do less well for all company stakeholders and not having any fun, maybe it's time to stop and check our un-spoken success assumptions. If we want to have big improvements, it has to start with big new change ideas, because fine-tuning incrementalism isn't working. The next 3 slides summarize some "old way problems" that may be causing "active inertia, wheel spinning" results.

## OLD WAY PROBLEMS (1)

**Active Inertia Stage?** **New (?) Assumptions:**

1. **20 - 40% customers → 120 - 150% PBIT (+ losers) back to the future (GE in '80's) challenge**

2. **Growth from:**
   - **service retention; (not product promotion)**
   - **right account penetration (5% within #1 niche)**

3. **Service quality metrics: defined, re-tuned, distinctive**

**Crafting Corporate Strategy Slide # 11**

Comments for each bullet above:

1. The best way, I believe, for a distributor to define "their historical strategy" is to zoom in on their most profitable customers. Using simple, estimated profitability ranking reports, a typical distributor will find that 20% of their customers will generate 120 to 150% of their profit to help to offset the losses incurred on many other customers. If you haven't yet done this exercise, please read our articles #ed: 2.15, 2.3, 2.19 (+ case study) and do the simple ranking report described in 2.3. It will start you on an entire new way of looking at your business for breakthrough results. I am greatly encouraged by the recent publication of a new book (May 23, '03) entitled "Angel Customers and Demon Customers" by Selden and Colvin. It is totally dedicated to the concept of not thinking of your business as a collection of products, geographies and territories, but as a portfolio of customers with dramatic differences in present and future profitability. See my review of this book in our commentary #30.

2. In mature markets, the key to growing is to better serve the right customers to "retain them at a greater rate". For more on this concept, see: slides 5 and 6 in the slide show at this URL:

http://min.isisit.com/merrifield/articles/Good_to_Great_Distribution_Results.pdf

Read articles: #3.7, #3.3; and/or see our high performance video module #3.12

3. Once you know: who your most profitable customers are; the 1 or more customer niches represented in the top 10 most profitable customers; and what they really want then, you can retune your total service product offering to be the best measurable solution for them "by niche and by strata". For more on how and why to do this see the slide show at this URL:

http://min.isisit.com/merrifield/articles/Dist_VAlue_proposition.pdf

# OLD WAY PROBLEMS (2)

**Active Inertia Stage? New (?) Assumptions:**

4. Segment customers (niche; strata A, B, C, D, purchasing values) & re-serve & price/term them totally different

5. New strategic performance info (SPI) capability

6. Re-think our marketing support strategies
- outside sales, telesales
- niche strata managers
- total, proactive team selling of key accounts

7. Theory X $\rightarrow$ X + Y + T. L. #'s

**Crafting Corporate Strategy Slide # 12**

Comments for each bullet above:

4. This concept is also better illustrated and explained in the same slide show referenced in point 3 on the last slide. Here is the URL again:http://min.isisit.com/merrifield/articles/Dist_VAlue_proposition.pdf

5. Once we have re-thought our business around most profitable customers and service retention concepts, we will need to track re-tuned, service process metrics and changes in profit contributions from core accounts, target accounts, gazelle accounts, and lead into gold accounts. We will also want to measure how well we are doing on high performance personnel management issues. Without good people, turned on and engaged in the service value/productivity creation process, we can't get where we want to go. For more on personnel practices, issues and metrics see this slide show:
http://min.isisit.com/merrifield/articles/High_Performance_Personnel_Systems.pdf

Faster, more profitable sales revenue will be the caboose, the happy by-product of measuring, managing and improving profit power input numbers which I call "strategic performance information"(SPI). Most distributors will have to put pressure on their software vendors to make their solutions more profit growing friendly, and all distributors will have to rethink how they capture, track and share the SPI.

6. Once we start to segment customers and dramatically serve and price/term them differently based on their true profit potential, we will have to re-size and re-orient our sales personnel. Article 2.19's case study (http://min.isisit.com/merrifield/articles/2_19cs.asp) is a good indication of how the typical outside sales driven company is guilty of having too many sales reps that waste to many calls on B, C and even D customers. Most companies need to downsize, upgrade, re-purpose and re-compensate their outside sales force while developing a telesales maintenance capability for all of their B and C customers. Sure this is revolutionary, but how else do you expect to become a high performing distribution company in stage 3 of your industry's life-cycle?

7. Theory X, theory Y? A chap named MacGregor coined these terms in 1961 to get across the idea that a theory x manager was one who didn't trust employees to be productive on their own, so command-and-control, sticks and carrots kind of measures were necessary to keep them from just sitting. A theory Y manager believes that people are trustworthy and naturally inclined to do good work, so tell them what to do and get out of the way.

Well, the model is too simplistic. As much as we believe in democracy in our personal lives, companies will always have fewer, smarter, more experienced managers making most of the strategic and process decisions that shape the direction for the activities and the metrics that most employees will be guided by. But, there are also can and should be methods to insure bottom-up ideas for improving things (theory Y?).

As for day-in-day-out high performance execution, I don't trust most employees to stay on top of the numbers all by themselves. While most humans have the best intentions, most aren't disciplined enough to achieve their New Year's resolutions regarding their own health metrics. So, I'm a big believer in making good top-down decisions on strategy, SPI needs and making everyone's performance numbers both visible and linked to a team of peers, if possible. I call it "tough love" service economics (TL$#s). An employee can fool their boss for months, but if their performance is dragging down the average for their peer group, they will feel heat in a day.

Training all employees on: strategic issues, the ABC's of profits and wages and the achieving/maintaining of perfect service and more is all possible with our high performance video. See our home page for 40+ pages of information on it, testimonials and a list of resellers that sell it for 50% or more off list.

## OLD WAY PROBLEMS (3)

MCG

**Active Inertia Stage?** **New (?) Assumptions:**

8. **Personnel system overhaul**
   - **pay more (to fewer) to pay less total**
   - **GM$/employee can double**

9. **Get a lot better at 100% participative change management**

10. **Make it all: Simple**
    - **simple - follow N. Star #s to re-align, deweave**
    - **catalytic**
    - **sustainably - credible, motivational, creative, coercive, goof-proof**



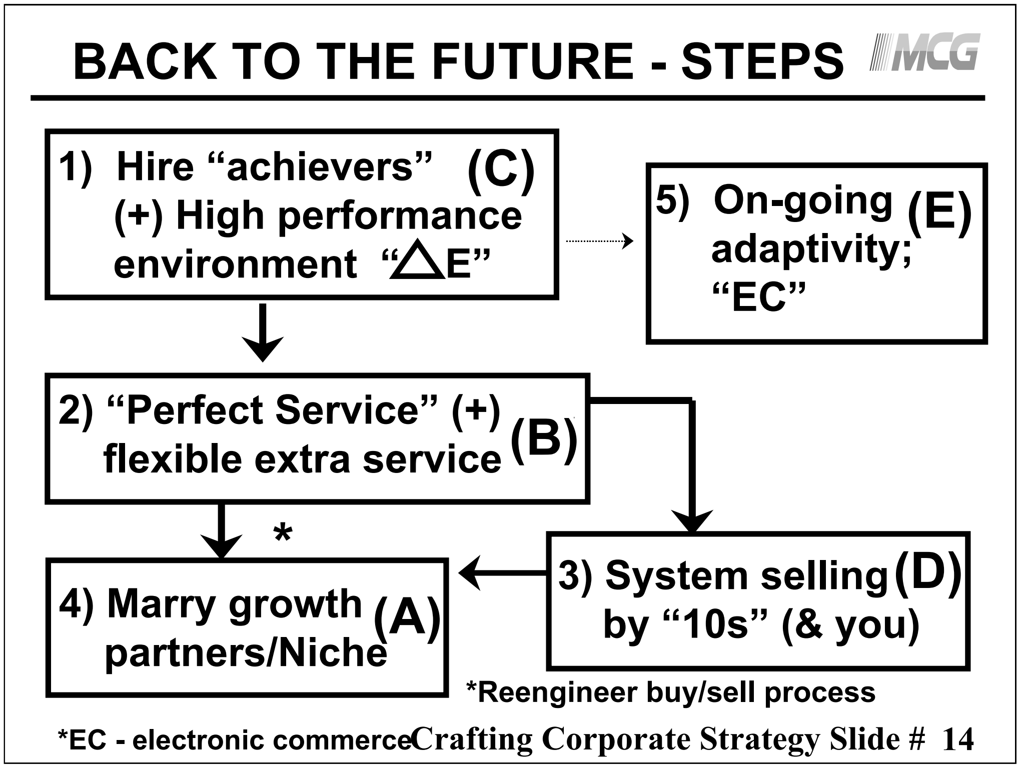
Comments on each of the bullets above:

8. A company can grow productivity per employee much faster than wages to achieve the goals above. The key programs that support as much as a double in gross margin $/employee are: solving the small order problem, cross-training for better service metrics and retaining/penetrating profitable customers more effectively.

9. If we want big, sustainable financial gains, we will have to embrace big, new ideas and execution challenges. These big journeys are done a step at a time and will progress if all employees share some common understandings and learning-how-to-learn tools and attitudes that are covered in section 5 of our video. A separate slide show on our site is about closing the "knowing-doing gap". Check it out at this URL: http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf

10. Make it all simple? See slide #2 in this slide show URL:

http://min.isisit.com/merrifield/articles/High_Performance_Personnel_Systems.pdf




The title of the slide is meant to infer that most companies can't proactively see and get to the future first or even react to happenstances faster than most competitors if they are working hard to make negligible returns today. 90% + of all companies in mature industries must first identify what their historic strategy really is based on customer profitability ranking reports. After securing and further penetrating the best and winning a few more target accounts like them, while shaping up or shipping out (especially the big lead into gold) losers, then a company will have the profitability and can do spirit to move forward. Jack Welch did this back to the future strategy in the '80s when he was dubbed "Neutron Jack", a case study on this is at the end of our "strategy paper" which you can request for free from karen@merrifield.com.

Here is an explanation for the A – E boxes above.

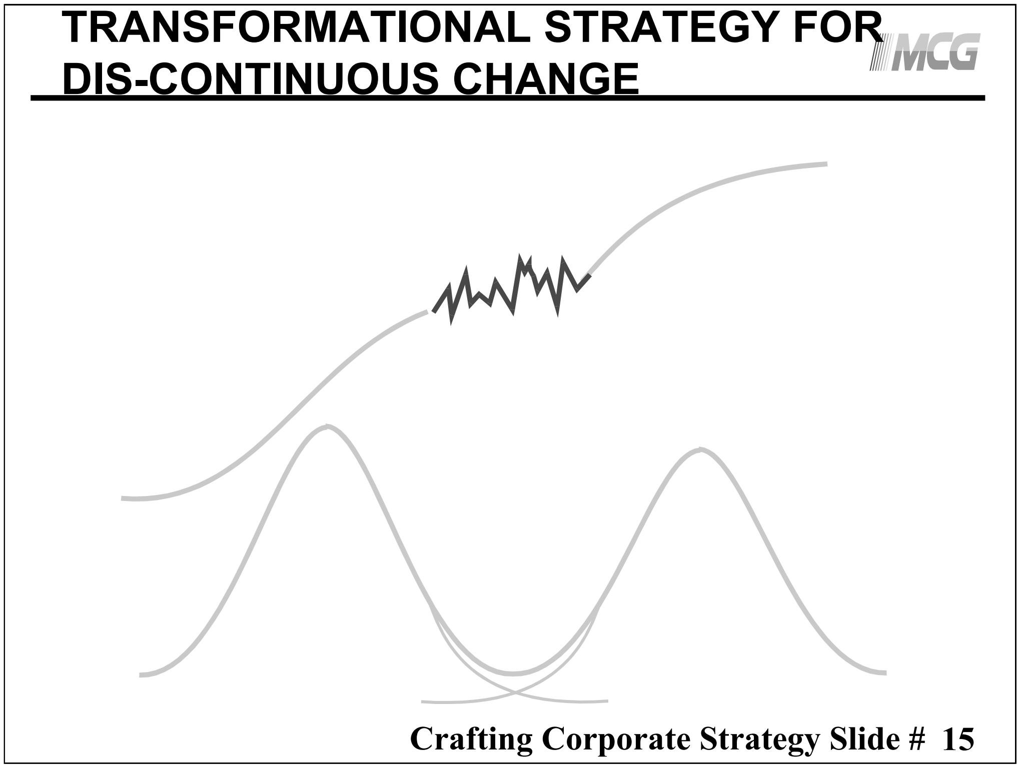
A) We realize that precious few of our current accounts are our profit contributors and perhaps another 5 to 10 per location will generate about 80% of our profitable growth in the next 5 years. If we can get them to marry us, they will grow us.

B) But, they won't stay with us and buy more or switch to us as a supply partner unless we offer them exactly the lowest total procurement cost service solution that they want (for more on co-creating the unique value proposition see this slide show for more: http://min.isisit.com/merrifield/articles/Dist_VAlue_proposition.pdf

C) To achieve perfect, basic service and have the flexibility to provide extra services(for fees?) as needed for the right customers, we will have to have good dedicated people who have been attracted to, kept by and kept turned on by a "high performance environment"

D) If we have C to give us B to proposition customers in A, then we will need total team selling of the most important accounts by only our best sales reps (D).

E) With high performance profitability from our past strategy, we will then have the free resource flow - the extra time, talent, treasure and trust from a track-record - to not just see future and adjacent opportunities, but to seize them.




A number of distribution channels that have been around for a long time may already be into or heading into “discontinuous times”; the rough patch between the two, life cycles above. These times occur when enough X’s and/or innovative changes pile up on the shelf in slide 10 to cause “old way” managed companies to collapse. But, at the same time, there will be less than 3% of the old, but perpetually innovating companies or perhaps new entrants that grow like crazy with a new model to still get similar products to the same end users. Think for example, of all of the different independent retailer channels that got wiped out one-by-one by different variations of big-box, category killer competitors starting in the early ‘70’s. Or, how independent bookstores have been losing not only to category killers, but also to Amazon that sells every publisher's backlist and niche market books better than any type of physical store.

U.S. manufacturers of durable goods and their distributors are already starting to experience turbulence due to the huge transfer of manufacturing to Chinese “partners” that then turn around and sell US distribution channels direct under different labels. This process has only just begun.

Our big global economy problems will also be with us for some time to add additional urgency to re-thinking our strategies.

These are interesting times that beg new thinking for mature businesses. I hope these slides and notes were food for such thought. If anyone out there has questions, counter-points or embellishments that you would like to share, please feel free to contact me at bruce@merrifield.com or 919-933-7474.